Annual Results

Financial Year 2015

Arab Insurance Group (B.S.C.) - a reinsurance firm regulated by the Central Bank of Bahrain

A Challenging Market Environment Leaves Its Mark On Arig's 2015 Results

10 February 2016

Bahrain: Loss events, overcapacities in the reinsurance market and lower investment returns resulted in a US$ 4.4 million loss to the Arig Group for the year 2015 (2014: profit of US$ 15.6 million). Parent company Arig and its corporate member at Lloyd's generated gains of US$ 2.1 million from underwriting activities (2014: US$ 14.3 million) whereas Takaful Re, a subsidiary of Arig, produced a loss of US$ 1.3 million (2014: loss of US$ 8.3 million) to the Group. Investment returns reached US$ 14.3 million but were down 30% year-on-year (2014: US$ 20.5 million) as markets declined towards the end of 2015.

The Group's net result for the fourth quarter 2015 alone was a loss of US$ 5.8 million (Q4 2014: profit of US$ 6.0 million).

Arig's Gross written premiums decreased to US$ 220.4 million over the year (2014: US$ 315.3 million) as a result of shifts in the Lloyd's portfolio, cyclical cutbacks and the influence of exchange rate developments. A series of mid-size insurance losses and the reduced premium pool pushed the Group's combined ratio up to 106.6% (2014: 101.7%).

Yassir Albaharna, CEO of Arig, commented: "We are obviously not satisfied with our 2015 result and are streamlining the Group for better performance and capital efficiency. It was therefore decided that Takaful Re, in which we hold a 54% stake, should cease underwriting. Equally we are revisiting activities that have remained below our expectations while boosting those with strong returns."

Arig's shareholders' equity stood at US$ 244.2 million on 31 December 2015 (end of 2014: US$ 264.5 million) with a book value per share of US$ 1.23 (end of 2014: US$ 1.34).

Key Results

(in million US$)	2015	2014
Gross premiums written	220.4	315.3
Technical result *	13.2	16.1
Underwriting result **	0.8	6.0
Investment income	14.3	20.5
Net (loss) profit	**(4.4)**	**15.6**
Combined ratio* **	**106.6%**	**101.7%**

	2015	2014
Shareholders' equity	244.2	264.5

* *Technical result* – *returns from reinsurance operations before consideration of investment income and operating expenses*
** *Underwriting result* – *reinsurance results after investment income on insurance funds and related operating expenses*
*** *Combined ratio* – aggregate of acquisition and operating cost over net premiums written and claims incurred over net earned premiums

Premium Development

Gross premiums written (in million US$)	**2015**	**2014**
Non-life premiums	192.2	292.0
Life premiums	28.2	23.3
Total	**220.4**	**315.3**

- *Wide-spread overcapacities and a slowing world economy continued to exert considerable downward pressure on premium levels.*
- *The termination of a capital quota share at Lloyd’s and the reduction of our support in another led to a noticeable reduction in our incoming premiums in 2015. Exchange rate movements and cyclical cutbacks reinforced this development, which was only partially offset by increases in our Medical, Life and Extended Warranty business.*

Net earned premiums (in million US$)	**2015**	**2014**
Earned premiums		
Non-life premiums	193.6	233.0
Life premiums	26.3	23.4
Total	**219.9**	**256.4**

- *Net earned premium declined by 14%, half of the reduction at the gross level.*

Reinsurance Performance

Technical results (in million US$)	**2015**	**2014**
Non-life technical profit	8.4	9.0
Life technical profit	4.8	7.1
Total	**13.2**	**16.1**

- *Two large earthquakes in Nepal, the fire at the Address Hotel in Dubai on New Year's Eve and mid-size losses from the Far East completely consumed the 2015 treaty returns. The facultative book fared better and so did our business at Lloyd's while Life reinsurance continued to perform well.*

Combined Ratio	**2015**	**2014**
Claims ratio	67.4%	66.8%
Operational cost ratio	10.4%	8.4%
Acquisition cost ratio	28.8%	26.5%
Combined ratio	**106.6%**	**101.7%**

- *The majority of the increase in the combined ratio was driven by cost that was negatively impacted by the reduction in premium income.*

Technical Reserves

(in million US$)	2015	2014
Unearned premiums	117.5	144.4
Unreported losses	245.0	214.9
Claims outstanding	317.0	348.3
Total	**679.5**	**707.6**

- *4% decline in total reserving is commensurate with the reduction in Arig's net premium income.*

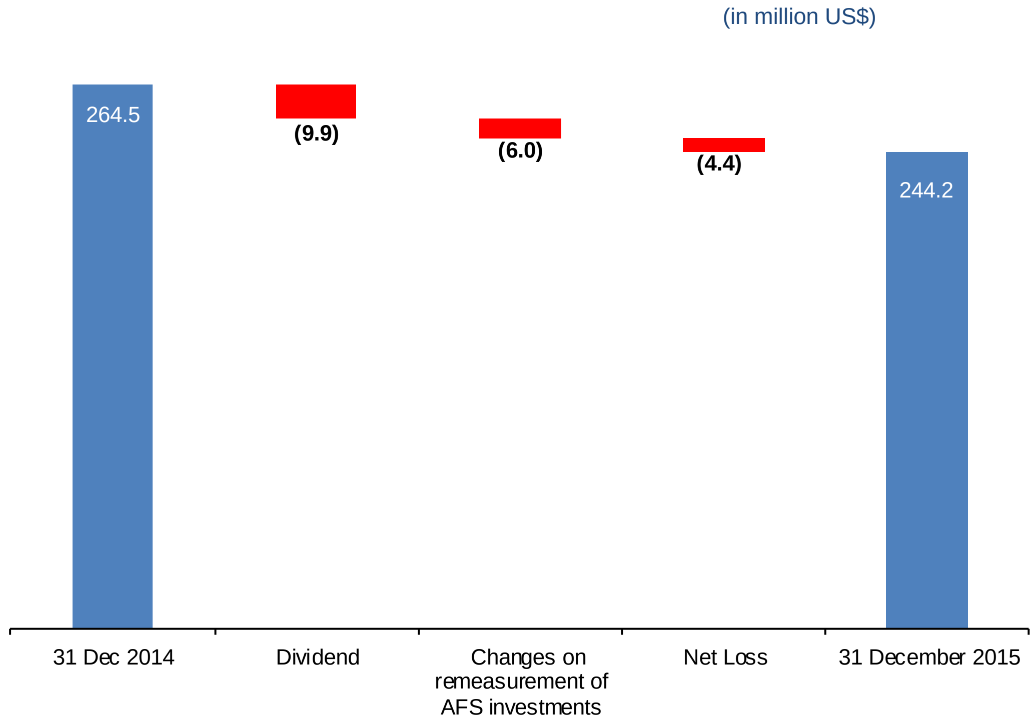
Asset Management

Investment income (in million US$)	**2015**	**2014**
Cash & bank deposits	1.2	1.9
Fixed maturities	11.5	12.1
Equities	1.0	5.9
Alternative Investments	0.6	0.6
Total	14.3	20.5
Rate of return on invested assets	2.0%	3.0%

- *Equities performed weaker in 2015 after a major swing in global markets during the second half of the year.*

Investments (in million US$)	**2015**	**2014**
Cash & bank deposits	199.1	187.7
Fixed maturities	466.6	433.3
Equities	63.5	77.5
Alternative investments	17.4	16.9
Total	**746.6**	**715.4**

Shareholders' Equity



Outlook

- *The state of the Chinese economy continues to be a major preoccupation for analysts while economic recovery in the U.S. may be less pronounced than initially assumed. Together with the slump in the price of natural resources and fossil fuels, global demand is likely to remain weak in 2016 – also for mainstream insurance products.*
- *Economic necessity dictates that commercial insurance buyers minimize their expenditure and optimize risk management. Competitive pressure and further decline in product pricing is making it harder for Arig's clients to meet their planned premium income. Counter to that, we see reserve strengthening in Motor and Medical lines pushing up premiums in these volume classes. On the balance, we expect low single digit growth in the MENA region throughout 2016.*
- *To reinforce our profitable facultative book of business, Arig plans to have a physical presence in the Dubai International Financial Center (DIFC) in 2016.*
- *The company has also renewed its interest of bringing selected Lloyd's products into our home markets and beyond. Through coverholder agreements with individual Lloyd's syndicates in the London market, Arig intends to deliver leading market know how and Lloyd's 'A' rated security to our customers' doorstep.*
- *Arig views Personal Lines as a major area for development. While our Life team is working on customized solutions catering to regional needs, we are partnering with specialized insurance managers in introducing novel consumer products into our part of the world. Rather than chasing premium alone, we believe that profitability increasingly rests with product diversification. At the same time we are revisiting under-performing businesses and addressing capital inefficiencies within the Group.*
- *2016 may look like a very challenging year, but equally it gives rise to many new opportunities.*