

BOARD OF DIRECTORS



Saeed Mohammed AlBahhar

Chairman of the Board and member of the Nomination and Remuneration Committee



Mohamed Saif AlHameli

Vice Chairman of the Board



Mohamed Saif AlSuwaidi

Director and member of the Nomination and Remuneration Committee



Ahmed Saeed AlMahri

Director and Chairman of the Audit and Risk Committee and member of the Nomination and Remuneration Committee



Dr. Bader Abdulla AlJaberi

Director and Chairman of the Nomination and Remuneration Committee and member of the Audit and Risk Committee



Wael Ibrahim Abu Khzam

Director and member of the Audit and Risk Committee and Nomination and Remuneration Committee

REPORT OF THE BOARD OF DIRECTORS

Dear Shareholders,

The Directors of the Arab Insurance Group (B.S.C.) (Arig) presents the Company's 38th Annual Report along with the audited Consolidated Financial Statements for the year ended 31 December 2018.

GROUP PERFORMANCE

2018 witnessed a decline in our financial performance for the year and recorded a net loss of US\$ 55.3 million attributable to shareholders (2017: Net Profit US\$ 7.2 million). The loss is mainly due to continued poor performance of our Lloyd's portfolio and a provision for probable loss estimates for our subsidiary, Gulf Warranties W.L.L. In contrast, the technical result¹ of our Non-Lloyd's portfolio was positive. On a positive note our discontinued Takaful Re portfolio continued its smooth run-off and contributed US\$ 3.6 million (2017: US\$ 1.2 million).

In September 2018, A.M. Best downgraded Arig's Financial Strength Rating (FSR) to B++ (Good) from A- (Excellent), the Long-Term Issuer Credit Rating (Long-Term ICR) to "bbb+" from "a-" and revised the outlook of our Long-Term ICR from stable to negative. The outlook of the FSR remained, however, stable. The downgrade was to a large extent related to irregularities discovered at our subsidiary Gulf Warranties W.L.L.

The Group reported total investment income of US\$ 10.0 million (2017: US\$ 22.5 million). The result reflects the significant downturn in global investment markets.

The consolidated combined ratio² as at the end of the reporting period 2018 was 115.2% (2017: 104.1%).

ARIG'S REINSURANCE POSITION

The reinsurance market remained quite challenging in 2018. Although, reinsurance terms and conditions were more or less flat during the treaty renewal season 2018 and reinsurer could in most cases resist pressure to reduce rates on the facultative side, the market continued to be competitive and insurance and reinsurance rates stayed at the bottom-end of the scale. This was particularly true for markets in the MENA region.

The Group's gross written premium increased to US\$ 262.8 million (2017: US\$ 225.6 million) mainly contributed by Lloyd's portfolio, which increased to US\$ 125.6 million (2017: US\$ 88.6 million). The increase was driven by efforts to restructure the portfolio. We exited from the loss-making Syndicate, which produced more than 50% of the past negative results of our Lloyd's portfolio and shifted our participation towards more promising Syndicates.

The downgrade by A.M. Best had put an extra layer of pressure on the Company and reduced our capabilities to write business in certain markets and/or particular cedants or insureds, nevertheless, overall gross written premium of our Non-Lloyd's business during 2018 remained almost unchanged at US\$ 137.2 million (2017: US\$ 137.0 million). Non-Life business increased slightly to US\$ 118.6 million (2017: US\$ 115.9 million), while Life business experienced a reduction of their gross written premium to US\$ 18.6 million (2017: US\$ 21.2 million).

The overall technical result of the Group was negative by US\$ 19.4 million (2017: positive US\$ 5.5 million). The adverse performance was mainly due to our Lloyd's portfolio, which closed with a negative result of US\$ 28.3 million (2017: US\$ loss of 19.6 million). The result represents a mixture of losses attributable to previous underwriting years mostly 2016 and 2017 and partly to underwriting year 2018.

The technical result of our Non-Life treaty portfolio improved its performance to US\$ 14.5 million (2017: US\$ 2.8 million). Our Non-Life facultative portfolio showed, unlike previous years, a negative technical result of US\$ 11.2 million (2017: Positive US\$ 21.2 million). Mainly our Property and Engineering book of business were affected by several major losses such as National Petrochemical, KSA by US\$ 5.6 million, Gama Enerji, Turkey by US\$ 3.5 million and the exceptional ADNOC, UAE claim, for which reserve increased by a gross amount of US\$ 16.8 million (net US\$ 5.2 million).

The Life business continued to perform quite well with a positive technical result of US\$ 5.7 million (2017: US\$ 1.1 million).

OUTLOOK

Arig is historically well established in the MENA region, Africa, Indian Sub-Continent and to a certain extent South East Asia and the Far East. Reinsurance business is known to be a business of trust and as such a business of long-term relationships. Arig has since its early days worked hard on building up a good reputation in its markets, starting by establishing a fast and reliable claims payment culture and a close customer friendly market approach. We are intending to utilize our market standing even further and concentrate our main efforts and services on markets we know best.

The performance of our Lloyd's book of business was without doubt not satisfactory. Arig's management has introduced corrective measures in the underwriting years 2018 and 2019 including reduced overall involvement of Arig in Lloyd's in 2019. The Board is monitoring the development of this particular portfolio closely. A strong shift in performance is the clear objective for 2019.

¹ technical result: net earned premiums less claims and acquisition costs

² combined ratio: aggregate of expenses and losses over net earned premiums



Saeed Mohammed AlBahhar

Chairman

ACKNOWLEDGEMENTS

The Board takes this opportunity to express its gratitude to His Majesty the King, His Royal Highness the Prime Minister and His Royal Highness the Crown Prince for their wise leadership and encouragement for the insurance sector of the Kingdom of Bahrain. The Directors further extend their thanks to our business partners, clients, shareholders and the Central Bank of Bahrain for their support and cooperation throughout the year.

On behalf of the Board of Directors

Mr. Saeed Mohammed AlBahhar

Chairman

13 February 2019