Interim Results

3rd Quarter 2012

Summary

Arig Announces Net Profits Of US$ 10.3 Million After Three Quarters

11 November 2012

Bahrain: Improved performance under its reinsurance portfolio and healthy investment returns resulted in a net profit position of US$ 10.3 million for Arig nine months into its 2012 Financial Year (Q3 2011: net loss of US$ 11.5 million).

The comparatively benign current-year's claims experience under the company's non-life book and a corresponding combined ratio of 92.4% produced net underwriting returns of US$ 8.3 million for the 9-month period (Q3 2011: net loss of US$ 7.9 million). At the same time, gross premiums written reduced by 12% to US$ 209.4 million, mostly as a result of decreased income from territories subject to UN sanctions or political turmoil, and clients struggling to reach their business targets within a highly price competitive market environment.

Investment income of US$ 16 million for the three quarters was sharply up against the previous year (Q3 2011: US$ 0.2 million), representing an annualised average return of 3.3% on invested assets.

Arig's net operating result for the third quarter 2012 alone represented a profit of US$ 6.5 million (Q3 only 2011: net loss of US$ 7.4 million).

Over the reporting period, shareholders' equity increased to US$ 241.9 million (2011 year end position: US$ 222.4 million), while book value per share climbed to US$ 1.22 (2011 year end: US$ 1.12).

Key Results

(in million US$)	Q3 2012	Q3 2011
Gross premiums written	209.4	239.0
Technical result *	16.5	6.1
Underwriting result **	8.3	(7.9)
Investment income	16.0	0.2
Net profit / (loss)	**10.3**	**(11.5)**
Non-life combined ratio* **	**92.4%**	**97.2%**

	Sep 2012	Dec 2011
Shareholders' equity	241.9	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$)	**Q3 2012**	**Q3 2011**
Non-life premiums	185.1	218.7
Life premiums	24.4	20.3
Total	**209.4**	**239.0**

- *Lower non-life premiums influenced by*
  - *the discontinuation of a Japanese Kyosai treaty, 95% of which was retroceded to Hardy*
  - *Decreased income from countries subject to UN sanctions or political turmoil*
  - *Highly price competitive market environment*
- *The 20% year-on-year increase in life premiums is a reflection of the late renewal of a large long-term life account*

Net earned premiums (in million US$)	**Q3 2012**	**Q3 2011**
Earned premiums		
Non-life premiums	136.8	142.5
Life premiums	20.4	26.2
Total	**157.2**	**168.8**

- *As a result of the discontinued Kyosai fronting scheme with Hardy, the year-on-year reduction in net written premiums (4%) is considerably smaller than for the decrease of gross written premiums (15%) for the period*
- *Life earned premiums are lower on account of accounts that Arig chose to discontinued in 2011*

Reinsurance Performance

Technical results (in million US$)	**Q3 2012**	**Q3 2011**
Non-life technical profit	15.6	4.5
Life technical profit	0.9	1.6
Total	**16.5**	**6.1**

- *A reduction in the claims ratio by 9.4 % year-on-year has been the main driver for the sharply increased non-life Technical Result*

Non-life portfolio	**Q3 2012**	**Q3 2011**
Claims ratio	59.8%	69.2%
Operational cost ratio	8.9%	7.0%
Acquisition cost ratio	23.7%	21.0%
Non-life combined ratio	**92.4%**	**97.2%**

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

Gross Technical Reserves

(in million US$)	Sep 2012	Dec 2011
Unearned premiums	146.4	102.2
Unreported losses	225.0	231.4
Claims outstanding	287.1	285.1
Total	**658.5**	**618.7**

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

Asset Management

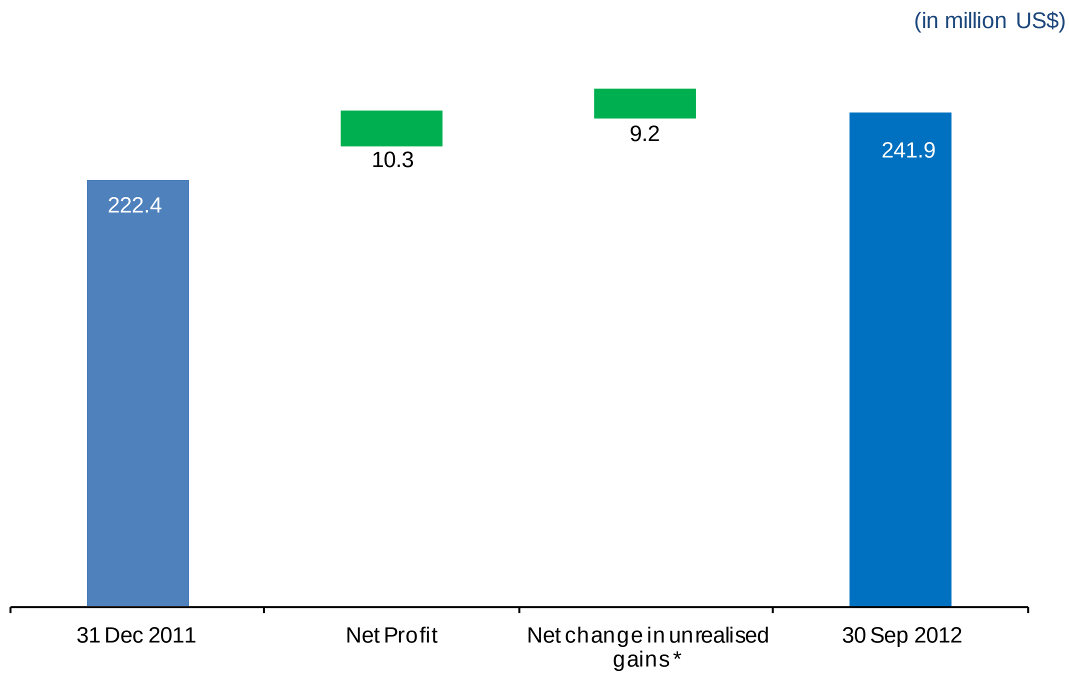
Investment income (in million US$)	**Q3 2012**	**Q3 2011**
Cash & bank deposits	2.9	3.3
Fixed maturities	7.2	6.1
Equities	6.2	(9.2)
Alternative Investments	(0.3)	-
Total	**16.0**	**0.2**
Rate of return on invested assets	3.3%	-

- *Investments have returned higher due to improved equity markets and higher yields from fixed income maturities*

Investments (in million US$)	**Sep 2012**	**Dec 2011**
Cash & bank deposits	334.4	345.3
Fixed maturities	252.2	205.7
Equities	49.3	82.4
Alternative investments	19.4	19.4
Total	**655.4**	**652.8**

- *Cash & bank deposits have declined after the repayment of borrowings*
- *The company's allocation to fixed maturities was increased in view of improved interest rates*

Shareholders’ Equity



** Including property revaluation gains*

Outlook

- *Global reinsurance premium income is expected to remain flat for the remainder of 2012. Therefore, industry earnings will very much depend on the final claims experience over the financial year, and the management of expenses.*
- *So far, most reinsurers have experienced a comparatively benign year with regard to natural catastrophe claims. While the final amount of insured losses relating to hurricane Sandy will take time to be assessed, it is already safe to say that they are not likely to change the generally positive outlook for the remainder of the 2012 underwriting year – barring any major catastrophic events in the last quarter.*
- *The industry pricing environment is generally expected to hold at its current levels, possibly with a slight upward trend in the U.S. Low investment returns have yet to make an impact on product pricing but are unlikely to do so unless the influx of new risk capital from investors seeking a home for their entrusted funds will slow down.*
- *Arig continues to develop inroads into markets that are technically priced, a label that cannot be attached to most of the business we receive from the Middle East and the rest of Asia. Here, we would only expect rates to lift if more 2011-style catastrophic loss scenarios were to occur.*
- *Our future relationship with the Hardy Group will be confined to the joint venture HAIM, equally owned by Hardy and Arig, and which acts as a Lloyd's coverholder for large construction, energy and property risks. Meanwhile, we are concluding agreements with other Lloyd's syndicates that we will be supporting with Whole Account quota shares across their net portfolios. Effectively, Arig is thereby providing surrogate capital from a fully risk-aligned position in exchange for global reinsurance income that has been written by specialist underwriters in a well-regulated and highly professional environment, i.e. Lloyd's of London.*