Interim Results

Second Quarter 2014

Arig Posts Half-Year Profit On Increased Investment Returns

06 August 2014

Bahrain: The Arig Group's investment returns were up and underwriting result was lower at the half-year mark 2014 when comparing against the same period of 2013, as Arig delivered net profits of US$ 4.7 million for the first two quarters of the year (six months 2013: US$ 5.2 million). Claims from the Indian sub-continent and Re-Takaful interest pushed up the Group's combined ratio by 4.8 points to 90.8%, lowering underwriting returns to US$ 0.5 million (six months 2013: US$ 4.2 million). At the same time, increased income from investments of US$ 11.7 million (six months 2013: US$ 9.4 million) assisted in cushioning the impact on the company's net result.

The company's net profit for the second quarter alone was US$ 1.9 million (Q2 2013: US$ 3.0 million).

Gross premium income over the six months increased by 5.6% to US$ 236.8 million (six months 2013: US$ 224.3 million) helped by increased premium derived from Arig's engagement in overseas markets and the parent company's Specialty and Life business. Gross premiums written for the second quarter alone was US$ 29.5 million (Q2 2013: US$ 44.2 million).

Yassir Albaharna, CEO of Arig, commented: "We knew that 2014 would be a challenging period for reinsurers as global over-capacities are showing their effect. On the other hand, Arig is writing a well-balanced portfolio and we are strongly reserved. We remain highly confident on our ability to live up to current conditions."

Arig's shareholders' equity increased to US$ 258.6 million on 30 June 2014 (end of 2013: US$ 249.2 million), with a book value per share of US$ 1.31 for the same period (end of 2013: US$ 1.26).

Key Results

(in million US$)	Q2 2014	Q2 2013
Gross premiums written	236.8	224.3
Technical result *	4.9	10.3
Underwriting result **	0.5	4.2
Investment income	11.7	9.4
Net profit	**4.7**	**5.2**
Combined ratio* **	**90.8%**	**86.0%**

	Q2 2014	Dec 2013
Shareholders' equity	258.6	249.2

* *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 2014**	**Q2 2013**
Non-life premiums	219.2	207.5
Life premiums	17.6	16.8
Total	**236.8**	**224.3**

- *non-life premiums up by 6% driven by increased writings from Lloyds syndicates and Specialty lines*

Net earned premiums (in million US$)	**Q2 2014**	**Q2 2013**
Earned premiums		
Non-life premiums	122.5	106.8
Life premiums	11.7	11.4
Total	**134.2**	**118.2**

- *Higher earnings contributed by business written through syndicates at Lloyd's*

Reinsurance Performance

Technical results (in million US$)	**Q2 2014**	**Q2 2013**
Non-life technical profit	1.6	7.6
Life technical profit	3.3	2.7
Total	**4.9**	**10.3**

- *non-life technical results were lower mainly as a result of under-performance of our treaty business on the Indian sub-continent and higher than expected claims load from a Medical account previously written at the Group's Re-Takaful subsidiary*

Combined Ratio	**Q2 2014**	**Q2 2013**
Claims ratio	67.7%	64.8%
Operational cost ratio	5.1%	5.7%
Acquisition cost ratio	18.0%	15.5%
Combined ratio	**90.8%**	**86.0%**

Technical Reserves

(in million US$)	Q2 2014	Dec 2013
Unearned premiums	210.3	124.5
Unreported losses	209.7	215.5
Claims outstanding	354.4	338.6
Total	**774.4**	**678.6**

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

Asset Management

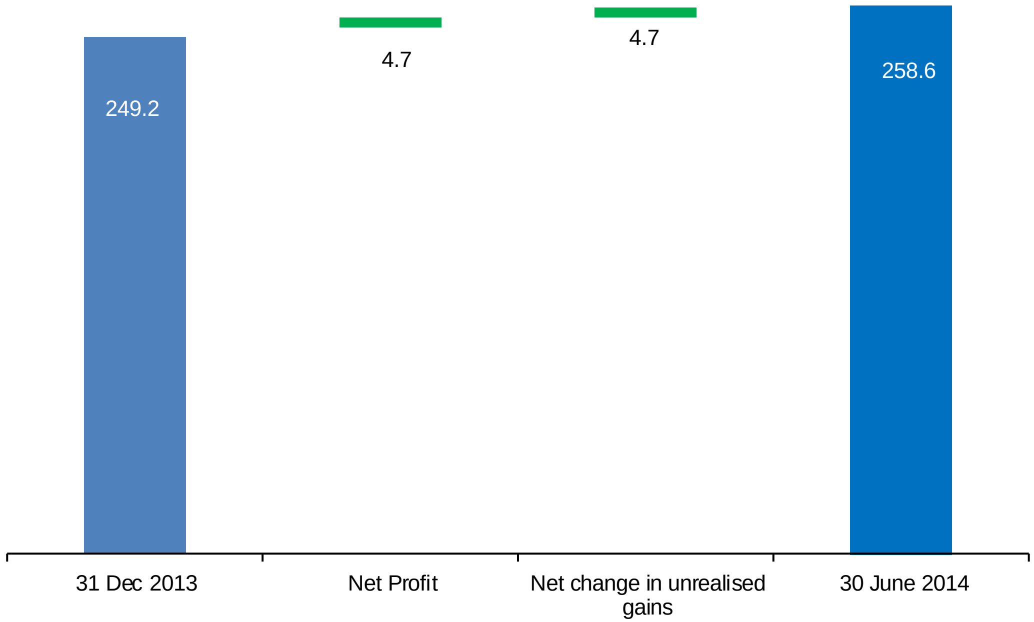
Investment income (in million US$)	**Q2 2014**	**Q2 2013**
Cash & bank deposits	1.0	1.5
Fixed maturities	5.1	4.2
Equities	5.2	3.2
Alternative Investments	0.4	0.5
Total	**11.7**	**9.4**
Rate of return on invested assets	3.5%	2.9%

Investments (in million US$)	**Q2 2014**	**Dec 2013**
Cash & bank deposits	274.4	273.7
Fixed maturities	313.7	291.7
Equities	78.1	61.3
Alternative investments	16.4	15.5
Total	**682.6**	**642.2**

- *Cash & bank deposits higher on deposits from borrowings to leverage on interest rates*
- *Allocation to equities was increased over the reporting period to take advantage of the prevailing positive market trend*

Shareholders' Equity

(in million US$)



Outlook

- *Global overcapacities in the reinsurance sector continue to weaken terms and conditions available for most of its segments, except for lines that have recently seen elevated claims activity such as Political Violence, Marine Hull or Aviation War risks.*
- *Arig is continuing with its efforts to increase interest in Specialty lines and certain overseas markets, all mostly written through our support of selected Lloyd's syndicates. This section of our book has performed well above average. Equally, we managed to increase our Life interest which has outperformed most other lines of business.*
- *Equally, the Group applies strict selectivity in its regional underwriting, especially when performance continues to be an issue.*
- *Sanctions and political interference have lowered our revenues written from developing markets as income from Iran, Iraq, Syria and Sudan has virtually dried up. Recently, this list had to be extended to Indian accounts after the local tax authorities applied a punitive tax levy on premiums ceded to companies domiciled in countries that do not operate a Double Taxation Agreement with India. The shortfall in regional premium income has been over-compensated by the generation of non-correlating overseas business with a Specialty lines focus.*
- *The Arig Group remains confident of its solid business platform which is built upon a well-diversified portfolio of risks with relatively low exposure to natural catastrophes, in tandem with a strong reserving position and conservative investment strategy.*