13 August 2002

Manama ---: Arab Insurance Group (ARIG) announced its half-yearly results for 2002 which mark the steady progress made by the Group in implementing its turnaround strategy.

The Group's Bahrain reinsurance operations reported an underwriting profit of US$ 2.1 million for the first half of 2002, reflecting continued success in implementing its revised underwriting strategies. Against these improved results, ARIG has made additional provisions of US$ 5.5 million for reinsurance recoveries in respect of the failed aviation reinsurer. Arig protects its own exposures to a prudent degree by taking out reinsurance from well-rated and strong international reinsurance companies. However, the events of 11 September last year led to the failure of a large Japanese reinsurer which was one of the principal reinsurers on ARIG's aviation portfolio. The total impact of claims that Arig will now be unable to recover from that reinsurer has been provided for in full in the half-year accounts.

Further provisions of US$ 3.9 million have been made for claims arising from its UK subsidiary under run-off, ARIG UK; and a US$ 3.8 million financial provision for CNIA, the Group's Moroccan insurance subsidiary, in respect of tax related provisions for prior years. These provisions resulted in the Group recording a net loss of US$ 8.3 million for the first half year 2002.

"Apart from the effects of some of these past issues which we have to deal with from time to time as part of the clean-up process, there is every indication that the Group's turnaround strategies are proving successful and will be sustainable," said the Group's Chief Executive Officer, Mr Udo Krueger. "The return to reinsurance underwriting profit is a welcome sign that our revised strategies are beginning to prove themselves, and gives us a solid base to build on," he elaborated.

"We are building on the recent strong support shown by our shareholders in approving the re-capitalisation initiatives that are now being implemented," he said, adding that "in view of the deterioration in results, the planned Rights Share Offering of the Group will commence only after the results have been announced in order to ensure utmost transparency to our shareholders."

Mr Krueger commented that while marketing efforts in the regional markets enabled the Group to retain a major part of its business targets, the prevailing uncertainty about the ongoing capitalization initiatives during the first half of the year impacted the trading position of the Group especially in the Asian markets.

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Despite these setbacks, the reinsurance operations wrote gross non-life reinsurance premiums to the value of US$ 76.9 million for the period compared to US$ 89.6 million in the comparative period last year. The life reinsurance portfolio, which is still new at ARIG, recorded gross premiums of US$ 0.9 million for the period.

Mr Krueger said an important point to highlight is that the Group has successfully maintained a high level of reinsurance premiums compared with the first half of last year, despite exiting aviation and significantly reducing volatility in ARIG's business portfolio in going forward.

In line with its strategy of increasing focus on the regional Arab and Afro-Asian markets, the Group has been successful in increasing the contribution of reinsurance premiums from these core markets to 98.7% for the period, compared to a share of 92.7% for the first six months of 2001.

The Group's investment income of US$ 23.3 million for the period was higher than that of the corresponding period last year at US$ 19.5 million. This higher investment return has resulted from an improved investment environment despite the slow page of recovery.

Operating costs decreased to US$ 18.8 million for the half year 2002, down from US$ 19.1 million for the corresponding period last year. The operating costs include the full impact of extraordinary costs incurred for retrenchment arising from the restructuring of business operations in the Bahrain office and overseas branches. However, the full effects of the restructuring measures will on be realized in 2003.

The Group's Insurance Investments Division reported a loss of US$ 2.0 million during the period against the profit of US$ 5.1 million for the same period in 2001. Although the division reported a net loss, it reported an underwriting profit of US$ 2.0 million, which translated into a net loss mainly because of net additional financial provisions of US$ 3.8 million taken by CNIA in respect of prior years.

The Group made considerable progress in implementing its plan of forming strategic partnerships in its key markets, including a long-term agreement with Banque Populaire in Morocco on continuing its partnership with CNIA, and the establishment of a partnership with Banque Internationale Arab-Tunisienne (BIAT), the largest private bank in Tunisia, to transform the Group's dormant Tunisian subsidiary ATIG into a multi-branch insurance provider. The Group will continue to forge new alliances that will expand its marketing and distribution channels in the region.

During the period under review, the Group's Financial Services and Business Support Division, with its current focus on the provision of services to internal clients, generated gross revenues of US$ 1.6 million. The Group's IT venture, Arima Insurance Software, was formally set up during the period as a wholly owned subsidiary to market and distribute insurance software. The initial market response received for the products and services offered has been encouraging and several sale prospects are being progressed.

Commenting further on the results, Mr Krueger said that although the delayed recapitalisation had affected ARIG's business operations in the first half year, the Group was quite confident that the strong support shown by its shareholders, most importantly the sovereign founding shareholders, would significantly boost the confidence of clients and business partners in the Group.

Financial Highlights at 30 June 2002

		US$'000	
	30 June		Year
	2002	2001	2001
Gross premiums written	124,663	142,192	206,533
Underwriting result	(3,315)	(8,823)	(86,102)
Investment income	23,270	19,470	36,843
Operating expenses	18,847	19,076	38,971
Net loss after taxation and minority interests	(8,319)	(3,232)	(88,323)
Investment assets	848,116	869,649	853,936
Net technical provisions	800,549	804,888	786,181
Shareholders' equity	145,178	239,785	154,272
Total assets	1,432,424	1,448,052	1,443,127
Book value per share (USS)	**0.41**	**0.68**	**0.44**