arig

Interim Results

2nd Quarter 2012

Summary
Arig Posts Half-Year Profit On Increased Underwriting Returns

13 August 2012

Bahrain: Good underwriting performance and the absence of large natural catastrophes contributed to Arig's half-year net result of US$ 3.8 million (Q2 2011: net loss of US$ 4.1 million). The company's underwriting result for the two quarters produced income of US$ 5.2 million (Q2 2011: loss of US$ 3.9 million), while investment income remained largely flat at US$ 8.7 million at the half-year point (Q2: US$ 8.8 million). Net result for the second quarter alone was a loss of US$ 1.7 million (Q2 only 2011: loss of 4.8 million).

Tighter risk selection and generally favorable reinsurance results in 2012 translated into a reduced combined ratio of 85.4% for the company's non-life portfolio (Q2 2011: 93.1%). However, as original premium rates charged by insurers in the MENA region remained intensely price competitive and some regional markets succumbed to political turmoil, gross written premiums declined to US$ 171.1 million (Q2 2011: 188.9 million), or by 9.4% year-on-year.

Equity markets and alternative investments performed below expectation while the fixed income portfolio contributed to an overall yield of 2.7% on investible assets (Q2 2011: 2.7%).

Shareholders' equity increased to $ 234.4 million at 30 June 2012 (December 2011: US$ 222.4 million), and book value per share recorded at US$ 1.18 (December 2011: US$ 1.12).

Key Results

(in million US$)	Q2 2012	Q2 2011
Gross premiums written	171.1	188.9
Technical result *	9.7	2.7
Underwriting result **	5.2	(3.9)
Investment income	8.7	8.8
Net profit	**3.8**	**(4.1)**
Non-life combined ratio* **	**85.4%**	**93.1%**

	Jun 2012	Dec 2011
Shareholders' equity	234.4	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$)	**Q2 2012**	**Q2 2011**
Non-life premiums	148.9	172.6
Life premiums	22.2	16.3
Total	**171.1**	**188.9**

- *Lower non-life premiums influenced by*
    - *the discontinuation 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*
- *36% 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$)	**Q2 2012**	**Q2 2011**
Earned premiums		
Non-life premiums	88.4	89.6
Life premiums	14.0	17.3
Total	**102.4**	**106.9**

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

Reinsurance Performance

Technical results (in million US$)	**Q2 2012**	**Q2 2011**
Non-life technical profit (loss)	9.4	2.3
Life technical profit (loss)	0.3	0.4
Total	**9.7**	**2.7**

Non-life portfolio	**Q2 2012**	**Q2 2011**
Claims ratio	61.4%	70.8%
Operational cost ratio	5.8%	6.2%
Acquisition cost ratio	18.2%	16.1%
Non-life combined ratio	**85.4%**	**93.1%**

- *Acquisition costs were influenced by changes in the business mix and lower net written premiums*

Technical Reserves

(in million US$)	Jun 2012	Dec 2011
Unearned premiums	161.1	102.2
Unreported losses	220.9	231.4
Claims outstanding	285.9	285.1
Total	**667.9**	**618.7**

- *The increase in gross technical reserves is due to higher unearned premiums – quite in line with the seasonal trends observed over the years*

Asset Management

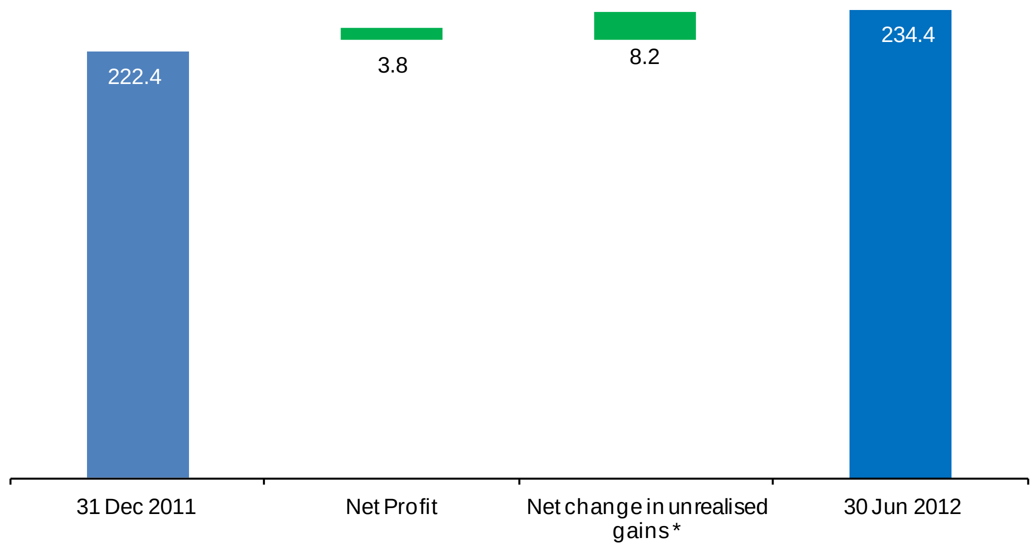
Investment income (in million US$)	**Q2 2012**	**Q2 2011**
Cash & bank deposits	2.1	2.1
Fixed maturities	4.0	4.6
Equities	2.7	2.1
Alternative Investments	(0.1)	-
Total	**8.7**	**8.8**
Rate of return on invested assets	2.7%	2.7%

Investments (in million US$)	**Jun 2012**	**Dec 2011**
Cash & bank deposits	319.3	345.3
Fixed maturities	234.9	205.7
Equities	70.2	82.4
Alternative investments	19.0	19.4
Total	**643.4**	**652.8**

- *Cash & bank deposits lower on repayment of borrowings*
- *Allocation to fixed maturities increased to benefit from the prevailing improved interest rates*

Shareholders' Equity

(in million US$)



* *Including property revaluation gains*

Outlook

- *Following a disastrous year 2011 for the industry, capitalization in the international reinsurance markets has climbed back to historical highs. In the absence of large-scale financial or insurance loss events, and as long as alternative investment opportunities remain extremely limited, we do not expect a major swing in the market sentiment or global pricing environment, which is likely to remain highly competitive.*
- *Despite isolated natural events during the first half of the year, losses from natural and man-made catastrophes remained well below 2011 levels. This has benefitting Arig's underwriting performance.*
- *We continue to take an opportunistic position in territories previously affected by natural catastrophes, selectively writing business at increased rates and with substantially reduced exposure to potential losses.*
- *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).*
- *CNA, the new owners of the Hardy Group, have expressed their intention to continue with their participation in the HAIM joint venture, a company that writes construction, onshore energy and high-value property accounts out of Bahrain.*
- *Investment returns, which had perked up during the first quarter of the year, became more volatile again during the second quarter as the Euro crisis continued and most key economic indicators were trending downwards. We expect this situation to prevail for the remainder of the year.*