

Arab Insurance Group (B.S.C.)

**Condensed consolidated interim
financial statements for the
six months ended 30 June 2021**

ARAB INSURANCE GROUP (B.S.C.)
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

(In thousands of U.S. Dollars)

	Note	For the financial year-to-date 30 June 2021 (reviewed)	For the financial year-to-date 30 June 2020 (reviewed)	For the year ended 31 December 2020 (audited)
CASH FLOWS FROM OPERATING ACTIVITIES				
Premiums received		19,976	53,524	97,323
Reinsurance premiums paid		(5,868)	(5,408)	(17,477)
Claims and acquisition costs paid		(96,684)	(116,936)	(226,798)
Reinsurance receipts in respect of claims		34,433	36,257	98,801
Investment income		49	5,899	4,710
Interest received		722	952	2,286
Dividends received		-	57	56
Operating expenses paid		(5,410)	(6,198)	(12,761)
Other (expenses) income, net		(4,365)	275	(5,967)
Insurance deposits (paid) received, net		(1,775)	611	1,455
Purchase of trading investments		-	(667)	(667)
Sale of trading investments		-	20,308	20,529
Net cash used in operating activities	19	(58,922)	(11,326)	(38,510)
CASH FLOWS FROM INVESTING ACTIVITIES				
Maturity/sale of investments		70,424	89,933	154,855
Purchase of investments		(10,380)	(24,165)	(90,950)
Term deposits with bank		(5,001)	(12,047)	(22,698)
Interest received		4,060	5,362	9,428
Investment income		1,955	169	2,255
Collateralised cash deposits		21,423	4,762	(8,457)
Purchase of property and equipment		(2)	(15)	(30)
Sale of subsidiary		-	-	318
Net cash provided by investing activities		82,479	63,999	44,721
CASH FLOWS FROM FINANCING ACTIVITIES				
Borrowings	20	-	-	(7,000)
Borrowing cost	20	-	(99)	(187)
Dividends paid	20	-	(10)	(2,418)
Net cash used in financing activities		-	(109)	(9,605)
Net increase (decrease) in cash and cash equivalents		23,557	52,564	(3,394)
Effect of exchange rate on cash and cash equivalents		(2)	(75)	(65)
Cash and cash equivalents, beginning of period		63,436	66,895	66,895
Cash and cash equivalents, end of period		86,991	119,384	63,436
Term deposits with bank		42,065	26,413	37,064
Cash and bank balances, end of period		129,056	145,797	100,500

The accompanying notes 1 to 23 are an integral part of these condensed consolidated interim financial statements.

ARAB INSURANCE GROUP (B.S.C.)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

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 13 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 expect 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 condensed consolidated interim financial statements. Therefore, these condensed consolidated interim financial statements have been prepared on going concern basis.

2. SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements of the Group has been prepared in accordance with International Accounting Standard 34 (Interim Financial Reporting) which allows the interim financial statements to be prepared in condensed form. The condensed consolidated interim financial statements does not include all of the information required for full annual consolidated financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2020.

The Group's condensed consolidated interim 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.

Due to the outbreak of the novel coronavirus (COVID-19) in early 2020, the Central Bank of Bahrain had exempted all public shareholding companies and locally incorporated banks from preparation and publication of their interim financial information for the three-month period ended 31 March 2020. Accordingly, the comparatives for the condensed consolidated statement of financial position have been extracted from the audited consolidated financial statements for the year ended 31 December 2020 and comparatives for the condensed consolidated statements of profit or loss and comprehensive income (for the three months ended 30 June 2020) have been extracted from the management accounts of the Group. Hence, the comparative information for the three months period ended 30 June 2020 included in the current period statements of profit or loss and other comprehensive income were not approved by the Board of Directors nor reviewed by external auditors in the prior year.

The accounting policies and methods of computation are consistent with the most recent consolidated financial statements of the Group at 31 December 2020 that were prepared in accordance with International Financial Reporting Standards (IFRS). Comparative figures have been reclassified, where necessary, to conform to the current period's presentation.

The Group has adopted all new and revised IFRS and interpretations applicable for accounting periods beginning on or after 1 January 2021 except IFRS 9 Financial Instruments, for which the Group has applied the temporary exemption available under IFRS 4 Insurance Contracts. Accordingly, the Group will apply this standard for annual period beginning 1 January 2023. The impact of adopting these standards and interpretations is not significant on the Group's condensed consolidated interim financial statements.

ARAB INSURANCE GROUP (B.S.C.)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTD.)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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 condensed consolidated interim 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 and these are considered to represent management's best assessment based on available or observable information.

The preparation of the condensed consolidated interim financial statements require management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these condensed consolidated interim financial statement, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2020.

3. SEASONALITY OF INTERIM OPERATIONS

As a result of the seasonality associated with the insurance business, the Group registers approximately 75% of its gross premiums during the first quarter of every year. Gross premiums written over the remainder of the financial year are almost evenly spread out. This seasonality does not however, have any material impact on the Group's underwriting result as the premiums are taken to income over the terms of the related contracts or policies.

4. MANAGEMENT OF 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.

These condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's consolidated financial statements as at 31 December 2020.

There have been no changes in the risk management function since the year end or in any risk management policies.

ARAB INSURANCE GROUP (B.S.C.)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTD.)

5. A. INVESTMENTS

	US\$ '000		
	30 June 2021	31 December 2020	30 June 2020
<u>At fair value through profit or loss</u>			
Held for trading			
Common stock of listed companies	15,017	18,567	25,837
	15,017	18,567	25,837
Designated at fair value on initial recognition			
Debt securities			
- Investment grade	97,518	104,297	93,704
- Other	8,263	13,909	10,761
	105,781	118,206	104,465
<u>Held to maturity</u>			
Debt securities			
- Supra-nationals and OECD country Governments	-	-	500
- Investment grade	3,964	3,952	3,940
- Other	3,975	3,969	3,961
	7,939	7,921	8,401
<u>Available for sale</u>			
Debt securities			
- Supra-nationals and OECD country Governments	-	10,044	18,237
- Investment grade	160,312	185,507	205,178
- Other	84,613	90,914	52,147
Common stock of listed companies	-	3,103	4,982
Common stock of unlisted companies	3,359	3,349	4,127
Other equity type investment	15,407	16,236	17,309
	263,691	309,153	301,980
<u>Loans and receivables</u>	267	265	241
<u>Investment in associate</u>	494	491	491
	393,189	454,603	441,415

Debt securities amounting to US\$ 43.2 million (31 December 2020: US\$ 53.5 million; 30 June 2020: US\$ 84.1 million) have been pledged as security for reinsurance trust agreements, letters of credit and guarantees and borrowings.

B. COMMITMENTS OUTSTANDING

The Group has commitments in respect of uncalled capital in available for sale investments amounting to US\$ 7 million (31 December 2020: US\$ 6.7 million; 30 June 2020: US\$ 6.9 million).

ARAB INSURANCE GROUP (B.S.C.)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTD.)

6. ACCRUED INCOME

	US\$ '000		
	30 June 2021	31 December 2020	30 June 2020
Accrued insurance premiums	2,346	6,766	24,045
Accrued interest	1,975	2,020	2,307
	4,321	8,786	26,352

7. REINSURERS' SHARE OF TECHNICAL PROVISIONS

	US\$ '000		
	30 June 2021	31 December 2020	30 June 2020
<u>General insurance business</u>			
- Claims outstanding	21,689	35,858	51,620
- Unreported claims	21,697	33,020	37,292
- Deferred retrocession premium reserve	1,450	5,467	14,505
	44,836	74,345	103,417
<u>Life insurance business</u>			
- Claims outstanding	10	16	15
- Unreported claims	16	7	17
	26	23	32
	44,862	74,368	103,449

8. OTHER ASSETS

	US\$ '000		
	30 June 2021	31 December 2020	30 June 2020
Intangible assets:			
- Computer software	9,977	10,165	10,165
	9,977	10,165	10,165
Less: Accumulated amortisation	(9,639)	(9,627)	(9,614)
	338	538	551
Other assets			
- Collateralised cash deposits	3,978	25,401	11,802
- Other receivables	11,123	10,947	11,357
- Prepayments	469	463	549
	15,570	36,811	23,708
	15,908	37,349	24,259

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

ARAB INSURANCE GROUP (B.S.C.)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTD.)

9. INVESTMENT PROPERTY

	US\$ '000		
	30 June 2021	31 December 2020	30 June 2020
Fair value at 1 January	4,622	-	-
Transferred from property and equipment	-	5,150	5,150
Impairment	-	(378)	(225)
Depreciation	(72)	(150)	(76)
Fair value at period-end	4,550	4,622	4,849

Investment property is carried at cost less accumulated depreciation and impairment. The carrying value of investment property approximates its fair value as at 30 June 2021 and fair value measurement has been categorised as Level 3.

10. PROPERTY and EQUIPMENT

	US\$ '000		
	30 June 2021	31 December 2020	30 June 2020
Land	2,080	2,080	2,080
Building	9,459	11,565	11,082
Furniture & fixtures	6,921	6,921	6,932
Hardware	2,413	2,412	2,414
Office equipments	981	981	982
Others	397	397	549
	22,251	24,356	24,039
Less: Accumulated depreciation and Impairment			
Building	(174)	(2,106)	(1,943)
Furniture & fixtures	(6,905)	(6,904)	(6,913)
Hardware	(2,400)	(2,397)	(2,403)
Office equipments	(621)	(608)	(596)
Others	(362)	(335)	(393)
	(10,462)	(12,350)	(12,248)
	11,789	12,006	11,791

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

ARAB INSURANCE GROUP (B.S.C.)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTD.)

11. TECHNICAL PROVISIONS

	US\$ '000		
	30 June 2021	31 December 2020	30 June 2020
<u>General insurance business</u>			
· Claims outstanding	155,754	200,511	228,692
· Unreported losses	102,442	146,760	171,860
· Unearned premiums	9,744	27,112	58,653
	267,940	374,383	459,205
<u>Life insurance business</u>			
· Claims outstanding	11,638	12,404	15,008
· Unreported losses	21,158	21,766	24,092
· Unearned premiums	276	316	332
	33,072	34,486	39,432
	301,012	408,869	498,637

12. OTHER LIABILITIES

	US\$ '000		
	30 June 2021	31 December 2020	30 June 2020
Provision for probable loss estimates in subsidiary (note 22 (iii))	8,800	13,462	21,462
Non-reinsurance payables	6,645	10,029	10,589
Post-employment benefits	6,102	6,652	7,661
Accrued expense	5,699	5,872	5,570
Dividends payable	321	321	2,729
Reinsurance premiums accrued	1,189	1,189	2,013
Employee long-term incentives	-	-	450
Other	1,113	1,147	1,792
	29,869	38,672	52,266

13. 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.

ARAB INSURANCE GROUP (B.S.C.)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTD.)

13. SEGMENT INFORMATION (CONTD.)
- ANALYSIS OF REVENUE BY PRIMARY BUSINESS SEGMENT:

US\$ '000									
Period ended 30 June 2021									
Non-life						Life		Total	
Property	Engineering	Marine	Accident	Whole account	Others	Short term	Long term		
REVENUES :									
Gross premiums written*	(639)	(485)	(873)	(358)	(423)	(677)	(173)	178	(3,450)
Outward reinsurance premiums	(543)	(218)	60	12	1,039	1	(20)	(76)	255
Change in unearned premiums - gross	46	1,672	219	167	10,759	3,212	-	39	16,114
Change in unearned premiums - reinsurance	-	(170)	(10)	-	(3,342)	-	-	-	(3,522)
Net earned premiums	(1,136)	799	(604)	(179)	8,033	2,536	(193)	141	9,397
Investment income attributable to insurance funds	1,110	74	123	187	22	768	589	237	3,110
	(26)	873	(481)	8	8,055	3,304	396	378	12,507
COSTS AND EXPENSES :									
Gross claims paid	(7,662)	(3,231)	(1,647)	(357)	(28,478)	(3,220)	(1,658)	(10)	(46,263)
Claims recovered from reinsurers	160	228	268	21	12,946	(4)	-	-	13,619
Change in provision for outstanding claims - gross	4,051	1,679	4,007	373	3,787	1,389	952	(186)	16,052
Change in provision for outstanding claims -reinsurance	(137)	(156)	(244)	52	(5,994)	(11)	-	-	(6,490)
Change in provision for unreported losses - gross	5,169	2,752	1,348	528	15,355	2,040	3,714	(3,105)	27,801
Change in provision for unreported losses - reinsurance	(280)	(346)	(46)	(3)	(4,160)	(840)	2	-	(5,673)
Claims and related expenses	1,301	926	3,686	614	(6,544)	(646)	3,010	(3,301)	(954)
Policy acquisition costs	1,053	205	426	284	(2,659)	226	14	(7)	(458)
Policy acquisition costs recovered from reinsurers	32	(82)	(37)	(13)	5	(1)	-	-	(96)
Change in deferred policy acquisition costs - gross	(13)	(547)	(57)	(42)	-	36	-	(2)	(625)
Change in deferred policy acquisition costs - reinsurance	-	68	3	-	-	1	-	-	72
Policy acquisition costs	1,072	(356)	335	229	(2,654)	262	14	(9)	(1,107)
Operating expenses	(1,261)	(636)	(392)	(259)	(47)	(583)	(495)	(86)	(3,759)
Underwriting result	1,086	807	3,148	592	(1,190)	2,337	2,925	(3,018)	6,687

*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.

ARAB INSURANCE GROUP (B.S.C.)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTD.)

13. SEGMENT INFORMATION (CONTD.)

- ANALYSIS OF REVENUE BY PRIMARY BUSINESS SEGMENT:

	US\$ '000								
	Year ended 31 December 2020								
	Non-life					Life		Total	
	Property	Engineering	Marine	Accident	Whole account	Others	Short term		Long term
REVENUES :									
Gross premiums written*	(2,948)	758	(278)	(457)	(10,437)	(3,126)	(1,098)	291	(17,295)
Outward reinsurance premiums	(1,537)	(187)	62	100	4,779	(82)	(83)	(25)	3,027
Change in unearned premiums - gross	3,164	7,069	2,226	1,056	85,337	12,479	1,869	(47)	113,153
Change in unearned premiums - reinsurance	(123)	(992)	(122)	(11)	(29,183)	-	-	-	(30,431)
Net earned premiums	(1,444)	6,648	1,888	688	50,496	9,271	688	219	68,454
Investment income attributable to insurance funds	918	32	99	155	297	635	491	197	2,824
	(526)	6,680	1,987	843	50,793	9,906	1,179	416	71,278
COSTS AND EXPENSES :									
Gross claims paid	(19,633)	(10,486)	(6,994)	(1,383)	(93,360)	(19,815)	(7,656)	(375)	(159,702)
Claims recovered from reinsurers	1,487	798	834	112	37,640	73	-	2	40,946
Change in provision for outstanding claims - gross	26,713	5,520	5,118	897	16,321	6,866	2,898	87	64,420
Change in provision for outstanding claims - reinsurance	(10,919)	(280)	(1,959)	15	(9,523)	(162)	-	3	(22,825)
Change in provision for unreported losses - gross	14,932	3,839	2,150	2,978	18,182	12,178	5,872	(3,361)	56,770
Change in provision for unreported losses - reinsurance	(721)	(488)	(227)	(193)	(9,035)	(543)	(11)	-	(11,218)
Claims and related expenses	11,859	(1,097)	(1,078)	2,426	(39,775)	(1,403)	1,103	(3,644)	(31,609)
Policy acquisition costs	1,223	290	216	200	(15,658)	1,161	209	30	(12,329)
Policy acquisition costs recovered from reinsurers	(209)	(159)	(9)	(38)	12	11	-	-	(392)
Change in deferred policy acquisition costs - gross	(1,054)	(2,350)	(702)	(319)	(192)	(2,264)	(75)	(1)	(6,957)
Change in deferred policy acquisition costs - reinsurance	40	359	48	4	-	2	-	-	453
Policy acquisition costs	-	(1,860)	(447)	(153)	(15,838)	(1,090)	134	29	(19,225)
Operating expenses	(2,535)	(1,288)	(788)	(526)	(78)	(1,219)	(1,063)	(188)	(7,685)
Underwriting result	8,798	2,435	(326)	2,590	(4,898)	6,194	1,353	(3,387)	12,759

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

ARAB INSURANCE GROUP (B.S.C.)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTD.)

13. SEGMENT INFORMATION (CONTD.)

- ANALYSIS OF REVENUE BY PRIMARY BUSINESS SEGMENT:

	US\$ '000								
	Period ended 30 June 2020								
	Non-life					Life		Total	
	Property	Engineering	Marine	Accident	Whole account*	Others	Short term		Long term
REVENUES :									
Gross premiums written	(1,607)	(286)	43	(88)	(3,969)	(6,085)	(815)	189	(12,618)
Outward reinsurance premiums	(957)	(3)	58	61	2,771	(58)	(83)	(23)	1,766
Change in unearned premiums - gross	2,998	4,039	1,796	820	55,410	12,186	1,839	(33)	79,055
Change in unearned premiums - reinsurance	(123)	(603)	(111)	(11)	(20,122)	(2)	-	-	(20,972)
Net earned premiums	311	3,147	1,786	782	34,090	6,041	941	133	47,231
Investment income attributable to insurance funds	(655)	-	(71)	(49)	123	(215)	(313)	(65)	(1,245)
	(344)	3,147	1,715	733	34,213	5,826	628	68	45,986
COSTS AND EXPENSES :									
Gross claims paid	(8,372)	(5,603)	(4,405)	(1,051)	(36,641)	(11,107)	(3,451)	(198)	(70,828)
Claims recovered from reinsurers	265	341	436	101	13,496	51	-	2	14,692
Change in provision for outstanding claims - gross	6,416	3,123	2,261	980	(2,159)	3,573	367	14	14,575
Change in provision for outstanding claims - reinsurance	108	(30)	(517)	(16)	1,576	(25)	-	3	1,099
Change in provision for unreported losses - gross	2,652	1,723	1,242	824	446	6,230	2,626	(2,441)	13,302
Change in provision for unreported losses - reinsurance	55	(242)	(113)	(129)	(892)	49	(1)	-	(1,273)
Claims and related expenses	1,124	(688)	(1,096)	709	(24,174)	(1,229)	(459)	(2,620)	(28,433)
Policy acquisition costs	777	550	181	149	(11,938)	1,559	213	30	(8,479)
Policy acquisition costs recovered from reinsurers	(98)	(132)	(18)	(27)	52	3	-	-	(220)
Change in deferred policy acquisition costs - gross	(1,005)	(1,376)	(591)	(259)	(192)	(2,134)	(75)	-	(5,632)
Change in deferred policy acquisition costs - reinsurance	40	225	44	4	-	-	-	-	313
Policy acquisition costs	(286)	(733)	(384)	(133)	(12,078)	(572)	138	30	(14,018)
Operating expenses	(1,432)	(704)	(439)	(277)	(38)	(678)	(672)	(101)	(4,341)
Underwriting result	(938)	1,022	(204)	1,032	(2,077)	3,347	(365)	(2,623)	(806)

*Whole account includes gross premiums reversals amounting to USD 4.7 million resulting from underwriting business in Lloyds, where the Company resolved to cease new business underwriting effective from 1 January 2020.

ARAB INSURANCE GROUP (B.S.C.)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTD.)

14. INVESTMENT INCOME

US\$ '000					
Financial year-to-date 30 June 2021			Financial year-to-date 30 June 2020	Year ended 31 December 2020	
Insurance funds	Shareholders' funds	Total			
Interest income					
- Investments designated at fair value through profit or loss	271	213	484	591	1,169
- Others	2,243	2,010	4,253	5,488	10,023
Dividends	-	-	-	57	56
Realised gains on available for sale	1,234	985	2,219	145	3,462
Gain (loss) on remeasurement of investments at fair value through profit or loss					
- Held for trading investments	264	207	471	(7,696)	(7,627)
- Investments designated at fair value through profit or loss	(184)	(145)	(329)	1,185	1,878
Impairment loss - available for sale					
- Debt Securities	(84)	(66)	(150)	-	-
- Other	(216)	(192)	(408)	(523)	(1,681)
Income from associates	-	3	3	8	8
Other	(418)	(348)	(766)	(981)	(2,340)
	3,110	2,667	5,777	(1,726)	4,948

15. OPERATING EXPENSES

US\$ '000					
Financial year-to-date 30 June 2021			Financial year-to-date 30 June 2020	Year ended 31 December 2020	
Underwriting	Non- Underwriting	Total			
Salaries and benefits	2,234	1,232	3,466	4,076	8,219
General and administration	1,525	605	2,130	3,792	5,063
	3,759	1,837	5,596	7,868	13,282

ARAB INSURANCE GROUP (B.S.C.)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTD.)

16. OTHER INCOME

	US\$ '000		
	Financial year-to-date 30 June 2021	Financial year-to-date 30 June 2020	Year ended 31 December 2020
Foreign exchange gain	-	785	1,474
Government support scheme (COVID19)	-	441	441
Third party administration services	217	262	844
Reversal of provisions	2,162	-	2,998
Other	343	281	526
	2,722	1,769	6,283

17. OTHER EXPENSES AND PROVISIONS

	US\$ '000		
	Financial year-to-date 30 June 2021	Financial year-to-date 30 June 2020	Year ended 31 December 2020
Foreign exchange loss	1,836	-	-
Investment property impairment and depreciation	72	301	528
Provision for doubtful receivable & deposits	-	-	90
Run-off expenses	-	-	851
Other, net	135	186	1,321
	2,043	487	2,790

18. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

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

		Financial year-to-date 30 June 2021	Financial year-to-date 30 June 2020	Year ended 31 December 2020
Weighted average number of shares outstanding	'000	198,032	198,032	198,032
Net profit (loss)	US\$'000	8,224	(3,080)	13,558
Earnings (losses) per share	US cents	4.2	(1.6)	6.8

ARAB INSURANCE GROUP (B.S.C.)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTD.)

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

	US\$ '000		
	Financial year-to-date 30 June 2020	Financial year-to-date 30 June 2020	Year ended 31 December 2020
Profit (loss) for the period	8,196	(3,622)	12,667
Change in insurance funds	(76,608)	(98,567)	(153,839)
Change in insurance receivable/payable, net	19,158	17,279	35,078
Change in accrued income	4,465	45,006	62,572
Change in other assets/liabilities, net	(14,133)	28,578	5,012
Net cash used in operating activities	(58,922)	(11,326)	(38,510)

20. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	US\$ '000			
	Borrowings	Borrowing cost	Dividends	Non- controlling interest
Balances at 31 December 2020	-	-	321	17,066
Share of comprehensive income	-	-	-	(21)
Balances at 30 June 2021	-	-	321	17,045
Balances at 31 December 2019	7,000	75	2,739	17,952
Share of comprehensive income	-	-	-	(527)
Interest paid during the period	-	(99)	-	-
Interest expense for the period	-	90	-	-
Dividends paid during the period	-	-	(10)	-
Balances at 30 June 2020	7,000	66	2,729	17,425
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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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTD.)

21. FAIR VALUE DISCLOSURE

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

US\$ '000							
30 June 2021							
Book Value						Fair value	
At fair value through profit or loss	Loans and receivables	Held to maturity	Available for sale	Amortised cost	Total		
ASSETS							
Cash and bank balances	-	129,056	-	-	-	129,056	129,056
Investments	120,798	267	7,939	263,691	-	392,695	393,148
Accrued income	-	4,321	-	-	-	4,321	4,321
Insurance receivables	-	39,301	-	-	-	39,301	39,301
Insurance deposits	-	22,487	-	-	-	22,487	22,487
Other assets	-	15,101	-	-	-	15,101	15,101
LIABILITIES							
Insurance payables	-	-	-	-	66,391	66,391	66,391
Other liabilities	-	-	-	-	15,370	15,370	15,370

US\$ '000							
31 December 2020							
Book Value						Fair value	
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
Other liabilities	-	-	-	-	19,338	19,338	19,338

ARAB INSURANCE GROUP (B.S.C.)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTD.)

21. FAIR VALUE DISCLOSURE (CONTD.)

US\$ '000							
30 June 2020							
Book Value						Fair value	
At fair value through profit or loss	Loans and receivables	Held to maturity	Available for sale	Amortised cost	Total		
ASSETS							
Cash and bank balances	-	145,797	-	-	-	145,797	145,797
Investments	130,302	241	8,401	301,980	-	440,924	441,427
Accrued income	-	26,352	-	-	-	26,352	26,352
Insurance receivables	-	99,822	-	-	-	99,822	99,822
Insurance deposits	-	21,785	-	-	-	21,785	21,785
Other assets	-	23,159	-	-	-	23,159	23,159
LIABILITIES							
Insurance payables	-	-	-	89,955	89,955	89,955	89,955
Borrowings	-	-	-	7,000	7,000	7,000	7,000
Other liabilities	-	-	-	25,234	25,234	25,234	25,234

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.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise 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.

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21. FAIR VALUE DISCLOSURE (CONTD.)

- 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 valuations technique 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 period, by level in the fair value hierarchy into which the fair value measurement is categorized:

US\$'000				
30 June 2021	Level 1	Level 2	Level 3	Total
<u>At fair value through profit or loss</u>				
<u>Held for trading</u>				
Common stock of listed companies	15,017	-	-	15,017
<u>Designated at fair value on initial recognition</u>				
Debt securities	52,343	53,438	-	105,781
<u>Available for sale</u>				
Debt securities	90,287	154,638	-	244,925
Common stock of listed companies	-	-	-	-
Common stock of unlisted companies	-	-	3,359	3,359
Other	-	-	15,407	15,407
<u>Forward foreign exchange contracts</u>	-	471	-	471
	157,647	208,547	18,766	384,960

US\$'000				
31 December 2020	Level 1	Level 2	Level 3	Total
<u>At fair value through profit or loss</u>				
<u>Held for trading</u>				
Common stock of listed companies	18,567	-	-	18,567
<u>Designated at fair value on initial recognition</u>				
Debt securities	69,298	48,908	-	118,206
<u>Available for sale</u>				
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
<u>Forward foreign exchange contracts</u>	-	(604)	-	(604)
	199,965	225,772	19,585	445,322

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTD.)

21. FAIR VALUE DISCLOSURE (CONTD.)

US\$'000				
	Level 1	Level 2	Level 3	Total
30 June 2020				
<u>At fair value through profit or loss</u>				
Held for trading				
Common stock of listed companies	25,837	-	-	25,837
Designated at fair value on initial recognition				
Debt securities	104,465	-	-	104,465
<u>Available for sale</u>				
Debt securities	275,562	-	-	275,562
Common stock of listed companies	4,982	-	-	4,982
Common stock of unlisted companies	-	-	4,127	4,127
Other	-	-	17,309	17,309
<u>Forward foreign exchange contracts</u>	-	(410)	-	(410)
	410,846	(410)	21,436	431,872

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

US\$ '000			
30 June 2021	Unlisted equity	Other	Total
Balances at 1 January 2021	3,349	16,236	19,585
Gain recognised in:			
- Other comprehensive income	69	532	601
Investments made during the period	13	391	404
Investments redeemed during the period	(72)	(1,752)	(1,824)
Balances at 30 June 2021	3,359	15,407	18,766

US\$'000			
31 December 2020	Unlisted equity	Other	Total
Balances at 1 January 2020	4,653	17,868	22,521
Loss 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)
Balances at 31 December 2020	3,349	16,236	19,585

ARAB INSURANCE GROUP (B.S.C.)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTD.)

21. FAIR VALUE DISCLOSURE (CONTD.)

	US\$ '000		
	Unlisted equity	Other	Total
30 June 2020			
Balances at 1 January 2020	4,653	17,868	22,521
Loss recognised in:			
- Other comprehensive income	(506)	(241)	(747)
Investments made during the period	14	597	611
Investments redeemed during the period	(34)	(915)	(949)
Balances at 30 June 2020	4,127	17,309	21,436

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 & level 3 to change significantly on changing one or more of the observable / unobservable inputs. The valuations of these investments are reviewed quarterly and updated as necessary on the basis of information received from investee and investment managers. The Group recognises transfers between levels of the fair value hierarchy at the end of reporting period during which the change occurred. For the period ended 30 June 2021, there were no transfers in and out of level 1, level 2 and level 3 (31 December 2020: US\$ 225.8 million were transferred from level 1 to level 2; 30 June 2020: 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 capitalisation rates, discount rates, leasing and other factors, the amount which will be realized by the Company on the disposal of its investments may differ significantly from the values at which they are carried in the condensed consolidated interim 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.

vi. 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.

ARAB INSURANCE GROUP (B.S.C.)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTD.)

22. PRINCIPAL SUBSIDIARIES & ASSOCIATES

i) Subsidiaries and associates

At 30 June 2021, the principal subsidiaries of the Company were:

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

All holdings are in the ordinary share capital of the subsidiaries concerned and are unchanged from 31 December 2020. 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., 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.

ii) Interest in subsidiaries: Takaful Re Limited

	US\$ '000		
	Financial year-to-date 30 June 2021	Financial year-to-date 30 June 2020	Year ended 31 December 2020
Non-controlling interests	46%	46%	46%
Total assets	50,746	52,972	51,619
Total liabilities	13,692	15,221	14,517
Net assets	37,054	37,751	37,102
Revenue	31	177	188
Loss for the period	(61)	(1,178)	(1,938)
Total comprehensive income	(47)	(1,146)	(1,796)
Comprehensive income attributable to non-controlling interests	(21)	(527)	(826)
Net cash used in operating activities	(592)	(432)	(1,513)
Net cash provided by (used in) investing activities	127	(1,006)	(4,272)
Net decrease in cash and cash equivalents	(465)	(1,438)	(5,785)

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

ARAB INSURANCE GROUP (B.S.C.)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTD.)

22. PRINCIPAL SUBSIDIARIES & ASSOCIATES (CONTD.)

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 has been reduced to US\$ 8.8 million in the books of the subsidiary and consequently in the condensed consolidated interim financial statements of the Group for the period ended 30 June 2021. This does not constitute admission of any liability beyond the share capital of Gulf Warranties W.L.L.

23. 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		
	Financial year-to-date 30 June 2021	Financial year-to-date 30 June 2020	Year ended 31 December 2020
a) Service fees for administration services provided by associate	227	262	473
b) Balances outstanding - Payables	130	31	57

ARAB INSURANCE GROUP (B.S.C.)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTD.)

23. RELATED PARTY TRANSACTIONS (CONTD.)

ii) Compensation to directors and key management personnel:

	US\$ '000		
	Financial year-to-date 30 June 2021	Financial year-to-date 30 June 2020	Year ended 31 December 2020
a) Directors			
- Attendance fees	129	43	145
- Travel expenses	-	23	23
b) Key management compensation			
- Salaries and other short-term employee benefits	173	362	592
- Post-employment benefits	25	38	131
c) Balances payable to key management	542	559	517

ARAB INSURANCE GROUP (B.S.C.)

(The attached supplementary disclosure does not form part of the condensed consolidated interim financial statements)

ARAB INSURANCE GROUP (B.S.C.)

SUPPLEMENTARY DISCLOSURE TO THE CONDENSED CONSOLIDATED INTERIM 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 condensed consolidated interim 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 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;
- Increase in General expense due to costs related to the necessary precautionary measures and business continuity plan requirements; and
- Capital costs related to implementing contingency remote working plans.

The overall direct impact of COVID-19 pandemic on the condensed consolidated interim financial statements as at 30 June 2021 as assessed by the Group is as below:

	US\$ '000
	30 June 2021
FINANCIAL COSTS	
Sterilization & disinfection of premises, sanitizers, masks & gloves, depreciation, software license, etc	50
	50

CAPITAL EXPENDITURE

	US\$ '000
	30 June 2021
Cost of laptops and printers	2
	2

ARAB INSURANCE GROUP (B.S.C.)

SUPPLEMENTARY DISCLOSURE TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS RELATED TO THE FINANCIAL IMPACT OF COVID-19 (CONTD.)

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.