Interim Results

3rd Quarter 2011

Summary

Arig Posts Loss On Reduced Investment Income

13 November 2011

Bahrain: Nominal investment returns and lower underwriting income proved insufficient to prevent Arig from increasing its 2011 deficit to an accumulated loss of US$ 11.5 million at the end of the first nine months of 2011 (Q3 2010: profit of US$ 11.5 million). The net result for the third quarter 2011 alone was a loss of US$ 7.4 million (third quarter 2010: profit of US$ 14.3 million).

Despite finishing on a combined ratio of 97.2% for the non-life book (Q3 2010: 98.4%), marginal earnings from investments of only US$ 0.2 million (Q3 2010: US$ 20.5 million) meant that little additional income was available to support the Company's operations. Arig has limited exposure to volatile asset classes, but a global decline in share values paired with historically low levels in interest rates kept invested assets mostly flat.

2011 has been a testing year for the global reinsurance industry so far with insured losses from natural catastrophes estimated at an extraordinary US$ 75 billion at the end of September, with more claims yet expected. Arig managed to escape the brunt while maintaining a positive Technical Result of US$ 6.1 million (Q3 2010: US$ 12.3 million), though the Company was moderately affected by losses in Asia Pacific, weather events in the GCC region and claims related to the Arab Spring unrest. Meanwhile, lackluster performance of the regional and most leading economies kept markets' pricing levels low, albeit with some emerging positive trends.

Gross premiums written grew by 15.4% overall to US$ 239 million for the reporting period (Q3 2010: US$ 207.0 million), largely supported by additional business acquired through Arig's corporate membership at Lloyd's of London and increased cessions from Africa, the Far East and in Specialty lines.

Key Results

(in million US$)	Q3 2011	Q3 2010
Gross premiums written	239.0	207.0
Technical result *	6.1	12.3
Underwriting result **	(7.8)	6.1
Investment income	0.2	20.5
Net profit	**(11.5)**	**11.5**
Non-life combined ratio	**97.2%**	**98.4%**

	Sep 2011	Dec 2010
Shareholders' Equity	232.8	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*

Reinsurance Performance

Gross written premiums (in million US$)	**Q3 2011**	**Q3 2010**
Non-life premiums	218.7	190.6
Life premiums	20.3	16.4
Total	**239.0**	**207.0**

- *15% year-on-year increase in non-life premiums driven by Arig's corporate membership in the Lloyd's market and business development in Africa, the Far East and in Specialty lines*
- *24% year on year increase in life premiums*

Net earned premiums (in million US$)	**Q3 2011**	**Q3 2010**
Earned premiums		
Non-life premiums	142.5	150.3
Life premiums	26.2	15.3
Total	**168.7**	**165.6**

- *Non-life earned premiums lower mainly on account of substantial medical accounts discontinued in 2010*

Reinsurance Performance

Technical results (in million US$)	Q3 2011	Q3 2010
Non-life technical profit (loss)	4.5	11.8
Life technical profit (loss)	1.6	0.4
Total	**6.1**	**12.2**

- *Non-life technical result: reduced result in view of reserves taken on the MENA unrest claims and natural catastrophe events (Jeddah flood, Japan/New Zealand earthquakes)*
- *Life technical result: includes prudency reserves; typically a share of these reserves is released over time as the underlying policies expire*

Non-life Portfolio	Q3 2011	Q3 2010
Claims ratio	69.1%	68.5%
Operational cost ratio	7.1%	8.1%
Acquisition cost ratio	21.0%	21.8%
Non-life Combined Ratio	**97.2%**	**98.4%**

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

Asset Management

Investment Income (in million US$)	**Q3 2011**	**Q3 2010**
Cash & short term deposits	3.3	5.0
Fixed maturities	6.1	7.2
Equities	(9.2)	4.5
Alternative Investments	-	3.8
Total	**0.2**	**20.5**
Rate of return on invested assets	0.0%	4.2%

- *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$)	**Sept 2011**	**Dec 2010**
Cash & short term deposits	308.4	281.4
Fixed maturities	248.5	228.5
Equities	73.5	115.5
Alternative investments	21.7	21.5
Total	**652.1**	**646.9**

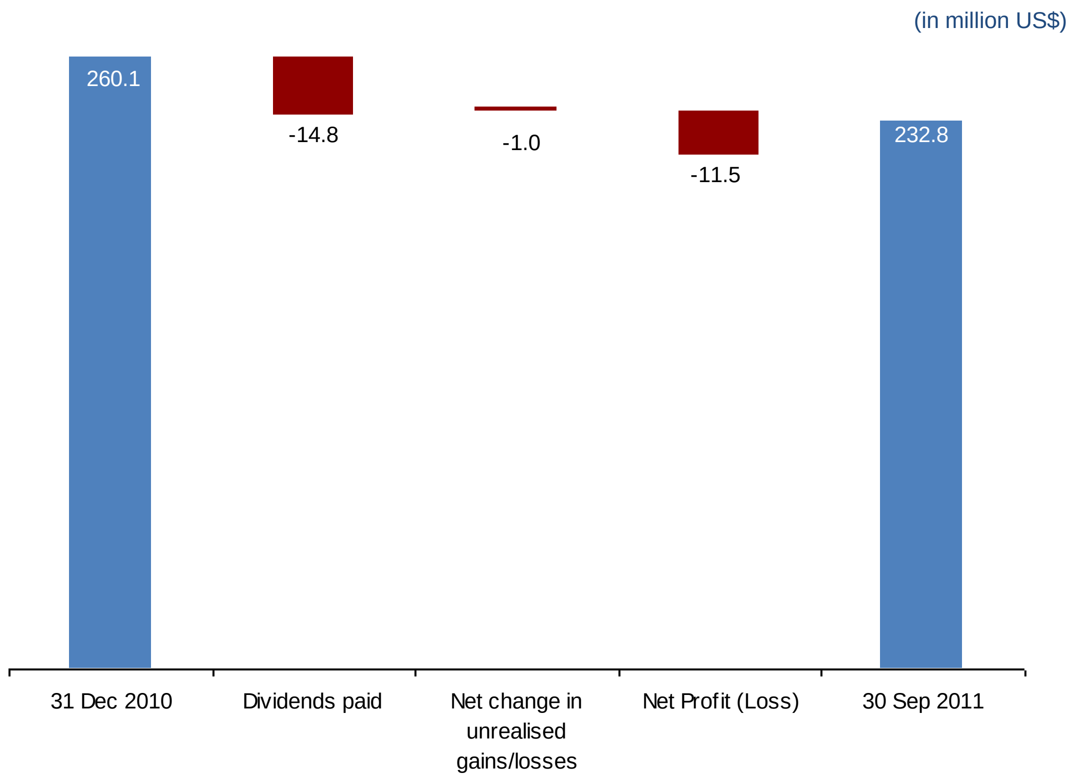
- *Fixed maturities inclusive of a $ 49.7 million long-term deposit*

Technical Reserves

(in million US$)	Sep 2011	Dec 2010
Unearned premiums	154.5	108.3
Unreported losses	221.6	214.6
Claims outstanding	285.1	306.4
Total	**661.2**	**629.3**

- *Gross technical reserves higher on higher unearned premiums – in line with seasonal trends*

Shareholders' Equity



Outlook

- *With losses from natural catastrophes being at historical highs, returns made from investments at historical lows and most leading economies remaining in a slump, 2011 is starting to look like the Perfect Storm to the industry. The good news is the consensus, which appears to be building for a long awaited hardening in market terms.*
- *Arig will continue to expand its emphasis away from the MENA region to a more global basis by increasingly employing its Lloyd's corporate membership. This allows the Company to become more opportunistic, utilizing pricing trends in different parts of the world markets to its advantage and being able to write risks where returns are most attractive.*
- *For MENA, we continue to 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.*
- *Entering into the main renewal season, our underwriting criteria remain the same: using our underwriting tools to test each offer for its capacity to adequately return on our risk capital after consideration of all risk related criteria and internal as well as external cost. We will continue to write for quality, not quantity.*
- *With the global loss development in mind, we see more opportunities to deploy our risk capital in high severity/low frequency risk areas where capacity may come at a premium and pricing is set to tighten.*
- *Our strong and friendly relationship with the Lloyd's market, and the Hardy Group in particular, gives Arig highly qualified and capital efficient access to interesting markets outside of our home region.*
- *At Group level, the constant improvement of our cost efficiencies is the chosen strategy in countering the effects of falling investment returns.*