INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Arab Insurance Group B.S.C
P.O Box 26992
Manama, Kingdom of Bahrain

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of Arab Insurance Group B.S.C (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

TECHNICAL INSURANCE PROVISIONS

(refer to the use of estimate and management judgement in note 3, accounting policies in note 2, and disclosures in notes 14 and 15 to the consolidated financial statements)

Description	How the matter was addressed in our audit
We focused on this matter because: • as at 31 December 2019, the Group had significant technical insurance provisions, representing 80.3% of the Group's total liabilities relating to outstanding claim reserves, claims that have been incurred at reporting date but have not yet been reported to the Group, and unearned premiums; the valuation of technical insurance provisions involves high level of subjectivity, significant judgement and assumptions, in particular claims that have been incurred at reporting date but have not yet been reported to the Group involve significant judgment over uncertain future outcomes; including primarily the timing and amount of ultimate settlement of policyholder liabilities; and	Our audit procedures, with assistance of our actuarial specialists, included: • testing the design and operating effectiveness of the key controls around recording and reserving process for reported claims, unreported claims and unearned premium; • testing samples of outstanding claims and related reinsurance recoveries, focusing on those with most significant impact on the consolidated financial statements, to assess whether claims and related recoveries are appropriately estimated;

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS (Continued)

TECHNICAL INSURANCE PROVISIONS (Continued)

Description (Continued)	How the matter was addressed in our audit (Continued)
• internal claim development methods and actuarial models are used to support the calculation of technical insurance reserves. The complexity of the models may give rise to errors as a result of inaccurate/incomplete data or the design or application of the models may be inappropriate. Assumptions used in actuarial models, such as historical claims, which can be used to project the trend of future claims, expenses, lapse rates, and so on, are set up in applying estimates and judgments based on the experience analysis and future expectations by management.	• for major lines of business, we assessed the reasonableness of the key reserving assumptions, such as loss ratio, frequency and severity of claims, which were used in the valuation models and comparing them to the Group's historical data; • evaluating whether reserving was consistent in approach, with sufficient justification for changes in assumptions. We used our industry knowledge to benchmark the Group's reserving methodologies and estimates of losses. Our audit focused on lines of business with most inherent uncertainty; • we also considered the appropriateness of information provided to external independent actuarial experts engaged by the Group and considered their scope of work and findings to corroborate adequacy of management estimates on claims reserving; and • evaluating the adequacy of the Group's disclosures related to technical insurance provisions in the consolidated financial statements by reference to the requirements of the relevant accounting standards.

IMPAIRMENT OF INSURANCE RECEIVABLES AND RECOVERIES

(refer to the use of estimate and management judgement in note 3, accounting policies in note 2, and disclosure in note 9 to the consolidated financial statements)

Description	How the matter was addressed in our audit
We focused on this matter because: • as at 31 December 2019, the Group had significant insurance receivables from ceding companies and recoveries from reinsurance companies, representing 11.4% of the Group's total assets; • the Group faces a risk of non-recoverability of these receivables and recoveries due to financial difficulties of the counter parties; • estimation of the recoverable amount and determining the level of impairment allowance involves judgement and estimation uncertainty; and • the Group makes subjective judgments over recognition of impairment and the estimation of the amount of such impairment.	Our audit procedures, amongst others, included: • testing the design and operating effectiveness of controls over the process of collection and identification of doubtful balances; • focusing on those accounts with the most significant potential impact on the consolidated financial statements, considering aging, results of reconciliation of statement of accounts and receipts subsequent to the year-end; and • evaluating the adequacy of the Group's disclosures related to credit risk on insurance receivables and recoveries and impairment allowance in the consolidated financial statements by reference to the requirements of the relevant accounting standards.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS (Continued)

VALUATION AND IMPAIRMENT OF FINANCIAL INVESTMENTS

(refer to the use of estimate and management judgement in note 3, accounting policies in note 2, and disclosure in note 6 to the consolidated financial statements)

Description	How the matter was addressed in our audit
We focused on this matter because: • as at 31 December 2019, the Group's financial investments comprise 52.6% of Group's total assets in the consolidated financial statements and is considered one of the drivers of operations and performance; • as at 31 December 2019, a significant amount, representing 69.2% of total financial investments, comprise "available-for-sale securities" having carrying value of USD 377.5 million, which is subject to impairment assessment; and • the Group makes subjective judgments over both timing of recognition of impairment and the estimation of the amount of such impairment.	Our audit procedures, amongst others, included: • testing the design and operating effectiveness of key controls over the process of recording investment transactions and valuation of the quoted investment portfolio; • agreeing the valuation of the quoted equity and debt securities and managed funds to externally quoted prices; and • for unlisted or unquoted securities, comparing the carrying values with the most recent net assets value of the underlying funds. For impairment of available-for-sale debt securities, we: • evaluated individual debt security for any signs of significant financial difficulty of the issuer; • assessed if there has been a default or past due event; and • assessed if there had been a significant decline in fair value. For impairment of available-for-sale equity securities and managed funds, we: • examined whether management has identified all investments that have experienced a decline in fair value below cost; and • evaluated the reasonableness and consistency of the application of the criteria to determine that a significant or prolong decline in fair value below cost has led to recognition of impairment. We also evaluated the adequacy of the Group's disclosures related to valuation and impairment of available-for-sale investments by reference to the requirements of the relevant accounting standards.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS (Continued)

ACCURACY OF ULTIMATE PREMIUMS

(refer to the use of estimate and management judgement in note 3, accounting policies in note 2, and disclosure in note 8 to the consolidated financial statements)

Description	How the matter was addressed in our audit
We focused on this matter because: • there is significant judgement and estimation involved in determining the ultimate premiums; and • premium revenues are initially recognised based on estimates of ultimate premiums. This occurs for contracts where pricing is based on variables which are not known with certainty at the point of issuing the contract. Subsequent adjustments to those estimates, which arise as updated information relating to those pricing variables becomes available, are recorded in the period in which they are determined.	Our audit procedures, amongst others, included: • testing design and operating effectiveness of key controls over the premium estimation process; • assessing the estimated premium income, including considering the basis of estimation and corroborating evidence such as information from brokers/cedants and historical information; • analysing the historical development of ultimate premium amounts on an underwriting year basis and compared it with the estimates recognised in corresponding financial years to identify if there is any indication of management bias; and • evaluating the adequacy of the Group's disclosures related to ultimate premiums by reference to the requirements of the relevant accounting standards.

Emphasis of Matter

We draw attention to note 1 to the consolidated financial statements, which indicates the board of directors' decision in its meeting held on 13 May 2019 to recommend the cessation of the underwriting activities of the Company, subject to regulatory authorities and shareholders' approval. Our opinion is not modified in respect of this matter.

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2018, were audited by another auditor who issued an unmodified audit opinion on those consolidated financial statements on 13 February 2019.

Other information

The board of directors is responsible for the other information. The other information comprises the annual report but does not include the consolidated financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the report of the board of directors which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the board of directors for the consolidated financial statements

The board of directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS (Continued)

In preparing the consolidated financial statements, the board of directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended 31 December 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS (Continued)

Report on other regulatory requirements

As required by the Commercial Companies Law and Volume 3 of the Central Bank of Bahrain (CBB) Rule Book, we report that:

a) the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
b) the financial information contained in the report of the board of directors is consistent with the consolidated financial statements;
c) except for the fact that the Company did not obtain prior approval from the CBB in relation to its decisions to liquidate two of its subsidiaries, we are not aware of any violations during the year of the Commercial Companies Law, the CBB and Financial Institutions Law No. 64 of 2006 (as amended), the CBB Rule Book (Volume 3, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Company's memorandum and articles of association that would have had a material adverse effect on the business of the Company or on its financial position; and
d) satisfactory explanations and information have been provided to us by management in response to all our requests.

The engagement partner on the audit resulting in this independent auditors' report is Jaffar Al Qubaiti.

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KPMG Fakhro

Partner registration number 83

13 February 2020

CONSOLIDATED FINANCIAL STATEMENT

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

(US$ '000)

	Note	2019	2018
ASSETS			
Cash and bank balances	5	81,261	115,935
Investments	6	545,214	495,678
Accrued income	8	71,358	86,585
Insurance receivables	9	117,872	127,373
Insurance deposits	10	22,505	27,603
Deferred policy acquisition costs	16	17,915	25,433
Reinsurers' share of technical provisions	11	130,675	110,629
Other assets	12	30,329	44,078
Property and equipment	13	18,712	19,245
TOTAL ASSETS		**1,035,841**	**1,052,559**
LIABILITIES AND EQUITY			
LIABILITIES			
Technical provisions	14	633,769	684,569
Insurance payables	17	90,726	69,305
Borrowings	18	7,000	7,000
Other liabilities	19	58,021	66,811
TOTAL LIABILITIES		789,516	827,685
EQUITY			
Attributable to shareholders of parent company	20		
Share capital		220,000	220,000
Treasury stock		(14,793)	(14,793)
Reserves		51,705	35,670
Accumulated losses		(28,539)	(44,507)
		228,373	196,370
Non-controlling interests	21	17,952	28,504
TOTAL EQUITY		246,325	224,874
TOTAL LIABILITIES AND EQUITY		**1,035,841**	**1,052,559**

These consolidated financial statements were approved by the Board of Directors on 13 February 2020 and signed on its behalf by:

Saeed Mohammed AlBahhar
Chairman

Ahmed Saeed AlMahri
Director

Samuel Verghese
Acting Chief Executive Officer

The accompanying notes 1 to 37 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2019

(US$ '000)

	Note		2019	2018
Gross premiums written	22		194,614	262,791
Outward reinsurance premiums	22		(52,136)	(64,398)
Change in unearned premiums	22		31,091	15,559
Net earned premiums	22		173,569	213,952
Claims and related expenses	22		(107,794)	(175,226)
Policy acquisition costs	22		(49,849)	(58,089)
Investment income attributable to insurance funds	23		17,683	5,963
Operating expenses	24		(11,070)	(13,263)
Underwriting result	22		**22,539**	**(26,663)**
Investment income attributable to shareholders' funds	23		8,612	4,086
Operating expenses - non underwriting activities	24		(5,404)	(9,281)
Borrowing cost			(253)	(808)
Other income	25		1,318	5,165
Other expenses and provisions	26		(8,384)	(24,701)
Profit (loss) for the year			**18,428**	**(52,202)**
Attributable to:				
Non-controlling interests			902	3,049
Shareholders of parent company			17,526	(55,251)
			18,428	**(52,202)**
Earnings (losses) per share attributable to shareholders (basic and diluted):	27	(US Cents)	8.9	(27.9)

Saeed Mohammed AlBahhar
Chairman

Ahmed Saeed AlMahri
Director

Samuel Verghese
Acting Chief Executive Officer

The accompanying notes 1 to 37 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

(US$ '000)

	Note	2019	2018
Profit (loss) for the year		18,428	(52,202)
Other comprehensive income			
Items that will be reclassified to profit or loss:			
Changes on remeasurement of available for sale investments		16,630	(4,994)
Transfers for recognition of gains on disposal of available for sale investments	23	(3,421)	(518)
Transfers for impairment loss recognised on available for sale investments	23	1,314	206
Other comprehensive income for the year		14,523	(5,306)
Total comprehensive income for the year		**32,951**	**(57,508)**
Attributable to:			
Non-controlling interests		948	3,056
Shareholders of parent company		32,003	(60,564)
		32,951	**(57,508)**

Saeed Mohammed AlBahhar
Chairman

Ahmed Saeed AlMahri
Director

Samuel Verghese
Acting Chief Executive Officer

The accompanying notes 1 to 37 are an integral part of these consolidated financial statements.

FOR THE YEAR ENDED 31 DECEMBER 2019

(US$ '000)

	Share capital	Treasury stock	Reserves				Accumulated losses	Attributable to shareholders of parent company	Non-controlling interests	Total equity (audited)
			Legal	Investment revaluation	Property revaluation	Total				
Balances at 31 December 2018	**220,000**	**(14,793)**	**34,816**	**(3,451)**	**4,305**	**35,670**	**(44,507)**	**196,370**	**28,504**	**224,874**
Net profit for the year	-	-	-	-	-	-	17,526	17,526	902	18,428
Changes on remeasurement of available for sale investments	-	-	-	16,525	-	16,525	-	16,525	105	16,630
Transfers for recognition of gains on disposal of available for sale investments	-	-	-	(3,269)	-	(3,269)	-	(3,269)	(152)	(3,421)
Transfers for impairment loss recognised on available for sale investments	-	-	-	1,221	-	1,221	-	1,221	93	1,314
Total comprehensive income for the year	-	-	-	14,477	-	14,477	17,526	32,003	948	32,951
Transfer of net depreciation on revalued property	-	-	-	-	(195)	(195)	195	-	-	-
Transfer to (from) non-distributable reserves	-	-	1,753	-	-	1,753	(1,753)	-	-	-
Subsidiary's capital reduction (note34 (i))	-	-	-	-	-	-	-	-	(11,500)	(11,500)
Balances at 31 December 2019	**220,000**	**(14,793)**	**36,569**	**11,026**	**4,110**	**51,705**	**(28,539)**	**228,373**	**17,952**	**246,325**
Parent company balances at 31 December 2019 (note 37)	220,000	(14,793)	36,432	11,033	4,110	51,575	(28,409)	228,373	-	228,373

	Share capital	Treasury stock	Reserves				Retained earnings (accumulated losses)	Attributable to shareholders of parent company	Non-controlling interests	Total equity (audited)
			Legal	Investment revaluation	Property revaluation	Total				
Balances at 31 December 2017	**220,000**	**(14,793)**	**34,816**	**1,862**	**4,500**	**41,178**	**10,549**	**256,934**	**25,448**	**282,382**
Net (loss) profit for the year	-	-	-	-	-	-	(55,251)	(55,251)	3,049	(52,202)
Changes on remeasurement of available for sale investments	-	-	-	(4,850)	-	(4,850)	-	(4,850)	(144)	(4,994)
Transfers for recognition of (gains) losses on disposal of available for sale investments	-	-	-	(669)	-	(669)	-	(669)	151	(518)
Transfers for impairment loss recognised on available for sale investments	-	-	-	206	-	206	-	206	-	206
Total comprehensive income for the year	-	-	-	(5,313)	-	(5,313)	(55,251)	(60,564)	3,056	(57,508)
Transfer of net depreciation on revalued property	-	-	-	-	(195)	(195)	195	-	-	-
Balances at 31 December 2018	**220,000**	**(14,793)**	**34,816**	**(3,451)**	**4,305**	**35,670**	**(44,507)**	**196,370**	**28,504**	**224,874**
Parent company balances at 31 December 2018 (note 37)	220,000	(14,793)	34,679	(3,390)	4,305	35,594	(44,431)	196,370	-	196,370

The accompanying notes 1 to 37 are an integral part of these consolidated financial statements.

FOR THE YEAR ENDED 31 DECEMBER 2019

(US$ '000)

	Note	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums received		192,493	233,874
Reinsurance premiums paid		(35,484)	(54,829)
Claims and acquisition costs paid		(238,096)	(193,960)
Reinsurance receipts in respect of claims		63,440	26,685
Investment income		9,478	37
Interest received		3,271	2,820
Dividends received		1,044	1,300
Operating expenses paid		(21,505)	(21,162)
Other income (expenses), net		4,091	(3,055)
Insurance deposits received (paid), net		4,354	(1,928)
Purchase of trading investments		(5,363)	(14,355)
Sale of trading investments		15,698	19,127
Net cash used in operating activities	30	(6,579)	(5,446)
CASH FLOWS FROM INVESTING ACTIVITIES			
Maturity/sale of investments		102,163	178,798
Purchase of investments		(143,022)	(110,110)
Term deposits with bank		(8,339)	13,708
Interest received		9,062	10,223
Investment income		1,662	135
Collateralised cash deposits		13,986	(11,201)
Purchase of property and equipment		(2)	(103)
Purchase of intangible assets		(82)	(211)
Investment in associate		-	(100)
Net cash (used in) provided by investing activities		(24,572)	81,139
CASH FLOWS FROM FINANCING ACTIVITIES	31		
Borrowings		-	(27,000)
Borrowing cost		(279)	(1,338)
Dividends paid		(51)	(374)
Subsidiary's capital reduction - minority interests	34	(11,500)	-
Net cash used in financing activities		(11,830)	(28,712)
Net (decrease) increase in cash and cash equivalents		(42,981)	46,981
Effect of exchange rates on cash and cash equivalents		(32)	(11)
Cash and cash equivalents, beginning of year		109,908	62,938
Cash and cash equivalents, end of year	5	**66,895**	**109,908**
Term deposits with bank		14,366	6,027
Cash and bank balances, end of year	5	**81,261**	**115,935**

The accompanying notes 1 to 37 are an integral part of these consolidated financial statements.

FOR THE YEAR ENDED 31 DECEMBER 2019

1. INCORPORATION AND PRINCIPAL ACTIVITY

Arab Insurance Group (B.S.C.) (the “Company”, “parent company”) is an international insurance company registered as a Bahraini Shareholding Company having its registered office at Arig House, Manama, Kingdom of Bahrain. The parent company and its subsidiaries (the “Group”) are involved in provision of general (non-life) and life reinsurance and related service activities.

The Board in its meeting held on 13th May 2019 resolved to recommend the cessation of the Company’s underwriting activities. However, the CBB is yet to consider this recommendation, as it has communicated to the Company certain issues to be addressed by the Board, and has mandated the Company to suspend all actions related to the cessation until all the issues communicated by the CBB are resolved. Accordingly, the financial statements continue to be prepared on a going concern basis.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board and are consistent with prevailing practice within the insurance industry.

The Group’s financial statements are presented in U.S. Dollars, which is its functional currency as its share capital and a significant proportion of its business, assets and liabilities are denominated in that currency.

The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of land and building and certain investment assets at fair value.

Comparative figures have been represented, reclassified and restated, where necessary, to conform to the current year’s presentation.

The Group has adopted the following new and revised IFRS and interpretations which became effective as of 1 January 2019:

- IFRS 16 Leases
  Standard issued in January 2016

  IFRS 16 introduces a single, accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases. The adoption of this standard has no material impact on the financial statements.

The following standards and interpretations have been issued but are applicable for periods subsequent to the year ended 31 December 2019:

- IFRS 9 Financial Instruments
  Standard issued July 2014

  IFRS 9 replaces the existing IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The standard is applicable from 1 January 2018 with early adoption permitted. However, the Group has applied the temporary exemption from IFRS 9 available under IFRS 4 and will therefore only apply this standard for annual periods beginning 1 January 2021. In the interim the Group will continue to apply IAS 39 to its financial assets and liabilities. Required disclosure on applying the temporary exemption from IFRS 9 are provided in note 33.

- IFRS 17 Insurance Contracts
  Standard issued in May 2017

  IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. This standard replaces IFRS 4 Insurance contracts. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity’s financial position, financial performance and cash flows. The standard is applicable for annual periods beginning on or after 1 January 2021, with comparative figures required for the prior period. The Group is assessing the impact of IFRS 17 on its consolidated financial statements.

The Group did not early-adopt new or amended standards in 2019.

The significant accounting policies of the Group are as follows:

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the parent company and all of its subsidiaries made up to 31 December 2019 except for Arig Capital Limited which is consolidated one quarter in arrears.

Subsidiaries are defined as entities that are controlled by the Group, on the basis of

i) power over the entity;

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

ii) the exposure to variable returns from the entity; and
iii) the ability to use its power to affect the amount of returns.

The purchase method is used to account for acquisitions.

All intra-group transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated on consolidation. Where necessary, the accounts of subsidiaries have been restated to ensure consistency with the accounting policies adopted by the Group.

A listing of the principal subsidiaries is set out in note 34. In the parent company, these investments are accounted using the equity method under IAS 27, Separate Financial Statements.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, bank balances and short-term highly liquid assets (placements with financial institutions) with original maturities of three months or less when acquired that are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Bank balances that are restricted and not available for day to day operations of the Group are not included in cash and cash equivalents.

INVESTMENTS

Investment securities are classified as 'at fair value through profit or loss', which includes financial assets held for trading and those designated at fair value on initial recognition, 'available for sale', 'held to maturity' or 'loans and receivables'. Management determines the appropriate classification of investments at the time of purchase.

Securities are classified as at fair value through profit or loss if they are acquired for the purpose of generating a profit from short-term fluctuations in price or if so designated by management. Derivative financial instruments that are not designated as accounting hedge are classified as at fair value through profit or loss. Investments with fixed or determinable payments and fixed maturity that the management has the intent and ability to hold to maturity are classified as held to maturity. Financial instruments with fixed or determinable payments and that are not quoted in an active market are categorised as loans and receivables. Securities intended to be held for an indefinite period of time and those that are not classified as at fair value through profit or loss, held to maturity or loans and receivables, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available for sale.

All purchases and sales of investments are recognised at the settlement date. All investment assets are recognised initially at cost. After initial recognition, investments are valued using principles described below.

Investments at fair value through profit or loss and investments available for sale are carried at fair value. Held to maturity investments and loans and receivables are carried at amortised cost, less any adjustment necessary for impairment.

Fair values are measured using market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in valuation (see note 32).

PROVISION FOR IMPAIRMENT OF FINANCIAL ASSETS

A provision is made in respect of a financial asset for which there is an objective evidence of impairment if its carrying amount is greater than its estimated recoverable amount.

Provisions for assets carried at amortised cost are calculated as the difference between the carrying amount of the assets and the present value of expected future cash flows discounted at their original effective interest rate. By comparison, the recoverable amount of an instrument carried at cost is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

In the case of available for sale financial assets, the Group assesses at each statement of financial position date whether there is an objective evidence of impairment of such assets. If any such evidence exists, the impairment measured as the difference between acquisition cost and recoverable amount less any impairment previously recognised in the statement of profit or loss is recognised in consolidated statement of profit or loss. Evidence of impairment considers among other factors significant or prolonged decline in market values and financial difficulties of the issuer. Impairment recognised is not reversed subsequently except in case of debt instruments.

INVESTMENT IN ASSOCIATED COMPANIES

Investments in associated companies are accounted for using the equity method, less any adjustment necessary for impairment. Associated companies are defined as those companies over which the Group is able to exercise significant influence but not control or joint control over the financial and operating policy decisions.

INSURANCE RECEIVABLES

Insurance receivables are carried at anticipated realisable values after provision for impairment. A provision for impairment is established when there is evidence that the Group will not be able to collect all amounts due according to the terms of the receivables. In case of receivables not specifically impaired, a collective evaluation of impairment

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

is carried out based on historical loss experience. Bad debts are written off during the year in which they are identified. The identification of bad debts is based on an analysis of the financial position of the counter party.

INSURANCE DEPOSITS

Insurance deposits comprise premium and claim deposits with cedants in accordance with policy terms and are carried at anticipated realisable values after provision for impairment. A provision for impairment is established when there is evidence that the Group will not be able to collect all amounts due according to the terms of the deposits. In case of deposits not specifically impaired, a collective evaluation of impairment is carried out based on historical loss experience. Irrecoverable deposits are written off during the year in which they are identified. Irrecoverable deposits are identified on an analysis of the financial position of the counter party.

INTANGIBLE ASSETS

Expenditure on software, patents, present value of future profits on acquisition of portfolio and licenses are capitalised and amortised using the straight line basis over their expected useful lives, not exceeding a period of 5 years.

Costs associated with developing computer software programmes are recognised as an expense when incurred. However, costs that are clearly associated with an identifiable and unique product, which will be controlled by the Group and has a probable benefit exceeding the costs beyond one year, are recognised as intangible assets. Costs include staff costs of the development team and an appropriate portion of relevant overheads.

Expenditure, which enhances and extends the benefits of computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software. The carrying amount of intangible assets is reviewed annually and adjusted for impairment where it is considered necessary.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation except for land and building which are carried at their revalued amount being fair value on date of valuation on a rolling basis by independent external valuers, less accumulated depreciation. On revaluation, any increase in the carrying amount of the asset is carried in the shareholders' equity as Property Revaluation Reserve and any decrease is recognised as an expense, except to the extent that it reverses decreases or increases previously recognised through income or shareholders' equity. The balance in the Property Revaluation Reserve is transferred directly to Retained Earnings on sale of property and realization of surplus. Further, the difference between depreciation based on the revalued carrying amounts and the depreciation based on original cost of the property is transferred directly from Property Revaluation Reserve to Retained Earnings.

The cost of additions and major improvements are capitalised; maintenance and repairs are charged to expense as incurred. Gains or losses on disposal are reflected in other income. Depreciation is provided on straight-line basis over the expected useful lives of the assets, which are as follows:

Building	40 years
Electrical and mechanical	20 years
Information systems, furniture, equipment and others	3-5 years

Useful lives and residual values are reassessed at each reporting period and adjusted accordingly. At each reporting date, the Group reviews the carrying amounts to determine whether there is any indication of impairment.

If any such indication exists, then the assets recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or Cash Generating Units (CGU).

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Employee entitlements are recognised when they accrue to employees, with a provision being carried for the estimated liability as a result of services rendered upto the statement of financial position date.

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

POST EMPLOYMENT OBLIGATIONS

The Group operates a number of defined benefit plans for its employees.

For defined benefit plans, the accounting cost is charged to the consolidated statement of profit or loss so as to spread it over the expected service lives of employees. The accounting costs under these plans are measured as the present value of the estimated future cash outflows using interest rates of government securities, which have terms to maturity approximating the terms of the related liability.

TREASURY STOCK

Treasury stock representing shares purchased by the parent company or its consolidated subsidiaries are carried at cost with the exception of holdings as on the date of capital reduction, 4 July 2002, which are carried at nominal value. All treasury stock is presented as a deduction from shareholders' equity and gains and losses from sale of these shares are presented as a change in shareholders' equity.

RECOGNITION OF UNDERWRITING RESULT

Insurance business is accounted for in a manner consistent with prevailing practice within the insurance industry, more specifically, on an annual accounting basis. Specific accounting policies relating to individual items of insurance revenues and costs and technical provisions are explained below for each relevant item.

PREMIUMS

Gross premiums written comprise the total premiums in relation to contracts incepting during the financial year, together with adjustments arising in the financial year to premiums receivable in respect of business written in previous financial years. It includes an estimate of pipeline premiums, being those premiums written but not reported to the Group at the statement of financial position date. Pipeline premiums net of related pipeline acquisition costs are reported as accrued insurance premiums.

Premiums, net of reinsurance, are taken to income over the terms of the related contracts or policies. Unearned premiums are those proportions of the premiums accounted for, which relate to periods of risk that extend beyond the end of the financial year; they are calculated based on a time apportionment basis. A provision for unexpired risks is made for estimated amounts required over and above provisions for unearned premiums to meet future claims and related expenses on business in force at the statement of financial position date. Such provision, where necessary, is made on the basis of an assessment of segments in which policies with similar risk profile are grouped together.

CLAIMS AND RELATED EXPENSES

Claims and related expenses are accounted for based on reports received and subsequent review on an individual case basis. Provision is made to cover the estimated ultimate cost of settling claims arising out of events, which have occurred by the end of the financial year, including unreported losses, and claims handling expenses. Provision for unreported claims is established based on actuarial analysis and application of underwriting judgment having regard to the range of uncertainty as to the eventual outcome for each category of business.

POLICY ACQUISITION COSTS

Commissions, taxes, brokerages and other variable underwriting costs directly associated with acquiring business are amortised over the period in which the related premiums are earned. Policy acquisition costs that relate to periods of risk that extend beyond the end of the financial year are reported as deferred policy acquisition costs.

REINSURANCE ARRANGEMENTS

As part of managing its insurance risks, the Group enters into contracts with other reinsurers for compensation of losses on insurance contracts issued by the Group.

Compensations receivable from reinsurers are estimated in a manner consistent with the corresponding claim liability. The benefits and obligations arising under reinsurance contracts are recognised in income and the related assets and liabilities are recognised as accounts receivable, reinsurers' share of technical reserves and accounts payable.

LIABILITY ADEQUACY TEST

At each statement of financial position date, liability adequacy tests are performed to ensure adequacy of the contractual liabilities net of related deferred acquisition costs. In performing these tests, current best estimates of future contractual undiscounted cash flows and claims handling and administrative expenses are considered. The tests are performed on a portfolio basis where policies with similar risk profile are grouped together as a portfolio.

INVESTMENT INCOME

Investment income comprises interest and dividend receivable for the financial year. Gains and losses arising from changes in the fair value of investments at fair value through profit or loss are included in the statement of profit or loss in the period in which they arise. Gains and losses arising from changes in the fair value of available for sale investments are recognised in other comprehensive income and carried in investment revaluation income as part of equity. When available for sale investments are disposed or are impaired, the related fair value adjustments are included in the statement of profit or loss.

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment income arising from insurance business investment assets are allocated to the underwriting results of insurance businesses based on the proportion of their respective insurance funds to shareholders' funds during the financial year.

FOREIGN CURRENCY TRANSLATION

Transactions denominated in currencies other than U.S. Dollars are recorded at the rates ruling at the date of the transaction. All monetary and non-monetary assets carried at fair value denominated in currencies other than U.S. Dollars are translated at year-end exchange rates.

Unrealised gains or losses on translation are taken to income except in respect of non-monetary available for sale investments, which are taken to other comprehensive income until they are disposed.

Unrealised gains and losses on translation of financial statements of subsidiaries are included in equity. Other foreign currency gains and losses are taken to income.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

In the ordinary course of its business, the Group uses forward foreign exchange contracts as fair value hedges to protect its exposures in respect of foreign currency denominated investments and insurance liabilities and these contracts are carried at fair value.

Where a fair value hedge meets the conditions prescribed by International Financial Reporting Standards for qualifying as an effective hedge, gains or losses from remeasuring forward foreign exchange contracts and gains or losses on hedged assets attributable to the hedged risk are recognised in income.

Where the hedge is not effective, gains or losses from remeasuring forward foreign exchange contracts are recognised in income. Gains or losses on hedged assets are recognised in income except in respect of non-monetary available for sale investments, which are taken to equity until they are disposed.

The gain or losses from remeasuring insurance liabilities and related foreign exchange contracts are recognised in income.

3. ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying its accounting policies, the Group makes estimates and judgements that have an impact on the amounts recognised and reported in the financial statements. These estimates and judgements are based on historical experience, observable market data, published information and other information including expectations of future events that are believed to be reasonable under the circumstances. The estimates and judgements that have a significant impact on the recognised amounts in the financial statements and the processes used to determine these estimates and judgements are described below:

i) Critical accounting estimates and judgement:

a) Claims and related expenses

The estimate of ultimate losses arising from existing insurance contracts includes unreported claims. Provisions for unreported claims are estimated based on actuarial analysis and application of underwriting judgment having regard to the range of uncertainty as to the eventual outcome for each category of business. The ultimate insurance liability also includes the costs to administer the claims. See note 4 (v).

b) Ultimate premiums and related expenses

The estimate of ultimate premiums is based on premium income estimates provided by cedants which is then adjusted to reflect underwriters' judgement taking into account market conditions and historical data. This estimate is subject to review by underwriters and actuaries.

ii) Significant accounting estimates and judgements:

a) Investments measured at fair value

Fair values of investments measured at fair value are determined using market observable data as far as possible. The Group assesses at each statement of financial position date whether there is an objective evidence of impairment of such assets. If any such evidence exists, the impairment measured as the difference between acquisition cost and recoverable amount less any impairment previously recognised in the statement of profit or loss is recognised in consolidated statement of profit or loss. Evidence of impairment considers among other factors significant or prolonged decline in market values and financial difficulties of the issuer.

b) Insurance receivables

In assessing anticipated realisable value of receivables, a provision for impairment is established when there is evidence that the Group will not be able to collect all amounts due according to the terms of the receivables. In case of receivables not specifically impaired, a collective evaluation of impairment is carried out based on historical loss experience. Bad debts are written off during the year in which they are identified. The identification of bad debts is based on an analysis of the financial position of the counter party.

FOR THE YEAR ENDED 31 DECEMBER 2019

4. MANAGEMENT OF INSURANCE RISKS

The Group's activities expose it to a variety of financial and other risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk, underwriting risk and liquidity risk.

The following is a summary of policies adopted to mitigate the key insurance risks facing the Group:

i) Underwriting risks

The Group manages its underwriting risks principally through policies and guidelines for accepting risks and reinsurance arrangements.

Risks are accepted based on an evaluation of pricing and prior underwriting experience in accordance with underwriting guidelines that have been laid out for each line of business. Underwriting guidelines are constantly reviewed and updated to take account of market developments, performance and opportunities. Accumulation limits are set to control exposures to natural hazards and catastrophes. Various underwriting and approval limits are specified for accepting risks.

Acceptance of risks that do not meet specified minimum criteria are subject to agreement of an Underwriting Review Committee comprising representatives from the Marketing, Underwriting and Actuarial functions.

The reinsurance strategy of the Group is designed to protect exposures to individual and event risks based on current risk exposures through cost effective reinsurance arrangements.

Reserving risks are addressed by ensuring prudent and appropriate reserving for business written by the Group, thus ensuring that sufficient funds are available to cover future claims. Reserving practices involve the use of actuarial analysis and application of underwriting judgement. These are supplemented by periodical independent actuarial reviews for determining the adequacy of reserves.

ii) Credit risks

Credit risk under insurance contracts is the risk that a counterparty will be unable to pay amounts in full when due.

Credit risk is controlled through terms of trade for receipt of premium and in certain cases enforcement of premium warranty conditions. Most of the counterparties are insurance companies that are generally not rated. However, there are no significant exposures from any one counterparty.

Reinsurance arrangements are effected with reinsurers whose creditworthiness is assessed on the basis of satisfying minimum rating and financial strength criteria. Exposure to any single reinsurer generally does not exceed a maximum of 25% of total exposure and risks are generally placed with counterparties with minimum investment grade rating except for proportional treaty arrangements placed on reciprocal basis.

FOR THE YEAR ENDED 31 DECEMBER 2019

4. MANAGEMENT OF INSURANCE RISKS (Continued)

Credit risks relating to reinsurance arrangements are analysed as follows:

(US$ '000)

2019	Receivables	Share of claims outstanding	Total
Balance relating to reinsurers:			
- With investment grade rating	11,808	49,683	61,491
- Other	2,272	3,304	5,576
	14,080	**52,987**	**67,067**

2018			
Balance relating to reinsurers:			
- With investment grade rating	6,443	40,476	46,919
- Other	896	4,440	5,336
	7,339	**44,916**	**52,255**

iii) Currency risks

As the Company writes business in various currencies, it is exposed to currency risk. Foreign exchange currency risks are hedged where exposures are significant and facility to hedge is available.

(US$ '000)

2019	Euro	Pound Sterling	Indian Rupee	Kuwaiti Dinar	Other
Reinsurance assets (liabilities), net	(411)	(2,822)	(7,122)	(15,624)	(25,458)

2018					
Reinsurance assets (liabilities), net	(302)	(628)	(8,553)	(13,722)	(20,126)

iv) Liquidity risks

Liquidity risk is the risk that cash may not be available to pay obligations when due. Limits have been specified in the investment policy and guidelines that requires a significant portion of investment funds representing insurance liabilities to be held in cash or readily marketable debt securities.

v) Sensitivity analysis

The sensitivity of the Group's income to market risks is as follows:

(US$ '000)

	2019	2018
5% increase in loss ratio	(8,678)	(10,698)
5% decrease in loss ratio	8,678	10,698
10% increase in US Dollar exchange rate	8,060	7,765
10% decrease in US Dollar exchange rate	(9,851)	(9,491)

FOR THE YEAR ENDED 31 DECEMBER 2019

5. CASH AND BANK BALANCES

(US$ ’000)

	2019	2018
Cash and bank balances	47,895	76,239
Deposits with maturity within 3 months	19,000	33,669
Cash and cash equivalents	66,895	109,908
Deposits with maturity over 3 months	14,366	6,027
	81,261	**115,935**

Details of significant terms and conditions, exposures to credit, interest rate and currency risks are as follows:

i) Credit risk:

Bank balances and deposits with short term maturities are held with leading financial institutions. The Group limits its concentration of time deposits with any one financial institution to a maximum of 10% of shareholders’ equity.

ii) Interest rate risk:

	2019	2018
Interest receivable basis:		
- Bank balances	Daily/Monthly	Daily/Monthly
- Deposits with short term maturities	On maturity	On maturity
Effective rates	0.01 % - 4.00 %	0.01% - 4.30%

As the deposits are short term maturities, there is no sensitivity to interest rate fluctuation.

iii) Currency risk:

(US$ ’000)

	2019	2018
U.S. Dollar	52,206	91,712
Pound Sterling	20,069	10,981
Bahraini Dinar	7,821	11,479
Euro	673	464
Other	492	1,299
	81,261	**115,935**

FOR THE YEAR ENDED 31 DECEMBER 2019

6. INVESTMENTS

(US$ '000)

	2019	2018
At fair value through profit or loss		
Held for trading		
Common stock of listed companies	46,593	56,709
	46,593	56,709
Designated at fair value on initial recognition		
Debt securities		
- Other investment grade	101,041	83,763
- Other	11,175	11,112
	112,216	94,875
Held to maturity		
Debt securities		
- Supra-nationals and OECD country governments	500	500
- Other investment grade	3,928	3,904
- Other	3,955	3,941
	8,383	8,345
Available for sale		
Debt securities		
- Supra-nationals and OECD country governments	43,133	25,819
- Other investment grade	240,235	241,411
- Other	65,908	39,205
Common stock of listed companies	5,743	7,226
Common stock of unlisted companies	4,653	3,872
Other equity type investment	17,868	17,774
	377,540	335,307
Investment in associates	482	442
	545,214	**495,678**

FOR THE YEAR ENDED 31 DECEMBER 2019

6. INVESTMENTS (Continued)

Movements in the Group's impairment recognised on available for sale debt securities are as follows:

(US$ '000)

	2019	2018
At 1 January	1,143	1,143
Impairment recognised during the year	349	-
At 31 December	**1,492**	**1,143**

Debt securities amounting to US$ 100.1 million (2018: US$ 101.8 million) have been pledged as security for reinsurance trust agreements, letters of credit, guarantees and borrowings.

Details of significant exposures to credit, interest rate and currency risks on investments are as follows:

i) Credit risk:

The Group limits its investment concentration in debt securities in any one investee and in any one industry group to 10% and 20% respectively, of the total debt securities portfolio.

The Group also limits its investment concentration in common stock of listed companies of any one issue and any one issuer to 5% and 10% respectively, of its budgeted equity portfolio at the time of purchase.

ii) Debt securities - interest rate risk

2019	Interest receivable basis	Effective rates	Coupon rates
Supra-nationals and OECD country government securities	Monthly/Semi-annual/ Annual	1.500% - 2.625%	1.500% - 2.625%
Other investment grade debt securities	Monthly/Semi-annual/ Annual	0.100% - 7.125%	0.100% - 7.125%
Other debt securities	Monthly/Semi-annual/ Annual	2.788% - 5.500%	2.788% - 5.500%

2018			
Supra-nationals and OECD country government securities	Monthly/Semi-annual/ Annual	0.750% - 2.625%	0.750% - 2.625%
Other investment grade debt securities	Monthly/Semi-annual/ Annual	0.125% - 7.150%	0.125% - 7.150%
Other debt securities	Monthly/Semi-annual/ Annual	2.788% - 5.500%	2.788% - 5.500%

FOR THE YEAR ENDED 31 DECEMBER 2019

6. INVESTMENTS (Continued)

iii) Debt securities - currency risk

(US$ '000)

2019	U.S. Dollar	Bahraini Dinar	Other	Total
Supra-nationals and OECD country government securities	43,633	-	-	43,633
Other investment grade debt securities	345,182	-	22	345,204
Other debt securities	76,783	4,255	-	81,038
	465,598	**4,255**	**22**	**469,875**
2018				
Supra-nationals and OECD country government securities	26,319	-	-	26,319
Other investment grade debt securities	329,053	-	25	329,078
Other debt securities	50,402	3,856	-	54,258
	405,774	**3,856**	**25**	**409,655**

iv) Debt securities - remaining term to maturity

The principal amount and book values of debt securities are shown in the table below by contractual maturity.

(US$ '000)

	2019		2018	
	Principal amount	Book value	Principal amount	Book value
Supra-nationals and OECD country government securities:				
- Due in one year or less	8,500	8,513	18,000	17,874
- One to five years	35,000	35,120	8,500	8,445
	43,500	43,633	26,500	26,319
Debt securities of other investment grade issuers:				
- Due in one year or less	40,486	38,869	20,938	19,545
- One to five years	254,963	259,233	272,291	267,755
- More than five years	43,356	47,102	39,950	41,778
	338,805	345,204	333,179	329,078
Other debt securities:				
- Due in one year or less	16,944	16,012	944	-
- One to five years	27,184	27,221	36,412	35,741
- More than five years	7,644	37,805	4,409	18,517
	51,772	81,038	41,765	54,258
	434,077	**469,875**	**401,444**	**409,655**

FOR THE YEAR ENDED 31 DECEMBER 2019

6. INVESTMENTS (Continued)

v) Common stock

Common stocks have no fixed maturity dates and are generally not exposed to interest rate risk. However, they are subject to price risk and its sensitivity is shown in note 7. Dividends are generally declared on an annual basis.

The book value of common stock classified by currencies in which they are denominated are as follows:

(US$ '000)

	2019	2018
U.S. Dollar	22,364	33,610
Euro	1,942	2,156
Saudi Riyal	7,203	11,515
Pound Sterling	12,092	9,338
Japanese Yen	1,120	1,400
Other	12,268	9,788
	56,989	**67,807**

vi) Commitments

The Group has commitments in respect of uncalled capital in available for sale investments amounting to US$ 7.3 million (2018: US$ 8.1 million).

7. SENSITIVITY ANALYSIS

The sensitivity of the Group's profit or loss and total equity to market risks on its cash and cash equivalents and investments is as follows:

(US$ '000)

	2019		2018	
	Income	Equity	Income	Equity
Interest rate				
+ 100 basis points shift in yield curves-debt instruments	(2,463)	(6,637)	(2,407)	(7,661)
– 100 basis points shift in yield curves-debt instruments	3,570	7,552	2,378	7,569
Currency risk				
10% increase in US Dollar exchange rate	(9,290)	-	(7,704)	-
10% decrease in US Dollar exchange rate	11,067	-	9,416	-
Equity price				
10% increase in equity prices	4,659	574	5,671	723
10% decrease in equity prices	(4,659)	(574)	(5,671)	(723)

FOR THE YEAR ENDED 31 DECEMBER 2019

8. ACCRUED INCOME

(US$ '000)

	2019	2018
Accrued insurance premiums		
Expected to be received:		
- Within 12 months	50,963	57,109
- After 12 months	17,853	27,218
	68,816	84,327
Accrued interest		
- Expected to be received within 12 months	2,542	2,258
	71,358	**86,585**

9. INSURANCE RECEIVABLES

(US$ '000)

	2019	2018
Balances due:		
- Within 12 months	117,749	127,184
- After 12 months	123	189
	117,872	**127,373**

Movements in the Group's provision for impaired receivables are as follows:

(US$ '000)

	2019	2018
At 1 January	15,015	14,882
Provision for impairment	1,576	139
Impaired receivables written-off	(13)	(6)
31 December	**16,578**	**15,015**

The individually impaired receivables mainly relate to counter party in financial difficulty. The ageing of these receivables is as follows:

(US$ '000)

	2019	2018
Over two years	3,340	3,330
	3,340	**3,330**

The ageing analysis of receivables that are past due and not considered impaired is as follows:

(US$ '000)

	2019	2018
Upto 6 months	2,174	3,425
6 to 12 months	7,741	6,470
	9,915	**9,895**

FOR THE YEAR ENDED 31 DECEMBER 2019

10. INSURANCE DEPOSITS

(US$ '000)

	2019	2018
Balances due:		
- Within 12 months	14,616	20,695
- After 12 months	7,889	6,908
	22,505	**27,603**

Movements in the Group's provision for impaired deposits are as follows:

(US$ '000)

	2019	2018
At 1 January	2,735	3,147
(Write back) provision for impairment	(663)	(412)
Impaired deposits written - off	(94)	-
31 December	**1,978**	**2,735**

The individually impaired deposits mainly relate to counter parties in financial difficulty. The ageing of these deposits is as follows:

(US$ '000)

	2019	2018
Under ten years	-	-
Over ten years	168	167
	168	**167**

The ageing analysis of deposits that are past due and not considered impaired is as follows:

(US$ '000)

	2019	2018
Upto 1 year	4,169	9,532
1 to 3 years	14,113	15,537
3 to 5 years	1,479	934
	19,761	**26,003**

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11. REINSURERS' SHARE OF TECHNICAL PROVISIONS

(US$ '000)

	2019	2018
General insurance business		
- Claims outstanding	52,974	44,903
- Unreported claims	40,680	32,389
- Deferred retrocession premium reserve	36,987	33,293
	130,641	110,585
Life insurance business		
- Claims outstanding	13	13
- Unreported claims	21	31
	34	44
	130,675	**110,629**

12. OTHER ASSETS

(US$ '000)

	2019	2018
Intangible assets:		
- Computer software	10,165	10,083
	10,165	10,083
Less: Accumulated amortization	(9,601)	(9,570)
Net intangible assets	564	513
Other assets due within 12 months:		
- Collateralised cash deposits	17,556	31,542
- Other receivables	11,605	11,266
- Prepayments	604	757
	29,765	43,565
	30,329	**44,078**

(US$ '000)

	2019	2018
Movement in intangible assets:		
Net book value at 1 January	513	609
- Additions	82	211
- Amortization charge	(31)	(168)
- Disposals	-	(139)
Net book value at 31 December	**564**	**513**

Collateralised cash deposits have been pledged as security for reinsurance letters of credit and guarantees.

FOR THE YEAR ENDED 31 DECEMBER 2019

13. PROPERTY AND EQUIPMENT

(US$ '000)

	2019	2018
Land	2,080	2,080
Building	18,718	18,718
Furniture and fixtures	6,932	6,932
Hardware	2,400	2,402
Office equipments	982	982
Others	495	330
	31,607	**31,444**
Less: Accumulated depreciation		
Building	(2,613)	(2,083)
Furniture and fixtures	(6,911)	(6,891)
Hardware	(2,381)	(2,340)
Office equipments	(583)	(555)
Others	(407)	(330)
	(12,895)	(12,199)
	18,712	**19,245**
Movements in property and equipment		
Net book value at 1 January	19,245	20,085
- Additions	167	103
- Depreciation charge	(700)	(943)
Net book value at 31 December	**18,712**	**19,245**

Land and Building comprises the head office property owned and occupied by the Company since 1984 and office premises of the subsidiary Takaful Re Limited in Dubai, U.A.E.

14. TECHNICAL PROVISIONS

(US$ '000)

	2019	2018
General insurance business		
- Claims outstanding	256,067	264,588
- Unreported losses	195,560	206,884
- Unearned premiums	140,334	162,427
	591,961	633,899
Life insurance business		
- Claims outstanding	15,389	13,671
- Unreported losses	24,280	27,973
- Unearned premiums	2,139	9,026
	41,808	50,670
	633,769	**684,569**

The mean term of reserves is 2.9 years and 2.7 years for non-life and life business respectively.

FOR THE YEAR ENDED 31 DECEMBER 2019

15. CLAIMS DEVELOPMENT

The table below shows the incurred gross and net claims including unreported losses computed with reference to earned premiums, compared with previous estimates for the last 5 years:

(US$ '000)

	Underwriting year						
	2014	2015	2016	2017	2018	2019	**Total**
Gross							
Estimate of incurred claims costs:							
- At end of underwriting year	106,448	101,570	74,463	127,688	98,051	55,541	
- One year later	182,358	175,247	136,341	233,862	198,985	-	
- Two years later	186,928	173,063	185,919	250,680	-	-	
- Three years later	180,654	169,839	175,042	-	-	-	
- Four years later	175,633	165,838	-	-	-	-	
- Five years later	174,072	-	-	-	-	-	
Current estimate of incurred claims	174,072	165,838	175,042	250,680	198,985	55,541	1,020,158
Cumulative payments to date	(154,692)	(141,923)	(150,001)	(149,315)	(79,756)	(6,618)	(682,305)
Liability recognised	19,380	23,915	25,041	101,365	119,229	48,923	337,853
Liability in respect of prior years							153,443
Total liability included in the statement of financial position							**491,296**

	2014	2015	2016	2017	2018	2019	Total
Net							
Estimate of incurred claims costs:							
- At end of underwriting year	102,592	98,169	66,195	106,954	84,203	48,217	
- One year later	174,824	165,317	124,902	183,530	151,704	-	
- Two years later	178,752	164,880	161,481	191,546	-	-	
- Three years later	169,900	161,298	156,331	-	-	-	
- Four years later	169,038	159,082	-	-	-	-	
- Five years later	167,563	-	-	-	-	-	
Current estimate of incurred claims	167,563	159,082	156,331	191,546	151,704	48,217	874,443
Cumulative payments to date	(148,332)	(135,773)	(133,030)	(119,542)	(45,270)	(5,784)	(587,731)
Liability recognised	19,231	23,309	23,301	72,004	106,434	42,433	286,712
Liability in respect of prior years							110,896
Total liability included in the statement of financial position							**397,608**

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16. MOVEMENTS IN INSURANCE LIABILITIES AND ASSETS

(US$ '000)

2019	Gross	Reinsurance	Net
Claims			
Claims outstanding	278,259	44,916	233,343
Unreported losses	234,857	32,420	202,437
Total at beginning of year	513,116	77,336	435,780
Change in provision during the year	194,997	53,739	141,258
Claims settled during the year	(216,817)	(37,387)	(179,430)
Balance at end of year	**491,296**	**93,688**	**397,608**
Unearned premium			
At beginning of year	171,453	33,293	138,160
Change in provision during the year	(28,980)	3,694	(32,674)
Balance at end of year	**142,473**	**36,987**	**105,486**
Accrued insurance premium			
At beginning of year	96,924	12,597	84,327
Movement during the year	(9,045)	6,466	(15,511)
Balance at end of year	**87,879**	**19,063**	**68,816**
Deferred policy acquisitions costs			
At beginning of year	27,016	1,583	25,433
Movement during the year	(8,602)	(1,084)	(7,518)
Balance at end of year	**18,414**	**499**	**17,915**

2018			
Claims			
Claims outstanding	236,918	19,352	217,566
Unreported losses	250,444	55,776	194,668
Total at beginning of year	487,362	75,128	412,234
Change in provision during the year	203,341	26,465	176,876
Claims settled during the year	(177,587)	(24,257)	(153,330)
Balance at end of year	**513,116**	**77,336**	**435,780**
Unearned premium			
At beginning of year	193,089	37,263	155,826
Change in provision during the year	(21,636)	(3,970)	(17,666)
Balance at end of year	**171,453**	**33,293**	**138,160**
Accrued insurance premium			
At beginning of year	93,012	(7,350)	100,362
Movement during the year	3,912	19,947	(16,035)
Balance at end of year	**96,924**	**12,597**	**84,327**
Deferred policy acquisitions costs			
At beginning of year	24,182	1,522	22,660
Movement during the year	2,834	61	2,773
Balance at end of year	**27,016**	**1,583**	**25,433**

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17. INSURANCE PAYABLES

(US$ '000)

	2019	2018
Due within 12 months	90,726	69,305
	90,726	**69,305**

18. BORROWINGS

(US$ '000)

	2019	2018
Balances due:		
- Within 12 months	7,000	7,000
	7,000	**7,000**

Borrowings amounting to US$ 7 million (2018: US$ 7 million) are secured by debt securities amounting to US$ 13.8 million (2018: US$ 12.7 million) (note 6). The effective interest rate on the borrowings was 2.78% per annum (2018: 3.26%).

19. OTHER LIABILITIES

(US$ '000)

	2019	2018
Provision for probable loss estimates in a subsidiary (note 34 (iii))	21,462	21,462
Non-reinsurance payables	16,018	14,186
Post-employment benefits (note 28)	7,210	12,606
Accrued expenses	5,894	9,495
Dividends payable	2,739	2,790
Reinsurance premiums accrued	1,986	1,465
Employee long-term incentives	681	1,460
Other	2,031	3,347
	58,021	**66,811**
Balances due:		
- Within 12 months	50,130	52,745
- After 12 months	7,891	14,066
	58,021	**66,811**

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20. SHAREHOLDERS' EQUITY

i) Share capital

a) Composition

(US$ '000)

	2019	2018
Authorised 500 million ordinary shares of US$ 1 each	500,000	500,000
Issued, Subscribed and Fully Paid-up 220 million (2018: 220 million) ordinary shares of US$ 1 each	220,000	220,000

b) Major shareholders

Shareholders who have an interest of 5% or more of the outstanding and issued shares are as shown below:

Name	Nationality	No. of shares (in millions)		% of total outstanding shares		% of total issued shares	
		2019	2018	2019	2018	2019	2018
Central Bank of Libya	Libya	31.8	31.8	16.1	16.1	14.4	14.4
Emirates Investment Authority	UAE	30.5	30.5	15.4	15.4	13.8	13.8
General Pension and Social Security Authority	UAE	27.5	27.5	13.9	13.9	12.5	12.5
Ahmed Omar Salem Alkorbi	UAE	21.7	17.2	10.9	8.7	9.9	7.8
Kuwait Investment Authority	Kuwait	20.0	20.0	10.1	10.1	9.1	9.1
Emirates Development Bank	UAE	11.0	11.0	5.6	5.6	5.0	5.0

c) Shareholding pattern

The shareholding pattern in the outstanding shares of the Company is as follows:

Shares	No. of shares (in millions)		No. of shareholders		% of total outstanding shares	
	2019	2018	2019	2018	2019	2018
Less than 1%	42.4	45.0	4,415	4,468	21.4	22.7
1% to 5%	13.1	15.0	4	4	6.6	7.6
5% to 10%	11.0	28.2	1	2	5.6	14.3
10% and above	131.5	109.8	5	4	66.4	55.4

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20. SHAREHOLDERS' EQUITY (Continued)

ii) Treasury stock

The Company held 21,967,818 of its own shares at 31 December 2019 (2018: 21,967,818 shares) which are carried at cost of US$ 14,793,000 (2018: US$ 14,793,000).

iii) Legal reserve

In accordance with applicable legal provisions and Articles of Association, the Group is required to set aside 10% of net profits each year to build a Legal reserve up to a maximum of 100% of the paid up value of its share capital.

iv) Investment revaluation reserve

Investment revaluation reserve comprises gains or losses arising from remeasurement of available for sale investment assets. These gains or losses are carried in the reserve until the assets are disposed of, at which time the gains or losses are included in income.

v) Property revaluation reserve

Property revaluation reserve represents the difference between the cost of land and buildings less accumulated depreciation and their fair values. Further, the difference between depreciation based on the revalued carrying amounts and the depreciation based on original cost of the property is transferred directly from Property revaluation reserve to Retained earnings.

vi) Capital management

The Group's total capital comprises paid-up capital, legal reserve and retained earnings less treasury shares. The Group's policy is to maintain a strong capital base so as to maintain client, investor and market confidence and to sustain future development of the business. The parent company is regulated by Central Bank of Bahrain, which sets and monitors capital requirement for the parent company. Central Bank of Bahrain (CBB) requires the parent company to compute the solvency margin requirement and disclose it in the annual report in accordance with provisions of the CBB Rule Book. The Company is in compliance with the required margin of solvency.

Additionally, the Company manages its capital adequacy on an evaluation of its capital requirement through risk based capital models.

21. NON-CONTROLLING INTERESTS

(US$ '000)

	2019	2018
At 1 January	28,504	25,448
Share of comprehensive income	948	3,056
Subsidiary's capital reduction - minority interests (note 34)	(11,500)	-
At 31 December	**17,952**	**28,504**

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22. SEGMENT INFORMATION

i) Analysis of revenue by primary business segment

The Group's reinsurance business consists of two main business segments, Non-life and Life. Non-life business primarily consists of Property, Engineering, Marine, Accident, Whole Account and Other classes. Life business mainly involves short term group life policies and long term life policies. Life portfolio does not contain investment linked policies.

(US$ '000)

	Non-life						Life		Total
2019	Property	Engineering	Marine	Accident	Whole account*	Others	Short term	Long term	
REVENUES									
Gross premiums written	17,139	9,870	6,129	3,278	137,251	13,872	6,512	563	194,614
Outward reinsurance premiums	(4,115)	(1,901)	(237)	(69)	(45,650)	(58)	(96)	(10)	(52,136)
Change in unearned premiums – gross	11,954	8,478	3,172	2,269	(12,412)	4,143	6,986	(91)	24,499
Change in unearned premiums – reinsurance	(1,236)	(1,326)	(510)	(126)	9,843	(53)	-	-	6,592
Net earned premiums	23,742	15,121	8,554	5,352	89,032	17,904	13,402	462	173,569
Investment income attributable to insurance funds	7,721	459	1,245	1,192	285	2,205	3,647	929	17,683
	31,463	15,580	9,799	6,544	89,317	20,109	17,049	1,391	191,252
COSTS AND EXPENSES									
Gross claims paid	(33,010)	(12,719)	(9,254)	(4,617)	(116,278)	(26,244)	(14,488)	(207)	(216,817)
Claims recovered from reinsurers	2,058	1,167	781	438	32,875	64	-	4	37,387
Change in provision for outstanding claims - gross	13,004	4,345	1,337	3,054	5,658	4,010	(1,541)	(177)	29,690
Change in provision for outstanding claims - reinsurance	29	(752)	(314)	(239)	2,813	(2)	(1)	-	1,534
Change in provision for unreported losses - gross	7,384	(2,605)	1,429	1,961	19,637	6,015	2,448	1,243	37,512
Change in provision for unreported losses - reinsurance	(560)	245	(63)	(409)	2,627	1,068	(8)	-	2,900
Claims and related expenses	(11,095)	(10,319)	(6,084)	188	(52,668)	(15,089)	(13,590)	863	(107,794)
Policy acquisition costs	(5,518)	(2,419)	(1,839)	(1,007)	(32,527)	(1,166)	278	222	(43,976)
Policy acquisition costs recovered from reinsurers	152	229	99	75	30	(9)	-	-	576
Change in deferred policy acquisition costs – gross	(3,094)	(2,565)	(908)	(700)	(78)	254	(441)	1	(7,531)
Change in deferred policy acquisition costs – reinsurance	348	479	175	48	20	12	-	-	1,082
Policy acquisition costs	(8,112)	(4,276)	(2,473)	(1,584)	(32,555)	(909)	(163)	223	(49,849)
Operating expenses	(3,349)	(1,766)	(1,092)	(704)	(74)	(1,995)	(1,813)	(277)	(11,070)
Underwriting result	**8,907**	**(781)**	**150**	**4,444**	**4,020**	**2,116**	**1,483**	**2,200**	**22,539**

*Whole account includes gross premiums amounting to US$ 133.9 million (2018: US$ 125.5 million) resulted from underwriting business in Lloyds, where the Company resolved to cease new business underwriting effective from 1 January 2020.

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22. SEGMENT INFORMATION (Continued)

i) Analysis of revenue by primary business segment

(US$ '000)

	Non-life						Life		
2018	Property	Engineering	Marine	Accident	Whole account	Others	Short term	Long term	Total
REVENUES									
Gross premiums written	50,267	22,159	12,562	9,193	128,752	21,213	18,528	117	262,791
Outward reinsurance premiums	(7,507)	(3,491)	(473)	(702)	(50,893)	(1,070)	(206)	(56)	(64,398)
Change in unearned premiums – gross	122	(4,679)	(1,177)	110	(2,554)	9,981	(286)	69	1,586
Change in unearned premiums – reinsurance	(394)	452	1	(11)	13,925	-	-	-	13,973
Net earned premiums	42,488	14,441	10,913	8,590	89,230	30,124	18,036	130	213,952
Investment income (loss) attributable to insurance funds	2,567	392	461	467	(20)	756	1,069	271	5,963
	45,055	14,833	11,374	9,057	89,210	30,880	19,105	401	219,915
COSTS AND EXPENSES									
Gross claims paid	(30,125)	(15,644)	(8,833)	(3,764)	(75,106)	(27,982)	(15,239)	(894)	(177,587)
Claims recovered from reinsurers	962	734	913	87	21,460	94	-	7	24,257
Change in provision for outstanding claims - gross	(17,289)	(804)	(2,368)	1,747	(19,949)	466	(390)	249	(38,338)
Change in provision for outstanding claims - reinsurance	9,256	1,680	1,925	45	11,118	(210)	1	2	23,817
Change in provision for unreported losses - gross	(4,475)	5,964	1,178	2,551	2,706	2,499	(728)	6,249	15,944
Change in provision for unreported losses - reinsurance	179	533	65	186	(24,788)	546	(40)	-	(23,319)
Claims and related expenses	(41,492)	(7,537)	(7,120)	852	(84,559)	(24,587)	(16,396)	5,613	(175,226)
Policy acquisition costs	(13,427)	(6,640)	(3,374)	(2,704)	(33,046)	(1,174)	(1,419)	(325)	(62,109)
Policy acquisition costs recovered from reinsurers	1,339	893	384	295	65	24	-	-	3,000
Change in deferred policy acquisition costs - gross	(55)	1,402	246	(35)	(38)	(495)	68	(11)	1,082
Change in deferred policy acquisition costs - reinsurance	76	(126)	4	4	(20)	-	-	-	(62)
Policy acquisition costs	(12,067)	(4,471)	(2,740)	(2,440)	(33,039)	(1,645)	(1,351)	(336)	(58,089)
Operating expenses	(3,717)	(2,218)	(1,326)	(873)	(122)	(2,512)	(2,119)	(376)	(13,263)
Underwriting result	**(12,221)**	**607**	**188**	**6,596**	**(28,510)**	**2,136**	**(761)**	**5,302**	**(26,663)**

FOR THE YEAR ENDED 31 DECEMBER 2019

22. SEGMENT INFORMATION (Continued)

ii) Analysis of premiums and non-current assets based on geographical location of the risk insured and location of the assets respectively

(US$ '000)

	2019		2018	
	Premium	Non-current assets	Premium	Non-current assets
from:				
- Middle East	34,793	30,576	75,793	36,206
- Africa	15,155	4,964	26,891	5,781
- Asia	10,756	3,523	34,560	7,430
- Others	133,910	28,600	125,547	26,287
	194,614	**67,663**	**262,791**	**75,704**

There is no significant cedant group as the portfolio is diversified.

iii) Analysis of segment assets and liabilities

(US$ '000)

	Non-life						Life		Corporate	Total
2019	Property	Engineering	Marine	Accident	Whole	Others	Short term	Long term		
Reinsurance assets	27,654	19,370	16,089	2,127	266,507	51,354	2,042	14	-	385,157
Cash	8,471	4,848	2,690	2,901	17,928	3,062	2,786	1,123	37,452	81,261
Investments	105,897	67,245	33,041	23,674	50,637	40,850	38,332	15,775	169,763	545,214
Others	-	-	-	-	-	-	-	-	24,209	24,209
	142,022	91,463	51,820	28,702	335,072	95,266	43,160	16,912	231,424	1,035,841
Reinsurance liabilities	112,742	71,763	42,784	24,259	364,084	83,543	31,978	12,263	-	743,416
Others	-	-	-	-	-	-	-	-	46,100	46,100
	112,742	**71,763**	**42,784**	**24,259**	**364,084**	**83,543**	**31,978**	**12,263**	**46,100**	**789,516**
2018										
Reinsurance assets	40,160	24,591	19,207	7,483	253,200	61,284	7,969	14	-	413,908
Cash	12,504	7,483	3,631	3,240	7,802	1,667	3,564	1,502	74,542	115,935
Investments	129,174	71,309	36,729	29,393	17,515	16,442	38,066	16,186	140,864	495,678
Others	-	-	-	-	-	-	-	-	27,038	27,038
	181,838	103,383	59,567	40,116	278,517	79,393	49,599	17,702	242,444	1,052,559
Reinsurance liabilities	147,994	87,331	50,288	34,208	326,949	75,426	39,077	13,167	-	774,440
Others	-	-	-	-	-	-	-	-	53,245	53,245
	147,994	**87,331**	**50,288**	**34,208**	**326,949**	**75,426**	**39,077**	**13,167**	**53,245**	**827,685**

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23. INVESTMENT INCOME

(US$ '000)

2019	Insurance funds	Shareholders' funds	Total
Interest income			
- Investments designated at fair value through profit or loss	970	429	1,399
- Others	7,178	4,040	11,218
Dividends	724	320	1,044
Realised gain			
- Held for trading investments	8,176	3,625	11,801
- Investments designated at fair value through profit or loss	508	225	733
- Available for sale	2,143	1,278	3,421
(Loss) gain on remeasurement of investments at fair value through profit or loss			
- Held for trading investments	(650)	(288)	(938)
- Investments designated at fair value through profit or loss	858	338	1,196
Impairment loss-available for sale			
- Debt securities	(205)	(144)	(349)
- Other	(565)	(400)	(965)
Income from associates	-	40	40
Other	(1,454)	(851)	(2,305)
	17,683	**8,612**	**26,295**

2018			
Interest income			
- Investments designated at fair value through profit or loss	855	436	1,291
- Others	6,543	4,733	11,276
Dividends	861	439	1,300
Realised gain (loss)			
- Held for trading investments	1,399	712	2,111
- Investments designated at fair value through profit or loss	83	42	125
- Available for sale	561	(43)	518
Loss on remeasurement of investments at fair value through profit or loss			
- Held for trading investments	(3,137)	(1,598)	(4,735)
- Investments designated at fair value through profit or loss	(424)	(237)	(661)
Impairment loss-available for sale			
- Debt securities	-	-	-
- Other	(136)	(70)	(206)
Income from associates	-	22	22
Other	(642)	(350)	(992)
	5,963	**4,086**	**10,049**

FOR THE YEAR ENDED 31 DECEMBER 2019

24. OPERATING EXPENSES

(US$ '000)

2019	Underwriting	Non-Underwriting	Total
Salaries and benefits	6,494	3,173	9,667
General and administration	4,576	2,231	6,807
	11,070	**5,404**	**16,474**

2018			
Salaries and benefits	8,800	5,820	14,620
General and administration	4,463	3,461	7,924
	13,263	**9,281**	**22,544**

25. OTHER INCOME

(US$ '000)

	2019	2018
Deferred income	699	2,040
Third party administration services	-	2,502
Other	619	623
	1,318	**5,165**

26. OTHER EXPENSES AND PROVISIONS

(US$ '000)

	2019	2018
Provision for probable loss estimates in subsidiary (note 34 (iii))	-	21,462
Foreign exchange loss	883	1,385
Provision for (reversal of) doubtful receivables and deposits	1,057	(251)
Other, net	6,444	2,105
	8,384	**24,701**

27. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

Basic and diluted earnings (losses) per share has been computed as follows:

		2019	2018
Weighted average number of shares outstanding	'000	198,032	198,032
Net profit (loss)	US$'000	17,526	(55,251)
Earnings (losses) per share	US cents	8.9	(27.9)

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28. POST EMPLOYMENT BENEFITS

The Group operates a number of post-employment plans on defined benefit basis. Eligibility for participation in the defined benefit plans is based on completion of a specified period of continuous service or date of hire. Benefits are based on the employee's years of service.

The principal assumptions used for accounting purposes were:

	2019	2018
Discount rate	4.0%	4.2%
Expected return on assets	4.0%	4.2%
Future salary increases	3.3%	3.3%

The change in assumptions does not have material impact on the liability recognised.

The movements in the liability recognised in the consolidated statement of financial position are:

(US$ '000)

	2019	2018
Balance at 1 January	12,606	12,203
Accruals for the year	902	1,577
Payments during the year	(6,298)	(1,174)
Balance at 31 December	**7,210**	**12,606**

29. FORWARD FOREIGN EXCHANGE CONTRACTS

In the ordinary course of its business, the Group uses forward foreign exchange contracts to hedge its exposure in respect of foreign currency denominated investments and insurance liabilities. In the event that the item being hedged is sold or settled prior to maturity of the forward foreign exchange contract, it is generally the Group's policy to enter into another offsetting forward foreign exchange contract of the same amount and maturity date. The notional amounts of these financial instruments are not recognised in the Group's consolidated financial statements but their fair values are recognised as assets or liabilities, as appropriate, with changes in fair value being taken to the consolidated statement of profit or loss. The contracts oblige the Group to exchange cash flows to be received in the future from foreign currency denominated investments for U.S. Dollars at predetermined exchange rates. The counter parties in respect of these transactions are leading financial institutions.

i) Forward foreign exchange contracts – by currency

(US$ '000)

	2019		2018	
	Notional amount purchases	Notional amount sales	Notional amount purchases	Notional amount sales
Euro	-	12,803	92	10,469
Pound Sterling	-	3,276	129	3,396
Japanese Yen	-	1,022	92	1,417
Others	-	2,047	-	1,373
	-	**19,148**	**313**	**16,655**

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29. FORWARD FOREIGN EXCHANGE CONTRACTS (Continued)

Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They are a common measure of the volume of outstanding transactions, but do not represent credit or market risk exposures.

ii) Forward foreign exchange contracts - remaining term to maturity

All of the forward foreign exchange contracts outstanding are due in one year or less.

iii) Forward foreign exchange contracts - unrealised gains and losses

The following table summarises the fair value of the Group's hedging portfolio of forward foreign exchange contracts at the statement of financial position date, segregating the items between those that are in an unrealised gain position from those that are in an unrealised loss position.

(US$ '000)

	2019		2018	
	Purchases	Sales	Purchases	Sales
Unrealised gains	-	-	3	80
Unrealised losses	-	(301)	-	(70)
	-	**(301)**	**3**	**10**

30. RECONCILIATION OF NET RESULT TO CASH FLOWS FROM OPERATING ACTIVITIES

(US$ '000)

	2019	2018
Profit (loss) for the year	18,428	(52,202)
Change in insurance funds	(58,230)	1,313
Change in insurance receivable/payable, net	30,922	(482)
Change in accrued income	15,227	16,511
Change in other assets/liabilities, net	(12,926)	29,414
Net cash used in operating activities	**(6,579)**	**(5,446)**

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31. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

(US$ '000)

	Borrowings	Borrowings cost	Dividends	Non-controlling interest
Balances at 31 December 2017	34,000	631	3,164	25,448
Share of comprehensive income	-	-	-	3,056
Repayment of borrowings	(32,000)	-	-	-
Additional borrowings	5,000	-	-	-
Interest paid during the year	-	(1,338)	-	-
Interest expense for the year	-	808	-	-
Dividends paid during the year	-	-	(374)	-
Balances at 31 December 2018	**7,000**	**101**	**2,790**	**28,504**
Share of comprehensive income	-	-	-	948
Subsidiary's capital reduction	-	-	-	(11,500)
Interest paid during the year	-	(279)	-	-
Interest expense for the year	-	253	-	-
Dividends paid during the year	-	-	(51)	-
Balances at 31 December 2019	**7,000**	**75**	**2,739**	**17,952**

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32. FAIR VALUE DISCLOSURE

The following table presents the fair values of the Group's financial instruments:

(US$ '000)

	Book value						Fair value
2019	At fair value through profit or loss	Loans and receivables	Held to maturity	Available for sale	Amortised cost	Total	
ASSETS							
Cash and bank balances	-	81,261	-	-	-	81,261	81,261
Investments	158,809	-	8,383	377,540	-	544,732	545,100
Accrued income	-	71,358	-	-	-	71,358	71,358
Insurance receivables	-	117,872	-	-	-	117,872	117,872
Insurance deposits	-	22,505	-	-	-	22,505	22,505
Other assets	-	29,161	-	-	-	29,161	29,161
LIABILITIES							
Insurance payables	-	-	-	-	90,726	90,726	90,726
Borrowings	-	-	-	-	7,000	7,000	7,000
Other liabilities	-	-	-	-	30,665	30,665	30,665
2018							
ASSETS							
Cash and bank balances	-	115,935	-	-	-	115,935	115,935
Investments	151,584	-	8,345	335,307	-	495,236	495,248
Accrued income	-	86,585	-	-	-	86,585	86,585
Insurance receivables	-	127,373	-	-	-	127,373	127,373
Insurance deposits	-	27,603	-	-	-	27,603	27,603
Other assets	-	42,808	-	-	-	42,808	42,808
LIABILITIES							
Insurance payables	-	-	-	-	69,305	69,305	69,305
Borrowings	-	-	-	-	7,000	7,000	7,000
Other liabilities	-	-	-	-	35,854	35,854	35,854

The information disclosed in the table above is not indicative of the net worth of the Group.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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32. FAIR VALUE DISCLOSURE (Continued)

When there is no quoted price in an active market, the Group uses valuation techniques that maximize the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The following methods and assumptions were used to estimate the fair value of the financial instruments:

i) General

The book values of the Group's financial instruments except investments and forward foreign exchange contracts were deemed to approximate fair value due to the immediate or short term maturity of these financial instruments.

Hence, the fair value measurement details are not disclosed.

ii) Investments

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. as derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted market prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

  Valuation techniques include net present value and discounted cash flow models and other valuation models. Assumptions and inputs used in valuation includes risk free and benchmark interest rates, bond and equity prices, and foreign exchange rates. The objective of valuation techniques is to arrive at fair value measurement that reflects the price that would be received on sale of the asset at the measurement date.

  The table below analyses financial instruments, measured at fair value as at the end of the year, by level in the fair value hierarchy into which the fair value measurement is categorized:

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32. FAIR VALUE DISCLOSURE (Continued)

(US$ '000)

2019	Level 1	Level 2	Level 3	Total
At fair value through profit or loss				
Held for trading				
Common stock of listed companies	46,593	-	-	46,593
Designated at fair value on initial recognition				
Debt securities	112,216	-	-	112,216
Available for sale				
Debt securities	349,276	-	-	349,276
Common stock of listed companies	5,743	-	-	5,743
Common stock of unlisted companies	-	-	4,653	4,653
Other	-	-	17,868	17,868
Forward foreign exchange contracts	-	(301)	-	(301)
	513,828	**(301)**	**22,521**	**536,048**

(US$ '000)

2018	Level 1	Level 2	Level 3	Total
At fair value through profit or loss				
Held for trading				
Common stock of listed companies	56,709	-	-	56,709
Designated at fair value on initial recognition				
Debt securities	94,875	-	-	94,875
Available for sale				
Debt securities	306,435	-	-	306,435
Common stock of listed companies	7,226	-	-	7,226
Common stock of unlisted companies	-	-	3,872	3,872
Other	-	-	17,774	17,774
Forward foreign exchange contracts	-	13	-	13
	465,245	**13**	**21,646**	**486,904**

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32. FAIR VALUE DISCLOSURE (Continued)

The tables below show movements in the Level 3 financial assets measured at fair value:

(US$ '000)

	Unlisted equity	Others	Total
Balance at 1 January 2019	3,872	17,774	21,646
Gain recognised in:			
- Other comprehensive income	5	123	128
Investments made during the year	1,043	2,711	3,754
Investments redeemed during the year	(267)	(2,740)	(3,007)
Balance at 31 December 2019	**4,653**	**17,868**	**22,521**

Balance at 1 January 2018	4,279	18,389	22,668
Gain (loss) recognised in:			
- Statement of profit or loss	73	-	73
- Other comprehensive income	(381)	162	(219)
Investments made during the year	105	2,481	2,586
Investments redeemed during the year	(204)	(3,258)	(3,462)
Balance at 31 December 2018	**3,872**	**17,774**	**21,646**

The carrying values of the investment held in level 3 are based on unobservable inputs and reflects proportional share of the fair values of the respective companies and their underlying net assets. The Group does not expect the fair value of assets under level 2 and level 3 to change significantly on changing one or more of the unobservable inputs. The valuations of these investments are reviewed quarterly and updated as necessary on the basis of information received from investee and investment managers. The Group recognises transfers between levels of the fair value hierarchy at the end of reporting period during which the change occurred. For the year ended December 31, 2019, there were no transfers in and out of level 1, level 2 and level 3 (2018: nil). The fair values are estimates and do not necessarily represent the price at which the investment would sell. As the determination of fair values involve subjective judgments, and given the inherent uncertainty of assumptions regarding capitalization rates, discount rates, leasing and other factors, the amount which will be realized by the Company on the disposal of its investments may differ significantly from the values at which they are carried in the consolidated financial statements, and the difference could be material.

The Group does not expect the fair value of assets under level 3 to change significantly on changing one or more of the measurable / observable inputs.

iii) Forward foreign exchange contracts

The fair value of forward foreign exchange contracts, used for hedging purposes, is based on quoted market prices.

iv) Fair value less than carrying amounts

The fair value of fixed interest debt securities fluctuates with changes in market interest rates. The book value of financial assets held to maturity has not been reduced to fair value where lower, because such market rate variations are considered temporary in nature and management intends, and has the financial resources and capacity, to generally hold such investments to maturity.

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33. TEMPORARY EXEMPTION FROM IFRS 9 DISCLOSURE

2019

a) Fair value and changes in fair value

(US$ ’000)

	Fair value	Changes in fair value during the year
i) Financial assets having cash flows that are solely payment of principal and interest.	307,522	8,608
ii) All other financial assets that are not solely payment of principal and interest.	478,474	9,972
	785,996	**18,580**

b) Credit risk exposure relating to note 33 (a (i)) above

(US$ ’000)

	Book value	Fair value
Supra-nationals and OECD country governments	43,633	43,636
Other investment grade	220,224	220,414
Other	43,296	43,472
	307,153	**307,522**

2018

a) Fair value and changes in fair value

(US$ ’000)

	Fair value	Changes in fair value during the year
i) Financial assets having cash flows that are solely payment of principal and interest.	281,960	(3,884)
ii) All other financial assets that are not solely payment of principal and interest.	497,657	(3,374)
	779,617	**(7,258)**

b) Credit risk exposure relating to note 33 (a (i)) above

(US$ ’000)

	Book value	Fair value
Supra-nationals and OECD country governments	26,319	26,320
Other investment grade	223,444	223,470
Other	32,185	32,170
	281,948	**281,960**

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34. PRINCIPAL SUBSIDIARIES AND ASSOCIATES

i) Subsidiaries and Associates

At 31 December 2019, the principal subsidiaries of the Company were:

	Country of incorporation	Ownership	Non-controlling interests	Principal activities
Arig Capital Limited	United Kingdom	100%	Nil	Reinsurance
Gulf Warranties W.L.L. (under voluntary liquidation)	Kingdom of Bahrain	100%	Nil	Warranty
Takaful Re Limited (under run-off)	United Arab Emirates	54%	46%	Retakaful Insurance

All holdings are in the ordinary share capital of the subsidiaries concerned and are unchanged from 31 December 2018 except for Takaful Re Limited where capital was reduced from US$ 100 million to US$ 75 million and the liquidation of Arig Insurance Management (DIFC) Ltd., on 10 April 2019. The Company holds 49% and 25% of the equity shares in its associate companies Arima Insurance Software W.L.L. and Globemed Bahrain W.L.L., Bahrain respectively.

ii) Interest in Subsidiaries: Takaful Re Limited

(US$ '000)

	2019	2018
Non-controlling interests	46%	46%
Total assets	55,267	83,697
Total liabilities	16,369	22,125
Net Assets	**38,898**	**61,572**
Revenue	(32)	(216)
Profit for the year	2,223	6,742
Total comprehensive income	2,323	6,759
Comprehensive income attributable to non-controlling interests	1,069	3,109
Net cash used in operating activities	(3,202)	(8,759)
Net cash (used in) provided by investing activities	(9,271)	44,128
Net cash used in financing activities	(25,000)	-
Net (decrease) increase in cash and cash equivalents	**(37,473)**	**35,369**

The subsidiary's policyholder funds are consolidated as these funds are controlled and managed by the subsidiary which is in a position to direct activities and operations.

iii) Interest in Subsidiaries: Gulf Warranties W.L.L.

In 2018 there has been fraud committed by employees of the Group's subsidiary, Gulf Warranties W.L.L. Based on management's assessments, the entire probable loss estimates of US$ 21.5 million have been provided for in the books of the subsidiary and consequently in the consolidated financial statements of the Group. This does not constitute admission of any liability beyond the share capital of Gulf Warranties W.L.L. The subsidiary was placed under voluntary liquidation by shareholders' resolution of 27 February 2019.

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35. RELATED PARTY TRANSACTIONS

Related parties represent the Company's major shareholders, associate companies, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties.

Government of UAE controls 31.3% of issued shares in the Group through major shareholders Emirates Investment Authority, General Pension and Social Security Authority and Emirates Development Bank while Government of Libya controls 14.4% of issued shares in the Group through Central Bank of Libya. The Group does not have any significant transactions with these governments and entities controlled, jointly controlled or significantly influenced by these governments.

The following is the summary of transactions with related parties:

i) Associate companies

(US$ '000)

	2019	2018
a) Service fees for administration services provided by Arig	38	38
b) Service fees for administration services provided by associate	730	812
c) Balances outstanding		
- Payables	85	89

ii) Compensation to directors and key management personnel

(US$ '000)

	2019	2018
a) Directors		
- Attendance fees	181	79
- Travel expenses	187	144
b) Key management compensation		
- Salaries and other short-term employee benefits	674	1,710
- Post-employment benefits	74	318
- Employee long-term incentives	76	-
c) Balances payable to key management	520	632

All transactions with related parties are conducted on an arm's length basis. All outstanding balances from related parties are expected to be settled within 12 months. No provisions have been required in 2019 and 2018 for any outstanding amounts due from related parties.

36. CONTINGENCIES

The Group is a defendant against several ongoing litigations relating to its operations and labour matters. As per the legal counsel and the management, the Group has strong arguments against these cases and accordingly, no additional provision is required to be recorded in the consolidated financial statements.

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37. PARENT COMPANY

The unconsolidated statement of financial position of the parent company, Arab Insurance Group (B.S.C.), is presented below.

(US$ '000)

	Note	2019	2018
ASSETS			
Cash and bank balances		33,746	41,523
Investments		473,877	447,462
Accrued income		67,911	83,811
Insurance receivables		22,770	27,413
Insurance deposits		22,246	27,424
Deferred policy acquisition costs		7,743	14,145
Reinsurers' share of technical provisions		30,885	35,055
Other assets		91,894	123,315
Investment in subsidiaries and associates		21,488	33,692
Property and equipment		6,674	6,822
TOTAL ASSETS		**779,234**	**840,662**
LIABILITIES			
Technical provisions		462,021	562,813
Insurance payables		31,172	26,651
Borrowings		7,000	7,000
Other liabilities		50,668	47,828
TOTAL LIABILITIES		550,861	644,292
SHAREHOLDERS' EQUITY	20		
Share capital		220,000	220,000
Treasury stock		(14,793)	(14,793)
Reserves		51,575	35,594
Accumulated losses		(28,409)	(44,431)
TOTAL SHAREHOLDER'S EQUITY		228,373	196,370
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**779,234**	**840,662**