OPERATING AND FINANCIAL REVIEW

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Acting Chief Executive Officer

BUSINESS REVIEW

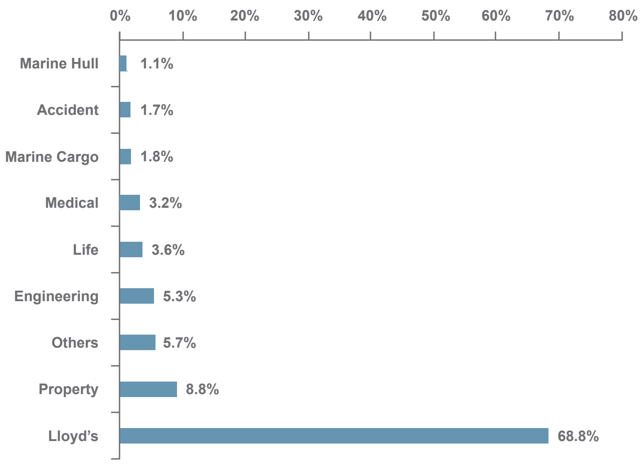
Portfolio Development

During the year 2019 Arab Insurance Group (B.S.C.)'s (the Group) gross premiums written decreased to US$ 194.6 million from US$ 262.8 million in 2018, a decrease of 26.0%. The decrease was mainly due to the adverse circumstances surrounding the Company. The Non-Lloyd's facultative and treaty portfolio for non-life business decreased by 54.8% to reach US$ 53.6 million (US$ 118.6 million in 2018).

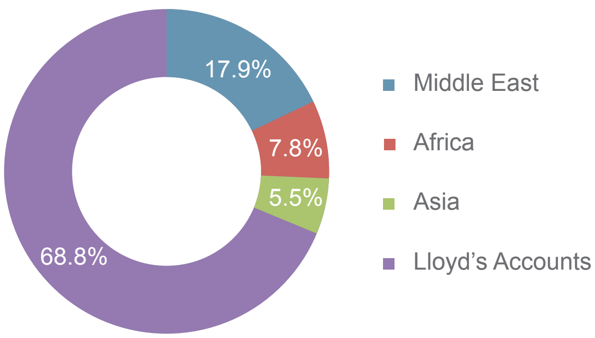
The gross premiums written from Lloyd's portfolio has slightly increased on financial year basis by 6.7% to US$ 133.9 million (US$ 125.5 million in 2018), while it has reduced on underwriting year basis from US$ 137.2 million in 2018 to US$ 100.5 million in 2019, a reduction of 26.7%.

The Property business accounted for 31.8% of the total non-life non-Lloyd's book of business followed by Engineering with 19.2%. The Life portfolio, experienced a 61.8% drop in 2019 reducing to US$ 7.1 million from US$ 18.6 million.

Split of Gross Written premium income by line



Territorial split of Gross Written premium income



Performance

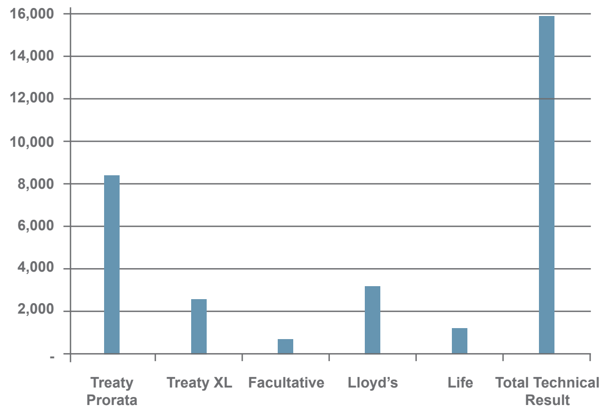
The overall technical result for the Arig Group was positive at US$ 15.9 million (2018: loss US$ 19.4 million). Our Lloyd's book reported a technical profit of US$ 3.1 million (2018: loss of US$ 28.3 million) mainly due to a lower volume of losses from catastrophes.

The Non-Lloyd's book generated a technical profit of US$ 12.8 million (2018: US$ 9.0 million).

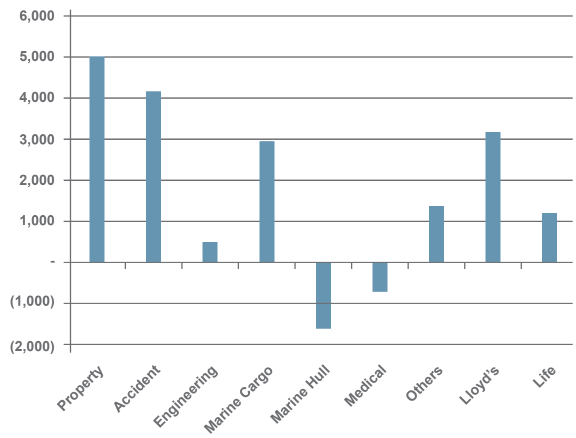
The overall non-life treaty and facultative portfolio excluding Lloyd's business produced a profit of US$ 11.6 million for the year (2018: US$ 3.3 million) with Property and Accident lines contributing to technical profit of US$ 5.0 million and US$ 4.1 million respectively.

The life business technical result dropped by 78.9% to US$ 1.2 million (2018: US$ 5.7 million), mainly explained by a significant reduction of business and a less favorable claim experience.

Group Technical Result by source (in US$ 000)



Group Technical Result by line (in US$ 000)



INVESTMENTS

The Financial Markets

The year 2019 was a year of consolidation and growth in the global financial markets. Markets had declined in value in 2018, especially in the fourth quarter, on fears of an economic slowdown and an interest rate increase by the Federal Reserve. Clarifications by the Federal Chair in early 2019 brought stability to the markets. In an accommodative policy, the agency reduced the key Fed Funds rate from 2.5% at the beginning of the year to 1.75% by the year-end. Six Month US$ Libor closed the year at 1.91% (2018 : 2.88%)

The monetary policies of other major Central Banks, especially the ECB and The Bank of Japan continued to be very accommodative. Yields of fixed income securities hit historic lows in Europe and Japan. The strategies of Central banks impacted yields in the fixed income markets. The benchmark ten-year US Treasury Note closed the year at a yield level of 1.92% (2018 : 2.69%)

A scenario of lower interest rates and better than anticipated economic growth, especially in the US, was a stimulus to the equity markets and other riskier assets. The Morgan Stanley World Index rose by 25%. In the US, the S&P 500 was up by almost 29%. Most other developed equity markets closed higher for the year. In the region, the S&P IFC GCC index gained 12.5%. Emerging market bonds and US High Yield Bonds also provided attractive returns.

Arig's Investment Strategy and Performance

The portfolio places a premium on liquidity and safety to effectively service volatile Reinsurance liabilities. Allocations to traded equities and alternative investments are out of shareholder's funds. Policyholder funds are invested only in cash and bonds.

A very high proportion of the portfolio is invested in cash, deposits, and short-term investment-grade bonds. The balance is allocated to traded equities and alternative investments. Exposure to equities is both to the GCC and developed markets. We are no longer investing in alternative investments.

In 2019, Arig's diversified portfolio benefitted from the favorable conditions in the financial markets. Equities had a stellar year. The equity income recorded was US$ 11.9 million (2018: loss of US$ 2.0 million). Income was generated both from booked profits and mark to market gains. The fixed-income portfolio benefitted from declining yields and rising prices. Income booked in this portfolio for the year was US$ 11.6 million (2018: US$ 8.6 million).

The overall yield on the Group Investment Portfolio was 4.2% (2018 : 1.6%).

Outlook

The Company is in the process of determining its reinsurance strategy going forward in light of the recommendation of the Board to cease underwriting.

We will continue to manage our well-diversified, low-risk investments portfolio within the Company's risk appetite, carefully balancing market opportunities against our standing obligation to policyholders and shareholders.

SUBSIDIARIES

Takaful Re Limited (TRL)

The Group's Islamic reinsurance subsidiary, TRL, which was placed in run-off in April 2016 reported a net profit of US$ 2.2 million (2018: US$ 6.7 million) for the year. Arig's share in the profit was US$ 1.2 million (2018: US$ 3.6 million).

TRL's investments yielded an average return of 1.6% (2018: 1.4%) with investment earnings of US$ 0.8 million (2018: US$ 0.9 million). The Company's investments assets were almost entirely held in cash and short-term Islamic deposits.

The Shareholders' of TRL at the EGM on 1 May 2019, decided to reduce its share capital from US$ 100 million to US$ 75 million. This reduction was effected after obtaining necessary approvals from TRL's regulator, Dubai Financial Services Authority.

Gulf Warranties (GW)

Gulf Warranties, the Group's subsidiary under liquidation, reported a loss of US$ 7.3 million to the Group's results for the year (2018: loss US$ 23.7 million). The Company stopped writing business in 2018.

Arig Capital Limited (ACL)

ACL is a registered and fully owned corporate member at Lloyd's of London that allows Arig to participate in business written by Lloyd's syndicates. In 2019 ACL wrote business through four syndicates namely 1969, 1200, 1910 and 2014 as well as two SPA's 6133 and 3268, generating gross written premiums of US$ 133.9 million (2018: US$ 125.5 million). ACL retains limited risk for its net account and cedes most of its business to the parent company. ACL recorded a profit of US$ 0.2 million for the year (2018: net loss US$ 2.7 million). The Company ceased writing new business from 1 January 2020.