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"Despite the truly demanding industry environment, Arig remains confident that we are well equipped to deal with the challenges at hand. Reinsurance and investment portfolios are sufficiently diversified and risk management is vigilant."

Yassir Albaharna

Chief Executive Officer

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REINSURANCE

2014 was the third year in sequence during which catastrophe related claims remained below their historical averages. Unsurprisingly, this extended and partially reinforced the trends observed earlier. Insurers and reinsurers expanded their capital bases further while looking to deploy their growing pool of risk capacities. At the same time, financial market investors continued to feel attracted towards Insurance Linked Securities (ILS), cat bonds and similar instruments, which have performed well in the absence of large catastrophe claims. With abundant capital at hand, reinsurers found it difficult to grow their revenues while terms and conditions continued to slide.

The market's response has been twofold: reinsurers with larger portfolios tended to apply increasingly selective underwriting. Additionally, capital was managed more dynamically and returned to investors when it could no longer be employed on sound economics. At the same time we witnessed a growing number of mergers and acquisitions as deep pockets fuelled the ability to buy over some of the competition and adding diversity to the risk portfolio.

For smaller or strictly regional underwriters, risk avoidance is not always an option especially if their market position is weak. Small portfolios can only tolerate a limited amount of selectivity before turning irrelevant. Regional diversification and strategic partnerships have therefore become the cycle strategies of choice while premium growth from the Emerging Markets has slowed.

At the same time the effects of increasing regulation and political upheavals in certain territories have been mounting. Taking a cue from past experience and the Solvency II development within the European Union, supervisory authorities in our region have been increasingly engaging in securing risk based capital levels, in actuarial assessment of reserving while looking into pricing practices and the risk exposures incurred through investments in volatile asset classes. Equally, the organizational separation of Non-life from Life portfolios continues to be a growing trend. Even if this translates into additional expenditure for insurers and reinsurers operating in the region, it should eventually assist in leading the industry away from acting like fund managers to becoming seasoned managers of risk who understand how to derive profitability from their core business and sharing an interest in developing it.

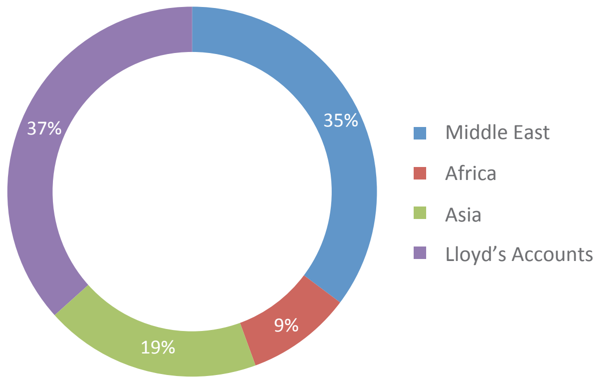
As we welcome growing regulatory consolidation as a positive trend, we remain concerned with the level of political instability in our region which is cutting into its economic potential. Premiums written from Iran, Iraq, Syria, Sudan, Libya or Russia have either reduced or dried up completely as a result of war-like activities or international sanctions. After the situation in Libya deteriorated further, Arig decided to close its Representative Office in Tripoli.

BUSINESS REVIEW

Portfolio development

Selective underwriting of risk without eroding our premium base has been one of Arig's key objectives for a number of years. A general decline in organic growth from the MENA region as a late effect of the 2008 financial crisis has meant that we needed to develop our overseas book of business. Subsequently we established a representation in the Sub-Sahara Africa region and also started building a sizeable presence in the Lloyd's market. Eventually Arig Capital Ltd. (ACL) was founded, Arig's corporate member at Lloyd's, which has since become a leading source of business for the company.

Territorial split by premium income



Please note that US$ 27.8 million of the Lloyd's premium were retroceded to a Lloyd's syndicate as part of a pre-agreed internal restructure.

Certain classes written in our regional markets continue to suffer from under-performance. As placements mostly happen in the form of multi-line bouquets, Arig preferred to walk away from loss making portfolios. Yet single-digit premium reductions from our Emerging Markets were over-compensated by year-on-year growth in our Lloyd's participations.

Combined, the Group's GWP increased by 20% but trends differed between Arig and its subsidiary Takaful Re. Whereas Arig's conventional reinsurance book grew 23% year-on-year, Takaful Re's gross premiums reduced by 14%. Together the Group's GWP reached US$ 315.3 million (2013: US$ 262 million) with Arig contributing 94% of the total or US$ 296.9 million and Takaful Re 6% or US$ 18.4 million.

The Group retained 82% of its portfolio or US$ 260.4 million (NWP 2013: US$ 246.3 million) as net written premiums grew by 6%.

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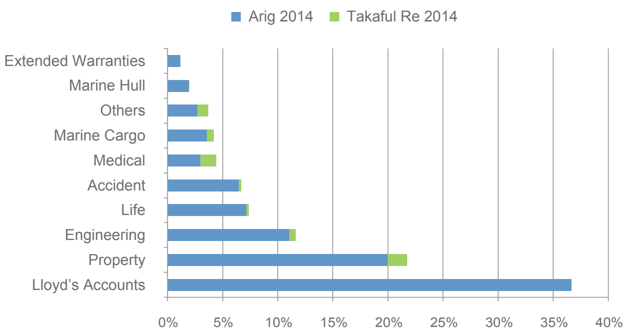
Despite all measures taken previously, the Re-Takaful business segment continued to disappoint. Hence the Group reduced premiums further thereby de-risking its book. Yet it became clear that the problems are systemic and a more profound solution needs to be introduced. Related discussions are under way and have reached a progressed state.

Individual line contributions to Group's premium income



Reflecting the common structure of reinsurance in developing markets, Property represents the largest single class followed by construction (Engineering) business. The share of our (multi-line) Lloyd's interest in 2014 was inflated by a temporary retrocession agreement. On a net written basis, all Lloyd's business would account for 27% of total premiums.

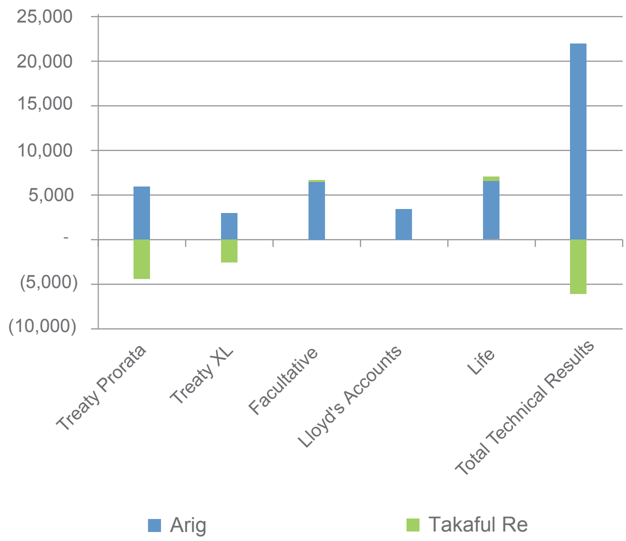
Performance

Insured catastrophe losses of US$ 31 billion in 2014 remained well below their rolling ten-year average of US$ 58 billion[1]. Equally, Arig's reinsurance portfolio was hardly affected by losses from natural perils. Yet we did see a slightly elevated frequency of mid-size risk losses from the MENA region that should still be regarded as normal within long-year trends.

The Group's overall loss ratio increased by 3.7 points to 66.8% over the reporting period (2013: 63.1%); Takaful Re's loss ratio rose 16.4 points to 105.9% (2013: 89.5%) while Arig's larger conventional portfolio produced an increase of 3.5 points to 63.4% (2013: 59.9%).

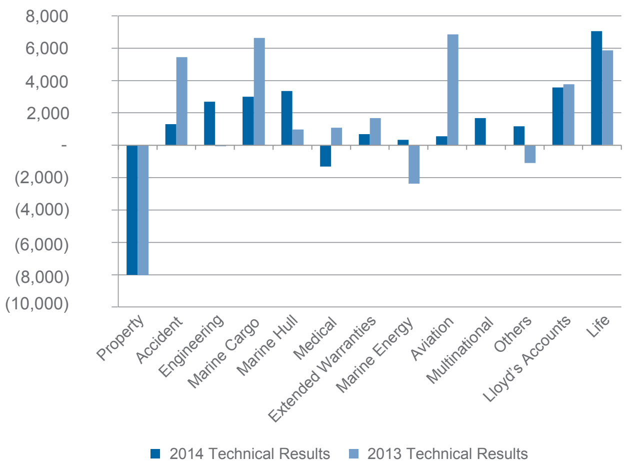
Property treaties continued to underperform yet they tend to be placed in conjunction with other, more profitable facilities by our regional clients. Overall, treaties produced a small profit for the year while the facultative book showed strong overall performance. The same holds true for our Life portfolio, which was additionally benefitting from strong reserving positions previously set up for long-term accounts.

Technical Results by source (in US$ 000)



Life and Lloyd's businesses continued to generate the highest Technical Results[2] relative to premiums in 2014. Following a shift to predominantly short-term Life portfolio, profits have increased further over and above the high level achieved in 2013. The poor returns from Property treaties continued to be the concession expected from reinsurers wanting to write business in the region, while the loss in Medical was driven by the run-off experience from one particular Re-Takaful account.

Group Technical Results by line (in US$ 000)



All in all, we are reasonably satisfied with Arig's performance in a highly challenging environment. Yet we are motivated knowing that even a difficult market holds promise for those who have the skills and innovative spirit to exploit it.

1 *Munich Re press release, January 2015*

2 *Technical results: returns from reinsurance operations before consideration of investment income and operating expenses*

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Risk Capital Position

As has been the company's practice, we commissioned independent external actuaries to provide an updated estimate for the amount of capital needed to cater for risk events throughout the Group's operations at a 1:200 level, or with a 0.5% probability. At this return period, Arig's Economic Capital compares favorably against the Group's shareholders equity, demonstrating that the Group is offering substantial financial security to its customers even in a stressed model scenario.

The consolidation of Takaful Re under Arig's risk pool was moderated by the fact that our subsidiary does not share accounts in Arig's peak risk territories where natural catastrophes tend to drive capital requirements. Any existing correlation is limited to selected regional Property markets, which commonly share a low exposure to natural catastrophes.

Arig's book, which represents 94% of the Group's portfolio, has seen limited changes over the position one year ago. Following a thorough review by independent external actuaries, reserve risk has seen a notable reduction while market risk increased moderately. All movements combined resulted in a marginal decrease in the Group's Economic Capital requirement.

Key drivers for the Group's risk capital are underwriting risk, and to a lesser extent reserve risk, followed by market risk, operational risk and credit risk.

As it was endorsed through our actuarial analyses, we are comfortable that the diversity and the quality of the Group's portfolio provide solid protection to Arig's reinsured clients and shareholders' capital alike.

Outlook

The insurance and reinsurance industry continues to be challenged by lower demand and over-capacities in the sector as another benign loss year and capital market investors' interest have helped to amass risk capital to a historical high. We expect risk pricing to stay under pressure even if there appears to be less leeway for catastrophe pricing to go much lower before outside capital investors start losing interest.

Equally, insurers' investments need to perform a balancing act between the protection of their principal and generating a meaningful return on capital above inflation rates. Markets stay volatile and could correct at the slightest notion, hence proper risk management must be in place even if it comes at the expense of some earnings. We would therefore expect most insurers and reinsurers to rely on solid returns from their underwriting activities rather than building up additional risk positions from potentially volatile asset classes.

Despite the truly demanding industry environment, Arig remains confident that we are well equipped to deal with the challenges at hand. Reinsurance and investment portfolios are sufficiently diversified and risk management is vigilant. The company's reserving position is strong and able to deal with surprises. While our business model may not deliver the spectacular results of a riskier portfolio in a good year, we also avoided having to replace capital that could be lost in a bad year.

Markets are likely to show limited opportunities for profitable growth in 2015, yet we believe that by fine-tuning our operational platform further, the Group can realize its potential for solid returns throughout the business cycle.

INVESTMENTS

2014 was a year in which returns across asset classes was contrary to expectations. The benchmark 10-year US Treasury Note declined 86 basis points in yield to close at 2.17%. An accommodative monetary policy by the ECB resulted in yields of European sovereign paper, including that of troubled economies such as Spain and Italy, declining below US Treasuries of similar maturities. Short term interest rates for all major currencies remained virtually unchanged. The increase in interest rates anticipated in 2014, did not materialize. The biggest surprise was the development of crude oil prices. Spot Brent closed 50% lower from its peak of US$ 115 in June. This price action precipitated a sharp sell-off in regional equity markets, especially during the last quarter.

The performance of equity indices was mixed. There was no broad-based global rally. The development of the Morgan Stanley World Equity Index was unimpressive. The US market was stronger, reflecting in part the improved outlook for the economy. US equity indices scaled all-time highs. In our region, the pan-GCC equity index closed flat for the year.

There was a move to the relative safety of the US Dollar with the trade-weighted index increasing 12.8%. A strong Dollar and a stagnating global economy pushed demand for commodities lower. The broad commodity index lost substantial ground.

In line with the risk tolerance of the Group, our investment strategy remained unaltered. We continued to be conservative in our allocation. Most of the investment portfolio was deployed in less risky assets. At the year-end, the Group's investments stood at US $ 721.0 million (2013: US $ 642.2 million) with 87% allocated to cash, short term securities and bonds. Income generated in 2014 was US $ 20.5 million (2013: US $ 20.4 million).

Looking ahead, major issues remain. The European & Japanese economies face twin challenges of deflation and

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slowing growth. Carefully calibrated fiscal and monetary strategies are required to infuse confidence and growth into these major economic blocs. The US economy is consolidating as is documented by lower unemployment and better than anticipated economic growth. The easy money program of the Federal Reserve will probably be unwound in 2015. It will be important for the stability of the markets that the agency clearly articulates its opinions and proposed actions. Bouts of volatility in asset prices continue to be a strong possibility. The prevailing low rates of interest challenge larger parts of the world economy, including predominantly short duration investors like Arig.

The company will continue to manage a diversified low-risk portfolio within the Group's investment risk appetite, carefully balancing market opportunities against our standing obligation to policyholders and shareholders. We continue to be at a low point in the investment cycle especially in terms of interest rates. Preservation and safety of capital at this stage is paramount to exploiting opportunities as they arise.

SUBSIDIARIES

Takaful Re Limited (TRL)

The Group's Islamic reinsurance subsidiary reported a net loss of US$ 9.1 million (2013: net loss of US$ 8.1 million) due to adverse claim developments during the year. Arig's accounted share in the annual loss was US$ 4.9 million (2013: loss of US$ 4.4 million).

Gross underwriting contributions reduced by 14% to US$ 18.4 million (2013: US$ 21.5 million) as Takaful Re continued to de-risk its portfolio. Property, which represents 30% of total income, remained the largest class with contributions of US$ 5.6 million (2013: US$ 7.0 million). Other sizeable lines written were Medical and Auto, representing 24% (2013: 3%) and 15% (2013: 17%) of total contributions respectively.

Takaful Re's investments yielded an average return of 1.6% with investment earnings of US$ 1.9 million (2013: US$ 2.1 million). The company followed a conservative investment strategy maintaining a high degree of liquidity. About 49% of the US$ 111.5 million (2013: US$ 118.2 million) of invested assets were held in cash and short-term Islamic deposits.

Gulf Warranties (GW)

Gulf Warranties continued its turnaround recording a nominal profit of US$ 0.03 million for the year (2013: net loss US$ 0.2 million). Sustained marketing efforts saw motor warranty revenues grow by 53% to US$ 2.3 million (2013: US$ 1.5 million) while non-warranty income increased marginally to US$ 0.9 million (2013: US$ 0.8 million) for the year.

Arig Capital Limited (ACL)

ACL is a fully owned corporate member at Lloyd's of London that enables Arig to share in business written by Lloyd's syndicates. In 2014, ACL wrote business through four syndicates generating gross written premium of US$ 129 million (2013: US$ 47.1 million). ACL retains limited risk for its net account and cedes most of its business to Arig. In the absence of any major claims, ACL recorded a small profit of US$ 0.2 million for the year (2013: net loss US$ 0.2 million).