2011 Annual Results

Summary

Arig Posts Net Loss Following A Difficult Year

14 February 2012

Bahrain: Arig reported a net loss of US$ 19.1 million for its 2011 Financial Year (2010: profit of US$ 20.8 million). The net result for the fourth quarter 2011 alone was a loss of US$ 7.6 million (fourth quarter 2010: profit of US$ 9.2 million).

Catastrophe losses, mainly from Asia and Australasia, created the highest claims load the global insurance industry has ever recorded from natural events in a single year. Arig was also affected and saw its combined ratio for the non-life portfolio slip to 108.6% in 2011 (2010: 104.1%). Losses from earthquakes in Japan, New Zealand and the Thai floods alone pushed up the loss ratio by 10.8%, or US$ 20.5 million.

Contrary to previous years, investment income offered no relief. With yields from fixed term deposits at historical lows and financial markets under pressure throughout 2011, investment income reduced to US$ 4 million over the period (2010: US$ 34 million), representing a return of less than 1%.

Gross premiums written grew by 3.3% overall to US$ 247.5 million for the year (2010: US$ 239.5 million), mainly from new business written through Arig's corporate membership at Lloyd's of London.

Yassir Albaharna, CEO of Arig, commented: "There is no doubt that 2011 was an exceptionally difficult year for most reinsurers world-wide. The good news is that massive earthquakes have long return periods and apart from these losses, all of our key business lines were profitable. We are also starting to see an improvement in the trading terms in certain markets, but the investment climate remains challenging. We must intensify our efforts to manage cost and efficiencies within our Group."

Despite of the annual loss, Arig's capital position remains strong with Shareholders' Equity standing at US$ 222.4 million at the end of 2011 (2010: US$ 260.1 million).

Key Results

(in million US$)	2011	2010
Gross premiums written	247.5	239.5
Technical result *	1.4	16.2
Underwriting result **	(14.5)	12.2
Investment income	4.0	34.0
Net (loss) profit	**(19.1)**	**20.8**
Non-life combined ratio* **	**108.6%**	**104.1%**
Shareholders' equity	222.4	260.1

* *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

Reinsurance Performance

Gross premiums written (in million US$)	**2011**	**2010**
Non-life premiums	224.5	207.0
Life premiums	23.0	32.5
Total	**247.5**	**239.5**

- *8.5% year-on-year increase in non-life premiums mainly contributed by new premiums of US$ 32.2 million through our Lloyd's corporate membership*
- *Life business decreased by 29.4% in 2011, almost exclusively due to the delayed renewal of our largest account*

Net earned premiums (in million US$)	**2011**	**2010**
Earned premiums		
Non-life premiums	189.6	199.8
Life premiums	33.3	22.5
Total	**222.9**	**222.3**

- *Non-life earned premiums lower mainly on account of substantial medical accounts discontinued in 2010, partly offset by higher earned premiums from Life business*

Reinsurance Performance

Technical results (in million US$)	**2011**	**2010**
Non-life technical profit (loss)	(0.6)	17.4
Life technical profit (loss)	2.0	(1.2)
Total	**1.4**	**16.2**

- *Non-life technical result: reduced due to losses from natural catastrophe events of US$ 20.5 million (Thai floods, Japan & New Zealand earthquakes) and claims from Arab Spring amounting to US$ 4.1 million*
- *Life technical result : improved on better performance of the group life portfolios*

Non-life portfolio	**2011**	**2010**
Claims ratio	72.0%	67.8%
Operational cost ratio	8.8%	10.2%
Acquisition cost ratio	27.8%	26.1%
Non-life combined ratio	**108.6%**	**104.1%**

- *Improved operational cost ratio as a result of cost cutting measures taken and higher net premiums written*

Technical Reserves

(in million US$)	2011	2010
Unearned premiums	102.2	108.3
Unreported losses	231.4	214.6
Claims outstanding	285.1	306.4
Total	**618.7**	**629.3**

- *Reduction in gross technical reserves mainly due to lower unearned premiums*

Asset Management

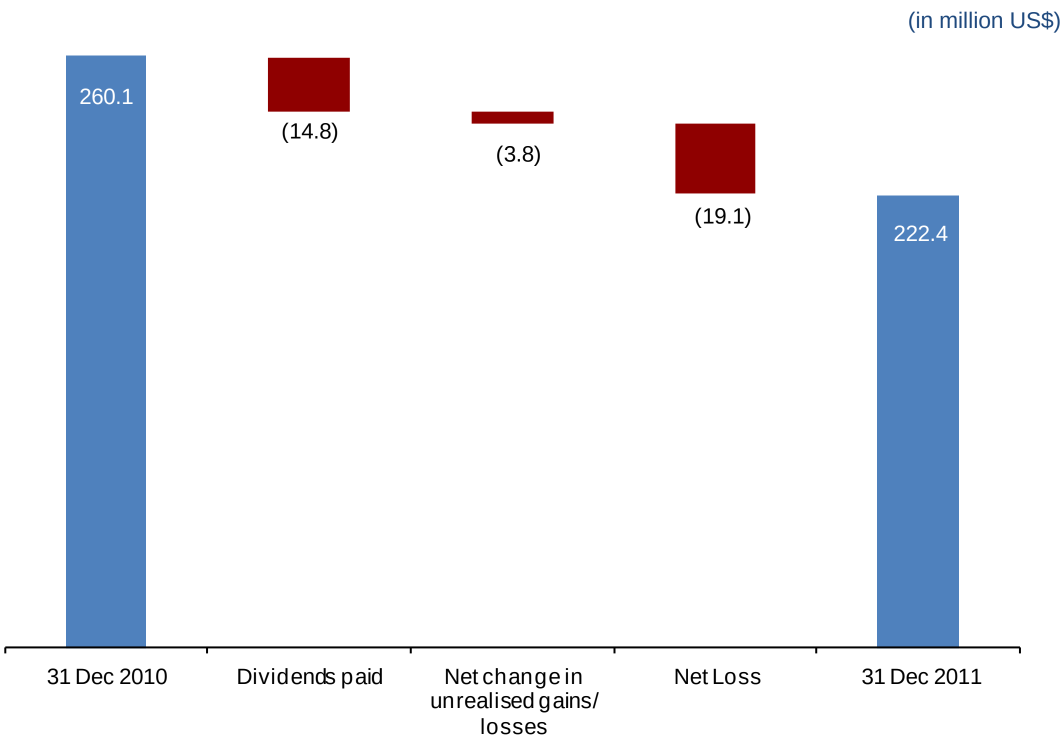
Investment income (in million US$)	2011	2010
Cash & bank deposits	4.0	6.7
Fixed maturities	7.7	9.6
Equities	(6.1)	12.8
Alternative Investments	(1.6)	4.9
Total	**4.0**	**34.0**
Rate of return on invested assets	0.6%	5.2%

- *Reduced investment return was largely influenced by the swing in equity market values and the historically low interest offered on term deposits*

Investments (in million US$)	2011	2010
Cash & bank deposits	345.3	281.4
Fixed maturities	205.7	228.5
Equities	82.4	115.5
Alternative investments	19.4	21.5
Total	**652.8**	**646.9**

- *Cash & bank deposits inclusive of a US$ 49.7 million long-term deposit*
- *In view of prevailing volatile market conditions allocation to relatively high risk equity and bond portfolios was reduced, increasing allocation to lower risk cash & bank deposits*

Shareholders' Equity



Outlook

- *Slowing growth throughout the world economy, sluggish demand in most insurance classes and a low interest rate environment will continue to challenge shareholders' expectations in 2012.*
- *In the wake of the enormous losses suffered by the industry in 2011, there appears to be a growing sense that finally, a general rate increase is needed. This move is led by retrocession markets, which have been hit hardest, but also the fact that no new levels of reserve releases can be employed to subsidize underwriting results. The same goes for investment returns, which in many cases may not provide the same level of support to aggressive business expansion strategies as in prior years.*
- *While the consolidation in the Terms of Trade is less visible in the Middle East today, we are seeing opportunities in overseas markets, especially those that have been affected by recent losses. With proper risk management in place, Arig will make informed decisions on promising opportunities where we see a healthy balance between risk and reward.*
- *For MENA, we see strong future potential for life and in non-life volume increases once the region overcomes its current - and hopefully temporary - economic and political turbulences.*
- *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). We view this as a capital and cost efficient platform for increasing diversity and access to technically rated market business.*
- *Apart from the further development of our underwriting capabilities, the Group's management is leaving no stone unturned to raise efficiency and productivity levels.*
- *Arig will continue applying a conservative investment strategy in order to protect its shareholders' and policyholders' interest. While we will be looking for opportunistic plays, they will never exceed a limited share of our total assets. Arig will stay away from volatile asset classes such as derivatives or real estate.*