OPERATING AND FINANCIAL REVIEW

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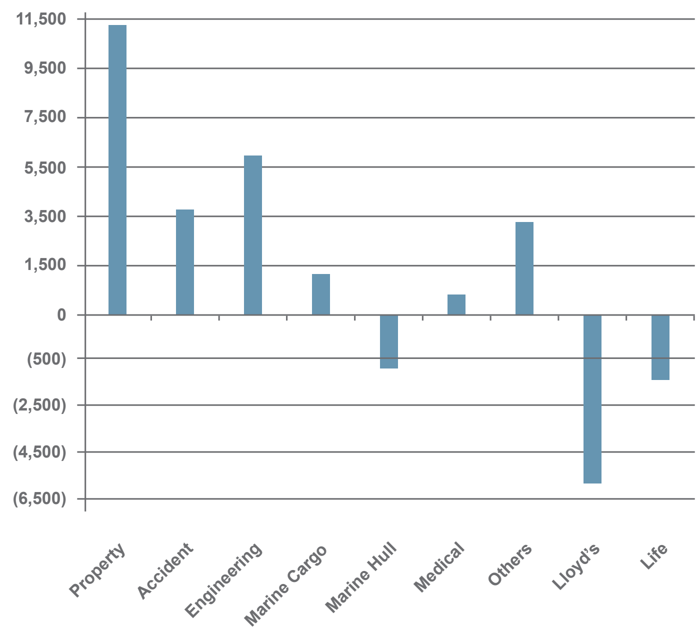
BUSINESS REVIEW

Reinsurance Performance

Arab Insurance Group (B.S.C.) (Arig or the Group) reported negative gross written premiums of US$ 17.3 million for the year 2020 (2019: gross written premium US$ 194.6 million). This was mainly due to the decision of the Shareholders to cease writing new reinsurance business and write-off of pipeline premium. The Lloyd's portfolio accounted for negative premiums of US$ 10.8 million (gross written premium US$ 133.9 million in 2019). The Non-Lloyd's book recorded negative premiums of US$ 6.5 million (gross written premium US$ 60.7 million in 2019).

Overall technical profits for the Group was US$ 17.6 million (2019: US$ 15.9 million). The Non-Lloyd's book generated a technical profit of US$ 23.5 million (2019: US$ 12.8 million) due to lower reported claims and reduction in certain major losses reported in prior years. The Lloyd's portfolio reported a technical loss of US$ 5.9 million (2019: profit of US$ 3.1 million).

Group Technical Result by line (in US$ 000)



INVESTMENTS

The Financial Markets

The year 2020 was a seminal year in the global financial markets. After a robust performance in 2019, markets turned apprehensive about the economic implications of the COVID-19 virus that had spread rapidly from China to other parts of the world. In the first quarter and especially in the month of March, there was a massive sell off in the equity markets. There was a corresponding move to the safety of government bonds. In the US, the S&P 500 Index declined 25% for the quarter, while on a global basis, the Morgan Stanley World Index was down 21.5% in the same period. Yields on the benchmark ten–year US Treasury Notes declined from 1.92% at the beginning of the year to a March end close of 0.67%. The Federal Reserve Bank in the US cut the Federal Funds Target Rate's upper bound from 1.75% at the beginning of the year to 0.25% in March. A slew of actions with similar objectives was implemented by other Central banks the world over.

All countries went into a variety of lockdowns. This phenomenon would have had a disastrous impact on economic growth. Governments, including GCC governments, addressed this emergency by announcing a series of fiscal measures to preempt financial distress and stabilize economies.

This historic combination of monetary loosening and generous fiscal policies had a salubrious effect on markets and asset prices. There was also significant progress in the year on effective vaccines for the virus. Markets around the world started focusing on a post-vaccine world. They regained their momentum and recovered substantially from their nadir. Prices of corporate bonds that had also declined in the market sell-off recovered. Notably, the S&P 500 Index led by its technology component registered an impressive 16.25% return for the year.

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 shareholders' funds. Policyholder funds are invested only in cash and bonds.

We took a strategic decision to exit from most equity positions to protect shareholders' funds following the Board's decision to recommend cessation of the reinsurance business. The portfolio is invested predominantly in cash, deposits, and short-term investment-grade bonds at the year-end. The Group's investment pattern was thus altered in terms of the allocation strategy.

The Group's investment income dipped to US$ 4.9 million (2019: US$ 26.3 million). This decline was primarily due to the unwinding of the equity portfolio which reported a loss of US$ 7.4 million (2019: Profit of US$ 11.9 million). During the course of the year, the fixed-income portfolio was challenged by downgrades and declining yields. Income booked in fixed income portfolio for the year was US$ 11.3 million (2019: US$ 11.6 million). The overall yield on the Group's investment portfolio was 0.8% for the year (4.2% in 2019).

Going forward, our actions have substantially minimized the volatility of the portfolio. The portfolio is well-positioned in terms of the decision taken by the Board and the shareholders. The current exposure to cash, near cash, and investment-grade bonds ensures that Arig is well placed for any liquidity requirement.

Outlook

In its update of January 2021, the International Monetary Fund anticipates the global economy to grow by 5.5% in 2021. This growth is on the back of a 3.5% contraction in 2020. There are, however, continuing risks to the world economy, such as a new strain of Coronavirus and the possible ineffectiveness of the vaccines administered. We cannot rule out market volatility.

Arig will continue to manage a well-diversified, low-risk portfolio within the Company's current priorities and our standing obligation to policyholders and shareholders. Conservative portfolio allocation, preservation and enhancement of shareholders' value and providing liquidity at short notice are our overarching objectives.

SUBSIDIARIES

Takaful Re Limited (TRL)

The Group's Islamic reinsurance subsidiary TRL, in run-off since April 2016, reported a net loss of US$ 1.9 million (2019: profit US$ 2.2 million) for the year. Group's share in the loss was US$ 1 million (2019: profit US$ 1.2 million).

TRL's investments yielded an average return of 1.2% (2019: 1.6%) with investment earnings of US$ 0.4 million (2019: US$ 0.8 million). The Company's investments assets were almost entirely held in cash and short-term Islamic deposits.

Gulf Warranties (GW)

Gulf Warranties, the Group's subsidiary under liquidation, reported a profit of US$ 2.2 million to the Group's results for the year (2019: loss US$ 7.3 million). The Company stopped writing business in 2018.

Arig Capital Limited (ACL)

ACL, the wholly owned corporate member at Lloyd's of London, ceased writing new business from 1 January 2020. ACL reported negative gross written premiums of US$ 10.8 million for the year on account of pipeline reversals (2019: gross written premiums US$ 133.9 million). ACL retains limited risk for its net account and cedes most of its business to the parent company. ACL recorded a loss of US$ 1.9 million for the year (2019: profit US$ 0.2 million).