

OPERATING AND FINANCIAL REVIEW



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Acting Chief Executive Officer

BUSINESS REVIEW

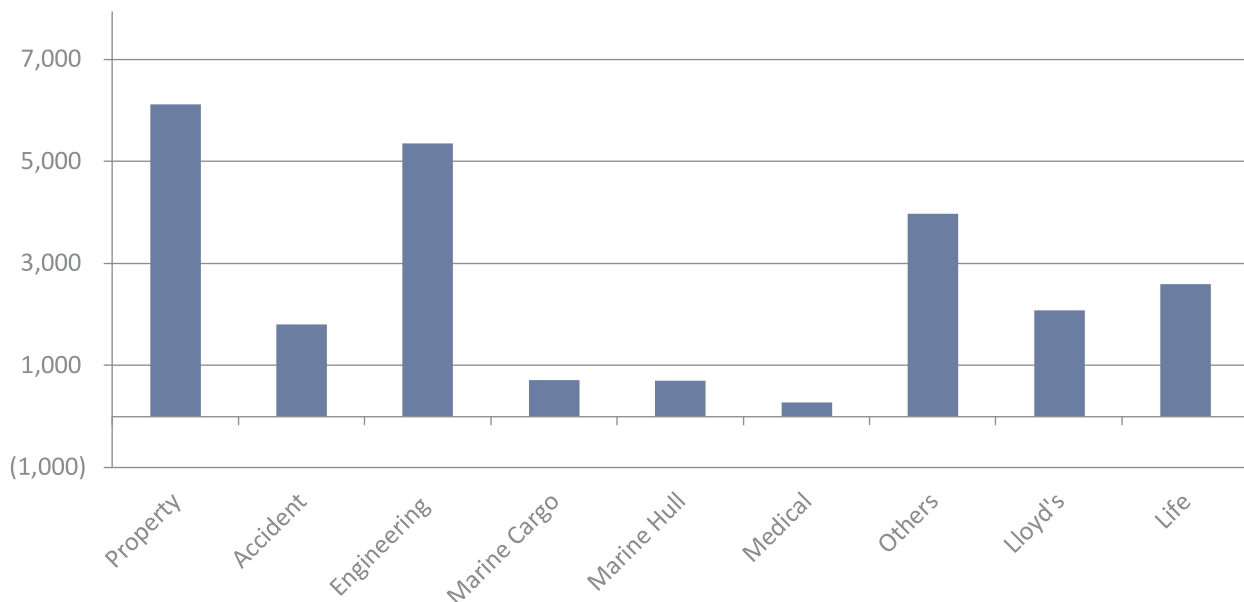
Reinsurance Performance

Arab Insurance Group (B.S.C.) (Arig or the Group) reported US\$ 1.3 million earned premiums for the year 2022 (2021: earned premiums US\$ 13.8 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\$ 0.6 million of earned premiums (US\$ 10.6 million in 2021), mainly due to closing

the last year of participation in Lloyds syndicates through the subsidiary Arig Capital Limited. The Non-Lloyd's book recorded US\$ 0.7 million of earned premiums (US\$ 3.2 million in 2021).

Overall technical profits for the Group was US\$ 23.6 million (2021: US\$ 26.3 million). The Non-Lloyd's book generated a technical profit of US\$ 21.5 million (2021: US\$ 26.5 million) due to favorable claims position. The Lloyd's portfolio reported a technical profit of US\$ 2.1 million during 2022 (2021: loss of US\$ 0.2 million).

Group Technical Result by line (in US\$ 000)



INVESTMENTS

The Financial Markets

2022 was a seminal year in the financial markets, especially in Fixed Income. In the US, the benchmark Fed Funds Rate increased by a significant 4.25% in 2022. The ECB & the Bank of England also made notable increases in their lending rates.

The actions of the Central Banks affected the bond markets. Yields rose across the board in response to the higher rates. The generic two-year US Treasury Note rose in yield from 0.73% at the beginning of the year to 4.42% by the year's end. The prices of fixed-income securities fell as yields rose. The hitherto safe strategy of investing in government bonds incurred losses. The benchmark Barclays Global Aggregate Index lost 11.2% in the year. In the FX markets, the dollar appreciated against other currencies.

The year 2022 was an extremely challenging year. Investors like Arig, who are predominantly fixed-income investors, were challenged by the market volatility.

Investment Strategy and Performance

Arig's portfolio places a premium on liquidity and safety to 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.

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.

In 2022, as part of restructuring we sold certain fixed-income securities to minimize losses and also increased our deposit placement substantially to take advantage of the high interest rates.

The parent company's investment income decreased to US \$ 1.2 million (2021: US \$ 9.4 million) because of the turmoil in the fixed income securities. Group Investment income was US \$ 1.6 million (2021: US \$ 9.6 million). The overall yield on the Group Investment Portfolio was 0.4% (1.8% in 2021).

Outlook

Arig will continue to manage the current low-risk portfolio within the Company's current priorities and our standing obligation to policyholders and shareholders. Our overarching objectives continue to be 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\$ 0.6 million (2021: profit US\$ 0.8 million) for the year. Group's share in the profit was US\$ 0.3 million (2021: profit US\$ 0.4 million).

TRL's investments yielded an average return of 1.7% (2021: 1.0%) with investment earnings of US\$ 0.4 million (2021: US\$ 0.3 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\$ 4.1 million to the Group's results for the year (2021: profit US\$ 1.2 million) due to the release of provisions following the reassessment of provisions.

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\$ 0.06 million for the year on account of pipeline reversals (2021: earned premiums US\$ 1.1 million). ACL recorded profit of US\$ 2.2 million for the year (2021: loss US\$ 0.1 million) due to tax refunds and release of provisions.