

Arab Insurance Group (B.S.C.)

**Condensed consolidated interim
financial statements for the
nine months ended 30 September 2021**



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Independent auditors' report on review of condensed consolidated interim financial statements

The Board of Directors
Arab Insurance Group (B.S.C)
Manama
Kingdom of Bahrain

Date: 11 November 2021

Introduction

We have reviewed the accompanying 30 September 2021 condensed consolidated interim financial statements of Arab Insurance Group (B.S.C) (the "Company") and its subsidiaries (together the "Group"), which comprises:

- the condensed consolidated statement of financial position as at 30 September 2021;
- the condensed consolidated statement of profit or loss for the for the three-month and nine month periods ended 30 September 2021;
- the condensed consolidated statement of comprehensive income for the three-month and nine month periods ended 30 September 2021;
- the condensed consolidated statement of changes in equity for the nine-month period ended 30 September 2021;
- the condensed consolidated statement of cash flows for the nine-month period ended 30 September 2021; and
- notes to the condensed consolidated interim financial statements.

The Board of Directors of the Company is responsible for the preparation and presentation of this condensed consolidated interim financial statements in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of condensed consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 September 2021 condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

Emphasis Matter

We draw attention to note 1 to the condensed consolidated interim 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 and 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 conclusion is not modified in respect of this matter.

ARAB INSURANCE GROUP (B.S.C.)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2021

(In thousands of U.S. Dollars)

	Note	30 September 2021 (reviewed)	31 December 2020 (audited)	30 September 2020 (reviewed)
ASSETS				
Cash and bank balances		97,794	100,500	136,406
Investments	4	390,503	454,603	424,335
Accrued income	5	3,104	8,786	16,255
Insurance receivables		33,952	72,732	85,869
Insurance deposits		20,435	20,917	21,899
Deferred policy acquisition costs		438	4,749	6,918
Reinsurers' share of technical provisions	6	40,030	74,368	97,596
Other assets	7	28,014	37,349	36,387
Investment property	8	4,514	4,622	4,812
Property and equipment	9	11,679	12,006	11,689
TOTAL ASSETS		630,463	790,632	842,166
LIABILITIES AND EQUITY				
LIABILITIES				
Technical provisions	10	277,837	408,869	462,528
Insurance payables		54,294	80,664	83,164
Other liabilities	11	27,979	38,672	48,099
TOTAL LIABILITIES		360,110	528,205	593,791
EQUITY				
Attributable to shareholders of parent company				
Share capital		220,000	220,000	220,000
Treasury stock		(14,793)	(14,793)	(14,793)
Reserves		54,618	56,296	51,211
Accumulated losses		(2,003)	(16,142)	(25,271)
		257,822	245,361	231,147
Non-controlling interests		12,531	17,066	17,228
TOTAL EQUITY		270,353	262,427	248,375
TOTAL LIABILITIES AND EQUITY		630,463	790,632	842,166

These condensed consolidated interim financial statements were approved by the Board of Directors on 11 November 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 22 are an integral part of these condensed consolidated interim financial statements.

ARAB INSURANCE GROUP (B.S.C.)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2021

(In thousands of U.S. Dollars)

	Note	For the three months ended 30 September 2021 (reviewed)	For the three months ended 30 September 2020 (reviewed)	For the financial year-to-date 30 September 2021 (reviewed)	For the financial year-to-date 30 September 2020 (reviewed)	For the year ended 31 December 2020 (audited)
Gross premiums written	12	148	(3,051)	(3,302)	(15,669)	(17,295)
Outward reinsurance premiums	12	363	(2,260)	618	(494)	3,027
Change in unearned premiums	12	2,405	16,769	14,997	74,852	82,722
Net earned premiums	12	2,916	11,458	12,313	58,689	68,454
Claims and related expenses	12	4,463	(2,885)	3,509	(31,318)	(31,609)
Policy acquisition costs	12	(539)	(2,499)	(1,646)	(16,517)	(19,225)
Investment income attributable to insurance funds	13	800	1,949	3,910	704	2,824
Operating expenses	14	(1,880)	(1,239)	(5,639)	(5,580)	(7,685)
Underwriting result	12	5,760	6,784	12,447	5,978	12,759
Investment income attributable to shareholders' funds	13	1,387	1,050	4,054	569	2,124
Operating expenses - non underwriting activities	14	(760)	(832)	(2,597)	(4,359)	(5,597)
Borrowing cost		-	(22)	-	(112)	(112)
Other income	15	298	712	3,020	2,481	6,283
Other expenses and provisions	16	(587)	(1,684)	(2,630)	(2,171)	(2,790)
Profit for the period		6,098	6,008	14,294	2,386	12,667
Attributable to:						
Non-controlling interests		101	(194)	73	(736)	(891)
Shareholders of parent company		5,997	6,202	14,221	3,122	13,558
		6,098	6,008	14,294	2,386	12,667
Earnings per share attributable to shareholders (basic and diluted):	17 (US cents)	3.0	3.1	7.2	1.6	6.8



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Director



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Acting Chief Executive Officer

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ARAB INSURANCE GROUP (B.S.C.)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2021

(In thousands of U.S. Dollars)

	For the three months ended 30 September 2021 (reviewed)	For the three months ended 30 September 2020 (reviewed)	For the financial year-to-date 30 September 2021 (reviewed)	For the financial year-to-date 30 September 2020 (reviewed)	For the year ended 31 December 2020 (audited)
Profit for the period	6,098	6,008	14,294	2,386	12,667
Other comprehensive income					
Items that will be reclassified to profit or loss:					
Changes on fair value of available for sale Investments	(890)	2,444	(225)	320	4,632
Transfers for recognition of losses (gains) on disposal of available for sale investments	118	(1,977)	(2,101)	(2,122)	(3,462)
Transfers for impairment loss recognised on available for sale investments	-	943	558	1,466	1,681
Items that will not be reclassified subsequently to profit or loss:					
Revaluation of property	-	-	-	-	646
Other comprehensive income for the period	(772)	1,410	(1,768)	(336)	3,497
Total comprehensive income for the period	5,326	7,418	12,526	2,050	16,164
Attributable to:					
Non-controlling interests	86	(197)	65	(724)	(824)
Shareholders of parent company	5,240	7,615	12,461	2,774	16,988
	5,326	7,418	12,526	2,050	16,164



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Chairman



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Director



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ARAB INSURANCE GROUP (B.S.C.)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2021

(In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves			Accumulated losses	Attributable to shareholders of parent company	Non-controlling interests	Total equity (reviewed)	
			Legal	Investment revaluation	Property revaluation					Total
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
Net profit for the period	-	-	-	-	-	-	14,221	14,221	73	14,294
Changes on fair value of available for sale investments	-	-	-	(216)	-	(216)	-	(216)	(9)	(225)
Transfers for recognition of gains on disposal of available for sale investments	-	-	-	(2,092)	-	(2,092)	-	(2,092)	(9)	(2,101)
Transfers for impairment loss recognised on available for sale investments	-	-	-	548	-	548	-	548	10	558
Total comprehensive income for the period	-	-	-	(1,760)	-	(1,760)	14,221	12,461	65	12,526
Transfer of net depreciation on revalued property	-	-	-	-	(166)	(166)	166	-	-	-
Transfer to (from) non-distributable reserves	-	-	248	-	-	248	(248)	-	-	-
Subsidiary's capital reduction (note 21(i))	-	-	-	-	-	-	-	-	(4,600)	(4,600)
Balances at 30 September 2021	220,000	(14,793)	38,173	12,050	4,395	54,618	(2,003)	257,822	12,531	270,353

The accompanying notes 1 to 22 are an integral part of these condensed consolidated interim financial statements.

ARAB INSURANCE GROUP (B.S.C.)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

(In thousands of U.S. Dollars)

	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 (loss) 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	-	-	-	-	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	-	-	-	-	-	-	-	-	(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

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ARAB INSURANCE GROUP (B.S.C.)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2020

(In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves				Accumulated losses	Attributable to shareholders of parent company	Non-controlling interests	Total equity (reviewed)
			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 (loss) for the period	-	-	-	-	-	-	3,122	3,122	(736)	2,386
Changes on fair value of available for sale investments	-	-	-	307	-	307	-	307	13	320
Transfers for recognition of gains on disposal of available for sale investments	-	-	-	(2,080)	-	(2,080)	-	(2,080)	(42)	(2,122)
Transfers for impairment loss recognised on available for sale investments	-	-	-	1,425	-	1,425	-	1,425	41	1,466
Total comprehensive income for the period	-	-	-	(348)	(146)	(348)	3,122	2,774	(724)	2,050
Transfer of net depreciation on revalued property	-	-	-	-	(146)	(146)	146	-	-	-
Balances at 30 September 2020	220,000	(14,793)	36,569	10,678	3,964	51,211	(25,271)	231,147	17,228	248,375

The accompanying notes 1 to 22 are an integral part of these condensed consolidated interim financial statements.

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2021

(In thousands of U.S. Dollars)

	Note	For the financial year-to-date 30 September 2021 (reviewed)	For the financial year-to-date 30 September 2020 (reviewed)	For the year ended 31 December 2020 (audited)
CASH FLOWS FROM OPERATING ACTIVITIES				
Premiums received		24,106	72,683	97,323
Reinsurance premiums paid		(18,345)	(12,746)	(17,477)
Claims and acquisition costs paid		(128,700)	(183,072)	(226,798)
Reinsurance receipts in respect of claims		62,996	81,300	98,801
Investment income		42	5,378	4,710
Interest received		1,574	1,888	2,286
Dividends received		-	57	56
Operating expenses paid		(7,985)	(8,551)	(12,761)
Other (expenses) income, net		(5,131)	170	(5,967)
Insurance deposits received (paid), net		210	511	1,455
Purchase of trading investments		-	(667)	(667)
Sale of trading investments		-	20,027	20,529
Net cash used in operating activities	18	(71,233)	(23,022)	(38,510)
CASH FLOWS FROM INVESTING ACTIVITIES				
Maturity/sale of investments		101,280	133,616	154,855
Purchase of investments		(40,562)	(46,756)	(90,950)
Term deposits with bank		8,472	(24,702)	(22,698)
Interest received		5,464	7,539	9,428
Investment income		2,448	1,356	2,255
Collateralised cash deposits		4,506	(7,879)	(8,457)
Purchase of property and equipment		(2)	(28)	(30)
Sale of subsidiary		-	-	318
Net cash provided by investing activities		81,606	63,146	44,721
CASH FLOWS FROM FINANCING ACTIVITIES				
Borrowings	19	-	(7,000)	(7,000)
Borrowing cost	19	-	(187)	(187)
Dividends paid	19	-	(2,418)	(2,418)
Subsidiary's capital reduction - minority interests	19	(4,600)	-	-
Net cash used in financing activities		(4,600)	(9,605)	(9,605)
Net increase (decrease) in cash and cash equivalents		5,773	30,519	(3,394)
Effect of exchange rate on cash and cash equivalents		(7)	(76)	(65)
Cash and cash equivalents, beginning of period		63,436	66,895	66,895
Cash and cash equivalents, end of period		69,202	97,338	63,436
Term deposits with bank		28,592	39,068	37,064
Cash and bank balances, end of period		97,794	136,406	100,500

The accompanying notes 1 to 22 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 NINE MONTHS ENDED 30 SEPTEMBER 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.

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 statements, 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. 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.)

4. A. INVESTMENTS

	US\$ '000		
	30 September 2021	31 December 2020	30 September 2020
<u>At fair value through profit or loss</u>			
Held for trading			
Common stock of listed companies	-	18,567	27,216
	-	18,567	27,216
Designated at fair value on initial recognition			
Debt securities			
- Investment grade	107,665	104,297	94,266
- Other	4,034	13,909	10,634
	111,699	118,206	104,900
Held to maturity			
Debt securities			
- Investment grade	5,998	3,952	3,946
- Other	8,060	3,969	3,965
	14,058	7,921	7,911
<u>Available for sale</u>			
Debt securities			
- Supra-nationals and OECD country governments	-	10,044	18,144
- Investment grade	156,680	185,507	183,998
- Other	89,187	90,914	55,897
Common stock of listed companies	-	3,103	5,380
Common stock of unlisted companies	3,123	3,349	3,338
Other equity type investment	14,823	16,236	16,809
	263,813	309,153	283,566
<u>Loans and receivables</u>	361	265	251
<u>Investment in associate</u>	572	491	491
	390,503	454,603	424,335

Debt securities amounting to US\$ 26.1 million (31 December 2020: US\$ 53.5 million; 30 September 2020: US\$ 57.6 million) have been pledged as security for reinsurance trust agreements, letters of credit and guarantees.

B. COMMITMENTS OUTSTANDING

The Group has commitments in respect of uncalled capital in available for sale investments amounting to US\$ 7.2 million (31 December 2020: US\$ 6.7 million; 30 September 2020: US\$ 6.9 million).

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

5. ACCRUED INCOME

	US\$ '000		
	30 September 2021	31 December 2020	30 September 2020
Accrued insurance premiums	1,319	6,766	14,412
Accrued interest	1,785	2,020	1,843
	3,104	8,786	16,255

6. REINSURERS' SHARE OF TECHNICAL PROVISIONS

	US\$ '000		
	30 September 2021	31 December 2020	30 September 2020
<u>General insurance business</u>			
- Claims outstanding	21,560	35,858	51,726
- Unreported claims	17,713	33,020	34,472
- Deferred retrocession premium reserve	739	5,467	11,365
	40,012	74,345	97,563
<u>Life insurance business</u>			
- Claims outstanding	15	16	16
- Unreported claims	3	7	17
	18	23	33
	40,030	74,368	97,596

7. OTHER ASSETS

	US\$ '000		
	30 September 2021	31 December 2020	30 September 2020
Intangible assets:			
- Computer software	9,977	10,165	10,165
	9,977	10,165	10,165
Less: Accumulated amortisation	(9,643)	(9,627)	(9,620)
	334	538	545
Other assets			
- Collateralised cash deposits	20,895	25,401	24,973
- Other receivables	6,184	10,947	10,174
- Prepayments	601	463	695
	27,680	36,811	35,842
	28,014	37,349	36,387

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

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

8. INVESTMENT PROPERTY

	US\$ '000		
	30 September 2021	31 December 2020	30 September 2020
Fair value at 1 January	4,622	-	-
Transferred from property and equipment	-	5,150	5,150
Impairment	-	(378)	(225)
Depreciation	(108)	(150)	(113)
Fair value at period-end	4,514	4,622	4,812

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

9. PROPERTY and EQUIPMENT

	US\$ '000		
	30 September 2021	31 December 2020	30 September 2020
Land	2,080	2,080	2,080
Building	9,459	11,565	11,082
Furniture & fixtures	6,921	6,921	6,932
Hardware	2,392	2,412	2,428
Office equipments	981	981	982
Others	397	397	549
	22,230	24,356	24,053
Less: Accumulated depreciation and impairment			
Building	(260)	(2,106)	(2,025)
Furniture & fixtures	(6,906)	(6,904)	(6,914)
Hardware	(2,380)	(2,397)	(2,408)
Office equipments	(628)	(608)	(603)
Others	(377)	(335)	(414)
	(10,551)	(12,350)	(12,364)
	11,679	12,006	11,689

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.)

10. TECHNICAL PROVISIONS

	US\$ '000		
	30 September 2021	31 December 2020	30 September 2020
<u>General insurance business</u>			
· Claims outstanding	148,663	200,511	221,979
· Unreported losses	89,879	146,760	161,409
· Unearned premiums	6,481	27,112	40,305
	245,023	374,383	423,693
<u>Life insurance business</u>			
· Claims outstanding	11,193	12,404	14,547
· Unreported losses	21,408	21,766	23,986
· Unearned premiums	213	316	302
	32,814	34,486	38,835
	277,837	408,869	462,528

11. OTHER LIABILITIES

	US\$ '000		
	30 September 2021	31 December 2020	30 September 2020
Provision for probable loss estimates in subsidiary (note 21 (iii))	8,762	13,462	21,462
Non-reinsurance payables	4,941	10,029	9,348
Post-employment benefits	6,174	6,652	7,243
Accrued expense	5,448	5,872	5,602
Dividends payable	321	321	321
Reinsurance premiums accrued	1,257	1,189	2,013
Employee long-term incentives	-	-	450
Other	1,076	1,147	1,660
	27,979	38,672	48,099

12. 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. Segment assets and liabilities are reviewed by management only on aggregate basis.

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

12. SEGMENT INFORMATION (CONTD.)

- ANALYSIS OF REVENUE BY PRIMARY BUSINESS SEGMENT:

	US\$ '000								
	Period ended 30 September 2021								
	Non-life					Life		Total	
	Property	Engineering	Marine	Accident	Whole account	Others	Short term		Long term
REVENUES :									
Gross premiums written*	(857)	(206)	(1,060)	(549)	(422)	(468)	111	149	(3,302)
Outward reinsurance premiums	(849)	(359)	66	20	1,851	(3)	(19)	(89)	618
Change in unearned premiums - gross	47	2,173	254	213	12,070	3,957	-	102	18,816
Change in unearned premiums - reinsurance	-	(191)	(10)	-	(3,618)	-	-	-	(3,819)
Net earned premiums	(1,659)	1,417	(750)	(316)	9,881	3,486	92	162	12,313
Investment income attributable to insurance funds	1,396	103	156	235	15	969	739	297	3,910
	(263)	1,520	(594)	(81)	9,896	4,455	831	459	16,223
COSTS AND EXPENSES :									
Gross claims paid	(10,158)	(5,533)	(1,973)	(569)	(56,893)	(4,146)	(2,034)	(64)	(81,370)
Claims recovered from reinsurers	267	301	278	40	20,151	-	-	1	21,038
Change in provision for outstanding claims - gross	7,155	3,098	4,518	800	13,311	1,902	1,390	(180)	31,994
Change in provision for outstanding claims - reinsurance	(277)	(151)	(254)	17	(4,809)	(12)	(2)	1	(5,487)
Change in provision for unreported losses - gross	6,325	4,701	2,095	852	33,584	3,950	4,751	(4,392)	51,866
Change in provision for unreported losses - reinsurance	(339)	(536)	(104)	(9)	(12,700)	(840)	(4)	-	(14,532)
Claims and related expenses	2,973	1,880	4,560	1,131	(7,356)	854	4,101	(4,634)	3,509
Policy acquisition costs	1,199	53	417	366	(3,158)	221	6	41	(855)
Policy acquisition costs recovered from reinsurers	29	(56)	(32)	(22)	12	(1)	-	-	(70)
Change in deferred policy acquisition costs - gross	(14)	(696)	(70)	(52)	-	36	-	(2)	(798)
Change in deferred policy acquisition costs - reinsurance	-	76	3	-	-	(2)	-	-	77
Policy acquisition costs	1,214	(623)	318	292	(3,146)	254	6	39	(1,646)
Operating expenses	(1,846)	(1,000)	(588)	(386)	(40)	(944)	(713)	(122)	(5,639)
Underwriting result	2,078	1,777	3,696	956	(646)	4,619	4,225	(4,258)	12,447

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

12. 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.)

12. SEGMENT INFORMATION (CONTD.)

- ANALYSIS OF REVENUE BY PRIMARY BUSINESS SEGMENT:

	US\$ '000								
	Period ended 30 September 2020								
	Non-life					Life		Total	
	Property	Engineering	Marine	Accident	Whole account*	Others	Short term		Long term
REVENUES :									
Gross premiums written	(2,131)	69	(35)	(269)	(7,035)	(5,664)	(826)	222	(15,669)
Outward reinsurance premiums	(1,495)	(89)	28	82	1,159	(71)	(84)	(24)	(494)
Change in unearned premiums - gross	3,073	5,453	2,041	935	72,830	13,121	1,868	(33)	99,288
Change in unearned premiums - reinsurance	(123)	(800)	(117)	(11)	(23,385)	-	-	-	(24,436)
Net earned premiums	(676)	4,633	1,917	737	43,569	7,386	958	165	58,689
Investment income attributable to insurance funds	229	-	25	17	227	74	109	23	704
	(447)	4,633	1,942	754	43,796	7,460	1,067	188	59,393
COSTS AND EXPENSES :									
Gross claims paid	(12,478)	(8,741)	(5,698)	(1,450)	(79,162)	(14,837)	(4,448)	(198)	(127,012)
Claims recovered from reinsurers	332	715	514	109	32,299	72	-	2	34,043
Change in provision for outstanding claims - gross	12,782	4,398	3,208	1,091	12,069	5,351	883	(42)	39,740
Change in provision for outstanding claims - reinsurance	58	(318)	(599)	(6)	(5,998)	(59)	-	3	(6,919)
Change in provision for unreported losses - gross	8,336	1,645	1,454	1,558	16,618	8,366	2,752	(2,461)	38,268
Change in provision for unreported losses - reinsurance	(303)	(257)	(130)	(148)	(8,738)	139	(1)	-	(9,438)
Claims and related expenses	8,727	(2,558)	(1,251)	1,154	(32,912)	(968)	(814)	(2,696)	(31,318)
Policy acquisition costs	969	482	195	124	(13,683)	1,339	226	30	(10,318)
Policy acquisition costs recovered from reinsurers	(171)	(148)	(19)	(32)	37	9	-	-	(324)
Change in deferred policy acquisition costs - gross	(1,031)	(1,836)	(657)	(288)	(192)	(2,178)	(75)	(1)	(6,258)
Change in deferred policy acquisition costs - reinsurance	40	293	46	4	-	-	-	-	383
Policy acquisition costs	(193)	(1,209)	(435)	(192)	(13,838)	(830)	151	29	(16,517)
Operating expenses	(1,911)	(924)	(577)	(367)	(50)	(836)	(794)	(121)	(5,580)
Underwriting result	6,176	(58)	(321)	1,349	(3,004)	4,826	(390)	(2,600)	5,978

*Whole account includes gross premiums reversals amounting to USD 7.7 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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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTD.)

13. INVESTMENT INCOME

	US\$ '000				
	Financial year-to-date 30 September 2021			Financial year-to-date 30 September 2020	Year ended 31 December 2020
	Insurance funds	Shareholders' funds	Total		
Interest income					
- Investments designated at fair value through profit or loss	356	339	695	895	1,169
- Others	2,947	3,161	6,108	7,833	10,023
Dividends	-	-	-	57	56
Realised gains on available for sale	1,066	1,035	2,101	2,122	3,462
Gain (loss) on remeasurement of investments at fair value through profit or loss					
- Held for trading investments	241	229	470	(7,668)	(7,627)
- Investments designated at fair value through profit or loss	(198)	(271)	(469)	1,545	1,878
Impairment loss - available for sale					
- Debt Securities	(77)	(73)	(150)	-	-
- Other	(198)	(210)	(408)	(1,466)	(1,681)
Income from associates	-	82	82	8	8
Other	(227)	(238)	(465)	(2,053)	(2,340)
	3,910	4,054	7,964	1,273	4,948

14. OPERATING EXPENSES

	US\$ '000				
	Financial year-to-date 30 September 2021			Financial year-to-date 30 September 2020	Year ended 31 December 2020
	Underwriting	Non- Underwriting	Total		
Salaries and benefits	3,339	1,654	4,993	6,010	8,219
General and administration	2,300	943	3,243	3,929	5,063
	5,639	2,597	8,236	9,939	13,282

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

15. OTHER INCOME

	US\$ '000		
	Financial year-to-date 30 September 2021	Financial year-to-date 30 September 2020	Year ended 31 December 2020
Foreign exchange gain	-	1,255	1,474
Government support scheme (COVID19)	-	441	441
Third party administration services	321	377	844
Reversal of provisions	2,162	-	2,998
Other	537	408	526
	3,020	2,481	6,283

16. OTHER EXPENSES AND PROVISIONS

	US\$ '000		
	Financial year-to-date 30 September 2021	Financial year-to-date 30 September 2020	Year ended 31 December 2020
Foreign exchange loss	2,391	-	-
Investment property impairment and depreciation	107	338	528
Provision for doubtful receivable & deposits	-	-	90
Run-off expenses	-	1,105	851
Other, net	132	728	1,321
	2,630	2,171	2,790

17. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

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

		Financial year-to-date 30 September 2021	Financial year-to-date 30 September 2020	Year ended 31 December 2020
Weighted average number of shares outstanding	'000	198,032	198,032	198,032
Net profit	US\$'000	14,221	3,122	13,558
Earnings per share	US cents	7.2	1.6	6.8

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

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

	US\$ '000		
	Financial year-to-date 30 September 2021	Financial year-to-date 30 September 2020	Year ended 31 December 2020
Profit for the period	14,294	2,386	12,667
Change in insurance funds	(91,901)	(126,559)	(153,839)
Change in insurance receivable/payable, net	12,410	24,441	35,078
Change in accrued income	5,682	55,103	62,572
Change in other assets/liabilities, net	(11,718)	21,607	5,012
Net cash used in operating activities	(71,233)	(23,022)	(38,510)

19. 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	-	-	-	65
Subsidiary's capital reduction	-	-	-	(4,600)
Balances at 30 September 2021	-	-	321	12,531
Balances at 31 December 2019	7,000	75	2,739	17,952
Share of comprehensive income	-	-	-	(724)
Repayment of borrowing	(7,000)	-	-	-
Interest paid during the period	-	(187)	-	-
Interest expense for the period	-	112	-	-
Dividends paid during the period	-	-	(2,418)	-
Balances at 30 September 2020	-	-	321	17,228
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.)

20. FAIR VALUE DISCLOSURE

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

US\$ '000						
30 September 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	-	97,794	-	-	-	97,794
Investments	111,699	361	14,058	263,813	-	389,931
Accrued income	-	3,104	-	-	-	3,104
Insurance receivables	-	33,952	-	-	-	33,952
Insurance deposits	-	20,435	-	-	-	20,435
Other assets	-	27,079	-	-	-	27,079
LIABILITIES						
Insurance payables	-	-	-	-	54,294	54,294
Other liabilities	-	-	-	-	13,769	13,769

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
Investments	136,773	265	7,921	309,153	-	454,652
Accrued income	-	8,786	-	-	-	8,786
Insurance receivables	-	72,732	-	-	-	72,732
Insurance deposits	-	20,917	-	-	-	20,917
Other assets	-	36,348	-	-	-	36,348
LIABILITIES						
Insurance payables	-	-	-	-	80,664	80,664
Other liabilities	-	-	-	-	19,338	19,338

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

20. FAIR VALUE DISCLOSURE (CONTD.)

US\$ '000							
30 September 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	-	136,406	-	-	-	136,406	136,406
Investments	132,116	251	7,911	283,566	-	423,844	424,370
Accrued income	-	16,255	-	-	-	16,255	16,255
Insurance receivables	-	85,869	-	-	-	85,869	85,869
Insurance deposits	-	21,899	-	-	-	21,899	21,899
Other assets	-	35,147	-	-	-	35,147	35,147
LIABILITIES							
Insurance payables	-	-	-	-	83,164	83,164	83,164
Other liabilities	-	-	-	-	21,035	21,035	21,035

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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20. 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 September 2021	Level 1	Level 2	Level 3	Total
<u>At fair value through profit or loss</u>				
<u>Designated at fair value on initial recognition</u>				
Debt securities	57,436	54,263	-	111,699
<u>Available for sale</u>				
Debt securities	87,905	157,962	-	245,867
Common stock of unlisted companies	-	-	3,123	3,123
Other	-	-	14,823	14,823
<u>Forward foreign exchange contracts</u>	-	278	-	278
	145,341	212,503	17,946	375,790

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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20. FAIR VALUE DISCLOSURE (CONTD.)

US\$'000				
30 September 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	27,216	-	-	27,216
Designated at fair value on initial recognition				
Debt securities	104,900	-	-	104,900
<u>Available for sale</u>				
Debt securities	258,039	-	-	258,039
Common stock of listed companies	5,380	-	-	5,380
Common stock of unlisted companies	-	-	3,338	3,338
Other	-	-	16,809	16,809
<u>Forward foreign exchange contracts</u>	-	95	-	95
	395,535	95	20,147	415,777

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

US\$ '000			
30 September 2021	Unlisted equity	Other	Total
Balances at 1 January 2021	3,349	16,236	19,585
Gain recognised in:			
- Other comprehensive income	28	1,074	1,102
Investments made during the period	12	422	434
Investments redeemed during the period	(266)	(2,909)	(3,175)
Balances at 30 September 2021	3,123	14,823	17,946

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

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20. FAIR VALUE DISCLOSURE (CONTD.)

	US\$ '000		
	Unlisted equity	Other	Total
30 September 2020			
Balances at 1 January 2020	4,653	17,868	22,521
Loss recognised in:			
- Other comprehensive income	(1,244)	(701)	(1,945)
Investments made during the period	19	702	721
Investments redeemed during the period	(90)	(1,060)	(1,150)
Balances at 30 September 2020	3,338	16,809	20,147

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 September 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 September 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.

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.

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

21. PRINCIPAL SUBSIDIARIES & ASSOCIATES

i) Subsidiaries and associates

At 30 September 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 (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 2020 except for Takaful Re Limited where capital was reduced from US\$ 75 million to US\$ 65 million. 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 September 2021	Financial year-to-date 30 September 2020	Year ended 31 December 2020
Non-controlling interests	46%	46%	46%
Total assets	39,440	51,896	51,619
Total liabilities	12,199	14,579	14,517
Net assets	27,241	37,317	37,102
Revenue	1	161	188
Profit (Loss) for the period	159	(1,603)	(1,938)
Total comprehensive income	140	(1,580)	(1,796)
Comprehensive income attributable to non-controlling interests	65	(727)	(826)
Net cash used in operating activities	(1,737)	(1,317)	(1,513)
Net cash provided by (used in) investing activities	2,638	(9,423)	(4,272)
Net cash used in financing activities	(10,000)	-	-
Net decrease in cash and cash equivalents	(9,099)	(10,740)	(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.)

21. 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 September 2021. This does not constitute admission of any liability beyond the share capital of Gulf Warranties W.L.L.

22. 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 September 2021	Financial year-to-date 30 September 2020	Year ended 31 December 2020
a) Service fees for administration services provided by associate	359	358	473
b) Balances outstanding - Payables	196	9	57

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

22. RELATED PARTY TRANSACTIONS (CONTD.)

ii) Compensation to directors and key management personnel:

	US\$ '000		
	Financial year-to-date 30 September 2021	Financial year-to-date 30 September 2020	Year ended 31 December 2020
a) Directors			
- Attendance fees	180	73	145
- Travel expenses	-	23	23
b) Key management compensation			
- Salaries and other short-term employee benefits	260	503	592
- Post-employment benefits	37	56	131
c) Balances payable to key management	554	582	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 September 2021 as assessed by the Group is as below:

	US\$ '000
	30 September 2021
FINANCIAL COSTS	
Sterilization & disinfection of premises, sanitizers, masks & gloves, depreciation, software license, etc	75
	75

CAPITAL EXPENDITURE

	US\$ '000
	30 September 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.