OPERATING AND FINANCIAL REVIEW

Samuel Verghese
Acting Chief Executive Officer

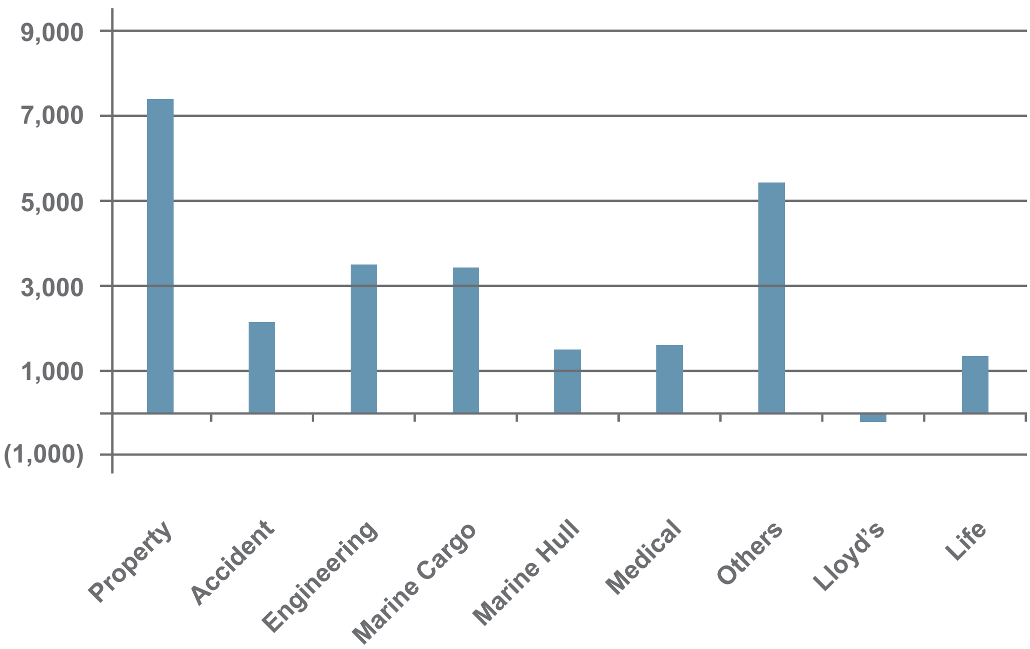
BUSINESS REVIEW

Reinsurance Performance

Arab Insurance Group (B.S.C.) (Arig or the Group) reported US$ 13.8 million earned premiums for the year 2021 (2020: earned premiums US$ 68.5 million). This reduction in earned premium was mainly due to the decision of the Shareholders to cease writing reinsurance business. The Lloyd's portfolio accounted for US$ 10.6 million of earned premiums (US$ 49.6 million in 2020). The Non-Lloyd's book recorded US$ 3.2 million of earned premiums (US$ 18.9 million in 2020).

Overall technical profits for the Group was US$ 26.3 million (2020: US$ 17.6 million). The Non-Lloyd's book generated a technical profit of US$ 26.5 million (2020: US$ 23.5 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$ 0.2 million during 2021 (2020: loss of US$ 5.9 million).

Group Technical Result by line (in US$ 000)



INVESTMENTS

The Financial Markets

2021 was the second year of the Covid-19 pandemic. Various variants of the Corona Virus continued to challenge humankind. The response of governments, particularly the GCC governments, was well-thought-out and aggressive. A massive vaccination roll-out and strict containment measures prevented a bad situation from becoming dire.

Monetary policy in such an environment continued to be very accommodative to minimize any economic downturn. Central Banks of the world continued with their ultra- low-interest rates policy. They also resorted to asset purchases to inject liquidity into their respective economies.

Governments, on their part, increased spending through a variety of programs. This massive infusion of liquidity supported asset prices. Equity markets had a good year. In the US, the S&P 500 Index rose 26.9%, while the technology-laden Nasdaq Composite Index gained 21.4%. GCC equity markets hit a stellar patch, with the Composite Index increasing 35.2%.

The increase in liquidity capped any rise in short term interest rates. Returns were at multi-year lows in the cash and near-cash markets. In the government bond markets, yields, especially on US Treasuries, did rise after the plunge of the prior year. In a historical context though, yields on government bonds are still at very depressed levels. The low yield environment in government bonds impacted return expectations in the corporate bond markets.

The disruption in regular economic activity because of the pandemic caused supply-side constraints across various industries. In the year, commodity prices rose because of these constraints. Notably, Brent crude closed the year at almost US$ 78 a barrel, a 50% increase from the previous year. This spike in the oil price, which is likely to sustain, augurs well for the region.

The rise in prices, particularly in commodities, stoked inflation which became a global concern. Central Banks are taking the necessary steps to contain inflation.

Investment Strategy and Performance

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

We have taken a strategic decision to exit from equity positions to protect shareholders' funds following the decision at the EGM in August 2020 to cease writing further reinsurance business. The portfolio is invested predominantly in cash, deposits, and short-term investment-grade bonds.

The parent company's investment income increased to US$ 9.4 million (2020: US$ 4.3 million). Group Investment income was US$ 9.6 million (2020: the US$ 4.9 million). The overall yield on the Group Investment Portfolio was 1.8%. (0.8% in 2020).

The current allocation has substantially minimized the volatility of the portfolio. The portfolio is well-positioned for any liquidity event.

Outlook

In its update of January 2022, the International Monetary Fund notes that the global economy is in a weaker position than expected. It forecasts global growth to moderate from 5.9% in 2021 to 4.4% in 2022. The institution states that inflation is more broad-based than thought. It is concerned about high energy costs and supply disruptions. Besides the above, there is a continuing risk of new Coronavirus strains emerging.

To minimize risk, 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.

Our overarching objectives are conservative portfolio allocation, preservation of capital, and providing liquidity at short notice.

SUBSIDIARIES

Takaful Re Limited (TRL)

The Group's Islamic reinsurance subsidiary TRL, in run-off since April 2016, reported a net profit of US$ 0.8 million (2020: loss US$ 1.9 million) for the year. Group's share in the profit was US$ 0.4 million (2020: loss US$ 1.0 million).

TRL's investments yielded an average return of 1.0% (2020: 1.2%) with investment earnings of US$ 0.3 million (2020: US$ 0.4 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$ 1.2 million to the Group's results for the year (2020: profit US$ 2.2 million).

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 earned premiums of US$ 1.1 million for the year on account of pipeline reversals (2020: earned premiums US$ 5.0 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$ 0.1 million for the year (2020: loss US$ 1.9 million).