Arab Insurance Group (B.S.C.)

Condensed consolidated interim financial statements for the nine months ended 30 September 2019

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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)
Kingdom of Bahrain

13 November 2019

Introduction
We have reviewed the accompanying 30 September 2019 condensed consolidated interim financial statements of Arab Insurance Group B.S.C (the "Company") and its subsidiaries (together the "Group"), which comprise:

- the condensed consolidated statement of financial position as at 30 September 2019;
- the condensed consolidated statement of profit or loss for the three-month and nine-month periods ended 30 September 2019;
- the condensed consolidated statement of comprehensive income for the three-month and nine-month periods ended 30 September 2019;
- the condensed consolidated statement of changes in equity for the nine-month period ended 30 September 2019;
- the condensed consolidated statement of cash flows for the nine-month period ended 30 September 2019; and
- notes to the condensed consolidated interim financial statements.

The Board of Directors of the Company is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on these 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 2019 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 discusses the Board of Directors' decision in its meeting held on 13 May 2019 to cease the underwriting activities of the Group subject to regulatory authorities and shareholders' approval. Our conclusion is not modified in respect of this matter.

Other Matter
The consolidated financial statements of the Group as at and for the year ended 31 December 2018, and the condensed consolidated interim financial statements for the period ended 30 September 2018, from which the corresponding figures of consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows have been derived, were audited and reviewed by another auditor who issued an unmodified audit opinion and review conclusion on those consolidated financial statements and condensed consolidated interim financial statements respectively.

KPMG

ARAB INSURANCE GROUP (B.S.C.)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2019

(In thousands of U.S. Dollars)

	Note	30 September 2019 (reviewed)	31 December 2018 (audited)	30 September 2018 (reviewed)
ASSETS				
Cash and bank balances		**129,299**	115,935	86,394
Investments	5	**482,441**	495,678	539,158
Accrued income	6	**91,425**	86,585	119,837
Insurance receivables		**121,169**	127,373	133,295
Insurance deposits		**25,898**	27,603	26,206
Deferred policy acquisition costs		**19,911**	25,433	30,840
Reinsurers' share of technical provisions	7	**128,015**	110,629	107,906
Other assets	8	**31,835**	44,078	39,361
Property and equipment	9	**18,774**	19,245	19,534
TOTAL ASSETS		**1,048,767**	1,052,559	1,102,531
LIABILITIES AND EQUITY				
LIABILITIES				
Technical provisions	10	**659,476**	684,569	695,188
Insurance payables		**84,648**	69,305	68,985
Borrowings		**7,000**	7,000	7,000
Other liabilities	11	**57,575**	66,811	73,499
TOTAL LIABILITIES		**808,699**	827,685	844,672
EQUITY				
Attributable to shareholders of parent company				
Share capital		**220,000**	220,000	220,000
Treasury stock		**(14,793)**	(14,793)	(14,793)
Reserves		**48,690**	35,670	35,825
Accumulated losses		**(31,532)**	(44,507)	(11,478)
		222,365	196,370	229,554
Non-controlling interests		**17,703**	28,504	28,305
TOTAL EQUITY		**240,068**	224,874	257,859
TOTAL LIABILITIES AND EQUITY		**1,048,767**	1,052,559	1,102,531

These condensed consolidated interim financial statements were approved by the Board of Directors on 13 November 2019 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 2019

(In thousands of U.S. Dollars)

	Note	For the three months ended 30 September 2019 (reviewed)	For the three months ended 30 September 2018 (reviewed)	For the financial year-to-date 30 September 2019 (reviewed)	For the financial year-to-date 30 September 2018 (reviewed)	For the year ended 31 December 2018 (audited)
Gross premiums written	12	**3,672**	52,400	**175,421**	239,914	262,791
Outward reinsurance premiums	12	**(610)**	(12,570)	**(46,244)**	(60,066)	(64,398)
Change in unearned premiums	12	**33,897**	11,367	**10,566**	(24,089)	15,559
Net earned premiums	12	**36,959**	51,197	**139,743**	155,759	213,952
Claims and related expenses	12	**(21,757)**	(33,570)	**(89,966)**	(108,114)	(175,226)
Policy acquisition costs	12	**(11,145)**	(14,914)	**(38,753)**	(42,256)	(58,089)
Investment income attributable to insurance funds	13	**2,269**	2,405	**14,201**	7,326	5,963
Operating expenses	14	**(2,787)**	(3,334)	**(9,170)**	(10,202)	(13,263)
Underwriting result	12	**3,539**	1,784	**16,055**	2,513	(26,663)
Investment income attributable to shareholders' funds	13	**1,067**	2,086	**6,465**	5,978	4,086
Operating expenses - non underwriting activities	14	**(723)**	(2,055)	**(4,046)**	(6,382)	(9,281)
Borrowing cost		**(56)**	(194)	**(203)**	(733)	(808)
Other income	15	**635**	(283)	**1,337**	1,568	5,165
Other expenses and provisions	16	**(522)**	(258)	**(6,133)**	(22,011)	(24,701)
Profit (loss) for the period		**3,940**	1,080	**13,475**	(19,067)	(52,202)
Attributable to:						
Non-controlling interests		**305**	819	**646**	3,106	3,049
Shareholders of parent company		**3,635**	261	**12,829**	(22,173)	(55,251)
		3,940	1,080	**13,475**	(19,067)	(52,202)
Earnings (losses) per share attributable to shareholders (basic and diluted):	17 (US cents)	**1.8**	0.1	**6.5**	(11.2)	(27.9)

Saeed Mohammed AlBahhar
Chairman

Ahmed Saeed AlMahri
Director

Samuel Verghese
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 2019

(In thousands of U.S. Dollars)

	For the three months ended 30 September 2019 (reviewed)	For the three months ended 30 September 2018 (reviewed)	For the financial year-to-date 30 September 2019 (reviewed)	For the financial year-to-date 30 September 2018 (reviewed)	For the year ended 31 December 2018 (audited)
Profit (loss) for the period	**3,940**	1,080	**13,475**	(19,067)	(52,202)
Other comprehensive income					
Items that will be reclassified to profit or loss:					
Changes on remeasurement of available for sale Investments	**2,349**	1,354	**14,771**	(4,758)	(4,994)
Transfers for recognition of gains on disposal of available for sale investments	**(618)**	(568)	**(2,287)**	(698)	(518)
Transfers for impairment loss recognised on available for sale investments	**104**	-	**735**	-	206
Other comprehensive income for the period	**1,835**	786	**13,219**	(5,456)	(5,306)
Total comprehensive income for the period	**5,775**	1,866	**26,694**	(24,523)	(57,508)
Attributable to:					
Non-controlling interests	**305**	853	**699**	2,857	3,056
Shareholders of parent company	**5,470**	1,013	**25,995**	(27,380)	(60,564)
	5,775	1,866	**26,694**	(24,523)	(57,508)

Saeed Mohammed AlBahhar
Chairman

Ahmed Saeed AlMehri
Director

Samuel Verghese
Acting Chief Executive Officer

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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 2019

(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 2018	220,000	(14,793)	34,816	(3,451)	4,305	35,670	(44,507)	196,370	28,504	224,874
Net profit for the period	-	-	-	-	-	-	12,829	12,829	646	13,475
Changes on remeasurement of available for sale investments	-	-	-	14,671	-	14,671	-	14,671	100	14,771
Transfers for recognition of gains on disposal of available for sale investments	-	-	-	(2,169)	-	(2,169)	-	(2,169)	(118)	(2,287)
Transfers for impairment loss recognised on available for sale investments	-	-	-	664	-	664	-	664	71	735
Total comprehensive income for the period	-	-	-	13,166	-	13,166	12,829	25,995	699	26,694
Transfer of net depreciation on revalued property	-	-	-	-	(146)	(146)	146	-	-	-
Subsidiary's capital reduction (note 21 (i))	-	-	-	-	-	-	-	-	(11,500)	(11,500)
Balances at 30 September 2019	220,000	(14,793)	34,816	9,715	4,159	48,690	(31,532)	222,365	17,703	240,068

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 2018

(In thousands of U.S. Dollars)

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

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 NINE MONTHS ENDED 30 SEPTEMBER 2018

(In thousands of U.S. Dollars)

	Share capital	Treasury Stock	Reserves				Retained earnings (accumulated losses)	Attributable to shareholders of parent company	Non-controlling interests	Total Equity (audited)
			Legal	Investment revaluation	Property revaluation	Total				
Balances at 31 December 2017	220,000	(14,793)	34,816	1,862	4,500	41,178	10,549	256,934	25,448	282,382
Net (loss) profit for the period	-	-	-	-	-	-	(22,173)	(22,173)	3,106	(19,067)
Changes on remeasurement of available for sale investments	-	-	-	(4,689)	-	(4,689)	-	(4,689)	(69)	(4,758)
Transfers for recognition of gains on disposal of available for sale investments	-	-	-	(518)	-	(518)	-	(518)	(180)	(698)
Total comprehensive income for the period	-	-	-	(5,207)	-	(5,207)	(22,173)	(27,380)	2,857	(24,523)
Transfer of net depreciation on revalued property	-	-	-	-	(146)	(146)	146	-	-	-
Balances at 30 September 2018	220,000	(14,793)	34,816	(3,345)	4,354	35,825	(11,478)	229,554	28,305	257,859

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 2019

(In thousands of U.S. Dollars)

	Note	For the financial year-to-date 30 September 2019 (reviewed)	For the financial year-to-date 30 September 2018 (reviewed)	For the year ended 31 December 2018 (audited)
CASH FLOWS FROM OPERATING ACTIVITIES				
Premiums received		155,494	176,536	233,874
Reinsurance premiums paid		(28,840)	(44,311)	(54,829)
Claims and acquisition costs paid		(189,025)	(147,233)	(193,960)
Reinsurance receipts in respect of claims		45,103	20,887	26,685
Investment income		9,829	204	37
Interest received		2,628	2,168	2,820
Dividends received		952	1,188	1,300
Operating expenses paid		(17,810)	(15,929)	(21,162)
Other income (expenses), net		419	397	(3,055)
Insurance deposits received (paid), net		1,182	(157)	(1,928)
Purchase of trading investments		(4,180)	(10,991)	(14,355)
Sale of trading investments		16,938	14,482	19,127
Net cash used in operating activities	18	(7,310)	(2,759)	(5,446)
CASH FLOWS FROM INVESTING ACTIVITIES				
Maturity/sale of investments		82,587	118,034	178,798
Purchase of investments		(70,645)	(85,578)	(110,110)
Term deposits with bank		(4,840)	9,711	13,708
Interest received		6,898	7,723	10,223
Investment income		927	783	135
Collateralised cash deposits		12,863	(5,601)	(11,201)
Purchase of property and equipment		(2)	(64)	(103)
Purchase of intangible assets		(82)	(74)	(211)
Investment in associate		-	(100)	(100)
Net cash provided by investing activities		27,706	44,834	81,139
CASH FLOWS FROM FINANCING ACTIVITIES				
Borrowings	19	-	(27,000)	(27,000)
Borrowing cost	19	(279)	(1,325)	(1,338)
Dividends paid	19	(49)	(302)	(374)
Subsidiary's capital reduction – minority interests	19	(11,500)	-	-
Net cash used in financing activities		(11,828)	(28,627)	(28,712)
Net increase in cash and cash equivalents		8,568	13,448	46,981
Effect of exchange rates on cash and cash equivalents		(44)	(16)	(11)
Cash and cash equivalents, beginning of period		109,908	62,938	62,938
Cash and cash equivalents, end of period		118,432	76,370	109,908
Term deposits with bank		10,867	10,024	6,027
Cash and bank balances, end of period		129,299	86,394	115,935

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

1. INCORPORATION AND PRINCIPAL ACTIVITY

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements of the Group have been prepared in accordance with International Accounting Standard 34 (Interim Financial Reporting) which allows the interim financial information to be prepared in condensed form. The condensed consolidated interim financial statements do not include all 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 2018.

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 2018 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 except for change from IFRS 16.

The Group adopted IFRS 16 on the effective date 1 January 2019 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 has not been restated - i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The Group presents right of use assets in "other assets" and lease liabilities in "other liabilities" in the statement of financial position.

IFRS 16, introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies. The impact of transition was not significant.

The Group has adopted all new and revised IFRS and interpretations applicable for accounting periods beginning on or after 1 January 2019 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 2021. The impact of adopting these standards and interprations is not significant on the Group's condensed consolidated interm financial statements.

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 2018.

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

5. i) INVESTMENTS

	US$ '000		
	30 September 2019	31 December 2018	30 September 2018
At fair value through profit or loss			
Held for trading			
Common stock of listed companies	**39,445**	56,709	55,556
	39,445	56,709	55,556
Designated at fair value on initial recognition			
Debt securities			
- Other investment grade	**101,122**	83,763	78,605
- Other	**4,253**	11,112	20,121
	105,375	94,875	98,726
Held to maturity			
Debt securities			
- Supra-nationals and OECD country governments	**500**	500	500
- Other investment grade	**3,922**	3,904	3,898
- Other	**3,951**	3,941	3,937
	8,373	8,345	8,335
Available for sale			
Debt securities			
- Supra-nationals and OECD country governments	**28,142**	25,819	30,699
- Other investment grade	**237,824**	241,411	240,192
- Other	**35,063**	39,205	73,109
Common stock of listed companies	**5,665**	7,226	10,394
Common stock of unlisted companies	**3,821**	3,872	4,107
Other equity type investment	**18,362**	17,774	17,679
	328,877	335,307	376,180
Investment in associate	**371**	442	361
	482,441	495,678	539,158

Debt securities amounting to US$ 107.1 million (31 December 2018: US$ 101.8 million; 30 September 2018: US$ 100.7 million) have been pledged as security for reinsurance trust agreements, letters of credit and guarantees and borrowings.

ii) COMMITMENTS OUTSTANDING

The Group has commitments for uncalled capital in available for sale investments amounting to US$ 7.4 million (31 December 2018: US$ 8.1 million; 30 September 2018: US$ 9.2 million).

6. ACCRUED INCOME

	US$ '000		
	30 September 2019	31 December 2018	30 September 2018
Accrued insurance premiums	**89,121**	84,327	117,394
Accrued interest	**2,304**	2,258	2,443
	91,425	86,585	119,837

7. REINSURERS' SHARE OF TECHNICAL PROVISIONS

	US$ '000		
	30 September 2019	31 December 2018	30 September 2018
General insurance business			
- Claims outstanding	**50,449**	44,903	34,330
- Unreported claims	**36,872**	32,389	27,608
- Deferred retrocession premium reserve	**40,661**	33,293	45,907
	127,982	110,585	107,845
Life insurance business			
- Claims outstanding	**12**	13	13
- Unreported claims	**21**	31	48
	33	44	61
	128,015	110,629	107,906

8. OTHER ASSETS

	US$ '000		
	30 September 2019	31 December 2018	30 September 2018
Intangible assets:			
- Computer software	**10,165**	10,083	9,945
	10,165	10,083	9,945
Less: Accumulated amortisation	**(9,594)**	(9,570)	(9,503)
Net intangible assets	**571**	513	442
Other assets:			
- Collateralised cash deposits	**18,679**	31,542	25,942
- Other receivables	**11,933**	11,266	12,107
- Prepayments	**652**	757	870
	31,264	43,565	38,919
	31,835	44,078	39,361

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

9. PROPERTY AND EQUIPMENT

	US$ '000		
	30 September 2019	31 December 2018	30 September 2018
Land	**2,080**	2,080	2,080
Building	**18,718**	18,718	18,718
Information systems hardware, furniture, equipment and other	**10,645**	10,646	10,607
	31,443	31,444	31,405
Less: Accumulated depreciation			
Building	**(2,480)**	(2,083)	(1,950)
Information systems, hardware, furniture, equipment and other	**(10,189)**	(10,116)	(9,921)
	(12,669)	(12,199)	(11,871)
	18,774	19,245	19,534

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

10. TECHNICAL PROVISIONS

	US$ '000		
	30 September 2019	31 December 2018	30 September 2018
General insurance business			
- Claims outstanding	**261,958**	264,588	241,920
- Unreported losses	**196,743**	206,884	187,717
- Unearned premiums	**157,576**	162,427	213,947
	616,277	633,899	643,584
Life insurance business			
- Claims outstanding	**13,861**	13,671	13,313
- Unreported losses	**25,185**	27,973	29,110
- Unearned premiums	**4,153**	9,026	9,181
	43,199	50,670	51,604
	659,476	684,569	695,188

11. OTHER LIABILITIES

	US$ '000		
	30 September 2019	31 December 2018	30 September 2018
Provision for probable loss estimates in a subsidiary (note 21(iii))	**21,462**	21,462	21,000
Post-employment benefits	**7,001**	12,606	12,667
Accrued expenses	**6,644**	9,495	9,859
Dividends payable	**2,741**	2,790	2,862
Reinsurance premiums accrued	**1,986**	1,465	1,554
Employee long-term incentives	**881**	1,460	1,460
Other	**16,860**	17,533	24,097
	57,575	66,811	73,499

12. SEGMENT INFORMATION - ANALYSIS OF REVENUE BY PRIMARY BUSINESS SEGMENT:

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

	US$ '000								
	Period ended 30 September 2019								
	Non-life						Life		Total
	Property	Engineering	Marine	Accident	Whole account	Other	Short term	Long term	
REVENUES :									
Gross premiums written	16,142	8,808	6,793	3,290	118,170	15,207	6,659	352	175,421
Outward reinsurance premiums	(785)	(3,380)	(269)	(84)	(41,666)	(8)	(49)	(3)	(46,244)
Change in unearned premiums - gross	6,861	5,554	1,205	1,314	(24,990)	3,477	4,955	(76)	(1,700)
Change in unearned premiums - reinsurance	(1,068)	(953)	(390)	(94)	14,814	(43)	-	-	12,266
Net earned premiums	21,150	10,029	7,339	4,426	66,328	18,633	11,565	273	139,743
Investment income attributable to insurance funds	5,826	690	1,113	989	38	2,258	2,619	668	14,201
	26,976	10,719	8,452	5,415	66,366	20,891	14,184	941	153,944
COSTS AND EXPENSES :									
Gross claims paid	(22,489)	(9,602)	(4,588)	(2,253)	(98,932)	(17,211)	(12,569)	(120)	(167,764)
Claims recovered from reinsurers	1,765	865	502	410	26,291	44	-	4	29,881
Change in provision for outstanding claims - gross	6,548	2,059	(1,276)	1,596	7,122	1,727	(200)	10	17,586
Change in provision for outstanding claims - reinsurance	46	(189)	(496)	(256)	2,771	3	(1)	-	1,878
Change in provision for unreported losses - gross	2,771	(2,949)	98	697	23,248	(912)	2,394	392	25,739
Change in provision for unreported losses - reinsurance	40	309	(29)	(316)	2,260	458	(8)	-	2,714
Claims and related expenses	(11,319)	(9,507)	(5,789)	(122)	(37,240)	(15,891)	(10,384)	286	(89,966)
Policy acquisition costs	(4,603)	(2,126)	(2,028)	(992)	(25,101)	(1,246)	364	243	(35,489)
Policy acquisition costs recovered from reinsurers	121	203	110	78	2	(8)	-	-	506
Change in deferred policy acquisition costs - gross	(1,597)	(1,662)	(298)	(404)	13	(298)	(370)	-	(4,616)
Change in deferred policy acquisition costs - reinsurance	297	347	129	37	20	16	-	-	846
Policy acquisition costs	(5,782)	(3,238)	(2,087)	(1,281)	(25,066)	(1,536)	(6)	243	(38,753)
Operating expenses	(2,751)	(1,485)	(905)	(583)	(67)	(1,696)	(1,462)	(221)	(9,170)
Underwriting result	7,124	(3,511)	(329)	3,429	3,993	1,768	2,332	1,249	16,055

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

	US$ '000								
	Year ended 31 December 2018								
	Non-life						Life		Total
	Property	Engineering	Marine	Accident	Whole account	Other	Short term	Long term	
REVENUES :									
Gross premiums written	50,267	22,159	12,562	9,193	128,752	21,213	18,528	117	262,791
Outward reinsurance premiums	(7,507)	(3,491)	(473)	(702)	(50,893)	(1,070)	(206)	(56)	(64,398)
Change in unearned premiums - gross	122	(4,679)	(1,177)	110	(2,554)	9,981	(286)	69	1,586
Change in unearned premiums - reinsurance	(394)	452	1	(11)	13,925	-	-	-	13,973
Net earned premiums	42,488	14,441	10,913	8,590	89,230	30,124	18,036	130	213,952
Investment income attributable to insurance funds	2,567	392	461	467	(20)	756	1,069	271	5,963
	45,055	14,833	11,374	9,057	89,210	30,880	19,105	401	219,915
COSTS AND EXPENSES :									
Gross claims paid	(30,125)	(15,644)	(8,833)	(3,764)	(75,106)	(27,982)	(15,239)	(894)	(177,587)
Claims recovered from reinsurers	962	734	913	87	21,460	94	-	7	24,257
Change in provision for outstanding claims - gross	(17,289)	(804)	(2,368)	1,747	(19,949)	466	(390)	249	(38,338)
Change in provision for outstanding claims - reinsurance	9,256	1,680	1,925	45	11,118	(210)	1	2	23,817
Change in provision for unreported losses - gross	(4,475)	5,964	1,178	2,551	2,706	2,499	(728)	6,249	15,944
Change in provision for unreported losses - reinsurance	179	533	65	186	(24,788)	546	(40)	-	(23,319)
Claims and related expenses	(41,492)	(7,537)	(7,120)	852	(84,559)	(24,587)	(16,396)	5,613	(175,226)
Policy acquisition costs	(13,427)	(6,640)	(3,374)	(2,704)	(33,046)	(1,174)	(1,419)	(325)	(62,109)
Policy acquisition costs recovered from reinsurers	1,339	893	384	295	65	24	-	-	3,000
Change in deferred policy acquisition costs - gross	(55)	1,402	246	(35)	(38)	(495)	68	(11)	1,082
Change in deferred policy acquisition costs - reinsurance	76	(126)	4	4	(20)	-	-	-	(62)
Policy acquisition costs	(12,067)	(4,471)	(2,740)	(2,440)	(33,039)	(1,645)	(1,351)	(336)	(58,089)
Operating expenses	(3,717)	(2,218)	(1,326)	(873)	(122)	(2,512)	(2,119)	(376)	(13,263)
Underwriting result	(12,221)	607	188	6,596	(28,510)	2,136	(761)	5,302	(26,663)

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

	US$ '000								
	Period ended 30 September 2018								
	Non-life						Life		Total
	Property	Engineering	Marine	Accident	Whole account	Other	Short term	Long term	
REVENUES :									
Gross premiums written	47,035	19,376	11,704	8,116	119,008	20,975	13,391	309	239,914
Outward reinsurance premiums	(6,212)	(2,869)	(1,093)	(702)	(49,064)	(102)	(22)	(2)	(60,066)
Change in unearned premiums - gross	(9,832)	(7,328)	(3,446)	(1,034)	(29,156)	514	(346)	(25)	(50,653)
Change in unearned premiums - reinsurance	507	878	322	149	24,684	24	-	-	26,564
Net earned premiums	31,498	10,057	7,487	6,529	65,472	21,411	13,023	282	155,759
Investment income attributable to insurance funds	2,524	876	582	638	62	1,061	938	645	7,326
	34,022	10,933	8,069	7,167	65,534	22,472	13,961	927	163,085
COSTS AND EXPENSES :									
Gross claims paid	(20,007)	(12,394)	(7,113)	(3,190)	(57,154)	(19,069)	(11,630)	(647)	(131,204)
Claims recovered from reinsurers	554	550	740	55	16,587	38	-	7	18,531
Change in provision for outstanding claims - gross	(4,503)	5,628	(1,857)	2,583	(18,767)	1,677	96	121	(15,022)
Change in provision for outstanding claims - reinsurance	1,215	776	426	(48)	10,757	(3)	1	2	13,126
Change in provision for unreported losses - gross	(143)	2,868	1,500	593	25,829	(538)	(2,052)	6,436	34,493
Change in provision for unreported losses - reinsurance	(161)	305	(145)	443	(28,680)	222	(22)	-	(28,038)
Claims and related expenses	(23,045)	(2,267)	(6,449)	436	(51,428)	(17,673)	(13,607)	5,919	(108,114)
Policy acquisition costs	(13,009)	(5,868)	(3,206)	(2,437)	(24,191)	(1,159)	(811)	(388)	(51,069)
Policy acquisition costs recovered from reinsurers	1,241	819	375	277	-	23	-	-	2,735
Change in deferred policy acquisition costs - gross	2,877	2,262	929	354	124	223	(65)	4	6,708
Change in deferred policy acquisition costs - reinsurance	(171)	(295)	(107)	(51)	-	(6)	-	-	(630)
Policy acquisition costs	(9,062)	(3,082)	(2,009)	(1,857)	(24,067)	(919)	(876)	(384)	(42,256)
Operating expenses	(2,862)	(1,720)	(1,026)	(674)	(94)	(1,944)	(1,604)	(278)	(10,202)
Underwriting result	(947)	3,864	(1,415)	5,072	(10,055)	1,936	(2,126)	6,184	2,513

13. INVESTMENT INCOME

	US$ '000				
	Financial year-to-date 30 September 2019			Financial year-to-date 30 September 2018	Year ended 31 December 2018
	Insurance funds	Shareholders' funds	Total		
Interest income					
- Investments designated at fair value through profit or loss	**764**	**311**	**1,075**	950	1,291
- Other	**5,518**	**2,979**	**8,497**	8,650	11,276
Dividends	**676**	**276**	**952**	1,188	1,300
Realised gain					
- Held for trading investments	**7,829**	**3,192**	**11,021**	1,703	2,111
- Investment designated at fair value through profit or loss	**473**	**193**	**666**	526	125
- Available for sale	**1,443**	**844**	**2,287**	698	518
(Loss) gain on remeasurement of investments at fair value through profit or loss					
- Held for trading investments	**(1,864)**	**(759)**	**(2,623)**	1,417	(4,735)
- Investments designated at fair value through profit or loss	**723**	**363**	**1,086**	(1,095)	(661)
Impairment loss - available for sale	**(413)**	**(322)**	**(735)**	-	(206)
(Loss) income from associates	**-**	**(71)**	**(71)**	(60)	22
Other	**(948)**	**(541)**	**(1,489)**	(673)	(992)
	14,201	**6,465**	**20,666**	13,304	10,049

14. OPERATING EXPENSES

	US$ '000				
	Financial year-to-date 30 September 2019			Financial year-to-date 30 September 2018	Year ended 31 December 2018
	Underwriting	Non-Underwriting	Total		
Salaries and benefits	**5,316**	**2,438**	**7,754**	11,095	14,620
General and administration	**3,854**	**1,608**	**5,462**	5,489	7,924
	9,170	**4,046**	**13,216**	16,584	22,544

15. OTHER INCOME

	US$ '000		
	Financial year-to-date 30 September 2019	Financial year-to-date 30 September 2018	Year ended 31 December 2018
Deffered income	**523**	457	2,040
Third party administration services	**74**	724	2,502
Other	**740**	387	623
	1,337	1,568	5,165

16. OTHER EXPENSES AND PROVISIONS

	US$ '000		
	Financial year-to-date 30 September 2019	Financial year-to-date 30 September 2018	Year ended 31 December 2018
Provision for probable loss estimates in a subsidiary (note 21(iii))	**-**	21,000	21,462
Foreign exchange loss	**878**	54	1,385
Provision for (reversal of) doubtful receivables & deposits	**-**	89	(251)
Other, net	**5,255**	868	2,105
	6,133	22,011	24,701

17. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

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

		Financial year-to-date 30 September 2019	Financial year-to-date 30 September 2018	Year ended 31 December 2018
Weighted average number of shares outstanding	*'000*	***198,032***	198,032	198,032
Net profit (loss)	US$'000	**12,829**	(22,173)	(55,251)
Earnings (losses) per share	US cents	**6.5**	(11.2)	(27.9)

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

	US$ '000		
	Financial year-to-date 30 September 2019	Financial year-to-date 30 September 2018	Year ended 31 December 2018
Profit (loss) for the period	**13,475**	(19,067)	(52,202)
Change in insurance funds	**(35,252)**	10,645	1,313
Change in insurane receivables/ payables, net	**21,547**	(6,724)	(482)
Change in accrued income	**(4,840)**	(16,741)	16,511
Change in other assets/liabilities, net	**(2,240)**	29,128	29,414
Net cash used in operating activities	**(7,310)**	(2,759)	(5,446)

19. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	US$ '000			
	Borrowings	**Borrowing cost**	**Dividends**	**Non-controlling interests**
Balances at 31 December 2018	**7,000**	**101**	**2,790**	**28,504**
Share of comprehensive income	**-**	**-**	**-**	**699**
Subsidiary's capital reduction	**-**	**-**	**-**	**(11,500)**
Interest paid during the period	**-**	**(279)**	**-**	**-**
Interest expense for the period	**-**	**203**	**-**	**-**
Dividends paid during the period	**-**	**-**	**(49)**	**-**
Balances at 30 September 2019	**7,000**	**25**	**2,741**	**17,703**
Balances at 31 December 2017	34,000	631	3,164	25,448
Share of comprehensive income	-	-	-	2,857
Repayment of borrowings	(32,000)	-	-	-
Additional borrowings	5,000	-	-	-
Interest paid during the period	-	(1,325)	-	-
Interest expense for the period	-	733		-
Dividends paid during the period	-	-	(302)	-
Balances at 30 September 2018	7,000	39	2,862	28,305
Balances at 31 December 2017	34,000	631	3,164	25,448
Share of comprehensive income	-	-	-	3,056
Repayment of borrowings	(32,000)	-	-	-
Additional borrowings	5,000	-	-	-
Interest paid during the year	-	(1,338)	-	-
Interest expense for the year	-	808	-	-
Dividends paid during the year	-	-	(374)	-
Balances at 31 December 2018	7,000	101	2,790	28,504

20. FAIR VALUE DISCLOSURE

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

	US$ '000						
	30 September 2019						
	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	-	129,299	-	-	-	129,299	129,299
Investments	144,820	-	8,373	328,877	-	482,070	482,449
Accrued income	-	91,425	-	-	-	91,425	91,425
Insurance receivables	-	121,169	-	-	-	121,169	121,169
Insurance deposits	-	25,898	-	-	-	25,898	25,898
Other assets	-	30,612	-	-	-	30,612	30,612
LIABILITIES							
Insurance payables	-	-	-	-	84,648	84,648	84,648
Borrowings	-	-	-	-	7,000	7,000	7,000
Other liabilities	-	-	-	-	29,469	29,469	29,469

	US$ '000						
	31 December 2018						
	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	-	115,935	-	-	-	115,935	115,935
Investments	151,584	-	8,345	335,307	-	495,236	495,248
Accrued income	-	86,585	-	-	-	86,585	86,585
Insurance receivables	-	127,373	-	-	-	127,373	127,373
Insurance deposits	-	27,603	-	-	-	27,603	27,603
Other assets	-	42,808	-	-	-	42,808	42,808
LIABILITIES							
Insurance payables	-	-	-	-	69,305	69,305	69,305
Borrowings	-	-	-	-	7,000	7,000	7,000
Other liabilities	-	-	-	-	35,854	35,854	35,854

20. FAIR VALUE DISCLOSURE (CONTD.)

	US$ '000						
	30 September 2018						
	Book Value						Fair value
	At fair value through profit or loss	Loans and receivables	Held to maturity	Available for sale	Amortised cost	Total7	
ASSETS							
Cash and bank balances	-	86,394	-	-	-	86,394	86,394
Investments	154,282	-	8,335	376,180	-	538,797	538,828
Accrued income	-	119,837	-	-	-	119,837	119,837
Insurance receivables	-	133,295	-	-	-	133,295	133,295
Insurance deposits	-	26,206	-	-	-	26,206	26,206
Other assets	-	38,049	-	-	-	38,049	38,049
LIABILITIES							
Insurance payables	-	-	-	-	68,985	68,985	68,985
Borrowings	-	-	-	-	7,000	7,000	7,000
Other liabilities	-	-	-	-	42,640	42,640	42,640

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.

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 categorised:

	US$'000			
30 September 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
At fair value through profit or loss				
Held for trading				
Common stock of listed companies	**39,445**	-	-	**39,445**
Designated at fair value on initial Recognition				
Debt securities	**105,375**	-	-	**105,375**
Available for sale				
Debt securities	**301,029**	-	-	**301,029**
Common stock of listed companies	**5,665**	-	-	**5,665**
Common stock of unlisted companies	-	-	**3,821**	**3,821**
Other	-	-	**18,362**	**18,362**
Forward foreign exchange contracts	-	**291**	-	**291**
	451,514	**291**	**22,183**	**473,988**

	US$'000			
31 December 2018	Level 1	Level 2	Level 3	Total
At fair value through profit or loss				
Held for trading				
Common stock of listed companies	56,709	-	-	56,709
Designated at fair value on initial Recognition				
Debt securities	94,875	-	-	94,875
Available for sale				
Debt securities	306,435	-	-	306,435
Common stock of listed companies	7,226	-	-	7,226
Common stock of unlisted companies	-	-	3,872	3,872
Other	-	-	17,774	17,774
Forward foreign exchange contracts	-	13	-	13
	465,245	13	21,646	486,904

20. FAIR VALUE DISCLOSURE (CONTD.)

30 September 2018	US$'000			
	Level 1	Level 2	Level 3	Total
At fair value through profit or loss				
Held for trading				
Common stock of listed companies	55,556	-	-	55,556
Designated at fair value on initial Recognition				
Debt securities	98,726	-	-	98,726
Available for sale				
Debt securities	344,000	-	-	344,000
Common stock of listed companies	10,394	-	-	10,394
Common stock of unlisted companies	-	-	4,107	4,107
Other	-	-	17,679	17,679
Forward foreign exchange contracts	-	(39)	-	(39)
	508,676	(39)	21,786	530,423

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

30 September 2019	**US$ '000**		
	Unlisted equity	**Other**	**Total**
Balances at 1 January 2019	**3,872**	**17,774**	**21,646**
Gain recognised in:			
- Income statement	**-**	**-**	**-**
- Other comprehensive income	**26**	**64**	**90**
Investments made during the period	**33**	**2,365**	**2,398**
Investments redeemed during the period	**(110)**	**(1,841)**	**(1,951)**
Balances at 30 September 2019	**3,821**	**18,362**	**22,183**

31 December 2018	US$'000		
	Unlisted equity	Other	Total
Balances at 1 January 2018	4,279	18,389	22,668
Gain (loss) recognised in:			
- Income statement	73	-	73
- Other comprehensive income	(381)	162	(219)
Investments made during the year	105	2,481	2,586
Investments redeemed during the year	(204)	(3,258)	(3,462)
Balances at 31 December 2018	3,872	17,774	21,646

20. FAIR VALUE DISCLOSURE (CONTD.)

30 September 2018	US$ '000		
	Unlisted equity	Other	Total
Balances at 1 January 2018	4,279	18,389	22,668
Gain (loss) recognised in:			
- Income statement	73	-	73
- Other comprehensive income	(131)	404	273
Investments made during the period	89	1,442	1,531
Investments redeemed during the period	(203)	(2,556)	(2,759)
Balances at 30 September 2018	4,107	17,679	21,786

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 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. For the period ended 30 September 2019, there were no transfers in and out of level 1, level 2 and level 3 (31 December 2018: nil; 30 September 2018: nil). The fair values are estimates and do not necessarily represent the price at which the investment would sell. As the determination of fair values involve subjective judgments, and given the inherent uncertainty of assumptions regarding capitalisation rates, discount rates, leasing and other factors, the amount which will be realised by the Group 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.

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

iii) Forward foreign exchange contracts:

The fair value of forward foreign exchange contracts, used for hedging purposes, is derived from quoted prices of the same currencies.

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.

21. PRINCIPAL SUBSIDIARIES & ASSOCIATES

i) Subsidiaries and associates

At 30 September 2019, the principal subsidiaries of the Company were:

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

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

ii) Interest in subsidiaries: Takaful Re Limited

	US$ '000		
	Financial year-to-date 30 September 2019	Financial year-to-date 30 September 2018	Year ended 31 December 2018
Non-controlling interests	**46%**	46%	46%
Total assets	**55,512**	84,239	83,697
Total liabilities	**17,238**	23,052	22,125
Net assets	**38,274**	61,187	61,572
Revenue	**(41)**	(524)	(216)
Profit for the period	**1,587**	6,914	6,742
Total comprehensive income	**1,700**	6,373	6,759
Comprehensive income attributable to non-controlling interests	**782**	2,932	3,109
Net cash used in operating activities	**(2,892)**	(8,168)	(8,759)
Net cash provided by Investing activities	**163**	10,066	44,128
Net cash used in financing activities	**(25,000)**	-	-
Net (decrease) increase in cash and cash equivalents	**(27,729)**	1,898	35,369

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

21. PRINCIPAL SUBSIDIARIES & ASSOCIATES (CONTD.)

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

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

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 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 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 2019	Financial year-to-date 30 September 2018	Year ended 31 December 2018
a) Service fees for administration services provided by Arig	**28**	28	38
b) Service fees for administration services provided by associates	**544**	517	812
c) Balances outstanding - Payables	**72**	37	89

22. RELATED PARTY TRANSACTIONS (CONTD.)

ii) Compensation to directors and key management personnel:

	US$ '000		
	Financial year-to-date 30 September 2019	Financial year-to-date 30 September 2018	Year ended 31 December 2018
a) Directors			
- Attendance fees	**137**	64	79
- Travel expenses	**140**	125	144
b) Key management compensation			
- Salaries and other short-term employee benefits	**505**	1,225	1,710
- Post-employment benefits	**55**	238	318
- Employee long-term incentives	**76**	-	-
c) Balances payable to key			
- Management	**499**	4,831	631

APPENDIX

ARAB INSURANCE GROUP (B.S.C.)

A. SIGNIFICANT ACCOUNTING POLICIES ON INVESTMENTS AS AT 30 SEPTEMBER 2019

INVESTMENTS

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

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

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

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

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

PROVISION FOR IMPAIRMENT OF FINANCIAL ASSETS

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

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

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

INVESTMENT IN ASSOCIATED COMPANIES

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

INVESTMENT INCOME

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

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

FOREIGN CURRENCY TRANSLATION

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

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

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

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

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

ARAB INSURANCE GROUP (B.S.C.)

APPENDIX

B. ADDITIONAL DISCLOSURE ON INVESTMENTS

	US$ '000 30-September-2019		
	Investments in U.A.E.	Investments outside U.A.E.	Total
a. Cash & bank balances	7,281	122,018	**129,299**
Total cash & bank balances	**7,281**	**122,018**	**129,299**
b. Investments			
At fair value through profit or loss			
Held for trading			
Common stock of listed companies	5,311	34,134	**39,445**
	5,311	**34,134**	**39,445**
Designated at fair value on initial recognition			
Debt Securities			
- Other Investment grade	-	101,122	**101,122**
- Other	-	4,253	**4,253**
	-	**105,375**	**105,375**
Held to maturity			
Debt securities			
- Supra-nationals and OECD country governments	-	500	**500**
- Other Investment grade	3,922	-	**3,922**
- Other	-	3,951	**3,951**
	3,922	**4,451**	**8,373**
Available for sale			
Debt securities			
- Supra-nationals and OECD country governments	-	28,142	**28,142**
- Other Investment grade	25,894	211,930	**237,824**
- Other	6,530	28,533	**35,063**
Common stock of listed companies	-	5,665	**5,665**
Common stock of unlisted companies	-	3,821	**3,821**
Other (see note)	-	18,362	**18,362**
	32,424	**296,453**	**328,877**
Investment in associates	-	371	**371**
	-	**371**	**371**
Total Investments	**41,657**	**440,784**	**482,441**

Note: The Group does not have any direct investments in land or real estate. However, 'Other' includes investments in Real Estate funds amounting to US$ 1,844,169 (in U.A.E.: US$ NIL).