Interim Results

Half Year 2016

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

Arig Returns Lower Profit on Increased Premium Income

11 August 2016

Bahrain: At the close of the second quarter of its 2016 Financial Year, Arig returned US$ 1.8 million of net profit to its shareholders, a reduction of 71% year-on-year (half-year 2015: US$ 6.2 million). Despite the 10.8% growth of its Gross Premium Income, unsatisfactory insurance pricing, lower investment income and the impact of large losses from regional clients combined in lowering the company's mid-year result.

The Group's net result for the second quarter alone was US$ 1.0 million (Q2 2015: US$ 2.7 million).

Half-year premium growth originated from Arig's involvement in the Lloyd's market while losses from the GCC markets impacted underwriting returns. The Group's parent returned a Technical Result of US$ 3.8 million from its underwriting activities after the first two quarters (half-year 2015: US$ 9.1 million), whereas its Takaful subsidiary, currently in run-off, showed a small profit of US$ 0.2 million for the same period (half-year 2015: US$ 0.7 million).

The Group's combined loss ratio for the first two quarters of the year moved to 69% (half-year 2015: 67.2%) yet its combined ratio improved to 87.2% (half-year 2015: 90.2%) on savings achieved from its operations.

Investment income after the first six months accounted for US$ 9.9 million (half-year 2015: US$ 13.3 million), representing an average return of 2.7% (half-year 2015: 3.7%) on the Group's investible assets.

Yassir Albaharna, CEO of Arig, commented: "These are challenging times for our industry, especially regional reinsurers. We see some positive signs as regulators have started to focus on sustainable market practices. But we still have a long way to go and the global policy of cheap capital is not helping us."

Arig's shareholders' equity stood at US$ 251.7 million on 30 June 2016 (end of 2015: US$ 244.2 million). Book value per share was US$ 1.27 at the end of the second financial quarter 2016 (end of 2015: US$ 1.23).

Key Results

(in million US$)	HY 2016	HY 2015
Gross premiums written	206.2	186.1
Technical result *	4.0	9.8
Underwriting result **	1.1	6.2
Investment income	9.9	13.3
Net profit	**1.8**	**6.2**
Combined ratio* **	**87.2%**	**90.2%**

	HY 2016	Dec 2015
Shareholders' equity	251.7	244.2

* *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* – *Incurred Losses/Earned Premium + Expenses / Written Premium*

Premium Development

Gross premiums written (in million US$)	**HY 2016**	**HY 2015**
Non-life premiums	195.5	167.6
Life premiums	10.7	18.5
Total	**206.2**	**186.1**

- *Higher income from the Lloyd's market pushed up non-life premiums by over 16% year-on-year*
- *Premiums from the Life book remained below last year's level after we walked away from a large long-term account that was offered for renewal at technically insufficient terms*

Net earned premiums (in million US$)	**HY 2016**	**HY 2015**
Non-life premiums	79.9	104.1
Life premiums	10.1	12.7
Total	**90.0**	**116.8**

Reinsurance Performance

Technical results (in million US$)	**HY 2016**	**HY 2015**
Non-life technical profit	3.0	6.8
Life technical profit	1.0	3.0
Total	**4.0**	**9.8**

- *Lower non-life technical profit after additional reserves were set up in view of the deterioration of the Dubai Address Hotel fire loss, a fire claim related to the Qatar Mall project, and the flood losses in U.A.E.*
- *Life results were affected by a major death claim*

Combined ratio	**HY 2016**	**HY 2015**
Claims ratio	69.0%	67.1%
Operational cost ratio	4.7%	6.5%
Acquisition cost ratio	13.5%	16.6%
Combined ratio	**87.2%**	**90.2%**

- *Managing the challenging market environment, the Group focused on operational efficiencies and achieved a reduction of internal and external expenses under the combined ratio calculation by 4.9%.*

Technical Reserves

(in million US$)	HY 2016	Dec 2015
Unearned premiums	218.0	117.5
Unreported losses	223.1	245.0
Claims outstanding	300.4	317.0
Total	**741.5**	**679.5**

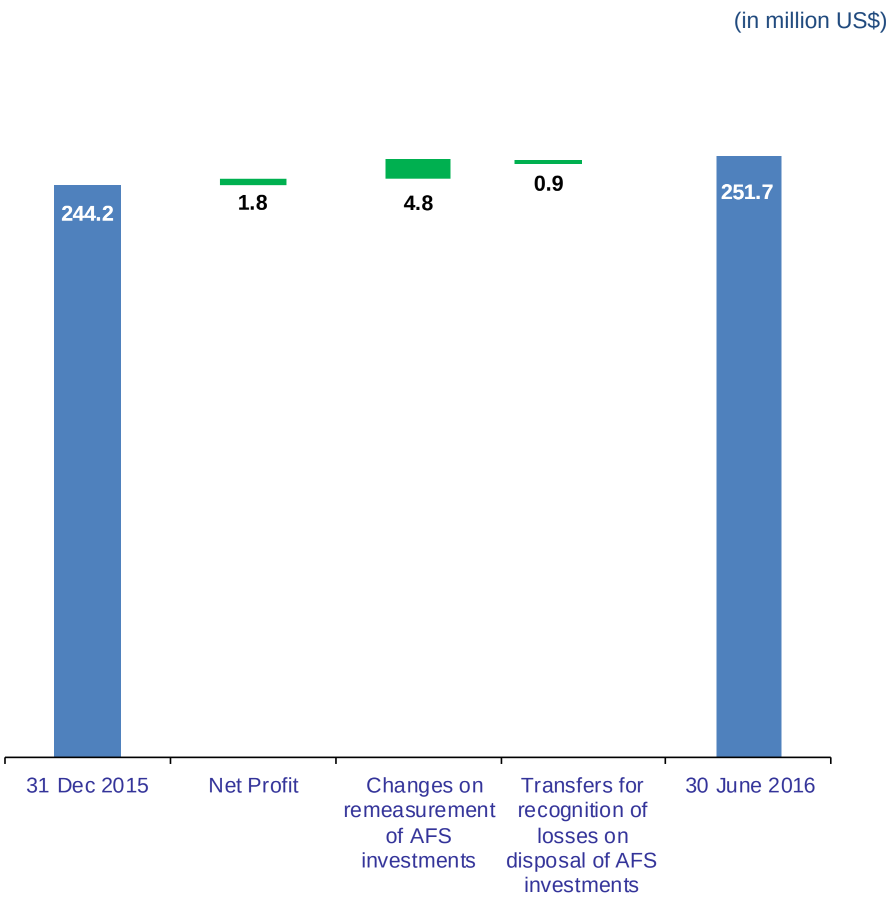
Asset Management

Investment income (in million US$)	**HY 2016**	**HY 2015**
Cash & bank deposits	0.8	0.7
Fixed maturities	8.2	6.8
Equities	0.2	5.7
Alternative Investments	0.7	0.1
Total	**9.9**	**13.3**
Rate of return on invested assets (annualised)	2.7%	3.7%

- *Equity earnings were lower year-on-year reflecting the volatility of the equity markets during the early part of 2016*

Investments (in million US$)	**HY 2016**	**Dec 2015**
Cash & bank deposits	209.7	199.1
Fixed maturities	429.4	466.6
Equities	61.9	63.5
Alternative investments	16.3	17.4
Total	**717.3**	**746.6**

Shareholders' Equity



Outlook

- *According to a recent IMF update following the Brexit vote, global uncertainty and downward pressure on the markets has just been increased by another notch. As a result, the global outlook for 2016-17 has deteriorated, despite better-than-expected performance in early 2016.*

- *Though the effect on the London market appears manageable, the global industry outlook remains challenging in view of the economic and political risks at hand. While insurers and reinsurers are navigating cautiously, there seems to be no end in sight that would help lift the economic sentiment and support the industries that are affected by the glut in demand.*

- *The insurance industry is being challenged on both sides of the balance sheet. The first two quarters of the year showed a general decline in profitability yet the threshold for economic pain remains high as some players are expected to keep writing at terms below the cost of capital.*

- *The Company will continue to focus on operational efficiencies within the Group, profitable growth wherever achievable, and a number of out-of-the-box approaches to enlarge the professional footprint in our markets.*