Arab Insurance Group (B.S.C.)

Condensed consolidated interim financial statements for the nine months ended 30 September 2020

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

Telephone +973 17 224807
Fax +973 17 227443
Website: home.kpmg/bh
CR No. 6220

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

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

10 November 2020

Introduction

We have reviewed the accompanying 30 September 2020 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 2020;
- the condensed consolidated statement of profit or loss for the three-month and nine-month periods ended 30 September 2020;
- the condensed consolidated statement of comprehensive income for the three-month and nine-month periods ended 30 September 2020;
- the condensed consolidated statement of changes in equity for the nine-month period ended 30 September 2020;
- the condensed consolidated statement of cash flows for the nine-month period ended 30 September 2020; 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 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 2020 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 regulatory authorities' approval. Our conclusion is not modified in respect of this matter.

KPMG

ARAB INSURANCE GROUP (B.S.C.)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2020

(In thousands of U.S. Dollars)

	Note	30 September 2020 (reviewed)	31 December 2019 (audited)	30 September 2019 (reviewed)
ASSETS				
Cash and bank balances		136,406	81,261	129,299
Investments	5	424,335	545,214	482,441
Accrued income	6	16,255	71,358	91,425
Insurance receivables		85,869	117,872	121,169
Insurance deposits		21,899	22,505	25,898
Deferred policy acquisition costs		6,918	17,915	19,911
Reinsurers' share of technical provisions	7	97,596	130,675	128,015
Other assets	8	36,387	30,329	31,835
Investment property	9	4,812	-	-
Property and equipment	10	11,689	18,712	18,774
TOTAL ASSETS		842,166	1,035,841	1,048,767
LIABILITIES AND EQUITY				
LIABILITIES				
Technical provisions	11	462,528	633,769	659,476
Insurance payables		83,164	90,726	84,648
Borrowings		-	7,000	7,000
Other liabilities	12	48,099	58,021	57,575
TOTAL LIABILITIES		593,791	789,516	808,699
EQUITY				
Attributable to shareholders of parent company				
Share capital		220,000	220,000	220,000
Treasury stock		(14,793)	(14,793)	(14,793)
Reserves		51,211	51,705	48,690
Accumulated losses		(25,271)	(28,539)	(31,532)
		231,147	228,373	222,365
Non-controlling interests		17,228	17,952	17,703
TOTAL EQUITY		248,375	246,325	240,068
TOTAL LIABILITIES AND EQUITY		842,166	1,035,841	1,048,767

These condensed consolidated interim financial statements were approved by the Board of Directors on 10 November 2020 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 23 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 2020

(In thousands of U.S. Dollars)

	Note	For the three months ended 30 September 2020 (reviewed)	For the three months ended 30 September 2019 (reviewed)	For the financial year-to-date 30 September 2020 (reviewed)	For the financial year-to-date 30 September 2019 (reviewed)	For the year ended 31 December 2019 (audited)
Gross premiums written	13	(3,051)	3,672	(15,669)	175,421	194,614
Outward reinsurance premiums	13	(2,260)	(610)	(494)	(46,244)	(52,136)
Change in unearned premiums	13	16,769	33,897	74,852	10,566	31,091
Net earned premiums	13	11,458	36,959	58,689	139,743	173,569
Claims and related expenses	13	(2,885)	(21,757)	(31,318)	(89,966)	(107,794)
Policy acquisition costs	13	(2,499)	(11,145)	(16,517)	(38,753)	(49,849)
Investment income attributable to insurance funds	14	1,949	2,269	704	14,201	17,683
Operating expenses	15	(1,239)	(2,787)	(5,580)	(9,170)	(11,070)
Underwriting result	13	6,784	3,539	5,978	16,055	22,539
Investment income attributable to shareholders' funds	14	1,050	1,067	569	6,465	8,612
Operating expenses - non underwriting activities	15	(832)	(723)	(4,359)	(4,046)	(5,404)
Borrowing cost		(22)	(56)	(112)	(203)	(253)
Other income	16	712	635	2,481	1,337	1,318
Other expenses and provisions	17	(1,684)	(522)	(2,171)	(6,133)	(8,384)
Profit for the period		6,008	3,940	2,386	13,475	18,428
Attributable to:						
Non-controlling interests		(194)	305	(736)	646	902
Shareholders of parent company		6,202	3,635	3,122	12,829	17,526
		6,008	3,940	2,386	13,475	18,428
Earnings per share attributable to shareholders (basic and diluted):	18 (US cents)	3.1	1.8	1.6	6.5	8.9

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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 2020

(In thousands of U.S. Dollars)

	For the three months ended 30 September 2020 (reviewed)	For the three months ended 30 September 2019 (reviewed)	For the financial year-to-date 30 September 2020 (reviewed)	For the financial year-to-date 30 September 2019 (reviewed)	For the year ended 31 December 2019 (audited)
Profit for the period	6,008	3,940	2,386	13,475	18,428
Other comprehensive income					
Items that will be reclassified to profit or loss:					
Changes on remeasurement of available for sale investments	2,444	2,349	320	14,771	16,630
Transfers for recognition of gains on disposal of available for sale investments	(1,977)	(618)	(2,122)	(2,287)	(3,421)
Transfers for impairment loss recognised on available for sale investments	943	104	1,466	735	1,314
Other comprehensive income for the period	1,410	1,835	(336)	13,219	14,523
Total comprehensive income for the period	7,418	5,775	2,050	26,694	32,951
Attributable to:					
Non-controlling interests	(197)	305	(724)	699	948
Shareholders of parent company	7,615	5,470	2,774	25,995	32,003
	7,418	5,775	2,050	26,694	32,951

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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 remeasurement 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)		(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 23 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 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 (audited)
			Legal	Investment revaluation	Property revaluation	Total				
Balances at 31 December 2018	220,000	(14,793)	34,816	(3,451)	4,305	35,670	(44,507)	196,370	28,504	224,874
Net profit for the year	-	-	-	-	-	-	17,526	17,526	902	18,428
Changes on remeasurement of available for sale investments	-	-	-	16,525	-	16,525	-	16,525	105	16,630
Transfers for recognition of gains on disposal of available for sale investments	-	-	-	(3,269)	-	(3,269)	-	(3,269)	(152)	(3,421)
Transfers for impairment loss recognised on available for sale investments	-	-	-	1,221	-	1,221	-	1,221	93	1,314
Total comprehensive income for the year	-	-	-	14,477	-	14,477	17,526	32,003	948	32,951
Transfer of net depreciation on revalued property	-	-	-	-	(195)	(195)	195	-	-	-
Transfer to (from) non-distributable reserves	-	-	1,753	-	-	1,753	(1,753)	-	-	-
Subsidiary's capital reduction	-	-	-	-	-	-	-	-	(11,500)	(11,500)
Balances at 31 December 2019	220,000	(14,793)	36,569	11,026	4,110	51,705	(28,539)	228,373	17,952	246,325

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2020

(In thousands of U.S. Dollars)

	Note	For the financial year-to-date 30 September 2020 (reviewed)	For the financial year-to-date 30 September 2019 (reviewed)	For the year ended 31 December 2019 (audited)
CASH FLOWS FROM OPERATING ACTIVITIES				
Premiums received		**72,683**	155,494	192,493
Reinsurance premiums paid		**(12,746)**	(28,840)	(35,484)
Claims and acquisition costs paid		**(183,072)**	(189,025)	(238,096)
Reinsurance receipts in respect of claims		**81,300**	45,103	63,440
Investment income		**5,378**	9,829	9,478
Interest received		**1,888**	2,628	3,271
Dividends received		**57**	952	1,044
Operating expenses paid		**(8,551)**	(17,810)	(21,505)
Other income (expenses), net		**170**	419	4,091
Insurance deposits received (paid), net		**511**	1,182	4,354
Purchase of trading investments		**(667)**	(4,180)	(5,363)
Sale of trading investments		**20,027**	16,938	15,698
Net cash used in operating activities	19	**(23,022)**	(7,310)	(6,579)
CASH FLOWS FROM INVESTING ACTIVITIES				
Maturity/sale of investments		**133,616**	82,587	102,163
Purchase of investments		**(46,756)**	(70,645)	(143,022)
Term deposits with bank		**(24,702)**	(4,840)	(8,339)
Interest received		**7,539**	6,898	9,062
Investment income		**1,356**	927	1,662
Collateralised cash deposits		**(7,879)**	12,863	13,986
Purchase of property and equipment		**(28)**	(2)	(2)
Purchase of intangible assets		**-**	(82)	(82)
Net cash provided by (used in) investing activities		**63,146**	27,706	(24,572)
CASH FLOWS FROM FINANCING ACTIVITIES				
Borrowings	20	**(7,000)**	-	-
Borrowing cost	20	**(187)**	(279)	(279)
Dividends paid	20	**(2,418)**	(49)	(51)
Subsidiary's capital reduction - minority interests		-	(11,500)	(11,500)
Net cash used in financing activities		**(9,605)**	(11,828)	(11,830)
Net increase (decrease) in cash and cash equivalents		**30,519**	8,568	(42,981)
Effect of exchange rate on cash and cash equivalents		**(76)**	(44)	(32)
Cash and cash equivalents, beginning of period		**66,895**	109,908	109,908
Cash and cash equivalents, end of period		**97,338**	118,432	66,895
Term deposits with bank		**39,068**	10,867	14,366
Cash and bank balances, end of period		**136,406**	129,299	81,261

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2020

1. INCORPORATION AND PRINCIPAL ACTIVITY

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

The Board in its meeting held on 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 financial statements. Therefore, these condensed consolidated 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 2019.

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 2019 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 2020 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 interprations is not significant on the Group's condensed consolidated interm financial statements.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

The Government of Kingdom of Bahrain has announced various economic stimulus programmes ("Packages") to support businesses in these challenging times. The Group has received benefits from these Packages in the form of reimbursement of salaries of Bahraini employees and waiver of Electricity and Water charges for the months of April, May and June 2020 which are recorded as other income (refer to note 16).

The preparation of the condensed consolidated interim financial statements require management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these condensed consolidated interim financial statement, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2019. However, the process of making the required estimate of assumptions involved further challenges due to prevailing uncertainties arising from COVID-19 and required the management to make use of the best estimates and judgements.

3. SEASONALITY OF INTERIM OPERATIONS

As a result of the seasonality associated with the insurance business, the Group normally registers approximately 75% of its gross premiums during the first quarter of every year. However following the cessation of underwriting activities gross premiums written no longer reflect this seasonality. This 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 2019.

There have been no changes in the risk management function since the year end or in any risk management policies except the implementation of certain contingency plans for remote operations due to COVID 19.

5. A. INVESTMENTS

	US$ '000		
	30 September 2020	31 December 2019	30 September 2019
At fair value through profit or loss			
Held for trading			
Common stock of listed companies	**27,216**	46,593	39,445
	27,216	46,593	39,445
Designated at fair value on initial recognition			
Debt securities			
- Investment grade	**94,266**	101,041	101,122
- Other	**10,634**	11,175	4,253
	104,900	112,216	105,375
Held to maturity			
Debt securities			
- Supra-nationals and OECD country Governments	**-**	500	500
- Investment grade	**3,946**	3,928	3,922
- Other	**3,965**	3,955	3,951
	7,911	8,383	8,373
Available for sale			
Debt securities			
- Supra-nationals and OECD country Governments	**18,144**	43,133	28,142
- Investment grade	**183,998**	240,235	237,824
- Other	**55,897**	65,908	35,063
Common stock of listed companies	**5,380**	5,743	5,665
Common stock of unlisted companies	**3,338**	4,653	3,821
Other equity type investment	**16,809**	17,868	18,362
	283,566	377,540	328,877
Loans and receivables	**251**	-	-
Investment in associate	**491**	482	371
	424,335	545,214	482,441

Debt securities amounting to US$ 57.6 million (31 December 2019: US$ 100.1 million; 30 September 2019: US$ 107.1 million) have been pledged as security for reinsurance trust agreements, letters of credit and guarantees and borrowings.

B. COMMITMENTS OUTSTANDING

The Group has commitments in respect of uncalled capital in available for sale investments amounting to US$ 6.9 million (31 December 2019: US$ 7.3 million; 30 September 2019: US$ 7.4 million).

6. ACCRUED INCOME

	US$ '000		
	30 September 2020	31 December 2019	30 September 2019
Accrued insurance premiums	**14,412**	68,816	89,121
Accrued interest	**1,843**	2,542	2,304
	16,255	71,358	91,425

7. REINSURERS' SHARE OF TECHNICAL PROVISIONS

	US$ '000		
	30 September 2020	31 December 2019	30 September 2019
General insurance business			
- Claims outstanding	**51,726**	52,974	50,449
- Unreported claims	**34,472**	40,680	36,872
- Deferred retrocession premium reserve	**11,365**	36,987	40,661
	97,563	130,641	127,982
Life insurance business			
- Claims outstanding	**16**	13	12
- Unreported claims	**17**	21	21
	33	34	33
	97,596	130,675	128,015

8. OTHER ASSETS

	US$ '000		
	30 September 2020	31 December 2019	30 September 2019
Intangible assets:			
- Computer software	**10,165**	10,165	10,165
	10,165	10,165	10,165
Less: Accumulated amortisatrion	**(9,620)**	(9,601)	(9,594)
	545	564	571
Other assets			
- Collateralised cash deposits	**24,973**	17,556	18,679
- Other receivables	**10,174**	11,605	11,933
- Prepayments	**695**	604	652
	35,842	29,765	31,264
	36,387	30,329	31,835

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

9. INVESTMENT PROPERTY

	US$ '000		
	30 September 2020	31 December 2019	30 September 2019
Fair value at 1 January	**-**	-	-
Transferred from property and equipment	**5,150**	-	-
Impairment	**(225)**	-	-
Depreciation	**(113)**	-	-
Fair value at period-end	**4,812**	-	-

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

Investment property is carried at cost less accumulated depreciation and impairment. The fair value of investment property was assessed by an independent RICS registered valuer as at May 2020. The carrying value of investment property approximates its fair value as at 30 September 2020 and fair value measurement has been categorised as Level 3.

10. PROPERTY and EQUIPMENT

	US$ '000		
	30 September 2020	31 December 2019	30 September 2019
Land	**2,080**	2,080	2,080
Building	**11,082**	18,718	18,718
Furniture & fixtues	**6,932**	6,932	6,932
Hardware	**2,428**	2,400	2,400
Office equipments	**982**	982	983
Others	**549**	495	330
	24,053	31,607	31,443
Less: Accumulated depreciation and Impairment			
Building	**(2,025)**	(2,613)	(2,480)
Furniture & fixtues	**(6,914)**	(6,911)	(6,909)
Hardware	**(2,408)**	(2,381)	(2,371)
Office equipments	**(603)**	(583)	(576)
Others	**(414)**	(407)	(333)
	(12,364)	(12,895)	(12,669)
	11,689	18,712	18,774

Land and Building comprise the head office property owned and occupied by the Company since 1984. Building also includes portion of office premises of TRL which is used for administration purpose. The building was revalued as at December 2019 by an independent RICS valuer after the Group's year-end. The dimunition in value of the property by US$ 1.4 million was accounted during the period and charged to profit and loss. Subsequently, sub-let portion of the office premises with a net value of US$ 5.15 million was transferred to investment property as detailed in Note 9.

10. PROPERTY and EQUIPMENT (CONTD.)

TRL Building has also been revalued as at May 2020 by an independent RICS valuer and accordingly an impairment of US$ 239,000 has been charged to profit and loss.

11. TECHNICAL PROVISIONS

	US$ '000		
	30 September 2020	31 December 2019	30 September 2019
General insurance business			
- Claims outstanding	**221,979**	256,067	261,958
- Unreported losses	**161,409**	195,560	196,743
- Unearned premiums	**40,305**	140,334	157,576
	423,693	591,961	616,277
Life insurance business			
- Claims outstanding	**14,547**	15,389	13,861
- Unreported losses	**23,986**	24,280	25,185
- Unearned premiums	**302**	2,139	4,153
	38,835	41,808	43,199
	462,528	633,769	659,476

12. OTHER LIABILITIES

	US$ '000		
	30 September 2020	31 December 2019	30 September 2019
Provision for probable loss estimates in subsidiary (note 22 (iii))	**21,462**	21,462	21,462
Non-reinsurance payables	**9,348**	16,018	14,811
Post-employment benefits	**7,243**	7,210	7,001
Accrued expense	**5,602**	5,894	6,644
Dividends payable	**321**	2,739	2,741
Reinsurance premiums accrued	**2,013**	1,986	1,986
Employee long-term incentives	**450**	681	881
Other	**1,660**	2,031	2,049
	48,099	58,021	57,575

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

13. 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 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.

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

	US$ '000								
	Year ended 31 December 2019								
	Non-life						Life		Total
	Property	Engineering	Marine	Accident	Whole account*	Others	Short term	Long term	
REVENUES :									
Gross premiums written	17,139	9,870	6,129	3,278	137,251	13,872	6,512	563	194,614
Outward reinsurance premiums	(4,115)	(1,901)	(237)	(69)	(45,650)	(58)	(96)	(10)	(52,136)
Change in unearned premiums - gross	11,954	8,478	3,172	2,269	(12,412)	4,143	6,986	(91)	24,499
Change in unearned premiums - reinsurance	(1,236)	(1,326)	(510)	(126)	9,843	(53)	-	-	6,592
Net earned premiums	23,742	15,121	8,554	5,352	89,032	17,904	13,402	462	173,569
Investment income attributable to insurance funds	7,721	459	1,245	1,192	285	2,205	3,647	929	17,683
	31,463	15,580	9,799	6,544	89,317	20,109	17,049	1,391	191,252
COSTS AND EXPENSES :									
Gross claims paid	(33,010)	(12,719)	(9,254)	(4,617)	(116,278)	(26,244)	(14,488)	(207)	(216,817)
Claims recovered from reinsurers	2,058	1,167	781	438	32,875	64	-	4	37,387
Change in provision for outstanding claims - gross	13,004	4,345	1,337	3,054	5,658	4,010	(1,541)	(177)	29,690
Change in provision for outstanding claims - reinsurance	29	(752)	(314)	(239)	2,813	(2)	(1)	-	1,534
Change in provision for unreported losses - gross	7,384	(2,605)	1,429	1,961	19,637	6,015	2,448	1,243	37,512
Change in provision for unreported losses - reinsurance	(560)	245	(63)	(409)	2,627	1,068	(8)	-	2,900
Claims and related expenses	(11,095)	(10,319)	(6,084)	188	(52,668)	(15,089)	(13,590)	863	(107,794)
Policy acquisition costs	(5,518)	(2,419)	(1,839)	(1,007)	(32,527)	(1,166)	278	222	(43,976)
Policy acquisition costs recovered from reinsurers	152	229	99	75	30	(9)	-	-	576
Change in deferred policy acquisition costs - gross	(3,094)	(2,565)	(908)	(700)	(78)	254	(441)	1	(7,531)
Change in deferred policy acquisition costs - reinsurance	348	479	175	48	20	12	-	-	1,082
Policy acquisition costs	(8,112)	(4,276)	(2,473)	(1,584)	(32,555)	(909)	(163)	223	(49,849)
Operating expenses	(3,349)	(1,766)	(1,092)	(704)	(74)	(1,995)	(1,813)	(277)	(11,070)
Underwriting result	8,907	(781)	150	4,444	4,020	2,116	1,483	2,200	22,539

*Whole account includes gross premiums amounting to USD 133.9 million resulting from underwriting business in Lloyds, where the Company resolved to cease new business underwriting effective from 1 January 2020.

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

	US$ '000								
	Period ended 30 September 2019								
	Non-life						Life		Total
	Property	Engineering	Marine	Accident	Whole account	Others	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

14. INVESTMENT INCOME

	US$ '000				
	Financial year-to-date 30 September 2020			Financial year-to-date 30 September 2019	Year ended 31 December 2019
	Insurance funds	Shareholders' funds	Total		
Interest income					
- Investments designated at fair value through profit or loss	**582**	**313**	**895**	1,075	1,399
- Others	**4,915**	**2,918**	**7,833**	8,497	11,218
Dividends	**37**	**20**	**57**	952	1,044
Realised gains (losses)					
- Held for trading investments	**6,859**	**3,684**	**10,543**	11,021	11,801
- Investment designated at fair value through profit or loss	**(255)**	**(138)**	**(393)**	666	733
- Available for sale	**1,320**	**802**	**2,122**	2,287	3,421
(Loss) gain on remeasurement of investments at fair value through profit or loss					
- Held for trading investments	**(11,847)**	**(6,364)**	**(18,211)**	(2,623)	(938)
- Investments designated at fair value through profit or loss	**1,266**	**672**	**1,938**	1,086	1,196
Impairment loss - available for Sale					
- Debt Securities	**-**	**-**	**-**	-	(349)
- Other	**(896)**	**(570)**	**(1,466)**	(735)	(965)
Income (loss) from associates	**-**	**8**	**8**	(71)	40
Other	**(1,277)**	**(776)**	**(2,053)**	(1,489)	(2,305)
	704	**569**	**1,273**	20,666	26,295

15. OPERATING EXPENSES

	US$ '000				
	Financial year-to-date 30 September 2020			Financial year-to-date 30 September 2019	Year ended 31 December 2019
	Underwriting	Non-Underwriting	Total		
Salaries and benefits	**4,209**	**1,801**	**6,010**	7,754	9,667
General and administration	**1,371**	**2,558**	**3,929**	5,462	6,807
	5,580	**4,359**	**9,939**	13,216	16,474

16. OTHER INCOME

	US$ '000		
	Financial year-to-date 30 September 2020	Financial year-to-date 30 September 2019	Year ended 31 December 2019
Foreign exchange gain	**1,255**	-	-
Government support scheme (COVID19)	**441**	-	-
Third party administration services	**377**	597	699
Other	**408**	740	619
	2,481	1,337	1,318

17. OTHER EXPENSES AND PROVISIONS

	US$ '000		
	Financial year-to-date 30 September 2020	Financial year-to-date 30 September 2019	Year ended 31 December 2019
Foreign exchange loss	**-**	878	883
Impairment investment property	**338**	-	-
Provision for doubtful receivable & Deposits	**-**	-	1,057
Run-off expenses	**1,105**	-	-
Other, net	**728**	5,255	6,444
	2,171	6,133	8,384

18. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

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

		Financial year-to-date 30 September 2020	Financial year-to-date 30 September 2019	Year ended 31 December 2019
Weighted average number of shares outstanding	'000	**198,032**	198,032	198,032
Net profit	US$'000	**3,122**	12,829	17,526
Earnings per share	US cents	**1.6**	6.5	8.9

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

	US$ '000		
	Financial year-to-date 30 September 2020	Financial year-to-date 30 September 2019	Year ended 31 December 2019
Profit for the period	**2,386**	13,475	18,428
Change in insurance funds	**(126,559)**	(35,252)	(58,230)
Change in insurance receivable/payable, net	**24,441**	21,547	30,922
Change in accrued income	**55,103**	(4,840)	15,227
Change in other assets/liabilities, net	**21,607**	(2,240)	(12,926)
Net cash used in operating activities	**(23,022)**	(7,310)	(6,579)

20. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	US$ '000			
	Borrowings	**Borrowing cost**	**Dividends**	**Non-controlling interest**
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 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 2018	7,000	101	2,790	28,504
Share of comprehensive income	-	-	-	948
Subsidiary's capital reduction	-	-	-	(11,500)
Interest paid during the year	-	(279)	-	-
Interest expense for the year	-	253	-	-
Dividends paid during the year	-	-	(51)	-
Balances at 31 December 2019	7,000	75	2,739	17,952

21. FAIR VALUE DISCLOSURE

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

	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

	US$ '000						
	31 December 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	-	81,261	-	-	-	81,261	81,261
Investments	158,809	-	8,383	377,540	-	544,732	545,100
Accrued income	-	71,358	-	-	-	71,358	71,358
Insurance receivables	-	117,872	-	-	-	117,872	117,872
Insurance deposits	-	22,505	-	-	-	22,505	22,505
Other assets	-	29,161	-	-	-	29,161	29,161
LIABILITIES							
Insurance payables	-	-	-	-	90,726	90,726	90,726
Borrowings	-	-	-	-	7,000	7,000	7,000
Other liabilities	-	-	-	-	30,665	30,665	30,665

21. FAIR VALUE DISCLOSURE (CONTD.)

	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

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.

21. FAIR VALUE DISCLOSURE (CONTD.)

- Level 3: valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted market prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

  Valuation techniques include net present value and discounted cash flow models and other valuation models. Assumptions and inputs used in valuation includes risk free and benchmark interest rates, bond and equity prices, and foreign exchange rates. The objective of valuations technique is to arrive at fair value measurement that reflects the price that would be received on sale of the asset at the measurement date.

The table below analyses financial instruments, measured at fair value as at the end of the period, by level in the fair value hierarchy into which the fair value measurement is categorized:

	US$'000			
30 September 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
At fair value through profit or loss				
Held for trading				
Common stock of listed companies	**27,216**	**-**	**-**	**27,216**
Designated at fair value on initial Recognition				
Debt securities	**104,900**	**-**	**-**	**104,900**
Available for sale				
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**
Forward foreign exchange contracts	**-**	**95**	**-**	**95**
	395,535	**95**	**20,147**	**415,777**

	US$'000			
31 December 2019	Level 1	Level 2	Level 3	Total
At fair value through profit or loss				
Held for trading				
Common stock of listed companies	46,593	-	-	46,593
Designated at fair value on initial Recognition				
Debt securities	112,216	-	-	112,216
Available for sale				
Debt securities	349,276	-	-	349,276
Common stock of listed companies	5,743	-	-	5,743
Common stock of unlisted companies	-	-	4,653	4,653
Other	-	-	17,868	17,868
Forward foreign exchange contracts	-	(301)	-	(301)
	513,828	(301)	22,521	536,048

21. FAIR VALUE DISCLOSURE (CONTD.)

30 September 2019	US$'000			
	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

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

30 September 2020	**US$ '000**		
	Unlisted equity	**Other**	**Total**
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**

31 December 2019	US$'000		
	Unlisted equity	Other	Total
Balances at 1 January 2019	3,872	17,774	21,646
Gain recognised in:			
- Other comprehensive income	5	123	128
Investments made during the year	1,043	2,711	3,754
Investments redeemed during the year	(267)	(2,740)	(3,007)
Balances at 31 December 2019	4,653	17,868	22,521

21. FAIR VALUE DISCLOSURE (CONTD.)

30 September 2019	US$ '000		
	Unlisted equity	Other	Total
Balances at 1 January 2019	3,872	17,774	21,646
Gain recognised in:			
- 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

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. 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 2020, there were no transfers in and out of level 1, level 2 and level 3 (31 December 2019: nil; 30 September 2019: nil). The fair values are estimates and do not necessarily represent the price at which the investment would sell. As the determination of fair values involve subjective judgments, and given the inherent uncertainty of assumptions regarding 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.

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 based on quoted market prices.

vi. Fair value less than carrying amounts:

The fair value of fixed interest debt securities fluctuates with changes in market interest rates. The book value of financial assets held to maturity has not been reduced to fair value where lower, because such market rate variations are considered temporary in nature and management intends, and has the financial resources and capacity, to generally hold such investments to maturity.

22. PRINCIPAL SUBSIDIARIES & ASSOCIATES

i) Subsidiaries and associates

At 30 September 2020, the principal subsidiaries of the Company were:

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

All holdings are in the ordinary share capital of the subsidiaries concerned and are unchanged from 31 December 2019. The Company holds 49% and 24% of the equity shares in its associate companies Arima Insurance software W.L.L. and Globemed Bahrain W.L.L., Bahrain respectively.

Financial statements of Takaful Re Limited (TRL), Gulf Warranties W.L.L. (GWL) and Arig Capital Limited (ACL) are not prepared on going concern basis as TRL and ACL are under run-off and GWL is under voluntary liquidation.

ii) Interest in subsidiaries: Takaful Re Limited

	US$ '000		
	Financial year-to-date 30 September 2020	Financial year-to-date 30 September 2019	Year ended 31 December 2019
Non-controlling interests	**46%**	46%	46%
Total assets	**51,896**	55,512	55,267
Total liabilities	**14,579**	17,238	16,369
Net assets	**37,317**	38,274	38,898
Revenue	**161**	(41)	(32)
(Loss) profit for the period	**(1,603)**	1,587	2,223
Total comprehensive income	**(1,580)**	1,700	2,323
Comprehensive income attributable to non-controlling interests	**(727)**	782	1,069
Net cash used in operating activities	**(1,317)**	(2,892)	(3,202)
Net cash (used in) provided by investing Activities	**(9,423)**	163	(9,271)
Net cash used in financing activities	**-**	(25,000)	(25,000)
Net decrease in cash and cash equivalents	**(10,740)**	(27,729)	(37,473)

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

22. PRINCIPAL SUBSIDIARIES & ASSOCIATES (CONTD.)

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

In 2018 a fraud was 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 was 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.

23. RELATED PARTY TRANSACTIONS

Related parties represent the Company's major shareholders, associate companies, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties.

Government of UAE controls 31.3% of issued shares in the Group through major shareholders Emirates Investment Authority, General Pension and Social Security Authority and Emirates Development Bank while Government of Libya controls 14.4% of issued shares in the Group through Central Bank of Libya. The Group does not have any significant transactions with these governments and entities controlled, jointly controlled or significantly influenced by these governments.

The following is the summary of transactions with related parties:

i) Associate companies:

	US$ '000		
	Financial year-to-date 30 September 2020	Financial year-to-date 30 September 2019	Year ended 31 December 2019
a) Service fees for administration services provided by Arig	-	28	38
b) Service fees for administration services provided by associate	**358**	544	730
c) Balances outstanding - Payables	**9**	72	85

23. RELATED PARTY TRANSACTIONS (CONTD.)

ii) Compensation to directors and key management personnel:

	US$ '000		
	Financial year-to-date 30 September 2020	Financial year-to-date 30 September 2019	Year ended 31 December 2019
a) Directors			
- Attendance fees	**73**	137	181
- Travel expenses	**23**	140	187
b) Key management compensation			
- Salaries and other short-term employee benefits	**503**	505	674
- Post-employment benefits	**56**	55	74
- Employee long-term incentives	**-**	76	76
c) Balances payable to key management	**582**	499	520

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

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

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

The overall direct impact of COVID 19 pandemic on the financial statements as at 30 September 2020 as assessed by the Group is as below:

	US$ '000
	30 September 2020
FINANCIAL BENEFITS - GOVERNMENT SUPPORTS SCHEMS	
Staff salaries - Bahraini's	411
Electricity and water	30
	441
FINANCIAL COSTS	
Claims costs related to COVID19	(3,512)
Sterilization & disinfection of premises, sanitizers, masks & gloves, depreciation, software license, etc	(50)
	(3,562)
NET DIRECT FINANCIAL IMPACT	(3,121)

ARAB INSURANCE GROUP (B.S.C.)

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

CAPITAL EXPENDITURE

	US$ '000
	30 September 2020
Cost of laptops and printers	39
	39

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.

APPENDIX

ARAB INSURANCE GROUP (B.S.C.)

A. SIGNIFICANT ACCOUNTING POLICIES ON INVESTMENTS AS AT 30 SEPTEMBER 2020

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.