

CONSOLIDATED FINANCIAL STATEMENT

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

(US\$ '000)

| | Note | 2020 | 2019 |
|---|------|----------------|------------------|
| ASSETS | | | |
| Cash and bank balances | 5 | 100,500 | 81,261 |
| Investments | 6 | 454,603 | 545,214 |
| Accrued income | 8 | 8,786 | 71,358 |
| Insurance receivables | 9 | 72,732 | 117,872 |
| Insurance deposits | 10 | 20,917 | 22,505 |
| Deferred policy acquisition costs | 17 | 4,749 | 17,915 |
| Reinsurers' share of technical provisions | 11 | 74,368 | 130,675 |
| Other assets | 12 | 37,349 | 30,329 |
| Investment property | 13 | 4,622 | - |
| Property and equipment | 14 | 12,006 | 18,712 |
| TOTAL ASSETS | | 790,632 | 1,035,841 |
| LIABILITIES AND EQUITY | | | |
| LIABILITIES | | | |
| Technical provisions | 15 | 408,869 | 633,769 |
| Insurance payables | 18 | 80,664 | 90,726 |
| Borrowings | 19 | - | 7,000 |
| Other liabilities | 20 | 38,672 | 58,021 |
| TOTAL LIABILITIES | | 528,205 | 789,516 |
| EQUITY | | | |
| Attributable to shareholders of parent company | 21 | | |
| Share capital | | 220,000 | 220,000 |
| Treasury stock | | (14,793) | (14,793) |
| Reserves | | 56,296 | 51,705 |
| Accumulated losses | | (16,142) | (28,539) |
| | | 245,361 | 228,373 |
| Non-controlling interests | 22 | 17,066 | 17,952 |
| TOTAL EQUITY | | 262,427 | 246,325 |
| TOTAL LIABILITIES AND EQUITY | | 790,632 | 1,035,841 |

These consolidated financial statements were approved by the Board of Directors on 18 February 2021 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 2020

(US\$ '000)

| | Note | 2020 | 2019 |
|---|------|---------------|---------------|
| Gross premiums written | 23 | (17,295) | 194,614 |
| Outward reinsurance premiums | 23 | 3,027 | (52,136) |
| Change in unearned premiums | 23 | 82,722 | 31,091 |
| Net earned premiums | 23 | 68,454 | 173,569 |
| Claims and related expenses | 23 | (31,609) | (107,794) |
| Policy acquisition costs | 23 | (19,225) | (49,849) |
| Investment income attributable to insurance funds | 24 | 2,824 | 17,683 |
| Operating expenses | 25 | (7,685) | (11,070) |
| Underwriting result | 23 | 12,759 | 22,539 |
| Investment income attributable to shareholders' funds | 24 | 2,124 | 8,612 |
| Operating expenses - non underwriting activities | 25 | (5,597) | (5,404) |
| Borrowing cost | | (112) | (253) |
| Other income | 26 | 6,283 | 1,318 |
| Other expenses and provisions | 27 | (2,790) | (8,384) |
| Profit for the year | | 12,667 | 18,428 |
| Attributable to: | | | |
| Non-controlling interests | | (891) | 902 |
| Shareholders of parent company | | 13,558 | 17,526 |
| | | 12,667 | 18,428 |
| Earnings per share attributable to shareholders (basic and diluted): | 28 | (US Cents) | |
| | | 6.8 | 8.9 |

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Director

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Acting Chief Executive Officer

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

(US\$ '000)

| | Note | 2020 | 2019 |
|--|------|---------------|---------------|
| Profit for the year | | 12,667 | 18,428 |
| Other comprehensive income | | | |
| Items that will be reclassified to profit or loss: | | | |
| Changes on fair value of available for sale investments | | 4,632 | 16,630 |
| Transfers for recognition of gains on disposal of available for sale investments | 24 | (3,462) | (3,421) |
| Transfers for impairment loss recognised on available for sale investments | 24 | 1,681 | 1,314 |
| Items that will not be reclassified subsequently to profit or loss: | | | |
| Revaluation of property | 14 | 646 | - |
| Other comprehensive income for the year | | 3,497 | 14,523 |
| Total comprehensive income for the year | | 16,164 | 32,951 |
| Attributable to: | | | |
| Non-controlling interests | | (824) | 948 |
| Shareholders of parent company | | 16,988 | 32,003 |
| | | 16,164 | 32,951 |

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

(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 2019 | 220,000 | (14,793) | 36,569 | 11,026 | 4,110 | 51,705 | (28,539) | 228,373 | 17,952 | 246,325 |
| Net profit for the year | - | - | - | - | - | - | 13,558 | 13,558 | (891) | 12,667 |
| Changes on fair value of available for sale investments | - | - | - | 4,518 | - | 4,518 | - | 4,518 | 114 | 4,632 |
| Transfers for recognition of gains on disposal of available for sale investments | - | - | - | (3,374) | - | (3,374) | - | (3,374) | (88) | (3,462) |
| Transfers for impairment loss recognised on available for sale investments | - | - | - | 1,640 | - | 1,640 | - | 1,640 | 41 | 1,681 |
| Revaluation of property (note 14) | - | - | - | - | 646 | 646 | - | 646 | - | 646 |
| Total comprehensive income for the year | - | - | - | 2,784 | 646 | 3,430 | 13,558 | 16,988 | (824) | 16,164 |
| Transfer of net depreciation on revalued property | - | - | - | - | (195) | (195) | 195 | - | - | - |
| Transfer to (from) non-distributable reserves | - | - | 1,356 | - | - | 1,356 | (1,356) | - | - | - |
| Sale of subsidiary - minority interests (note 35) | - | - | - | - | - | - | - | - | (62) | (62) |
| Balances at 31 December 2020 | 220,000 | (14,793) | 37,925 | 13,810 | 4,561 | 56,296 | (16,142) | 245,361 | 17,066 | 262,427 |

| | | | | | | | | | | |
|---|---------|----------|--------|--------|-------|--------|----------|---------|---|---------|
| Parent company balances at 31 December 2020 (note 37) | 220,000 | (14,793) | 37,788 | 13,741 | 4,561 | 56,090 | (15,936) | 245,361 | - | 245,361 |
|---|---------|----------|--------|--------|-------|--------|----------|---------|---|---------|

| | 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 fair value 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 | - | - | - | - | - | - | - | - | (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 |
|---|---------|----------|--------|--------|-------|--------|----------|---------|---|---------|

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

(US\$ '000)

| | Note | 2020 | 2019 |
|--|------|-----------------|-----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Premiums received | | 97,323 | 192,493 |
| Reinsurance premiums paid | | (17,477) | (35,484) |
| Claims and acquisition costs paid | | (226,798) | (238,096) |
| Reinsurance receipts in respect of claims | | 98,801 | 63,440 |
| Investment income | | 4,710 | 9,478 |
| Interest received | | 2,286 | 3,271 |
| Dividends received | | 56 | 1,044 |
| Operating expenses paid | | (12,761) | (21,505) |
| Other (expenses) income, net | | (5,967) | 4,091 |
| Insurance deposits received (paid), net | | 1,455 | 4,354 |
| Purchase of trading investments | | (667) | (5,363) |
| Sale of trading investments | | 20,529 | 15,698 |
| Net cash used in operating activities | 31 | (38,510) | (6,579) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Maturity/sale of investments | | 154,855 | 102,163 |
| Purchase of investments | | (90,950) | (143,022) |
| Term deposits with bank | | (22,698) | (8,339) |
| Interest received | | 9,428 | 9,062 |
| Investment income | | 2,255 | 1,662 |
| Collateralised cash deposits | | (8,457) | 13,986 |
| Purchase of property and equipment | | (30) | (2) |
| Purchase of intangible assets | | - | (82) |
| Sale of subsidiary | 35 | 318 | - |
| Net cash provided by (used in) investing activities | | 44,721 | (24,572) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Borrowings | 32 | (7,000) | - |
| Borrowing cost | | (187) | (279) |
| Dividends paid | | (2,418) | (51) |
| Subsidiary's capital reduction - minority interests | | - | (11,500) |
| Net cash used in financing activities | | (9,605) | (11,830) |
| Net decrease in cash and cash equivalents | | (3,394) | (42,981) |
| Effect of exchange rates on cash and cash equivalents | | (65) | (32) |
| Cash and cash equivalents, beginning of year | | 66,895 | 109,908 |
| Cash and cash equivalents, end of year | 5 | 63,436 | 66,895 |
| Term deposits with bank | | 37,064 | 14,366 |
| Cash and bank balances, end of year | 5 | 100,500 | 81,261 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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 to the shareholders the cessation of the Company's underwriting activities. In an Extraordinary General Meeting held on 13 August 2020 the shareholders approved the Board's recommendation and placed the insurance portfolio in run-off. The Company has sought the approval of CBB to implement the resolution of the shareholders.

The board of directors expects the proposed run-off of the existing insurance portfolio to take more than 12 months and have assessed that the Company will continue to operate as a going concern for at least 12 months from the date of these consolidated financial statements. Therefore, these consolidated financial statements have been prepared on 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.

There are a few amendments to standards effective as of 1 January 2020. However, these have no impact on the consolidated financial statements. The Group has not adopted any new or revised IFRS in 2020.

On 11 March 2020, the Coronavirus (COVID-19) outbreak was declared a pandemic by the World Health Organization (WHO) and has rapidly evolved globally. COVID-19 has also brought about significant uncertainties in the global economic environment. Authorities have taken various measures to contain the spread including implementation of travel restrictions and quarantine measures.

The Board of Directors and management has been closely monitoring the impact of the COVID-19 developments on the Group's operations and financial position; including possible loss of revenue, impact on asset valuations, impairment etc. The Group has also put in place contingency measures, which include but are not limited to enhancing and testing of business continuity plans.

In preparing the consolidated financial statements, judgements made by Board of Directors and management in applying the Group's accounting policies and sources of estimation are subject to uncertainty regarding the potential impacts of the current economic volatility arising from COVID-19 and these are considered to represent management's best assessment based on available or observable information.

The Government of Kingdom of Bahrain has announced various economic stimulus programmes ("Packages") to support businesses in these challenging times. The Group has received benefits from these Packages in the form of reimbursement of salaries of Bahraini employees and waiver of Electricity and Water charges for the months of April, May and June 2020 which are recorded as other income (refer to note 26).

The following standards and interpretations have been issued but are applicable for periods subsequent to the year ended 31 December 2020:

- 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 2023. 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 34.

- 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2023, 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 2020.

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 2020 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;
- 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.

Non controlling interests are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

A listing of the principal subsidiaries is set out in note 35. 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 33).

INVESTMENT PROPERTY

Property held to earn rentals which can be leased out separately are accounted for as investment property. Investment property initially is measured at cost and subsequently cost less accumulated depreciation and any impairment loss. Any gain or loss on disposal of investment property is recognised in profit or loss.

Rental income from investment property is recognised as income from investment property on a straight-line basis over the term of lease.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 up to the statement of financial position date.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Interest is recognised on the effective interest rate method and dividends are recognised when declared. 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.

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

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

4. MANAGEMENT OF INSURANCE RISKS (Continued)

Credit risks relating to reinsurance arrangements are analysed as follows:

| | (US\$ '000) | | |
|---------------------------------|---------------|--------------------------------|---------------|
| 2020 | Receivables | Share of claims outstanding | Total |
| Balance relating to reinsurers: | | | |
| - With investment grade rating | 43,753 | 33,182 | 76,935 |
| - Other | 1,364 | 2,692 | 4,056 |
| | 45,117 | 35,874 | 80,991 |
| 2019 | | | |
| 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 |

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) | | | | |
|---------------------------------------|-------------|-------------------|-----------------|------------------|----------|
| 2020 | Euro | Pound Sterling | Indian Rupee | Kuwaiti Dinar | Other |
| Reinsurance assets (liabilities), net | (1,490) | (1,379) | (4,943) | (12,969) | (21,989) |
| 2019 | | | | | |
| Reinsurance assets (liabilities), net | (411) | (2,822) | (7,122) | (15,624) | (25,458) |

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) | |
|---|-------------|---------|
| | 2020 | 2019 |
| 5% increase in loss ratio | (3,423) | (8,678) |
| 5% decrease in loss ratio | 3,423 | 8,678 |
| 10% increase in US Dollar exchange rate | 7,062 | 8,060 |
| 10% decrease in US Dollar exchange rate | (8,632) | (9,851) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

5. CASH AND BANK BALANCES

| | 2020 | (US\$ '000) 2019 |
|--|----------------|---------------------|
| Cash and bank balances | 63,436 | 47,895 |
| Deposits with maturity within 3 months | - | 19,000 |
| Cash and cash equivalents | 63,436 | 66,895 |
| Deposits with maturity over 3 months | 37,064 | 14,366 |
| | 100,500 | 81,261 |

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:

| | 2020 | 2019 |
|---------------------------------------|---------------|---------------|
| Interest receivable basis: | | |
| - Bank balances | Daily/Monthly | Daily/Monthly |
| - Deposits with short term maturities | On maturity | On maturity |
| Effective rates | 0.01% - 3.60% | 0.01% - 4.00% |

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

iii) Currency risk:

| | 2020 | (US\$ '000) 2019 |
|----------------|----------------|---------------------|
| U.S. Dollar | 82,879 | 52,206 |
| Pound Sterling | 9,631 | 20,069 |
| Bahraini Dinar | 6,694 | 7,821 |
| Euro | 574 | 673 |
| Other | 722 | 492 |
| | 100,500 | 81,261 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

6. INVESTMENTS

| | 2020 | (US\$ '000) 2019 |
|--|----------------|---------------------|
| At fair value through profit or loss | | |
| Held for trading | | |
| Common stock of listed companies | 18,567 | 46,593 |
| | 18,567 | 46,593 |
| Designated at fair value on initial recognition | | |
| Debt securities | | |
| - Investment grade | 104,297 | 101,041 |
| - Other | 13,909 | 11,175 |
| | 118,206 | 112,216 |
| Held to maturity | | |
| Debt securities | | |
| - Supra-nationals and OECD country governments | - | 500 |
| - Investment grade | 3,952 | 3,928 |
| - Other | 3,969 | 3,955 |
| | 7,921 | 8,383 |
| Available for sale | | |
| Debt securities | | |
| - Supra-nationals and OECD country governments | 10,044 | 43,133 |
| - Investment grade | 185,507 | 240,235 |
| - Other | 90,914 | 65,908 |
| Common stock of listed companies | 3,103 | 5,743 |
| Common stock of unlisted companies | 3,349 | 4,653 |
| Other equity type investment | 16,236 | 17,868 |
| | 309,153 | 377,540 |
| Loans and receivables | 265 | - |
| Investment in associates | 491 | 482 |
| | 454,603 | 545,214 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

6. INVESTMENTS (Continued)

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

| | 2020 | 2019 |
|---------------------------------------|-------|-------|
| At 1 January | 1,492 | 1,143 |
| Impairment recognised during the year | - | 349 |
| At 31 December | 1,492 | 1,492 |

(US\$ '000)

Debt securities amounting to US\$ 53.5 million (2019: US\$ 100.1 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

| 2020 | Interest receivable basis | Effective rates | Coupon rates |
|--|--------------------------------|-----------------|-----------------|
| Supra-nationals and OECD country government securities | Monthly/Semi-annual/ Annual | 2.250% - 2.500% | 2.250% - 2.500% |
| Investment grade debt securities | Monthly/Semi-annual/ Annual | 0.100% - 7.125% | 0.100% - 7.125% |
| Other debt securities | Monthly/Semi-annual/ Annual | 1.740% - 5.500% | 1.740% - 5.500% |
| 2019 | | | |
| Supra-nationals and OECD country government securities | Monthly/Semi-annual/ Annual | 1.500% - 2.625% | 1.500% - 2.625% |
| 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% |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

6. INVESTMENTS (Continued)

iii) Debt securities - currency risk

| | (US\$ '000) | | | |
|--|----------------|-------------------|-----------|----------------|
| | U.S. Dollar | Bahraini Dinar | Other | Total |
| 2020 | | | | |
| Supra-nationals and OECD country government securities | 10,044 | - | - | 10,044 |
| Investment grade debt securities | 293,746 | - | 10 | 293,756 |
| Other debt securities | 104,535 | 4,257 | - | 108,792 |
| | 408,325 | 4,257 | 10 | 412,592 |
| 2019 | | | | |
| Supra-nationals and OECD country government securities | 43,633 | - | - | 43,633 |
| 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 |

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.

| | 2020 | | 2019 | |
|---|---------------------|----------------|---------------------|----------------|
| | Principal amount | Book value | Principal amount | Book value |
| Supra-nationals and OECD country government securities: | | | | |
| - Due in one year or less | 10,000 | 10,044 | 8,500 | 8,513 |
| - One to five years | - | - | 35,000 | 35,120 |
| | 10,000 | 10,044 | 43,500 | 43,633 |
| Debt securities of investment grade issuers: | | | | |
| - Due in one year or less | 36,659 | 33,980 | 40,486 | 38,869 |
| - One to five years | 183,719 | 190,930 | 254,963 | 259,233 |
| - More than five years | 63,020 | 68,846 | 43,356 | 47,102 |
| | 283,398 | 293,756 | 338,805 | 345,204 |
| Other debt securities: | | | | |
| - Due in one year or less | 11,944 | 11,226 | 16,944 | 16,012 |
| - One to five years | 35,316 | 35,907 | 27,184 | 27,221 |
| - More than five years | 3,112 | 61,659 | 7,644 | 37,805 |
| | 50,372 | 108,792 | 51,772 | 81,038 |
| | 343,770 | 412,592 | 434,077 | 469,875 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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:

| | 2020 | 2019 |
|----------------|---------------|---------------|
| U.S. Dollar | 5,262 | 22,364 |
| Euro | - | 1,942 |
| Saudi Riyal | - | 7,203 |
| Pound Sterling | 18,567 | 12,092 |
| Japanese Yen | - | 1,120 |
| Other | 1,190 | 12,268 |
| | 25,019 | 56,989 |

vi) Commitments

The Group has commitments in respect of uncalled capital in available for sale investments amounting to US\$ 6.7 million (2019: US\$ 7.3 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:

| | 2020 | | 2019 | |
|---|---------|---------|---------|---------|
| | Income | Equity | Income | Equity |
| Interest rate | | | | |
| + 100 basis points shift in yield curves-debt instruments | (2,574) | (7,103) | (2,463) | (6,637) |
| - 100 basis points shift in yield curves-debt instruments | 2,610 | 5,301 | 3,570 | 7,552 |
| Currency risk | | | | |
| 10% increase in US Dollar exchange rate | (8,864) | - | (9,290) | - |
| 10% decrease in US Dollar exchange rate | 10,833 | - | 11,067 | - |
| Equity price | | | | |
| 10% increase in equity prices | 1,857 | 310 | 4,659 | 574 |
| 10% decrease in equity prices | (1,857) | (310) | (4,659) | (574) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

8. ACCRUED INCOME

| | 2020 | (US\$ '000) 2019 |
|--|--------------|---------------------|
| Accrued insurance premiums | | |
| Expected to be received: | | |
| - Within 12 months | 5,754 | 50,963 |
| - After 12 months | 1,012 | 17,853 |
| | 6,766 | 68,816 |
| Accrued interest | | |
| - Expected to be received within 12 months | 2,020 | 2,542 |
| | 8,786 | 71,358 |

9. INSURANCE RECEIVABLES

| | 2020 | (US\$ '000) 2019 |
|--------------------|---------------|---------------------|
| Balances due: | | |
| - Within 12 months | 72,638 | 117,749 |
| - After 12 months | 94 | 123 |
| | 72,732 | 117,872 |

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

| | 2020 | (US\$ '000) 2019 |
|-------------------------------------|---------------|---------------------|
| At 1 January | 16,578 | 15,015 |
| Additional provision for impairment | 92 | 1,576 |
| Impaired receivables written-off | - | (13) |
| 31 December | 16,670 | 16,578 |

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

| | 2020 | (US\$ '000) 2019 |
|----------------|--------------|---------------------|
| Over two years | 3,340 | 3,340 |
| | 3,340 | 3,340 |

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

| | 2020 | (US\$ '000) 2019 |
|----------------|--------------|---------------------|
| Upto 6 months | 654 | 2,174 |
| 6 to 12 months | 1,435 | 7,741 |
| | 2,089 | 9,915 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

10. INSURANCE DEPOSITS

| | 2020 | (US\$ '000) 2019 |
|--------------------|---------------|---------------------|
| Balances due: | | |
| - Within 12 months | 12,408 | 14,616 |
| - After 12 months | 8,509 | 7,889 |
| | 20,917 | 22,505 |

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

| | 2020 | (US\$ '000) 2019 |
|---------------------------------------|--------------|---------------------|
| At 1 January | 1,978 | 2,735 |
| (Write back) provision for impairment | (2) | (663) |
| Impaired deposits written - back | - | (94) |
| 31 December | 1,976 | 1,978 |

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

| | 2020 | (US\$ '000) 2019 |
|-----------------|------------|---------------------|
| Under ten years | - | - |
| Over ten years | 168 | 168 |
| | 168 | 168 |

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

| | 2020 | (US\$ '000) 2019 |
|--------------|---------------|---------------------|
| Upto 1 year | 1,196 | 4,169 |
| 1 to 3 years | 14,104 | 14,113 |
| 3 to 5 years | 207 | 1,479 |
| | 15,507 | 19,761 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

11. REINSURERS' SHARE OF TECHNICAL PROVISIONS

| | 2020 | (US\$ '000) 2019 |
|---|---------------|---------------------|
| General insurance business | | |
| - Claims outstanding | 35,858 | 52,974 |
| - Unreported claims | 33,020 | 40,680 |
| - Deferred retrocession premium reserve | 5,467 | 36,987 |
| | 74,345 | 130,641 |
| Life insurance business | | |
| - Claims outstanding | 16 | 13 |
| - Unreported claims | 7 | 21 |
| | 23 | 34 |
| | 74,368 | 130,675 |

12. OTHER ASSETS

| | 2020 | (US\$ '000) 2019 |
|--------------------------------|---------------|---------------------|
| Intangible assets: | | |
| - Computer software | 10,165 | 10,165 |
| | 10,165 | 10,165 |
| Less: Accumulated amortization | (9,627) | (9,601) |
| | 538 | 564 |
| Other assets | | |
| - Collateralised cash deposits | 25,401 | 17,556 |
| - Other receivables | 10,947 | 11,605 |
| - Prepayments | 463 | 604 |
| | 36,811 | 29,765 |
| | 37,349 | 30,329 |

| | 2020 | (US\$ '000) 2019 |
|--------------------------------|------------|---------------------|
| Movement in intangible assets: | | |
| Net book value at 1 January | 564 | 513 |
| - Additions | - | 82 |
| - Amortization charge | (26) | (31) |
| - Disposals | - | - |
| Net book value at 31 December | 538 | 564 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

13. INVESTMENT PROPERTY

| | 2020 | (US\$ '000) 2019 |
|---|--------------|---------------------|
| Carrying value at 1 January | - | - |
| Transferred from property and equipment | 5,150 | - |
| Impairment | (378) | - |
| Depreciation | (150) | - |
| Carrying value at year-end | 4,622 | - |

During the year, the Group's subsidiary Takaful Re Ltd, Dubai (TRL) based on new leasing regulations issued during the year by Dubai International Financial Centre (DIFC) determined that the sub-let portion of TRL's office premises could be given on long-term lease that can qualify to be a finance lease. Prior to that determination, the entire office premises of TRL were classified as property and equipment. Pursuant to that determination, TRL has reclassified the portions of office premises sub-let by them to investment property in accordance with the requirement of IAS 40: Investment Property. Accordingly, the fair value of the sub-let property classified as investment property by TRL has been transferred from property and equipment to investment property on 1 January 2020.

Investment property is carried at cost less accumulated depreciation and impairment. The fair value of investment property was assessed by an independent RICS registered valuer as at December 2020. The carrying value of investment property approximates its fair value as at 31 December 2020 and fair value measurement has been categorised as Level 3.

14. PROPERTY AND EQUIPMENT

| | 2020 | (US\$ '000) 2019 |
|---|---------------|---------------------|
| Land | 2,080 | 2,080 |
| Building | 11,565 | 18,718 |
| Furniture and fixtures | 6,921 | 6,932 |
| Hardware | 2,412 | 2,400 |
| Office equipments | 981 | 982 |
| Others | 397 | 495 |
| | 24,356 | 31,607 |
| Less: Accumulated depreciation and impairment | | |
| Building | (2,106) | (2,613) |
| Furniture and fixtures | (6,904) | (6,911) |
| Hardware | (2,397) | (2,381) |
| Office equipments | (608) | (583) |
| Others | (335) | (407) |
| | (12,350) | (12,895) |
| | 12,006 | 18,712 |
| Movements in property and equipment: | | |
| Net book value at 1 January | 18,712 | 19,245 |
| - Reclassified to investment property | (5,150) | - |
| - Revaluation of Property | (1,169) | - |
| - Additions | 140 | 167 |
| - Disposals | (59) | - |
| - Depreciation charge | (468) | (700) |
| Net book value at 31 December | 12,006 | 18,712 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

14. PROPERTY AND EQUIPMENT (Continued)

Land and Building comprises the head office property owned and occupied by the Company since 1984. Building also includes portion of office premises of TRL which is used for administration purpose.

The head office property was revalued at year end by independent external valuer and classified as level 2 in the fair value measurement hierarchy as it has been valued using indicative transaction prices for similar properties and adjusted to reflect the characteristics of the property. Based on open market valuation, the fair value of land determined at US\$ 2,080,000 similar to the carrying amount. The carrying amount of the land would have been US\$ 1,972,000 had the asset been carried under the cost model. The fair value of the building has been determined at US\$ 4,925,000 as against a carrying value of US\$ 4,279,000. The increase in fair value of US\$ 646,000 has been adjusted to property revaluation reserve.

TRL building was revalued as at December 2019 by an independent RICS valuer after the Group's year-end financial statements were approved. The diminution in value of the property by US\$ 1.4 million was accounted during the current year and charged to profit or loss. Subsequently, sub-let portion of the office premises with a net value of US\$ 5.15 million was transferred to investment property as detailed in Note 13. TRL Building has also been revalued as at December 2020 by an independent RICS valuer and accordingly a further impairment of US\$ 401,000 has been charged to profit or loss.

15. TECHNICAL PROVISIONS

| | 2020 | 2019 |
|-----------------------------------|----------------|----------------|
| | | (US\$ '000) |
| General insurance business | | |
| - Claims outstanding | 200,511 | 256,067 |
| - Unreported losses | 146,760 | 195,560 |
| - Unearned premiums | 27,112 | 140,334 |
| | 374,383 | 591,961 |
| Life insurance business | | |
| - Claims outstanding | 12,404 | 15,389 |
| - Unreported losses | 21,766 | 24,280 |
| - Unearned premiums | 316 | 2,139 |
| | 34,486 | 41,808 |
| | 408,869 | 633,769 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

16. 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 | | | | | | |
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
| Gross | | | | | | | |
| Estimate of incurred claims costs: | | | | | | | |
| - At end of underwriting year | 101,570 | 74,463 | 127,688 | 98,051 | 55,541 | 63,649 | |
| - One year later | 175,247 | 136,341 | 233,862 | 198,985 | 154,881 | - | |
| - Two years later | 173,063 | 185,919 | 250,680 | 224,557 | - | - | |
| - Three years later | 169,839 | 175,042 | 192,455 | - | - | - | |
| - Four years later | 165,838 | 129,569 | - | - | - | - | |
| - Five years later | 166,066 | - | - | - | - | - | |
| Current estimate of incurred claims | 166,066 | 129,569 | 192,455 | 224,557 | 154,881 | 63,649 | 931,177 |
| Cumulative payments to date | (148,910) | (111,851) | (163,330) | (181,986) | (96,366) | (15,902) | (718,345) |
| Liability recognised | 17,156 | 17,718 | 29,125 | 42,571 | 58,515 | 47,747 | 212,832 |
| Liability in respect of prior years | | | | | | | 168,609 |
| Total liability included in the statement of financial position | | | | | | | 381,441 |
| Net | | | | | | | |
| Estimate of incurred claims costs: | | | | | | | |
| - At end of underwriting year | 98,169 | 66,195 | 106,954 | 84,203 | 48,217 | 44,524 | |
| - One year later | 165,317 | 124,902 | 183,530 | 151,704 | 109,933 | - | |
| - Two years later | 164,880 | 161,481 | 191,546 | 174,114 | - | - | |
| - Three years later | 161,298 | 156,331 | 172,558 | - | - | - | |
| - Four years later | 159,082 | 120,485 | - | - | - | - | |
| - Five years later | 158,218 | - | - | - | - | - | |
| Current estimate of incurred claims | 158,218 | 120,485 | 172,558 | 174,114 | 109,933 | 44,524 | 779,832 |
| Cumulative payments to date | (141,549) | (104,156) | (145,322) | (136,291) | (67,355) | (14,649) | (609,322) |
| Liability recognised | 16,669 | 16,329 | 27,236 | 37,823 | 42,578 | 29,875 | 170,510 |
| Liability in respect of prior years | | | | | | | 142,030 |
| Total liability included in the statement of financial position | | | | | | | 312,540 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

17. MOVEMENTS IN INSURANCE LIABILITIES AND ASSETS

| | (US\$ '000) | | |
|---|----------------|---------------|----------------|
| | Gross | Reinsurance | Net |
| 2020 | | | |
| Claims | | | |
| Claims outstanding | 271,456 | 52,987 | 218,469 |
| Unreported losses | 219,840 | 40,701 | 179,139 |
| Total at beginning of year | 491,296 | 93,688 | 397,608 |
| Change in provision during the year | 49,847 | 16,159 | 33,688 |
| Claims settled during the year | (159,702) | (40,946) | (118,756) |
| Balance at end of year | 381,441 | 68,901 | 312,540 |
| Unearned premium | | | |
| At beginning of year | 142,473 | 36,987 | 105,486 |
| Change in provision during the year | (115,045) | (31,520) | (83,525) |
| Balance at end of year | 27,428 | 5,467 | 21,961 |
| Accrued insurance premium | | | |
| At beginning of year | 87,879 | 19,063 | 68,816 |
| Movement during the year | (79,339) | (17,289) | (62,050) |
| Balance at end of year | 8,540 | 1,774 | 6,766 |
| Deferred policy acquisitions costs | | | |
| At beginning of year | 18,414 | 499 | 17,915 |
| Movement during the year | (13,618) | (452) | (13,166) |
| Balance at end of year | 4,796 | 47 | 4,749 |
| 2019 | | | |
| 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 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

18. INSURANCE PAYABLES

| | 2020 | (US\$ '000) 2019 |
|----------------------|---------------|---------------------|
| Due within 12 months | 80,664 | 90,726 |
| | 80,664 | 90,726 |

19. BORROWINGS

| | 2020 | (US\$ '000) 2019 |
|--------------------|------|---------------------|
| Balances due: | | |
| - Within 12 months | - | 7,000 |
| | - | 7,000 |

Borrowings has been fully repaid in August 2020.

20. OTHER LIABILITIES

| | 2020 | (US\$ '000) 2019 |
|---|---------------|---------------------|
| Provision for probable loss estimates in a subsidiary (note 35 (iii)) | 13,462 | 21,462 |
| Non-reinsurance payables | 10,029 | 16,018 |
| Post-employment benefits (note 29) | 6,652 | 7,210 |
| Accrued expenses | 5,872 | 5,894 |
| Dividends payable | 321 | 2,739 |
| Reinsurance premiums accrued | 1,189 | 1,986 |
| Employee long-term incentives | - | 681 |
| Other | 1,147 | 2,031 |
| | 38,672 | 58,021 |
| Balances due: | | |
| - Within 12 months | 32,020 | 50,130 |
| - After 12 months | 6,652 | 7,891 |
| | 38,672 | 58,021 |

Dividends payable excludes US\$ 2.4 million transferred to Bahrain Clear in compliance with the terms of Bahrain Bourse (BHB) Board resolution 3 of 2020 dated 27 April 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

21. SHAREHOLDERS' EQUITY

i) Share capital

a) Composition

| | (US\$ '000) | |
|--|-------------|---------|
| | 2020 | 2019 |
| Authorised | | |
| 500 million ordinary shares of US\$ 1 each | 500,000 | 500,000 |
| Issued, Subscribed and Fully Paid-up | | |
| 220 million (2019: 220 million) ordinary shares of US\$ 1 each | 220,000 | 220,000 |

During 2020 the Company's shares were listed on Bahrain Bourse and Dubai Financial Market (DFM). Following the approval of CBB, the Company is in the process of delisting from DFM.

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 | |
|--|-------------|--------------------------------|------|----------------------------------|------|-----------------------------|------|
| | | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| 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 | 21.7 | 10.9 | 10.9 | 9.9 | 9.9 |
| 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 | |
|---------------|--------------------------------|-------|---------------------|-------|----------------------------------|-------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Less than 1% | 40.8 | 42.4 | 4,384 | 4,415 | 20.6% | 21.4% |
| 1% to 5% | 14.7 | 13.1 | 4 | 4 | 7.4% | 6.6% |
| 5% to 10% | 11.0 | 11.0 | 2 | 1 | 5.6% | 5.6% |
| 10% and above | 131.5 | 131.5 | 5 | 5 | 66.4% | 66.4% |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

21. SHAREHOLDERS' EQUITY (Continued)

ii) Treasury stock

The Company held 21,967,818 of its own shares at 31 December 2020 (2019: 21,967,818 shares) which are carried at cost of US\$ 14,793,000 (2019: 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.

22. NON-CONTROLLING INTERESTS

| | (US\$ '000) | |
|---|-------------|----------|
| | 2020 | 2019 |
| At 1 January | 17,952 | 28,504 |
| Share of comprehensive income | (824) | 948 |
| Sale of subsidiary – minority interests | (62) | - |
| Subsidiary's capital reduction - minority interests | - | (11,500) |
| At 31 December | 17,066 | 17,952 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

23. SEGMENT INFORMATION

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. All operating segments' operating results are reviewed regularly by the management to make decisions about resources to be allocated to the segment and assess its performance for which discrete financial information is available.

i) Analysis of revenue by primary business segment

(US\$ '000)

| 2020 | Non-life | | | | | | Life | | Total |
|---|----------------|----------------|----------------|--------------|-----------------|----------------|--------------|----------------|-----------------|
| | Property | Engineering | Marine | Accident | Whole account | Others | Short term | Long term | |
| REVENUES | | | | | | | | | |
| Gross premiums written* | (2,948) | 758 | (278) | (457) | (10,437) | (3,126) | (1,098) | 291 | (17,295) |
| Outward reinsurance premiums | (1,537) | (187) | 62 | 100 | 4,779 | (82) | (83) | (25) | 3,027 |
| Change in unearned premiums - gross | 3,164 | 7,069 | 2,226 | 1,056 | 85,337 | 12,479 | 1,869 | (47) | 113,153 |
| Change in unearned premiums - reinsurance | (123) | (992) | (122) | (11) | (29,183) | - | - | - | (30,431) |
| Net earned premiums | (1,444) | 6,648 | 1,888 | 688 | 50,496 | 9,271 | 688 | 219 | 68,454 |
| Investment income attributable to insurance funds | 918 | 32 | 99 | 155 | 297 | 635 | 491 | 197 | 2,824 |
| | (526) | 6,680 | 1,987 | 843 | 50,793 | 9,906 | 1,179 | 416 | 71,278 |
| COSTS AND EXPENSES | | | | | | | | | |
| Gross claims paid | (19,633) | (10,486) | (6,994) | (1,383) | (93,360) | (19,815) | (7,656) | (375) | (159,702) |
| Claims recovered from reinsurers | 1,487 | 798 | 834 | 112 | 37,640 | 73 | - | 2 | 40,946 |
| Change in provision for outstanding claims - gross | 26,713 | 5,520 | 5,118 | 897 | 16,321 | 6,866 | 2,898 | 87 | 64,420 |
| Change in provision for outstanding claims - reinsurance | (10,919) | (280) | (1,959) | 15 | (9,523) | (162) | - | 3 | (22,825) |
| Change in provision for unreported losses - gross | 14,932 | 3,839 | 2,150 | 2,978 | 18,182 | 12,178 | 5,872 | (3,361) | 56,770 |
| Change in provision for unreported losses - reinsurance | (721) | (488) | (227) | (193) | (9,035) | (543) | (11) | - | (11,218) |
| Claims and related expenses | 11,859 | (1,097) | (1,078) | 2,426 | (39,775) | (1,403) | 1,103 | (3,644) | (31,609) |
| Policy acquisition costs | 1,223 | 290 | 216 | 200 | (15,658) | 1,161 | 209 | 30 | (12,329) |
| Policy acquisition costs recovered from reinsurers | (209) | (159) | (9) | (38) | 12 | 11 | - | - | (392) |
| Change in deferred policy acquisition costs - gross | (1,054) | (2,350) | (702) | (319) | (192) | (2,264) | (75) | (1) | (6,957) |
| Change in deferred policy acquisition costs - reinsurance | 40 | 359 | 48 | 4 | - | 2 | - | - | 453 |
| Policy acquisition costs | - | (1,860) | (447) | (153) | (15,838) | (1,090) | 134 | 29 | (19,225) |
| Operating expenses | (2,535) | (1,288) | (788) | (526) | (78) | (1,219) | (1,063) | (188) | (7,685) |
| Underwriting result | 8,798 | 2,435 | (326) | 2,590 | (4,898) | 6,194 | 1,353 | (3,387) | 12,759 |

*Gross premiums written are negative due to reversal of excess pipeline estimates of prior years and cessation of new business underwriting by the Company effective 13 August 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

23. SEGMENT INFORMATION (Continued)

i) Analysis of revenue by primary business segment

| 2019 | Non-life | | | | | | Life | | Total |
|---|-----------------|-----------------|----------------|----------------|-----------------|-----------------|-----------------|--------------|------------------|
| | Property | Engineering | Marine | Accident | Whole account* | Others | Short term | Long term | |
| | (US\$ '000) | | | | | | | | |
| 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 resulting from underwriting business in Lloyds, where the Company resolved to cease new business underwriting effective from 1 January 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

23. SEGMENT INFORMATION (Continued)

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

(US\$ '000)

| | 2020 | | 2019 | |
|---------------|-----------------|--------------------|----------------|--------------------|
| | Premium | Non-current assets | Premium | Non-current assets |
| from: | | | | |
| - Middle East | (6,538) | 22,815 | 34,793 | 30,576 |
| - Africa | - | 2,533 | 15,155 | 4,964 |
| - Asia | - | 1,798 | 10,756 | 3,523 |
| - Others | (10,757) | 19,220 | 133,910 | 28,600 |
| | (17,295) | 46,366 | 194,614 | 67,663 |

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

iii) Analysis of segment assets and liabilities

(US\$ '000)

| 2020 | Non-life | | | | | | Life | | Corporate | Total |
|-------------------------|----------------|---------------|---------------|---------------|----------------|---------------|---------------|---------------|---------------|----------------|
| | Property | Engineering | Marine | Accident | Whole | Others | Short term | Long term | | |
| Reinsurance assets | 12,562 | 13,386 | 11,919 | 3,136 | 160,916 | 11,565 | 991 | 788 | - | 215,263 |
| Cash | 9,944 | 7,586 | 4,391 | 2,984 | 4,943 | 10,828 | 4,206 | 3,057 | 52,561 | 100,500 |
| Investments | 52,669 | 41,590 | 23,587 | 14,373 | 51,189 | 61,250 | 23,902 | 17,472 | 168,571 | 454,603 |
| Others | - | - | - | - | - | - | - | - | 20,266 | 20,266 |
| | 75,175 | 62,562 | 39,897 | 20,493 | 217,048 | 83,643 | 29,099 | 21,317 | 241,398 | 790,632 |
| Reinsurance liabilities | 59,511 | 49,657 | 32,756 | 16,763 | 239,637 | 63,940 | 21,372 | 15,632 | - | 499,268 |
| Others | - | - | - | - | - | - | - | - | 28,937 | 28,937 |
| | 59,511 | 49,657 | 32,756 | 16,763 | 239,637 | 63,940 | 21,372 | 15,632 | 28,937 | 528,205 |
| 2019 | | | | | | | | | | |
| 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 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

24. INVESTMENT INCOME

| | (US\$ '000) | | |
|---|--------------------|------------------------|---------------|
| | Insurance funds | Shareholders' funds | Total |
| 2020 | | | |
| Interest income | | | |
| - Investments designated at fair value through profit or loss | 722 | 447 | 1,169 |
| - Others | 5,966 | 4,057 | 10,023 |
| Dividends | 35 | 21 | 56 |
| Realised gains on available for sale | 2,020 | 1,442 | 3,462 |
| (Loss) gain on fair value measurement of investments at fair value through profit or loss | | | |
| - Held for trading investments | (4,712) | (2,915) | (7,627) |
| - Investments designated at fair value through profit or loss | 1,164 | 714 | 1,878 |
| Impairment loss-available for sale | | | |
| - Other | (983) | (698) | (1,681) |
| Income from associates | - | 8 | 8 |
| Other | (1,388) | (952) | (2,340) |
| | 2,824 | 2,124 | 4,948 |
| 2019 | | | |
| 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 gains on available for sale | 2,143 | 1,278 | 3,421 |
| Gain on fair value measurement of investments at fair value through profit or loss | | | |
| - Held for trading investments | 7,526 | 3,337 | 10,863 |
| - Investments designated at fair value through profit or loss | 1,366 | 563 | 1,929 |
| 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 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

25. OPERATING EXPENSES

| | (US\$ '000) | | |
|----------------------------|---------------|------------------|---------------|
| 2020 | Underwriting | Non-Underwriting | Total |
| Salaries and benefits | 5,707 | 2,512 | 8,219 |
| General and administration | 1,978 | 3,085 | 5,063 |
| | 7,685 | 5,597 | 13,282 |
| | | | |
| 2019 | | | |
| Salaries and benefits | 6,494 | 3,173 | 9,667 |
| General and administration | 4,576 | 2,231 | 6,807 |
| | 11,070 | 5,404 | 16,474 |

26. OTHER INCOME

| | (US\$ '000) | |
|--------------------------------------|--------------|--------------|
| | 2020 | 2019 |
| Foreign exchange gain | 1,474 | - |
| Government support scheme (COVID-19) | 441 | - |
| Third party administration services | 844 | 699 |
| Reversal of provisions | 2,998 | - |
| Other | 526 | 619 |
| | 6,283 | 1,318 |

27. OTHER EXPENSES AND PROVISIONS

| | (US\$ '000) | |
|---|--------------|--------------|
| | 2020 | 2019 |
| Foreign exchange loss | - | 883 |
| Investment property impairment and depreciation | 528 | - |
| Provision for doubtful receivables and deposits | 90 | 1,057 |
| Run-off expenses | 851 | - |
| Other, net | 1,321 | 6,444 |
| | 2,790 | 8,384 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

28. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

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

| | | 2020 | 2019 |
|---|----------|---------|---------|
| Weighted average number of shares outstanding | '000 | 198,032 | 198,032 |
| Net profit | US\$'000 | 13,558 | 17,526 |
| Earnings per share | US cents | 6.8 | 8.9 |

29. 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:

| | 2020 | 2019 |
|---------------------------|------|------|
| Discount rate | 3.5% | 4.0% |
| Expected return on assets | 3.5% | 4.0% |
| 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:

| | 2020 | 2019 |
|-------------------------------|--------------|--------------|
| Balance at 1 January | 7,210 | 12,606 |
| Accruals for the year | 754 | 902 |
| Payments during the year | (1,312) | (6,298) |
| Balance at 31 December | 6,652 | 7,210 |

(US\$ '000)

30. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

30. FORWARD FOREIGN EXCHANGE CONTRACTS (Continued)

i) Forward foreign exchange contracts – by currency

(US\$ '000)

| | 2020 | | 2019 | |
|----------------|---------------------------|-----------------------|---------------------------|-----------------------|
| | Notional amount purchases | Notional amount sales | Notional amount purchases | Notional amount sales |
| Euro | - | 14,460 | - | 12,803 |
| Pound Sterling | - | 2,793 | - | 3,276 |
| Japanese Yen | - | - | - | 1,022 |
| Others | - | - | - | 2,047 |
| | - | 17,253 | - | 19,148 |

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)

| | 2020 | | 2019 | |
|-------------------|-----------|--------------|-----------|--------------|
| | Purchases | Sales | Purchases | Sales |
| Unrealised gains | - | - | - | - |
| Unrealised losses | - | (604) | - | (301) |
| | - | (604) | - | (301) |

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

(US\$ '000)

| | 2020 | 2019 |
|--|-----------------|----------------|
| Profit for the year | 12,667 | 18,428 |
| Change in insurance funds | (153,839) | (58,230) |
| Change in insurance receivable/payable, net | 35,078 | 30,922 |
| Change in accrued income | 62,572 | 15,227 |
| Change in other assets/liabilities, net | 5,012 | (12,926) |
| Net cash used in operating activities | (38,510) | (6,579) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

| | Borrowings | Borrowings cost | Dividends | (US\$ '000) Non-controlling interest |
|---|--------------|--------------------|--------------|--|
| 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 |
| Share of comprehensive income | - | - | - | (824) |
| Sale of subsidiary – minority interests | - | - | - | (62) |
| Repayment of borrowings | (7,000) | - | - | - |
| Interest paid during the year | - | (187) | - | - |
| Interest expense for the year | - | 112 | - | - |
| Dividends paid during the year | - | - | (2,418) | - |
| Balances at 31 December 2020 | - | - | 321 | 17,066 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

33. FAIR VALUE DISCLOSURE

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

(US\$ '000)

| | Book value | | | | | Total | Fair value |
|------------------------|--------------------------------------|-----------------------|------------------|--------------------|----------------|---------|------------|
| | At fair value through profit or loss | Loans and receivables | Held to maturity | Available for sale | Amortised cost | | |
| 2020 | | | | | | | |
| ASSETS | | | | | | | |
| Cash and bank balances | - | 100,500 | - | - | - | 100,500 | 100,500 |
| Investments | 136,773 | 265 | 7,921 | 309,153 | - | 454,112 | 454,652 |
| Accrued income | - | 8,786 | - | - | - | 8,786 | 8,786 |
| Insurance receivables | - | 72,732 | - | - | - | 72,732 | 72,732 |
| Insurance deposits | - | 20,917 | - | - | - | 20,917 | 20,917 |
| Other assets | - | 36,348 | - | - | - | 36,348 | 36,348 |
| LIABILITIES | | | | | | | |
| Insurance payables | - | - | - | - | 80,664 | 80,664 | 80,664 |
| Borrowings | - | - | - | - | - | - | - |
| Other liabilities | - | - | - | - | 19,338 | 19,338 | 19,338 |
| 2019 | | | | | | | |
| 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 |

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

33. 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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FOR THE YEAR ENDED 31 DECEMBER 2020

33. FAIR VALUE DISCLOSURE (Continued)

(US\$ '000)

| 2020 | Level 1 | Level 2 | Level 3 | Total |
|--|----------------|----------------|---------------|----------------|
| At fair value through profit or loss | | | | |
| Held for trading | | | | |
| Common stock of listed companies | 18,567 | - | - | 18,567 |
| Designated at fair value on initial recognition | | | | |
| Debt securities | 69,298 | 48,908 | - | 118,206 |
| Available for sale | | | | |
| Debt securities | 108,997 | 177,468 | - | 286,465 |
| Common stock of listed companies | 3,103 | - | - | 3,103 |
| Common stock of unlisted companies | - | - | 3,349 | 3,349 |
| Other | - | - | 16,236 | 16,236 |
| Forward foreign exchange contracts | - | (604) | - | (604) |
| | 199,965 | 225,772 | 19,585 | 445,322 |

(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 |

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FOR THE YEAR ENDED 31 DECEMBER 2020

33. 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 2020 | 4,653 | 17,868 | 22,521 |
| Gain recognised in: | | | |
| - Other comprehensive income | (1,241) | (340) | (1,581) |
| Investments made during the year | 27 | 1,010 | 1,037 |
| Investments redeemed during the year | (90) | (2,302) | (2,392) |
| Balance at 31 December 2020 | 3,349 | 16,236 | 19,585 |
| | | | |
| 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 |

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. During the current year, due to changes in market conditions for certain investment securities, quoted prices for these securities were available only from less active markets at or closer to the measurement date. However, there was sufficient information available to measure the fair values of these securities based on observable market inputs. Therefore, these securities, with a carrying amount of US\$ 225.8 million, were transferred from Level 1 to Level 2 of the fair value hierarchy (2019: 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 realised 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

34. TEMPORARY EXEMPTION FROM IFRS 9 DISCLOSURE

2020

a) Fair value and changes in fair value

| | Fair value | (US\$ '000) Changes in fair value during the year |
|--|----------------|--|
| i) Financial assets having cash flows that are solely payment of principal and interest. | 214,702 | 3,855 |
| ii) All other financial assets that are not solely payment of principal and interest. | 378,733 | 203 |
| | 593,435 | 4,058 |

b) Credit risk exposure relating to note 34 (a (i)) above

| | Book value | Fair value |
|--|----------------|----------------|
| Supra-nationals and OECD country governments | 10,044 | 10,044 |
| Other investment grade | 164,726 | 165,007 |
| Other | 39,391 | 39,651 |
| | 214,161 | 214,702 |

2019

a) Fair value and changes in fair value

| | Fair value | (US\$ '000) 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 34 (a (i)) above

| | 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 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

35. PRINCIPAL SUBSIDIARIES AND ASSOCIATES

i) Subsidiaries and Associates

At 31 December 2020, the principal subsidiaries of the Company were:

| | Country of incorporation | Ownership | Non-controlling interests | Principal activities |
|--|--------------------------|-----------|---------------------------|----------------------|
| Arig Capital Limited (under run-off) | 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 2019. The Company holds 49% and 24% of the equity shares in its associate companies Arima Insurance software W.L.L. and Globemed Bahrain W.L.L., Bahrain respectively.

Financial statements of Takaful Re Limited (TRL), Gulf Warranties W.L.L. (GWL) and Arig Capital Limited (ACL) are not prepared on going concern basis as TRL and ACL are under run-off and GWL is under voluntary liquidation. In January 2020, GWL sold its entire holding of 60% in its subsidiary Gulf Warranties Insurance Services, Saudi Arabia.

ii) Interest in Subsidiaries: Takaful Re Limited

| | (US\$ '000) | |
|--|----------------|-----------------|
| | 2020 | 2019 |
| Non-controlling interests | 46% | 46% |
| Total assets | 51,619 | 55,267 |
| Total liabilities | 14,517 | 16,369 |
| Net Assets | 37,102 | 38,898 |
| Revenue | 188 | (32) |
| (Loss) profit for the year | (1,938) | 2,223 |
| Total comprehensive income | (1,796) | 2,323 |
| Comprehensive income attributable to non-controlling interests | (826) | 1,069 |
| Net cash used in operating activities | (1,513) | (3,202) |
| Net cash used in investing activities | (4,272) | (9,271) |
| Net cash used in financing activities | - | (25,000) |
| Net decrease in cash and cash equivalents | (5,785) | (37,473) |

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.

The Group's subsidiary's GWL in 2018, based on management's assessments had provided for probable loss of US\$ 21.5 million. Following settlement of certain liabilities the provision have been reduced to US\$ 13.5 million 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

36. 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) | |
|---|-------------|------|
| | 2020 | 2019 |
| a) Service fees for administration services provided by Arig | - | 38 |
| b) Service fees for administration services provided by associate | 473 | 730 |
| c) Balances outstanding | | |
| - Payables | 57 | 85 |

ii) Compensation to directors and key management personnel

| | (US\$ '000) | |
|---|-------------|------|
| | 2020 | 2019 |
| a) Directors | | |
| - Attendance fees | 145 | 181 |
| - Travel expenses | 23 | 187 |
| b) Key management compensation | | |
| - Salaries and other short-term employee benefits | 592 | 674 |
| - Post-employment benefits | 131 | 74 |
| - Employee long-term incentives | - | 76 |
| c) Balances payable to key management | 517 | 520 |

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 2020 and 2019 for any outstanding amounts due from related parties.

NOTES TO 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.

| | Note | 2020 | (US\$ '000) 2019 |
|---|------|----------------|---------------------|
| ASSETS | | | |
| Cash and bank balances | | 64,859 | 33,746 |
| Investments | | 370,745 | 473,877 |
| Accrued income | | 8,562 | 67,911 |
| Insurance receivables | | 12,935 | 22,770 |
| Insurance deposits | | 20,691 | 22,246 |
| Deferred policy acquisition costs | | 947 | 7,743 |
| Reinsurers' share of technical provisions | | 14,078 | 30,885 |
| Other assets | | 86,122 | 91,894 |
| Investment in subsidiaries and associates | | 20,526 | 21,488 |
| Property and equipment | | 7,098 | 6,674 |
| TOTAL ASSETS | | 606,563 | 779,234 |
| LIABILITIES | | | |
| Technical provisions | | 284,021 | 462,021 |
| Insurance payables | | 31,303 | 31,172 |
| Borrowings | | - | 7,000 |
| Other liabilities | | 45,878 | 50,668 |
| TOTAL LIABILITIES | | 361,202 | 550,861 |
| SHAREHOLDERS' EQUITY | | | |
| | 21 | | |
| Share capital | | 220,000 | 220,000 |
| Treasury stock | | (14,793) | (14,793) |
| Reserves | | 56,090 | 51,575 |
| Accumulated losses | | (15,936) | (28,409) |
| TOTAL SHAREHOLDER'S EQUITY | | 245,361 | 228,373 |
| TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY | | 606,563 | 779,234 |

**THE ATTACHED SUPPLEMENTARY
DISCLOSURE DOES NOT FORM PART OF THE
CONSOLIDATED FINANCIAL STATEMENTS**

SUPPLEMENTARY DISCLOSURE TO THE CONSOLIDATED FINANCIAL STATEMENTS RELATED TO THE FINANCIAL IMPACT OF COVID-19

On 11 March 2020, the Coronavirus (COVID-19) outbreak was declared a pandemic by the World Health Organization (WHO) and has rapidly evolved globally. COVID-19 has also brought about significant uncertainties in the global economic environment. Authorities have taken various measures to contain the spread including implementation of travel restrictions and quarantine measures.

The management has been closely monitoring the impact of the COVID-19 developments on the Group's operations and financial position; including possible loss of revenue, impact on asset valuations, impairment etc. The Group has also put in place contingency measures, which include but are not limited to enhancing and testing of business continuity plans.

In preparing the consolidated financial statement, judgements made by management in applying the Group's accounting policies and sources of estimation are subject to uncertainty regarding the potential impacts of the current economic volatility and these are considered to represent management's best assessment based on available or observable information.

The Government of Kingdom of Bahrain has announced various economic stimulus programmes ("Packages") to support businesses in these challenging times. The Group has received benefits from these Packages in the form of reimbursement of salaries of Bahraini employees and waiver of Electricity and Water charges for the months of April, May and June 2020.

The pandemic as well as the resulting measures have had an impact on the Group, particularly:

- Reduction in asset valuations for which the Group has made adequate provision for impairment.
- Investment losses due to market volatility and economic downturn.
- COVID-19 related claims mainly from the Lloyd's portfolio.
- Increase in General expense due to costs related to the necessary precautionary measures and business continuity plan requirements.
- Capital costs related to implementing contingency remote working plans.

The overall direct impact of COVID-19 pandemic on the financial statements as at 31 December 2020 as assessed by the Group is as below:

| | (US\$ '000) 31 December 2020 |
|---|---------------------------------|
| FINANCIAL BENEFITS - GOVERNMENT SUPPORTS SCHEMES | |
| Staff salaries - Bahraini's | 411 |
| Electricity and water | 30 |
| | 441 |
| FINANCIAL COSTS | |
| Claims costs related to COVID-19 | (3,512) |
| Sterilization and disinfection of premises, sanitizers, masks and gloves, depreciation, software license, etc | (79) |
| | (3,591) |
| NET DIRECT FINANCIAL IMPACT | (3,150) |
| CAPITAL EXPENDITURE | |
| Cost of laptops and printers | (43) |
| | (43) |

The above supplementary information is provided to comply with the CBB circular reference OG/259/2020 (Financial impact of COVID-19) dated 14 July 2020.

The disclosure should not be considered as an indication of the results of the entire year or relied upon for any other purposes. Since the situation of COVID-19 is uncertain and is still evolving, the above is as of date of the preparation of this information. Circumstances may change which may result in this information to be out of date. In addition, this information does not represent the full comprehensive assessment of COVID-19 impact on the Group. This information is not subject to a formal review by the external auditors.