OPERATING AND FINANCIAL REVIEW

Samuel Verghese
Acting Chief Executive Officer

BUSINESS REVIEW

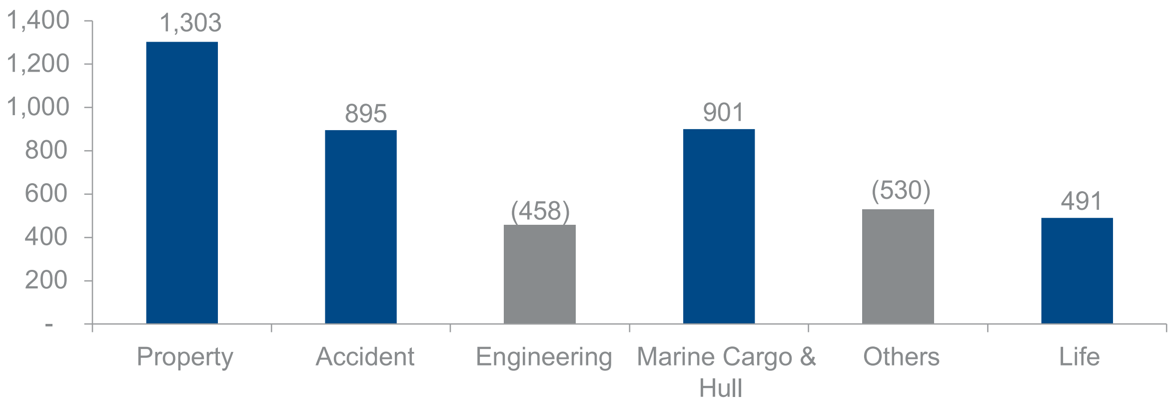
Reinsurance Performance

Arab Insurance Group (B.S.C.) (Arig or the Group) has produced the financial statements compliant with the new requirements of IFRS 17. The company has adopted Premium Allocation Approach (PAA) measurement model for all lines except long-term life business, where General Measurement Model (GMM) was applied. The comparatives for the year 2022 were restated in accordance with the new standard.

Arig reported US$ 1.2 million insurance revenue for the year 2023 (2022: insurance revenue US$ 4.8 million). This reduction in insurance revenue was mainly due to the decision of the Shareholders to cease writing reinsurance business. There were no insurance revenue from the Lloyd's portfolio during 2023 (US$ 2.1 million in 2022), mainly due to closing of the last year of participation in Lloyds syndicates through the subsidiary Arig Capital Limited.

Overall insurance service results for the Group was US$ 2.6 million (2022: US$ 19.6 million) primarily due to less favorable adjustments to the liability for incurred claims in 2023 as compared to 2022.

Group Insurance Service Result by line (in US$ 000)



INVESTMENTS

The Financial Markets

2023 was a challenging year for the global economy. Economic growth was modest. Inflation moderated in major economic blocs but remained above the target rate. Central banks, therefore, continued with their policy of monetary tightening. The US Federal Reserve increased its benchmark fed funds rate by a hundred basis points in the year to 5.5%. The ECB and the Bank of England also made notable increases in their lending rates.

The increase in interest rates did not impact the financial markets. Both fixed income and equities recorded positive returns. The benchmark fixed-income Bloomberg Global Aggregate Index was up 7.14%. The Morgan Stanley Global Equity Index rose 21.8%. Yields on government securities, especially short-term bonds, continued to stay elevated relative to historical levels. The year was favorable to predominantly cash and fixed-income investors like Arig.

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 2023, we continued with our strategy of the prior year. Allocation to short-term deposits was maintained to take advantage of interest rates that were at multi-year highs. Proceeds from maturing bonds were reinvested in short-term US government securities.

The parent company's investment income increased to US$ 14.2 million (2022: US$ 1.2 million). Group Investment income was US$ 14.7 million (2022: US$ 1.6 million). The overall yield on the Group Investment Portfolio was 3.8% (0.4% in 2022).

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$ 0.8 million (2022: profit US$ 0.6 million) for the year. Group's share in the profit was US$ 0.4 million (2022: profit US$ 0.3 million).

TRL's investments yielded an average return of 1.8% (2022: 1.7%) with investment earnings of US$ 0.5 million (2022: 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$ 0.7 million to the Group's results for the year (2022: profit US$ 4.1 million) due to the release of provisions following the reassessment of liabilities.

Arig Capital Limited (ACL)

ACL, the wholly owned corporate member at Lloyd's of London, ceased writing new business from 1 January 2020. ACL recorded loss of US$ 0.3 million for the year (2022: Profit US$ 2.2 million) mainly due to reversal of run-off provisions.