Interim Results

1st Quarter 2012

Summary

Arig Delivers 1st Quarter Profit of US$ 5.5 Million in Turn-Around Performance

14 May 2012

Bahrain: Following a full-year loss in 2011, Arig rebounded to profitability, announcing a 1st quarter net profit of US$ 5.5 million (Q1 2011: US$ 0.6 million) on the back of benign claims from its reinsurance book and strong investment returns.

The Group's underwriting result came in at US$ 3.5 million for the period (Q1 2011: US$ 1.5 million). A recovery in the financial markets and improvement of yields from the fixed income portfolio added investment income of US$ 10.5 million over the quarter (Q1 2011: US$ 5.5 million).

Gross premiums written during the first three months of the year reached US$ 119.8 million (Q1 2011: US$ 132.1 million) as Arig de-risked its portfolio from certain catastrophe accumulations, parted with under-performing reinsurance programs and took account of falling premium income amongst some of its regional clientele.

Shareholders' Equity increased to US$235.3 million on 31 March 2012 (December 2011: US$ 222.4 million) while book value per share was US$ 1.19 on 31 March 2012 (December 2011: US$ 1.12).

Key Results

(in million US$)	Q1 2012	Q1 2011
Gross premiums written	119.8	132.1
Technical result *	4.0	3.8
Underwriting result **	3.5	1.5
Investment income	10.5	5.5
Net profit	**5.5**	**0.6**
Non-life combined ratio*	**80.7%**	**81.7%**

	Mar 2012	Dec 2011
Shareholders' equity	235.3	222.4

* *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$)	**Q1 2012**	**Q1 2011**
Non-life premiums	103.9	118.9
Life premiums	15.9	13.2
Total	**119.8**	**132.1**

- *Lower non-life premiums influenced by*
  - *the non renewal of a Japanese Kyosai treaty, 95% of which was retroceded to Hardy*
  - *de-risking of the cat book written through Hardy*
  - *weakened revenue stream from the MENA region as a result of price competition and slower economic growth*
- *20% year-on- year increase in life premiums a reflection of the late renewal of a large long-term life account*

Net earned premiums (in million US$)	**Q1 2012**	**Q1 2011**
Earned premiums		
Non-life premiums	43.4	37.0
Life premiums	5.4	10.2
Total	**48.8**	**47.2**

- *Life earned premiums lower mainly on account of accounts discontinued in 2011*

Reinsurance Performance

Technical results (in million US$)	**Q1 2012**	**Q1 2011**
Non-life technical profit (loss)	3.6	3.4
Life technical profit (loss)	0.4	0.4
Total	**4.0**	**3.8**

Non-life portfolio	**Q1 2012**	**Q1 2011**
Claims ratio	62.0%	69.7%
Operational cost ratio	5.2%	4.2%
Acquisition cost ratio	13.5%	7.8%
Non-life combined ratio	**80.7%**	**81.7%**

- *No major losses reported during the quarter*
- *Acquisition costs impacted by changes in business mix and lower net written premiums*

Technical Reserves

(in million US$)	Mar 2012	Dec 2011
Unearned premiums	169.4	102.2
Unreported losses	228.7	231.4
Claims outstanding	286.7	285.1
Total	**684.8**	**618.7**

- *Increase in gross technical reserves due to higher unearned premiums – in line with seasonal trends*

Asset Management

Investment income (in million US$)	**Q1 2012**	**Q1 2011**
Cash & bank deposits	1.2	1.1
Fixed maturities	1.8	1.6
Equities	7.6	1.9
Alternative Investments	(0.1)	0.9
Total	**10.5**	**5.5**
Rate of return on invested assets	5.1%	4.4%

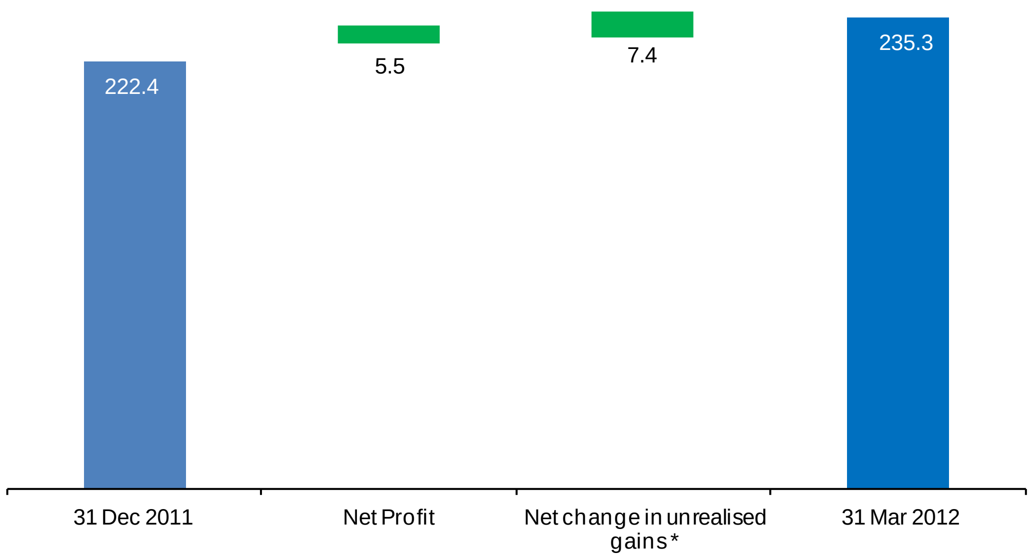
- *Higher investment earnings as equity markets rebounded and interest rates improved*

Investments (in million US$)	**Mar 2012**	**Dec 2011**
Cash & bank deposits	332.2	345.3
Fixed maturities	204.0	205.7
Equities	87.9	82.4
Alternative investments	19.1	19.4
Total	**643.2**	**652.8**

- *Cash & bank deposits lower on repayment of borrowings*
- *Allocation to equities increased to benefit from the prevailing positive market trend*

Shareholders' Equity

(in million US$)



* *Including property revaluation gains*

Outlook

- *Our 2011 cat loss position appears to have stabilized as we have not been informed of any larger-scale developments over the past three months.*
- *The situation for cat and large claims has been benign throughout the first quarter 2012.*
- *We have seen rate consolidation in cat prone areas and substantial increases in territories that were affected by 2010 and 2011 catastrophe losses. We intend to apply an opportunistic approach in utilizing our risk capital on cat but without compromising the long-term overall stability of our portfolio beyond the company's defined risk appetite.*
- *Arig continues to derive benefit from our corporate membership at Lloyd's, and we are looking to expand the business written through Arig Capital Ltd. (ACL). The sale of Hardy does not change our view, as we continue to view Lloyd's as a capital and cost efficient platform for increasing diversity of our book and creating access to technically rated market business.*
- *The company recorded increased returns from the financial markets, in particular equities, during the first quarter of the year ; as markets are expected to remain volatile, some of our profits were locked in and realized.*
- *The European sovereign debt crisis is still to be satisfactorily resolved. Recent economic data from the US indicates a slow down. We expect these factors, to contribute to ongoing volatility in the markets.*