ANNUAL REPORT 2020

arig

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BOARD OF DIRECTORS

Saeed Mohammed AlBahhar
Chairman of the Board and member of the Nomination and Remuneration Committee

Mohamed Saif AlHameli
Vice Chairman of the Board

Mohamed Saif AlSuwaidi
Director and member of the Nomination and Remuneration Committee

Ahmed Saeed AlMahri
Director and Chairman of the Audit and Risk Committee and member of the Nomination and Remuneration Committee

Dr. Bader Abdulla AlJaberi
Director and Chairman of the Nomination and Remuneration Committee and member of the Audit and Risk Committee

Wael Ibrahem Abu Khzam
Director and member of the Audit and Risk Committee and Nomination and Remuneration Committee

Saeed Mohammed AlBahhar

Chairman

DEAR SHAREHOLDERS,

The Directors of the Arab Insurance Group (B.S.C.) (Arig or Group) presents the Company's 40th Annual Report along with the audited Consolidated Financial Statements for the year ended 31 December 2020.

As you are aware, at the Extraordinary General Meeting (EGM) on 13 August 2020, the decision to cease writing business was taken and this decision had a significant impact on the strategic direction and future of the Company. The annual report needs to be read in light of this decision of the EGM.

GROUP PERFORMANCE

2020 was a year where the Company's financial performance was severely impacted by the global crisis triggered by the pandemic which resulted in a reduced net profit of US$ 13.6 million attributable to shareholders (2019: Net profit US$ 17.5 million). The profit is mainly due to combination of lower reinsurance loss experience and an emphasis on reducing costs.

The Group reported total investment income of US$ 4.9 million (2019: US$ 26.3 million). The result reflects the direction given by the Board and management's close monitoring of the movements of the equity markets.

The Group continued its efforts to reduce its operating expenses which resulted in reducing the overall operating expenses from US$ 16.5 million in 2019 to US$ 13.3 million in 2020.

ARIG'S REINSURANCE POSITION

The Group's gross written premium decreased to negative US$ 17.3 million (2019: US$ 194.6 million) due to the decision of the Shareholders to cease writing reinsurance business and write-off of pipeline premium. Non-Life business decreased to negative US$ 16.5 million (2019: US$ 187.5 million) and Life business too experienced a reduction of gross written premium to negative US$ 0.8 million (2019: US$ 7.1 million).

The overall technical result[1] of the Group was a profit of US$ 17.6 million (2019: profit of US$ 15.9 million). The consolidated combined ratio[2] as at the end of the reporting period 2020 was 85.5% (2019: 97.2%).

ARIG'S INVESTMENT POSITION

The Group's investment income dipped to US$ 4.9 million (2019: US$ 26.3 million). There was a steep decline in the value of global equities in the first quarter of the year. A strategic decision was taken to exit from most equity positions to protect the policyholders and shareholders' funds following the Board's decision to recommend cessation of reinsurance business. This unwinding resulted in a loss of US$ 7.4 million (2019: Profit of US$ 11.9 million). The fixed-income portfolio was challenged by declining yields and downgrades. We insulated the fixed income portfolio by exiting from all securities downgraded below investment grade. The income generated for the year in the portfolio was US$ 11.3 million (2019: US$ 11.6 million).

Group investment assets stood at US$ 557.1 million in December 2020 (2019: US$ 629.0 million). The investment portfolio of ARIG parent was US$ 437.5 million in December 2020 (2019: US$ 510.0 million).

1 technical result: net earned premiums less claims and acquisition costs.

2 combined ratio: aggregate of expenses and losses over net earned premiums.

DELISTING FROM DUBAI FINANCIAL MARKET (DFM)

Following the approval of Central Bank of Bahrain (CBB), applications were made to DFM, Securities & Commodities Authority (SCA) and Dubai Central Securities Depository (CSD) for the delisting from DFM. The last trading date of Arig shares in Dubai was set on 11 January 2021. Information regarding the closing register is awaited from DFM to complete the transfer to Bahrain Bourse.

REMUNERATION TO BOARD MEMBERS AND MANAGEMENT[3]

In 2020 the following amounts were paid / accrued to the board members and management.

	US$ '000 **2020**
a) Board members	
- Attendance fees	145
- Travel expenses	23
- Bonus	ZERO
b) Key management compensation	
- Salaries and other short-term employee benefits	592
- Post-employment benefits	131
c) Balances payable to key management	517

ACKNOWLEDGEMENTS

The Board takes this opportunity to express its gratitude to His Majesty the King and His Royal Highness the Crown Prince and Prime Minister for their wise leadership of the Kingdom of Bahrain. The Directors further extend their thanks to our business partners, clients, staff and shareholders for their support and cooperation throughout the year.

On behalf of the Board of Directors

Mr. Saeed Mohammed AlBahhar
Chairman
18 February 2021

3 A detailed list is being prepared and will be disclosed shortly.

DETAILS OF REMUNERATION TO BOARD MEMBERS

In 2020 the following amounts were paid / accrued to individual Board members.

(US$ '000)

	2020	
	Attendance fees	Travel expenses
Board members		
- Saeed Mohammed AlBahhar	26	4
- Mohamed Saif AlHameli	9	4
- Mohamed Saif AlSuwaidi	21	4
- Ahmed Saeed AlMahri	30	3
- Dr. Bader Abdulla AlJaberi	30	3
- Wael Ibrahem Abu Khzam	29	5

KEY FIGURES

(US$ million)	**2020**	2019	2018	2017	2016
Gross premiums written	(17.3)	194.6	262.8	225.6	245.4
Net earned premiums	68.5	173.6	214.0	179.9	180.5
Net profit (loss)	13.6	17.5	(55.3)	7.2	9.2
Investment assets	557.1	629.0	613.9	665.1	737.4
Total assets	790.6	1,035.8	1,052.6	1,086.1	1,114.4
Net technical provisions	334.5	503.1	573.9	568.1	589.9
Shareholders' equity	245.4	228.4	196.4	256.9	256.6

PERCENTAGE OF SHAREHOLDING

(on outstanding shares)

UAE Government	34.86%
Libya Government	16.05%
Kuwait Government	10.11%
UAE Private	20.40%
Kuwait Private	7.59%
Bahrain Private	6.21%
Other Private	4.78%

As of 31 December 2020

OPERATING AND FINANCIAL REVIEW

Samuel Verghese

Acting Chief Executive Officer

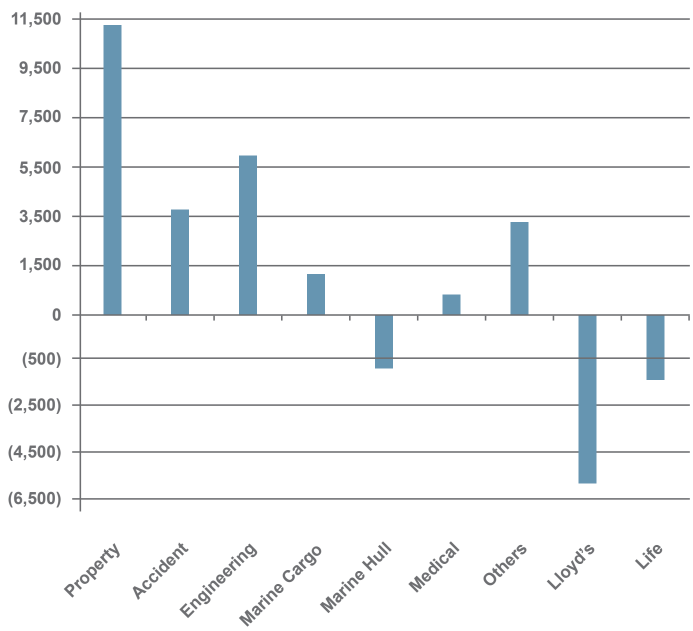
BUSINESS REVIEW

Reinsurance Performance

Arab Insurance Group (B.S.C.) (Arig or the Group) reported negative gross written premiums of US$ 17.3 million for the year 2020 (2019: gross written premium US$ 194.6 million). This was mainly due to the decision of the Shareholders to cease writing new reinsurance business and write-off of pipeline premium. The Lloyd's portfolio accounted for negative premiums of US$ 10.8 million (gross written premium US$ 133.9 million in 2019). The Non-Lloyd's book recorded negative premiums of US$ 6.5 million (gross written premium US$ 60.7 million in 2019).

Overall technical profits for the Group was US$ 17.6 million (2019: US$ 15.9 million). The Non-Lloyd's book generated a technical profit of US$ 23.5 million (2019: US$ 12.8 million) due to lower reported claims and reduction in certain major losses reported in prior years. The Lloyd's portfolio reported a technical loss of US$ 5.9 million (2019: profit of US$ 3.1 million).

Group Technical Result by line (in US$ 000)



INVESTMENTS

The Financial Markets

The year 2020 was a seminal year in the global financial markets. After a robust performance in 2019, markets turned apprehensive about the economic implications of the COVID-19 virus that had spread rapidly from China to other parts of the world. In the first quarter and especially in the month of March, there was a massive sell off in the equity markets. There was a corresponding move to the safety of government bonds. In the US, the S&P 500 Index declined 25% for the quarter, while on a global basis, the Morgan Stanley World Index was down 21.5% in the same period. Yields on the benchmark ten–year US Treasury Notes declined from 1.92% at the beginning of the year to a March end close of 0.67%. The Federal Reserve Bank in the US cut the Federal Funds Target Rate’s upper bound from 1.75% at the beginning of the year to 0.25% in March. A slew of actions with similar objectives was implemented by other Central banks the world over.

All countries went into a variety of lockdowns. This phenomenon would have had a disastrous impact on economic growth. Governments, including GCC governments, addressed this emergency by announcing a series of fiscal measures to preempt financial distress and stabilize economies.

This historic combination of monetary loosening and generous fiscal policies had a salubrious effect on markets and asset prices. There was also significant progress in the year on effective vaccines for the virus. Markets around the world started focusing on a post-vaccine world. They regained their momentum and recovered substantially from their nadir. Prices of corporate bonds that had also declined in the market sell-off recovered. Notably, the S&P 500 Index led by its technology component registered an impressive 16.25% return for the year.

Investment Strategy and Performance

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

We took a strategic decision to exit from most equity positions to protect shareholders’ funds following the Board’s decision to recommend cessation of the reinsurance business. The portfolio is invested predominantly in cash, deposits, and short-term investment-grade bonds at the year-end. The Group’s investment pattern was thus altered in terms of the allocation strategy.

The Group’s investment income dipped to US$ 4.9 million (2019: US$ 26.3 million). This decline was primarily due to the unwinding of the equity portfolio which reported a loss of US$ 7.4 million (2019: Profit of US$ 11.9 million). During the course of the year, the fixed-income portfolio was challenged by downgrades and declining yields. Income booked in fixed income portfolio for the year was US$ 11.3 million (2019: US$ 11.6 million). The overall yield on the Group’s investment portfolio was 0.8% for the year (4.2% in 2019).

Going forward, our actions have substantially minimized the volatility of the portfolio. The portfolio is well-positioned in terms of the decision taken by the Board and the shareholders. The current exposure to cash, near cash, and investment-grade bonds ensures that Arig is well placed for any liquidity requirement.

Outlook

In its update of January 2021, the International Monetary Fund anticipates the global economy to grow by 5.5% in 2021. This growth is on the back of a 3.5% contraction in 2020. There are, however, continuing risks to the world economy, such as a new strain of Coronavirus and the possible ineffectiveness of the vaccines administered. We cannot rule out market volatility.

Arig will continue to manage a well-diversified, low-risk portfolio within the Company’s current priorities and our standing obligation to policyholders and shareholders. Conservative portfolio allocation, preservation and enhancement of shareholders’ value and providing liquidity at short notice are our overarching objectives.

SUBSIDIARIES

Takaful Re Limited (TRL)

The Group's Islamic reinsurance subsidiary TRL, in run-off since April 2016, reported a net loss of US$ 1.9 million (2019: profit US$ 2.2 million) for the year. Group's share in the loss was US$ 1 million (2019: profit US$ 1.2 million).

TRL's investments yielded an average return of 1.2% (2019: 1.6%) with investment earnings of US$ 0.4 million (2019: US$ 0.8 million). The Company's investments assets were almost entirely held in cash and short-term Islamic deposits.

Gulf Warranties (GW)

Gulf Warranties, the Group's subsidiary under liquidation, reported a profit of US$ 2.2 million to the Group's results for the year (2019: loss US$ 7.3 million). The Company stopped writing business in 2018.

Arig Capital Limited (ACL)

ACL, the wholly owned corporate member at Lloyd's of London, ceased writing new business from 1 January 2020. ACL reported negative gross written premiums of US$ 10.8 million for the year on account of pipeline reversals (2019: gross written premiums US$ 133.9 million). ACL retains limited risk for its net account and cedes most of its business to the parent company. ACL recorded a loss of US$ 1.9 million for the year (2019: profit US$ 0.2 million).

CORPORATE GOVERNANCE REPORT

Arab Insurance Group B.S.C. ("Arig") is committed to follow international Best Practices of Corporate Governance. We firmly believe that there is a link between strong ethical standards, good governance and the creation of shareholder value. In our communication with stakeholders and the general business community, we aim to be fully transparent through high standards of disclosure.

Arig was Established on 9 June 1980 as a reinsurance company. As at 31st December 2020, Arig has an authorized capital of US$ 500 million and paid-up capital of US$ 220 million.

Central Bank of Bahrain – Rulebook Volume 3 – High Level Control

The Company follows the Corporate Governance requirements as laid down in Volume 3 of the Central Bank of Bahrain Rulebook. This Corporate Governance Report is also included as a separate item as part of agenda for the Annual General Meeting.

Shareholders

Arig shares are listed on Bahrain Bourse and Dubai Financial Market (DFM) – UAE. However, as approved by the Shareholders during the Annual General Meeting held on 28th March 2019, and the Extraordinary General Meeting held on 13th August 2020, the process of delisting Arig shares from DFM has commenced during the year 2020 after obtaining necessary approvals from the relevant regulators. As announced through Company's website, Bahrain Bourse and DFM, the last trading day of Arig shares in DFM was 11th January 2021.

Arig held two shareholders meeting during the year, Annual General Meeting on 20th April 2020, and the Extraordinary General Meeting (EGM) on 13th August 2020. During the EGM it was resolved to cease writing new reinsurance business. The shareholders meetings were held online based on the exemption offered by the regulators due to COVID-19 situation.

Further shareholders details as set out in the Notes of the Consolidated Financial Statements (Note 21, i(a), i(b) and i(c)). As set out in page 58.

Framework

The Company, through its Board of Directors, maintains a governance framework in all areas of its operations, which includes formalized policies, procedures, guidelines and relevant management reporting requirements. Arig's governance practices are reviewed on a regular basis and amended from time to time.

The Board of Directors

The members of the Board are elected and can be terminated by the shareholders of the Company in accordance with the provisions under the Articles of Association, the Commercial Companies Law of Bahrain and the Central Bank of Bahrain (CBB) regulations. The Board holds the ultimate responsibility for the overall direction, supervision and control of the Company. It regularly assesses the Company's financial and commercial performance and approves its business plan. The Board continuously oversees the corporate governance processes in order to ensure good standards within the Company. The Board further reviews and assesses the adequacy of the management of all risks the Company may be exposed to.

The current Board was elected by the shareholders at the Annual General Meeting in March 2017 for a period of three years and its term ended at the 2020 Annual General Meeting. However, due to COVID-19 condition the Central Bank of Bahrain has extended the term of the current Board until end of September 2021. Formalized Board procedures enhance the professional development of the Board members and include induction training to new directors, continuous learning and self-evaluation. The names of the current directors and biographical details are set out in page 20.

Members of the Board are all non-executive. Three out of six-members are independent non-executive directors. The Board formally reviews and evaluates its own performance together with the performance of the individual directors, as required by the Volume 3 of the CBB Rulebook.

Board Committees

While principal matters are handled by the Board, separate Committees are mandated to assist the Board in carrying out its duties in an efficient manner. The Audit & Risk Committee oversees financial reporting process, Company's system of internal controls, risk management and compliance with laws regulations. The Nomination & Remuneration Committee is tasked to review the nomination and compensation of the Board of Directors and the members of the Company's General Management. All Board Committees meet periodically to achieve their objectives and to also annually assess the Committees' efficiency.

Board Meetings

According to the Articles of Association and local regulations, the Board is required to meet at least four times in a year and 50% of the Board meeting to be held in Bahrain. During the year 2020, Board met one time in person in Bahrain and six times virtually through online (Zoom) meeting. Due to COVID-19 condition, Directors were unable to travel to Bahrain, and hence the requirement to conduct 50% of the Board meeting in Bahrain could not be complied with.

The following table lists the number of meetings held during 2020, including Board Committees and the individual attendance:

Directors	Board Meetings (7)	Audit and Risk Committee (6)	Nomination and Remuneration Committee (7)
Mr. Saeed Mohammed AlBahhar *	7	N	7
Mr. Mohamed Saif AlHameli	6	N	N
Mr. Mohamed Saif AlSuwaidi	7	N	7
Mr. Ahmed Saeed AlMahri *	7	6	7
Dr. Bader Abdulla AlJaberi *	7	6	7
Mr. Wael Ibrahem Abu Khzam	7	5	7

- ** - Independent Non-Executive Director*
- *N- Not a member*

Management

Responsibilities of the Chairman and the Chief Executive Officer (CEO) are separated. The Chairman of the Board is responsible for the leadership of the Board, ensuring its effectiveness in all aspects of its role and setting its agenda, considering the issues relevant to the Company and the concerns of all Board members.

The Acting CEO executes leadership in the day-to-day management of the Company. The General Management team headed by Acting CEO is responsible for the implementation of the Board strategies and the monitoring of its day-to-day operations. The team includes

- Deputy General Manager – Finance and Administration, and
- Assistant General Manager – Reinsurance as its member.

The Assistant General Manager – Reinsurance retired from services on 4th October 2020 due to superannuation.

The names of members of the General Management Team are set out in page 21 together with their biographical details.

Directors' and General Management Compensation

The Directors' remuneration is determined in accordance with the Bahrain Commercial Companies Law and the provision under the Company's Articles of Association and is approved by the shareholders. Directors' compensation includes remuneration, allowances and reimbursement of expenses. The compensation of the General Management is determined by the Board of Directors based on the recommendations of the Nomination & Remuneration Committee, and includes salaries, allowances, reimbursement of expenses, post-employment benefits and performance related incentives. (for further information refer page 74). Details as required under the CBB Rulebook are held at Company's premises for the availability of the shareholders.

Organizational Structure

The Company has in place a detailed organizational structure (shown on page 19) to achieve the Company's objectives, its strategic development and internal controls. However, due to the shareholders' decision to cease reinsurance operations, the Board is evaluating the need to fill up all vacant positions.

Management Committees

In order to assist the CEO in guiding and monitoring the functional departments within the Company, several internal management Committees are operative.

Succession Planning

The Company recognises the value of its human resource and the significance of ensuring qualified and orderly successions. The Nomination & Remuneration Committee oversees reviewing and approval of the succession plan. However, currently some of the key positions remain vacant due to the approval by the Shareholders to cease writing new reinsurance business.

Policy on the Employment of Relatives

As required by the CBB Rulebook, the Company has formulated a policy on the employment of relatives of the approved persons.

Key Persons Dealing in Arig Securities

Arig has an established policy with regard to key persons dealing in Arig securities, which complies with the Bahrain Bourse guidelines and the Rulebook Volume 6 (Capital Markets) issued by the Central Bank of Bahrain. During the year, the Company has complied with relevant reporting and monitoring requirements as stipulated under these regulations.

Following are the details of Arig shares held by members of the Board, including their representatives, and members of the General Management, including their spouses, children or other persons under their control:

Particulars	Directors (including Corporate Directors)	General Management
Shares held at 1-1-2020	89,781,539	-
Add: Shares acquired during the year	-	-
Less: Shares sold during the year	-	-
Shares held at 31-12-2020	89,781,539	-

Investor Relations

Arig makes considerable effort to maintain active investor relations through open, fair and transparent communication. A dedicated shareholder affairs unit is responsible for the timely dissemination of all relevant information to its stakeholders. The Company's website (www.arig.net) provides detailed information on corporate governance, business and financial information and includes a secure portal for shareholders.

The Annual General Meeting of shareholders was held within 90 days of the end of the financial year in accordance with legal and regulatory requirements. Notice to the Annual General Meeting was released well in advance to shareholders, regulators and stock exchanges. Copies of the Annual Report and accounts were made available at least one week prior to the meeting ensuring that shareholders have sufficient time to prepare for the discussion of the Company's performance with the Board of Directors.

As required by the Bahrain Bourse Board resolution No:3 of 2020, issued on 27th April 2020, the unclaimed dividend by the shareholders until 30 June 2020 have been transferred on 31 July 2020 to "Investors Protection Guarantee Fund" maintained by Bahrain Clear. External Auditors have reviewed, reconciled and certified the unclaimed dividend as required by the Bahrain Bourse resolution.

Capital and Shares

Arig's authorised capital is comprised of 500 million ordinary shares with a nominal value of US$ 1 each. The issued, subscribed and paid-up capital is US$ 220 million. Shares are held by 4,395 shareholders mostly throughout the GCC countries. These are tradable by people of any nationality through the stock exchanges where Arig is listed: the Bahrain Bourse and the Dubai Financial Market. Arig shares are being delisted from Dubai Financial Market with the last trading date set as 11 January 2021. Further shareholding information is given on page 58 of this Annual Report.

Compliance

Arig has established a Board approved comprehensive compliance framework covering all rules and regulations applicable to the Company's business operations. The Company has a separate Compliance unit headed by a Compliance Officer who reports to the Audit & Risk Committee of the Board of Directors. This unit ensures that Arig meets all regulatory requirements stipulated by the Central Bank of Bahrain and the Bahrain Ministry of Industry, Commerce and Tourism. It also makes sure that the Company is following all rules and regulations of the stock exchanges where Arig is listed. There were no financial penalties incurred during the year 2020.

Internal Control

The Board is holding the ultimate responsibility to oversee the functioning of all internal controls within the Company. Management is responsible for the design and operation of internal controls through a network of policies, guidelines, procedures, authorisation levels. Performance monitoring is operative in all areas of the Company's operations, including periodical reviews and updates, where appropriate. All significant authority limits for underwriting, claims and other operational areas are reviewed and approved by the Board. In daily operations, the management at various levels safeguards the application of all control mechanisms and ensures that a positive control environment is maintained.

All transactions with related parties are conducted at arm's length. However, during the year there are no transactions with related parties as defined in the CBB Rulebook.

On behalf of the Board, the Audit & Risk Committee periodically oversees the application of the Company's internal control framework and the assessments of these controls from the evaluation reports produced by Arig's internal and external auditors. The Committee then advises the Board of Directors on the status and effectiveness of the Company's control environment and necessary actions that are to be taken by management to strengthen any identified control weaknesses.

Business Strategy

The Board reviewed the past performance for 20 years and arrived at a decision to recommend cessation of underwriting business subject to the approval of the Central Bank of Bahrain and shareholders in the Extraordinary General Meeting. The shareholders have accepted the Board recommendations and resolved to cease writing new reinsurance business.

As approved by the shareholders, Arig is in the process of carrying out the following:

- Carry out an orderly run-off of the existing portfolio internally or by appointing a third party to carry out the run-off including the sale of portfolio;
- While the Company is under portfolio run-off, explore the possibility of finding a buyer to take over the Company.

Shareholders have authorized the Board to take all action as required to preserve and enhance Shareholder value.

Enterprise Risk Management (ERM)

Arig applies an ERM regime that aims at closely monitoring the risks the Company could be exposed to and their potential effects on capital as well as financial and operational performance. Regular reviews are carried out to assess the development and trends in the Company's exposures and, whenever possible and reasonable, introduce measures to mitigate the potential for negative effects.

The Company maintains an ERM framework under the responsibility of the Head of Risk Management (currently vacant) who reports to the Audit & Risk Committee of the Board of Directors. The Risk Register is reviewed and actively managed with the goal to keep the use of capital at risk at efficient performance levels without over-exposing the shareholders' equity interest.

Our key risk categories are underwriting risk, reserve risk, market risk, operational risk, credit risk and liquidity risk. Property reinsurance with its exposure to natural and man-made catastrophes represents the largest class in Arig's book; It is followed by reserve risk, which is a reflection of the Company's long-standing operating history and former activities in discontinued underwriting lines. Market risk, i.e. the risk of changes in the financial markets, ranks third and followed by operational risks. Credit risk takes the least amount of capital funding.

The Company has a number of risk avoidance and mitigation strategies in place to manage its key risk exposures.

- *Risk Appetite Statement* - Arig maintains a defined statement of its risk appetite expressing its maximum tolerance to losses for each of the main risk categories. The Risk Appetite Statement represents a key document in guiding the Company's business conduct which is reviewed periodically and approved by the Board of Directors.

- *Underwriting risk* is contained through a mixture of underwriting guidelines that are system and management controlled, pricing tools and reinsurance covers with highly rated retro markets to cap peak exposures.

- *Reserve risk* is managed through regular internal and external reviews of the reserves to ensure that prudent and adequate reserves are carried.

- *Market risk* exposure is controlled by a basket of investment guidelines and policies that would include maximum allocations to asset classes, trend analyses, and performance monitoring tools, including stop loss disposal orders.

- *Operational risk* represents exposures which jeopardizes the operational capabilities of the Company. These multiple exposures are closely monitored and a continuous effort to mitigate it.

  Arig's adoption of Cloud technologies for 24/7 Disaster Recovery in 2017, using Azure Site Recovery, enabled switching from Data Center based system to on-cloud replicas within minutes and allowed for several recovery points within the previous few days. When the COVID-19 pandemic started, switching to remote work required zero additional work or special preparation. Arig already had in place full remote access with multi-factor authentication, as well as full unified communications on any device, since 2008. All staff could access the systems remotely right way. Arig's adoption to the latest technologies ensured best service possible while optimizing costs for the shareholders.

- *Credit risk* is managed by stringent counter-party checks and Arig's preference is to deal with solid and, for the most part, highly rated market entities. At the same time, receivables are monitored through ageing analysis and outstanding balances are actively pursued.

- Finally, *liquidity risk* represents the actual or perceived loss to the Group arising from a potential inability either to meet claims, investments or operational obligations. Arig's investment, claims management and liquidity risk management policies give due consideration to liquidity risk management and as a matter of prudence Arig maintains liquid assets well above its annually modelled liquidity requirements.

External Auditors

External auditors are appointed by the shareholders through the General Assembly. KPMG Fakhro of Bahrain were re-appointed as external auditors for the Financial Year 2020 based on the decision of the General Assembly, as delegated to the Board. Shareholders can obtain the details of the External Auditor fees upon request.

External Auditors were engaged in addition to the External Audit, the Agreed Upon Procedures (AUP) which are to be carried out only by External Auditors and the XBRL online certification. Shareholders can obtain the details of such service fees paid to the External Auditors for the above non-audit services, upon request.

Security Ratings

AM Best on 28 March 2019 had withdrawn the Credit Ratings (ratings) based on Arig's voluntary withdrawal from the interactive rating process.

The rating at the time of withdrawal was, the Financial Strength Rating (FSR) B++ (Good) and Long Term Issuer Credit Rating (ICR) "bbb" with the outlook for both FSR and ICR "negative".

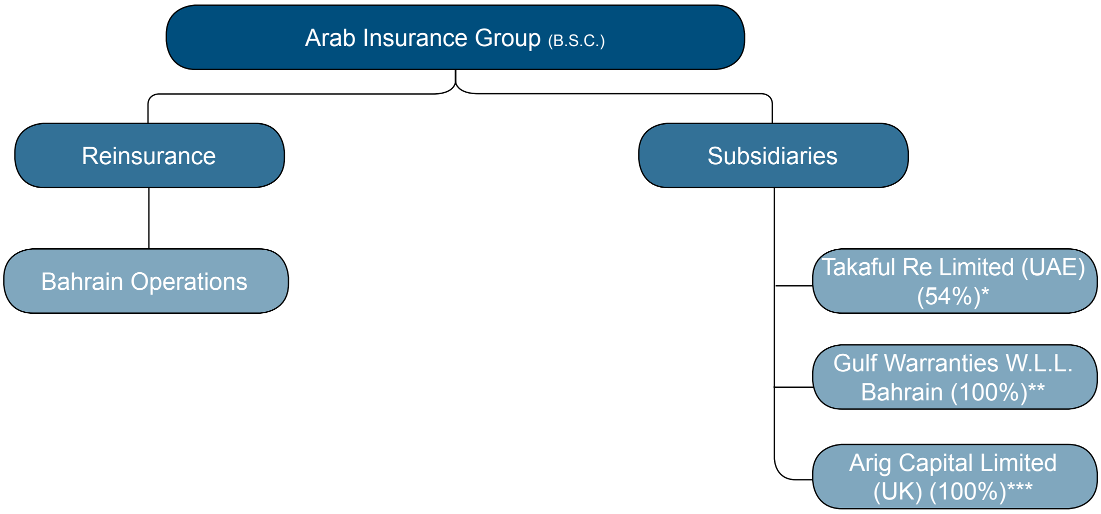
Statutory Solvency

Statutory Solvency requirements are determined by Arig's regulator in Bahrain, the Central Bank of Bahrain. The minimum solvency is defined with reference to a prescribed premium and claims basis. The solvency position of the Company as at 31 December 2020 is given below:

(in US$ '000)

	2020	2019
Capital available	188,983	171,809
Required margin of solvency	25,214	32,472
Total excess capital available over the required margin of solvency	163,769	139,337

ARIG GROUP STRUCTURE

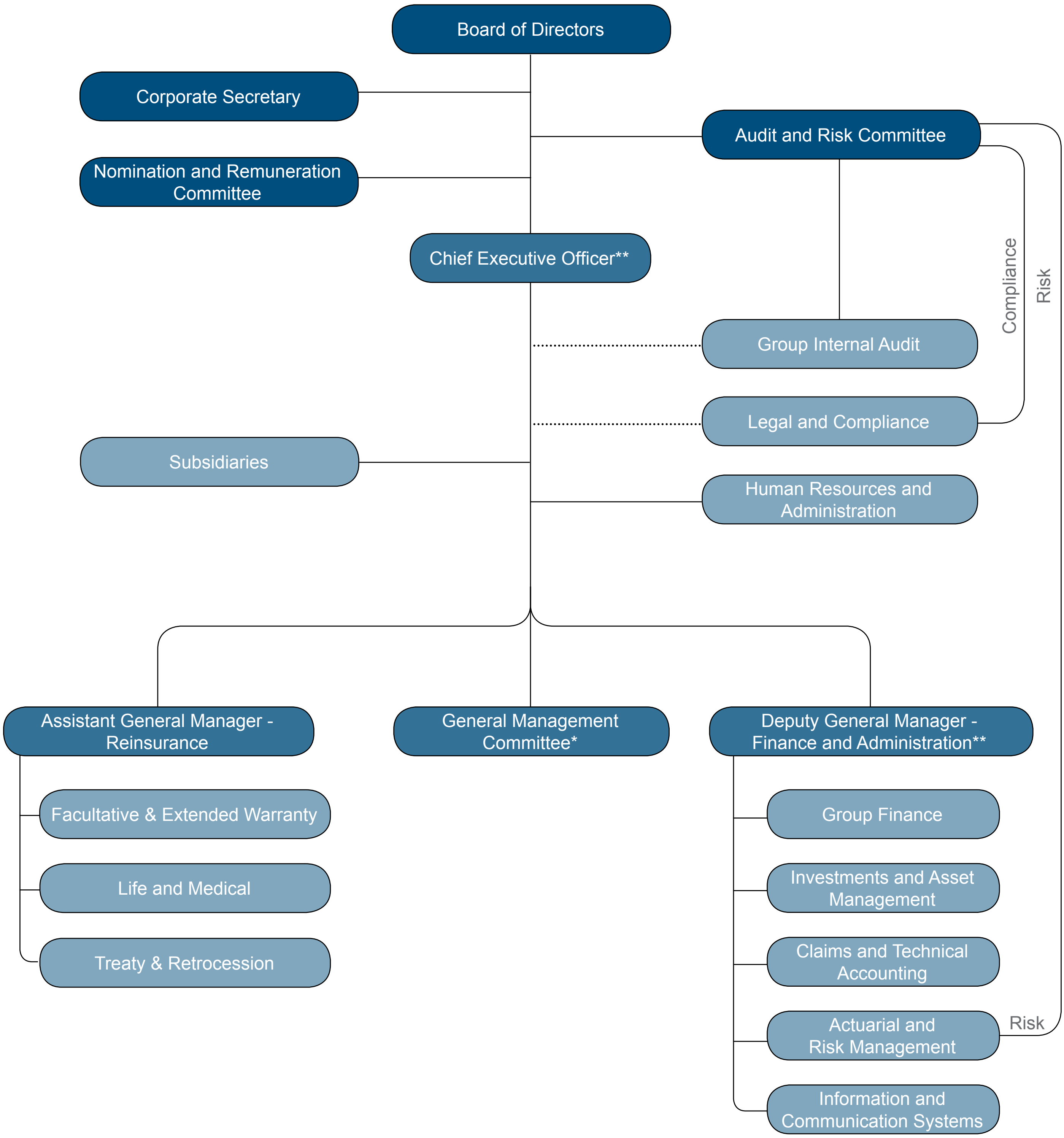


* Takaful Re Limited stopped writing business and is in run-off since April 2016.

** During 2019, Gulf Warranties W.L.L. has been placed under voluntary liquidation.

*** During 2020, Arig Capital Limited (UK) was placed under run-off.

ORGANISATION CHART



* General Management Committee members are CEO, DGM - Finance and Administration and AGM - Reinsurance

** DGM - Finance and Administration is currently the Acting CEO

BOARD MEMBERS

Saeed Mohammed AlBahhar
Chairman of the Board and member of the Nomination and Remuneration Committee

B.Sc. Economics, Jacksonville University, U.S.A.

Saeed Mohammed AlBahhar has been a member of the Board of Directors, since 25 March 2014 and Chairman of the Board since 12 June 2017. He holds the position of Chairman in Takaful Re Limited, and directorship on the Board of Arab Satellite Organisation, K.S.A.

Mohamed Saif AlHameli
(Representing General Pensions and Social Security Authority (GPSSA), U.A.E.)
Vice Chairman of the Board

M.Sc., California State Polytechnic University, U.S.A.

Mohamed Saif AlHameli has been a member of the Board of Directors since 25 March 2014 and Vice Chairman since 12 June 2017. He also serves as Director General of the General Pension and Social Security Authority (GPSSA), U.A.E.

Mohamed Saif AlSuwaidi
(Representing Emirates Investment Authority, U.A.E.)
Director and member of the Nomination and Remuneration Committee

Bachelor of Accounting from U.A.E. University, U.A.E.

Mohamed Saif AlSuwaidi has been a member of the Board of Directors since 25 March 2014. Further to Arig, he is currently holding the position of Executive Director of Asset Management at Emirates Investment Authority. Previously, he also served as Executive Director of the Fixed Income Department at Abu Dhabi Investment Authority “ADIA”. He has been holding directorship on the Board of Emirates Integrated Telecommunication Company, U.A.E. since 2012.

Ahmed Saeed AlMahri
Director and Chairman of the Audit and Risk Committee and member of the Nomination and Remuneration Committee

Bachelor in Accounting and General Administration, United Arab Emirates University

Ahmed Saeed AlMahri has been a member of the Board of Directors since 20 March 2017. He served as Deputy General Manager of Financial Affairs, Abu Dhabi Police.

Dr. Bader Abdulla AlJaberi
Director and Chairman of the Nomination and Remuneration Committee and member of the Audit and Risk Committee

Ph.D. in Philosophy in Management and Planning, University of Wales and B.A. (Education) in Psychology, UAE University

Dr. Bader Abdulla AlJaberi has been a member of the Board of Directors since 20 March 2017. He is currently engaged as an Expert of Strategic Planning & Organizational Excellence in the Ministry of Justice, Abu Dhabi.

In the past, he served as Vice Chairman at Mezyad Medical Center, Vice Chairman at Al Ahlia Co-operative Society and Services, UAE, Director of Al Asala Al Muhafidha L.L.C., Oman.

Wael Ibrahem Abu Khzam
(Representing The Central Bank of Libya)
Director and member of the Audit and Risk Committee and Nomination and Remuneration Committee

B.Sc. in Accounting, Tripoli University and Master in Banking Finance, Libyan Academy

Wael Ibrahem Abu Khzam has been a member of the Board of Directors since 20 March 2017. He is currently employed as a Director of the Risk Management Department at the Central Bank of Libya.

GENERAL MANAGEMENT

Samuel Verghese
Acting CEO and Deputy General Manager, Finance and Administration

Bachelor of Commerce from Osmania University, India and an Associate member of The Institute of Chartered Accountants of India

Samuel Verghese joined Arig in March 1997 in the finance department and assumed the role of Director, Finance in January 2008. He joined General Management Team in January 2017. He currently holds Board memberships at Arima Insurance Software (Bahrain), Arig Capital Limited (UK), GlobeMed (Bahrain) and Senior Executive Officer and Director of Takaful Re Limited (DIFC). Prior to joining the Company, he held various managerial positions in companies in India.

Rachid Mechouet
Assistant General Manager, Reinsurance
(Retired from services on 4th October 2020)

Bachelor in Economics and Masters in Finance and Insurance from the Institute of Development Financing, Tunis

Rachid Mechouet joined Arig in November 2010 in the Claims and Technical Accounting department and assumed the role of Director. He joined General Management Team in January 2017. He has more than 25 years of reinsurance experience having worked with CCR (Algeria), Arig (Tunis) and Med Re (London).

KEY RATIOS

	2020	2019
PERFORMANCE RATIOS		
Premium growth (annual change in gross premiums written)	-108.9%	-25.9%
Retention ratio (gross retained premiums over gross premiums written)	82.5%	73.2%
Combined ratio (aggregate of expenses and losses over net earned premiums)	85.5%	97.2%
Return on investments (proportion of investment income over average investment assets)	0.8%	4.2%
Return on equity (proportion of net profit to average shareholders' equity)	5.7%	8.3%
Growth in shareholders' equity	7.4%	16.3%
LEVERAGE RATIOS		
Underwriting exposure (ratio of gross premiums written to shareholders' equity)	-7.0%	85.2%
Net technical provisions/ Shareholders' equity	136.3%	220.3%
Net technical provisions/ Net premium written	-2344.4%	353.1%
LIQUIDITY RATIOS		
Investment assets/ Net technical provisions	166.6%	125.0%
Liquid assets/ Net technical provisions	160.5%	120.5%
OTHER		
Statutory Solvency ratio (Capital available to required solvency margin)	749.5%	529.1%
Other Solvency ratio (ratio of shareholders' equity to net earned premiums)	358.4%	131.6%
Earnings per share attributable to shareholders (US$)	0.07	0.09
Book value per share (US$)	1.24	1.15
Price to book value per share	31.1%	24.3%

INDEPENDENT AUDITOR'S REPORT

KPMG Fakhro
Audit
12th Floor, Fakhro Tower
PO Box 710, Manama
Kingdom of Bahrain

Telephone +973 17 224 807
Fax +973 17 227 443
Website: home.kpmg/bh
CR No. 6220

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

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

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of Arab Insurance Group B.S.C (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

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

Key audit matters

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

KAM 1 TECHNICAL INSURANCE PROVISIONS

(refer to the use of estimate and management's judgement in note 3 (i) (a), accounting policies in note 2 and disclosures in notes 15 and 16 to the consolidated financial statements)

Description	How the matter was addressed in our audit
We focused on this matter because: • as at 31 December 2020, the Group had significant technical insurance provisions, representing 77.4% of the Group's total liabilities relating to outstanding claim reserves, claims that have been incurred at reporting date but have not yet been reported to the Group, and unearned premiums; • the valuation of technical insurance provisions involves high level of subjectivity, significant judgement and assumptions, including possible impact of the current pandemic (COVID-19). in particular claims that have been incurred at reporting date but have not yet been reported to the Group involve significant judgment over uncertain future outcomes; including primarily the timing and amount of ultimate settlement of policyholder liabilities; and	Our audit procedures, with assistance of our actuarial specialists, included: • testing the design and operating effectiveness of the key controls around recording and reserving process for reported claims, unreported claims and unearned premium; • testing samples of outstanding claims and related reinsurance recoveries, focusing on those with most significant impact on the consolidated financial statements, to assess whether claims and related recoveries are appropriately estimated;

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS (Continued)

KAM 1 TECHNICAL INSURANCE PROVISIONS (Continued)

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

KAM 2 IMPAIRMENT OF INSURANCE RECEIVABLES AND RECOVERIES

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

Description	How the matter was addressed in our audit
We focused on this matter because: • as at 31 December 2020, the Group had significant insurance receivables from ceding companies and recoveries from reinsurance companies, representing 9.2% of the Group's total assets; • the Group faces a risk of non-recoverability of these receivables and recoveries due to financial difficulties of the counter parties due to the current pandemic (COVID-19); • estimation of the recoverable amount and determining the level of impairment allowance involves judgement and estimation uncertainty; and • the Group makes subjective judgments over recognition of impairment and the estimation of the amount of such impairment.	Our audit procedures, amongst others, included: • testing the design and operating effectiveness of controls over the process of collection and identification of doubtful balances; • focusing on those accounts with the most significant potential impact on the consolidated financial statements, considering aging, results of reconciliation of statement of accounts and receipts subsequent to the year-end; and • evaluating the adequacy of the Group's disclosures related to credit risk on insurance receivables and recoveries and impairment allowance in the consolidated financial statements by reference to the requirements of the relevant accounting standards.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS (Continued)

KAM 3 VALUATION AND IMPAIRMENT OF FINANCIAL INVESTMENTS

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

Description	How the matter was addressed in our audit
We focused on this matter because: • as at 31 December 2020, the Group's financial investments comprise 57.5% of Group's total assets in the consolidated financial statements and is considered one of the drivers of operations and performance; • as at 31 December 2020, a significant amount, representing 68.0% of total financial investments, comprise "available-for-sale securities" having carrying value of US$ 309.2 million, which is subject to impairment assessment; and • the Group makes subjective judgments over both timing of recognition of impairment and the estimation of the amount of such impairment.	Our audit procedures, amongst others, included: • testing the design and operating effectiveness of key controls over the process of recording investment transactions and valuation of the quoted investment portfolio; • agreeing the valuation of the quoted equity and debt securities and managed funds to externally quoted prices; and • for unlisted or unquoted securities, comparing the carrying values with the most recent net assets value of the underlying funds. For impairment of available-for-sale debt securities, we: • evaluated individual debt security for any signs of significant financial difficulty of the issuer; • assessed if there has been a default or past due event; and • assessed if there had been a significant decline in fair value. For impairment of available-for-sale equity securities and managed funds, we: • examined whether management has identified all investments that have experienced a decline in fair value below cost; and • evaluated the reasonableness and consistency of the application of the criteria to determine that a significant or prolong decline in fair value below cost has led to recognition of impairment. We also evaluated the adequacy of the Group's disclosures related to valuation and impairment of available-for-sale investments by reference to the requirements of the relevant accounting standards.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS (Continued)

Emphasis of Matter

We draw attention to note 1 to the consolidated financial statements, which indicates that in an Extraordinary General Meeting held on 13 August 2020 the shareholders approved the Board's recommendation of the cessation of the underwriting activities of the Company, subject to approval of the regulatory authorities. These events or conditions, along with other matters as set forth in note 1 indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

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

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

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

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

Responsibilities of the board of directors for the consolidated financial statements

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

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

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS (Continued)

exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other regulatory requirements

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

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

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

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KPMG Fakhro
Partner registration number 83
18 February 2021

CONSOLIDATED FINANCIAL STATEMENT

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

Saeed Mohammed AlBahhar
Chairman

Ahmed Saeed AlMahri
Director

Samuel Verghese
Acting Chief Executive Officer

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 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**

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 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.

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	32		
Borrowings		(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.

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

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.

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

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 upto 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.

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).

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.

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)

FOR THE YEAR ENDED 31 DECEMBER 2020

5. CASH AND BANK BALANCES

(US$ ’000)

	2020	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:

(US$ ’000)

	2020	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**

FOR THE YEAR ENDED 31 DECEMBER 2020

6. INVESTMENTS

(US$ '000)

	2020	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**

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:

(US$ '000)

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

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%

FOR THE YEAR ENDED 31 DECEMBER 2020

6. INVESTMENTS (Continued)

iii) Debt securities - currency risk

(US$ '000)

2020	U.S. Dollar	Bahraini Dinar	Other	Total
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.

(US$ '000)

	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**

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:

(US$ '000)

	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:

(US$ '000)

	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)

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8. ACCRUED INCOME

(US$ '000)

	2020	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

(US$ '000)

	2020	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:

(US$ '000)

	2020	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:

(US$ '000)

	2020	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:

(US$ '000)

	2020	2019
Upto 6 months	654	2,174
6 to 12 months	1,435	7,741
	2,089	**9,915**

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10. INSURANCE DEPOSITS

(US$ '000)

	2020	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:

(US$ '000)

	2020	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:

(US$ '000)

	2020	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:

(US$ '000)

	2020	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**

FOR THE YEAR ENDED 31 DECEMBER 2020

11. REINSURERS' SHARE OF TECHNICAL PROVISIONS

(US$ '000)

	2020	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

(US$ '000)

	2020	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**

(US$ '000)

	2020	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.

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13. INVESTMENT PROPERTY

(US$ '000)

	2020	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

(US$ '000)

	2020	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**

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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

		(US$ '000)
	2020	2019
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.

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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**

	2015	2016	2017	2018	2019	2020	Total
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**

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17. MOVEMENTS IN INSURANCE LIABILITIES AND ASSETS

(US$ '000)

2020	Gross	Reinsurance	Net
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**

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18. INSURANCE PAYABLES

(US$ '000)

	2020	2019
Due within 12 months	80,664	90,726
	80,664	**90,726**

19. BORROWINGS

(US$ '000)

	2020	2019
Balances due:		
- Within 12 months	-	7,000
	-	**7,000**

Borrowings has been fully repaid in August 2020.

20. OTHER LIABILITIES

(US$ '000)

	2020	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.

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%

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**

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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)

	Non-life						Life		Total
2020	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.

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23. SEGMENT INFORMATION (Continued)

i) Analysis of revenue by primary business segment

(US$ '000)

	Non-life						Life		
2019	Property	Engineering	Marine	Accident	Whole account*	Others	Short term	Long term	Total
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.

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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)

	Non-life						Life			
2020	Property	Engineering	Marine	Accident	Whole	Others	Short term	Long term	Corporate	Total
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**

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24. INVESTMENT INCOME

(US$ '000)

2020	Insurance funds	Shareholders' funds	Total
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**

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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**

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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:

(US$ ’000)

	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**

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.

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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)**

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32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

(US$ ’000)

	Borrowings	Borrowings cost	Dividends	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**

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33. FAIR VALUE DISCLOSURE

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

(US$ '000)

	Book value						Fair value
2020	At fair value through profit or loss	Loans and receivables	Held to maturity	Available for sale	Amortised cost	Total	
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.

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:

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**

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.

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34. TEMPORARY EXEMPTION FROM IFRS 9 DISCLOSURE

2020

a) Fair value and changes in fair value

(US$ '000)

	Fair value	Changes in fair value during the year
i) Financial assets having cash flows that are solely payment of principal and interest.	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

(US$ '000)

	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

(US$ '000)

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

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

(US$ '000)

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

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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.

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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.

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37. PARENT COMPANY

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

(US$ '000)

	Note	2020	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.

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