

**Gulf Insurance Group K.S.C.P. and its
Subsidiaries**

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**

30 JUNE 2020 (UNAUDITED)



REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF GULF INSURANCE GROUP K.S.C.P.

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Gulf Insurance Group K.S.C.P. (the “Parent Company”) and its subsidiaries (collectively, the “Group”) as at 30 June 2020, and the related interim condensed consolidated statement of income and interim condensed consolidated statement of comprehensive income for the three months and six months periods then ended, and the related interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six months period then ended. The management of the Parent Company is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Financial Reporting Standard, IAS 34: Interim Financial Reporting (“IAS 34”). Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, “*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*”. A review of interim condensed consolidated financial information 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 interim condensed consolidated financial information is not prepared, in all material respects, in accordance with IAS 34.

Report on review of other Legal and Regulatory Requirements

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of account of the Parent Company. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, or of the Parent Company’s Memorandum of Incorporation and Articles of Association have occurred during the six months period ended 30 June 2020 that might have had a material effect on the business of the Parent Company or on its financial position.



BADER A. AL-ABDULJADER
LICENCE NO. 207 A
EY
AL AIBAN, AL OSAIMI & PARTNERS

12 August 2020
Kuwait

Gulf Insurance Group K.S.C.P. and its Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

For the period ended 30 June 2020

| | Notes | <i>Three months ended 30 June</i> | | <i>Six months ended 30 June</i> | |
|--|-------|-----------------------------------|--------------|---------------------------------|--------------|
| | | <i>2020</i> | <i>2019</i> | <i>2020</i> | <i>2019</i> |
| | | <i>KD</i> | <i>KD</i> | <i>KD</i> | <i>KD</i> |
| Revenue: | | | | | |
| Premiums written | | 122,777,719 | 80,560,762 | 230,657,440 | 173,116,235 |
| Reinsurance premiums ceded | | (71,800,953) | (39,296,376) | (126,861,092) | (83,495,203) |
| Net premiums written | | 50,976,766 | 41,264,386 | 103,796,348 | 89,621,032 |
| Movement in unearned premiums reserve | | (5,305,618) | 3,455,593 | (9,419,384) | (1,640,258) |
| Movement in life mathematical reserve | | (1,831,664) | (446,255) | (1,506,840) | 119,048 |
| Net premiums earned | | 43,839,484 | 44,273,724 | 92,870,124 | 88,099,822 |
| Commission received on ceded reinsurance | | 4,021,074 | 3,683,028 | 9,243,485 | 9,288,898 |
| Policy issuance fees | | 729,916 | 918,993 | 1,433,092 | 1,787,732 |
| Net investment income from designated life insurance | 3 | 1,280,472 | 625,103 | 152,439 | 1,630,811 |
| | | 49,870,946 | 49,500,848 | 103,699,140 | 100,807,263 |
| Expenses: | | | | | |
| Claims incurred | | 29,651,859 | 29,903,248 | 61,534,576 | 61,833,463 |
| Commission and discounts | | 4,821,032 | 5,181,144 | 10,883,579 | 10,715,528 |
| Maturity and cancellations of life insurance policies | | 264,469 | 1,484,494 | 1,017,378 | 3,750,556 |
| General and administrative expenses | | 6,225,683 | 6,828,947 | 13,556,149 | 13,611,232 |
| | | 40,963,043 | 43,397,833 | 86,991,682 | 89,910,779 |
| Net underwriting income | | 8,907,903 | 6,103,015 | 16,707,458 | 10,896,484 |
| Net investment income | 3 | 6,298,591 | 3,165,137 | 7,120,928 | 6,118,264 |
| Finance costs | | (492,730) | (704,356) | (1,233,882) | (1,380,999) |
| Share of results of associates | | 823,932 | 362,873 | 876,733 | 1,057,323 |
| Net sundry income | | 725,630 | 49,141 | 1,119,709 | 1,062,438 |
| | | 16,263,326 | 8,975,810 | 24,590,946 | 17,753,510 |
| Other charges: | | | | | |
| Unallocated general and administrative expenses | | (5,953,262) | (3,143,984) | (9,823,031) | (6,560,688) |
| PROFIT FOR THE PERIOD BEFORE TAXATION | | | | | |
| | | 10,310,064 | 5,831,826 | 14,767,915 | 11,192,822 |
| Contribution to KFAS | | (46,492) | (44,091) | (81,394) | (57,140) |
| NLST | | (132,515) | (113,606) | (194,627) | (195,415) |
| Zakat | | (33,522) | (34,561) | (65,191) | (47,242) |
| Taxation from subsidiaries | | (1,210,046) | (566,942) | (2,007,852) | (1,650,613) |
| PROFIT FOR THE PERIOD | | 8,887,489 | 5,072,626 | 12,418,851 | 9,242,412 |
| Attributable to: | | | | | |
| Equity holders of the Parent Company | | 6,787,719 | 4,370,044 | 9,843,324 | 8,111,461 |
| Non-controlling interests | | 2,099,770 | 702,582 | 2,575,527 | 1,130,951 |
| | | 8,887,489 | 5,072,626 | 12,418,851 | 9,242,412 |
| BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY | | | | | |
| | 4 | 36.45 fils | 24.41 fils | 52.86 fils | 45.32 fils |

The attached notes 1 to 11 form part of this interim condensed consolidated financial information.

Gulf Insurance Group K.S.C.P. and its Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)

For the period ended 30 June 2020

| | Note | <i>Three months ended 30 June</i> | | <i>Six months ended 30 June</i> | |
|---|------|-----------------------------------|-------------|---------------------------------|-------------|
| | | 2020 | 2019 | 2020 | 2019 |
| | | KD | KD | KD | KD |
| Profit for the period | | 8,887,489 | 5,072,626 | 12,418,851 | 9,242,412 |
| Other comprehensive income (loss): | | | | | |
| <i>Items that are or may be subsequently reclassified to interim condensed consolidated statement of income:</i> | | | | | |
| - Investments available for sale: | | | | | |
| Net unrealised gain | | 3,430,602 | 1,752,535 | 1,059,562 | 1,171,930 |
| Net realised gain transferred to interim condensed consolidated statement of income on sale of investments available for sale | 3 | (618,637) | (921,875) | (1,566,159) | (1,585,589) |
| Impairment loss on investments available for sale | 3 | 72,458 | 30,574 | 1,367,941 | 31,890 |
| | | 2,884,423 | 861,234 | 861,344 | (381,769) |
| - Share of other comprehensive (loss) income of associates | | (263,968) | 210,044 | 362 | (166,050) |
| - Exchange differences on translation of foreign operations | | (2,856,768) | 1,064,304 | (2,012,056) | 649,309 |
| Other comprehensive (loss) income for the period | | (236,313) | 2,135,582 | (1,150,350) | 101,490 |
| Total comprehensive income for the period | | 8,651,176 | 7,208,208 | 11,268,501 | 9,343,902 |
| Attributable to: | | | | | |
| Equity holders of the Parent Company | | 6,469,942 | 6,144,003 | 8,911,680 | 7,932,271 |
| Non-controlling interests | | 2,181,234 | 1,064,205 | 2,356,821 | 1,411,631 |
| | | 8,651,176 | 7,208,208 | 11,268,501 | 9,343,902 |


The attached notes 1 to 11 form part of this interim condensed consolidated financial information.

Gulf Insurance Group K.S.C.P. and its Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 30 June 2020

| | | (Audited) | | |
|--|-------|-----------------------|---------------------------|-----------------------|
| | Notes | 30 June 2020 KD | 31 December 2019 KD | 30 June 2019 KD |
| ASSETS | | | | |
| Property and equipment | | 35,337,315 | 35,215,083 | 29,833,315 |
| Right-of-use assets | | 1,591,342 | 2,213,395 | 2,323,330 |
| Investments in associates | | 43,724,151 | 43,437,290 | 43,303,554 |
| Goodwill | | 15,104,460 | 15,104,460 | 15,104,460 |
| Financial instruments: | | | | |
| Investments held to maturity | | 34,558,499 | 29,687,204 | 23,269,534 |
| Debt securities (loans) | | 14,016,273 | 13,604,047 | 13,606,851 |
| Investments available for sale | | 49,600,440 | 44,951,045 | 39,250,401 |
| Investments carried at fair value through profit or loss | | 27,507,381 | 26,329,719 | 23,940,472 |
| Loans secured by life insurance policies | | 1,174,349 | 1,104,147 | 1,086,039 |
| Premiums and insurance balances receivable | | 209,351,058 | 142,633,886 | 129,482,173 |
| Reinsurance recoverable on outstanding claims | | 302,510,077 | 247,320,982 | 154,360,743 |
| Investment properties | | 6,393,604 | 6,166,079 | 5,232,119 |
| Other assets | | 31,066,837 | 28,457,095 | 27,927,151 |
| Time deposits | | 39,462,652 | 39,280,244 | 36,802,344 |
| Cash and bank balances | 5 | 69,973,614 | 87,661,768 | 99,211,508 |
| TOTAL ASSETS | | 881,372,052 | 763,166,444 | 644,733,994 |
| EQUITY AND LIABILITIES | | | | |
| EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY | | | | |
| Share capital | | 18,703,913 | 18,703,913 | 18,703,913 |
| Share premium | | 3,600,000 | 3,600,000 | 3,600,000 |
| Treasury shares | | (429,455) | (429,455) | (4,203,067) |
| Treasury shares reserve | | 3,099,292 | 3,099,292 | 2,051,215 |
| Statutory reserve | | 18,703,913 | 18,703,913 | 18,703,913 |
| Voluntary reserve | | 27,558,098 | 27,558,098 | 26,149,664 |
| Other reserve | | (2,836,728) | (2,836,728) | (2,836,728) |
| Cumulative changes in fair values | | 2,110,378 | 1,529,248 | (2,429,683) |
| Foreign currency translation adjustments | | (21,354,182) | (19,841,408) | (20,431,465) |
| Revaluation reserve | | 12,241,253 | 12,241,253 | 8,939,446 |
| Retained earnings | | 49,241,283 | 46,474,233 | 42,645,847 |
| Equity attributable to the equity holders of the Parent Company | | 110,637,765 | 108,802,359 | 90,893,055 |
| Non-controlling interests | | 27,398,962 | 26,044,031 | 23,689,646 |
| TOTAL EQUITY | | 138,036,727 | 134,846,390 | 114,582,701 |
| LIABILITIES | | | | |
| Liabilities arising from insurance contracts: | | | | |
| Outstanding claims reserve (gross) | | 386,840,650 | 319,935,216 | 223,504,756 |
| Unearned premiums reserve (net) | | 67,814,114 | 59,508,501 | 61,033,554 |
| Life mathematical reserve (net) | | 28,171,193 | 26,370,500 | 24,471,734 |
| Incurred but not reported reserve (net) | | 968,551 | 2,586,940 | 1,650,000 |
| Total liabilities arising from insurance contracts | | 483,794,508 | 408,401,157 | 310,660,044 |
| Premiums received in advance | | 4,932,713 | 5,751,229 | 4,445,012 |
| Insurance payable | | 151,994,236 | 125,719,810 | 119,732,251 |
| Long term loans | 6 | 38,333,500 | 35,333,500 | 31,250,000 |
| Other liabilities | | 57,994,039 | 51,379,273 | 42,719,729 |
| Bank overdrafts | 5 | 6,286,329 | 1,735,085 | 21,344,257 |
| TOTAL LIABILITIES | | 743,335,325 | 628,320,054 | 530,151,293 |
| TOTAL EQUITY AND LIABILITIES | | 881,372,052 | 763,166,444 | 644,733,994 |


Khaled Saoud Al-Hassan
Chief Executive Officer

The attached notes 1 to 11 form part of this interim condensed consolidated financial information.

Gulf Insurance Group K.S.C.P. and its Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the period ended 30 June 2020

| | Attributable to equity holders of the Parent Company | | | | | | | | | | | | | Total equity KD |
|---|--|---------------------|-----------------------|-------------------------------|-------------------------|-------------------------|---------------------|---|--|---------------------------|-------------------------|--------------------|---------------------------------|--------------------|
| | Share capital KD | Share Premium KD | Treasury shares KD | Treasury shares reserve KD | Statutory reserve KD | Voluntary reserve KD | Other reserve KD | Cumulative changes in fair values KD | Foreign currency translation adjustments KD | Revaluation reserve KD | Retained earnings KD | Sub-total KD | Non-controlling interests KD | |
| As at 1 January 2020 (Audited) | 18,703,913 | 3,600,000 | (429,455) | 3,099,292 | 18,703,913 | 27,558,098 | (2,836,728) | 1,529,248 | (19,841,408) | 12,241,253 | 46,474,233 | 108,802,359 | 26,044,031 | 134,846,390 |
| Profit for the period | - | - | - | - | - | - | - | - | - | - | 9,843,324 | 9,843,324 | 2,575,527 | 12,418,851 |
| Other comprehensive income (loss) for the period | - | - | - | - | - | - | - | 581,130 | (1,512,774) | - | - | (931,644) | (218,706) | (1,150,350) |
| Total comprehensive income (loss) for the Period | - | - | - | - | - | - | - | 581,130 | (1,512,774) | - | 9,843,324 | 8,911,680 | 2,356,821 | 11,268,501 |
| Dividends payable (Note 1) | - | - | - | - | - | - | - | - | - | - | (7,076,274) | (7,076,274) | - | (7,076,274) |
| Dividends paid payable to non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | - | (1,001,890) | (1,001,890) |
| As at 30 June 2020 | 18,703,913 | 3,600,000 | (429,455) | 3,099,292 | 18,703,913 | 27,558,098 | (2,836,728) | 2,110,378 | (21,354,182) | 12,241,253 | 49,241,283 | 110,637,765 | 27,398,962 | 138,036,727 |
| As at 1 January 2019 (Audited) | 18,703,913 | 3,600,000 | (4,203,067) | 2,051,215 | 18,703,913 | 26,149,664 | (3,101,138) | (1,778,260) | (20,903,698) | 8,939,446 | 40,978,391 | 89,140,379 | 23,282,933 | 112,423,312 |
| Profit for the period | - | - | - | - | - | - | - | - | - | - | 8,111,461 | 8,111,461 | 1,130,951 | 9,242,412 |
| Other comprehensive (loss) income for the period | - | - | - | - | - | - | - | (651,423) | 472,233 | - | - | (179,190) | 280,680 | 101,490 |
| Total comprehensive (loss) income for the Period | - | - | - | - | - | - | - | (651,423) | 472,233 | - | 8,111,461 | 7,932,271 | 1,411,631 | 9,343,902 |
| Change in ownership of a subsidiary | - | - | - | - | - | - | 264,410 | - | - | - | - | 264,410 | (549,885) | (285,475) |
| Dividends paid (Note 1) | - | - | - | - | - | - | - | - | - | - | (6,444,005) | (6,444,005) | - | (6,444,005) |
| Dividends paid to non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | - | (455,033) | (455,033) |
| As at 30 June 2019 | 18,703,913 | 3,600,000 | (4,203,067) | 2,051,215 | 18,703,913 | 26,149,664 | (2,836,728) | (2,429,683) | (20,431,465) | 8,939,446 | 42,645,847 | 90,893,055 | 23,689,646 | 114,582,701 |

The attached notes 1 to 11 form part of this interim condensed consolidated financial information.

Gulf Insurance Group K.S.C.P. and its Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

For the period ended 30 June 2020

| | Notes | Six months ended 30 June | |
|--|-------|--------------------------|-------------------|
| | | 2020 KD | 2019 KD |
| OPERATING ACTIVITIES | | | |
| Profit for the period before taxation | | 14,767,915 | 11,192,822 |
| <i>Adjustments for:</i> | | | |
| Depreciation of property and equipment and right-of-use assets | | 860,565 | 1,081,410 |
| Net investment income | 3 | (4,792,159) | (7,755,222) |
| Impairment loss on investments available for sale | 3 | 1,367,941 | 31,890 |
| Share of results of associates | | (876,733) | (1,057,323) |
| Finance costs | | 1,259,601 | 6,140,413 |
| | | 12,587,130 | 9,633,990 |
| <i>Changes in operating assets and liabilities:</i> | | | |
| Investments carried at fair value through profit or loss | | (1,835,098) | 1,475,689 |
| Premiums and insurance balances receivable | | (66,717,172) | (19,627,996) |
| Reinsurance recoverable on outstanding claims | | (55,189,095) | (23,392,171) |
| Other assets | | (3,071,107) | 1,361,807 |
| Liabilities arising from insurance contracts | | 75,393,351 | 29,644,416 |
| Premiums received in advance | | (818,516) | 68,299 |
| Insurance payable | | 26,274,426 | 44,430,506 |
| Other liabilities | | (2,015,973) | (8,916,537) |
| | | (15,392,054) | 34,678,003 |
| Paid to KFAS | | - | (82,612) |
| Paid to Zakat | | - | (93,637) |
| Remuneration paid to directors | | (185,000) | (185,000) |
| | | (15,577,054) | 34,316,754 |
| Net cash flows (used in) from operating activities | | | |
| INVESTING ACTIVITIES | | | |
| Purchase of property and equipment | | (1,539,051) | (1,116,628) |
| Proceeds from sale of property and equipment | | 170,836 | 27,636 |
| Purchase of investment properties | | (143,379) | - |
| Net movement of investments held to maturity | | (4,871,295) | (40,479) |
| Net movement of debt securities (loans) | | (412,226) | 3,045,009 |
| Net movement of investments available for sale | | (3,626,040) | 3,078,401 |
| Loans secured by life insurance policies | | (70,202) | 180,598 |
| Movement in time deposits | | (182,408) | (4,124,261) |
| Interest received | | 4,052,927 | 4,014,478 |
| Dividends income received | | 797,374 | 948,615 |
| Advance towards acquisition of investment | | (505,500) | - |
| Dividends received from associates | | 594,275 | 857,158 |
| | | (5,734,689) | 6,870,527 |
| Net cash flows (used in) from investing activities | | | |
| FINANCING ACTIVITIES | | | |
| Term loan | 6 | 3,000,000 | 31,250,000 |
| Payment of lease liability | | (652,026) | - |
| Finance cost paid | | (1,217,174) | (6,140,413) |
| Dividends paid | | - | (6,444,005) |
| Dividends paid to non-controlling interests | | (1,001,890) | (455,033) |
| Net movement in non-controlling interest | | - | (285,475) |
| | | 128,910 | 17,925,074 |
| Net cash flows from financing activities | | | |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | | (21,182,833) | 59,112,355 |
| Net foreign exchange difference | | (1,056,565) | 484,310 |
| Cash and cash equivalents at 1 January | | 85,926,683 | 18,270,586 |
| CASH AND CASH EQUIVALENTS AT 30 JUNE | | 63,687,285 | 77,867,251 |

The attached notes 1 to 11 form part of this interim condensed consolidated financial information.

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 June 2020

1 ACTIVITIES

The interim condensed consolidated financial information of Gulf Insurance Group K.S.C.P. (the “Parent Company”) and its subsidiaries (the “Group”) were authorised for issue by the Board of Directors on 12 August 2020. The Ordinary Annual General Assembly meeting of the Parent Company’s shareholders held on 23 March 2020 approved the consolidated financial statements for the year ended 31 December 2019 and approved the proposed distribution of cash dividends of 38 fils per share (2018: 36 fils per share).

The Parent Company is a Kuwaiti Shareholding Company incorporated in the State of Kuwait in accordance with the Amiri Decree No. 25 of 9 April 1962, and is listed on the Kuwait Stock Exchange. The address of the Parent Company’s registered office is Khaled Ibn Al-Waleed Street, KIPCO Tower, Floor No 42, Office No 1 & 2, Sharq, Kuwait City P.O. Box 1040 Safat, 13011 State of Kuwait. The Parent Company’s objectives include all types of insurance, indemnities, compensations and investing its capital and assets in various financial and real estate investments, both locally and abroad.

The Parent Company is 45.99% (31 December 2019: 45.99% and 30 June 2019: 44.04%) owned by Kuwait Project Company Holding K.S.C.P. and 43.43% (31 December 2019: 43.43% and 30 June 2019: 41.42%) by Fairfax Financial Holding Limited as at 30 June 2020.

2 BASIS OF PREPARATION AND CHANGES TO THE GROUP’S ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial information of the Group is prepared in accordance with International Accounting Standard (IAS 34), Interim Financial Reporting.

The interim condensed consolidated financial information are presented in Kuwaiti Dinars which is the functional currency of the Parent Company.

The interim condensed consolidated financial information does not contain all information and disclosures required for full consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2019. In the opinion of management, all adjustments consisting of normal recurring accruals considered necessary for a fair presentation have been included. Operating results for the six months period ended 30 June 2020 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2020.

2.2 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of new standards effective as of 1 January 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments and interpretations apply for the first time in 2020, but do not have an impact on the interim condensed consolidated financial information of the Group.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the interim condensed consolidated financial information of the Group, but may impact future periods should the Group enter into any business combinations.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 June 2020

2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

2.2 New standards, interpretations, and amendments adopted by the Group (continued)

Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the interim condensed consolidated financial information of the Group as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the interim condensed consolidated financial information of, nor is there expected to be any future impact to the Group.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the interim condensed consolidated financial information of the Group.

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's interim condensed consolidated financial information are listed below. The Group intends to adopt these standards when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

The core of IFRS 17 is the general model, supplemented by:

- ▶ A specific adaptation for contracts with direct participation features (the variable fee approach).
- ▶ A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 on or before the date it first applies IFRS 17. The Group will apply these amendments when they become effective.

Gulf Insurance Company K.S.C. and its Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

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3 NET INVESTMENT INCOME

| | <i>Three months ended 30 June</i> | | <i>Six months ended 30 June</i> | |
|--|---------------------------------------|--------------------|-------------------------------------|--------------------|
| | <i>2020 KD</i> | <i>2019 KD</i> | <i>2020 KD</i> | <i>2019 KD</i> |
| Net realised gain on sale of investments available for sale | 618,637 | 921,875 | 1,566,159 | 1,585,589 |
| Realised gain on sale of investments at fair value through profit or loss | 408,506 | 418,116 | 382,582 | 436,229 |
| Unrealised gain (loss) on investments at fair value through profit or loss | 1,717,195 | (742,225) | (1,040,018) | 361,628 |
| Dividend income | 444,558 | 691,062 | 797,374 | 948,615 |
| Interest on investments held to maturity | 1,047,219 | 877,331 | 1,968,123 | 1,681,503 |
| Interest on debt securities (loans) | 247,786 | 276,847 | 531,091 | 558,101 |
| Interest on time and call deposits | 675,467 | 940,459 | 1,553,713 | 1,774,874 |
| Foreign exchange gain | 3,411,872 | 491,106 | 3,849,149 | 483,914 |
| Other investment income | 245,542 | 157,594 | 420,119 | 326,305 |
| Impairment loss on investments available for sale | (72,458) | (30,574) | (1,367,941) | (31,890) |
| Other investment expenses | (1,165,261) | (211,351) | (1,386,984) | (375,793) |
| | 7,579,063 | 3,790,240 | 7,273,367 | 7,749,075 |

Net investment income is presented in the interim condensed consolidated statement of income as follows:

| | <i>Three months ended 30 June</i> | | <i>Six months ended 30 June</i> | |
|--|---------------------------------------|--------------------|-------------------------------------|--------------------|
| | <i>2020 KD</i> | <i>2019 KD</i> | <i>2020 KD</i> | <i>2019 KD</i> |
| Net investment income from designated life insurance | 1,280,472 | 625,103 | 152,439 | 1,630,811 |
| Net investment income | 6,298,591 | 3,165,137 | 7,120,928 | 6,118,264 |
| | 7,579,063 | 3,790,240 | 7,273,367 | 7,749,075 |

4 BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

Basic and diluted earnings per share are calculated by dividing profit for the period attributable to equity holders of the Parent Company by the weighted average number of ordinary shares, less treasury shares, outstanding during the period.

| | <i>Three months ended 30 June</i> | | <i>Six months ended 30 June</i> | |
|---|---------------------------------------|--------------------|-------------------------------------|--------------------|
| | <i>2020 KD</i> | <i>2019 KD</i> | <i>2020 KD</i> | <i>2019 KD</i> |
| Profit attributable to equity holders of the Parent Company | 6,787,719 | 4,370,044 | 9,843,324 | 8,111,461 |
| | Shares | Shares | Shares | Shares |
| Weighted average number of shares, less treasury shares outstanding during the period | 186,217,729 | 179,000,147 | 186,217,729 | 179,000,147 |
| Basic and diluted earnings per share | 36.45 fils | 24.41 fils | 52.86 fils | 45.32 fils |

As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

Gulf Insurance Company K.S.C. and its Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 June 2020

5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the interim condensed consolidated statement of cash flows include the following balances:

| | 30 June 2020 KD | <i>(Audited)</i> 31 December 2019 KD | 30 June 2019 KD |
|---|--------------------------------|--|--------------------------------|
| Bank balances and cash | 19,154,141 | 15,054,336 | 50,366,044 |
| Short term and call deposits | 50,819,473 | 72,607,432 | 48,845,464 |
| | <hr/> | <hr/> | <hr/> |
| Cash and bank balances | 69,973,614 | 87,661,768 | 99,211,508 |
| Bank overdrafts | (6,286,329) | (1,735,085) | (21,344,257) |
| | <hr/> | <hr/> | <hr/> |
| Cash and cash equivalents in the interim condensed consolidated statement of cash flows | 63,687,285 | 85,926,683 | 77,867,251 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

6 TERM LOAN

During the prior year, the Parent Company obtained two bank loans from local banks to be payables as follows:

- First loan is payable six annual installments beginning on 1 January 2020 and carry interest rate of 2.75% per annum and the last installment is due on 31 January 2025.
- Second loan is payable five annual installments beginning on 30 June 2020 and carry interest rate of 2.75% per annum and the last installment is due on 30 June 2024.

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

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7 SEGMENT INFORMATION

For the management purpose, the Group operates in two segments, general risk insurance and life and medical insurance; there are no inter-segment transactions. The following are the details of these two segments:

a) Segmental interim condensed consolidated statement of income:

| | <i>General risk insurance</i> | | | | | <i>Sub-total KD</i> | <i>Life and medical</i> | | <i>Sub-total KD</i> | <i>Total KD</i> |
|---|---------------------------------------|------------------------|---------------------|---------------------------|-------------------------------------|-------------------------|----------------------------------|-------------------------------------|-------------------------|---------------------|
| | <i>Marine and aviation KD</i> | <i>Property KD</i> | <i>Motor KD</i> | <i>Engineering KD</i> | <i>General accidents KD</i> | | <i>Life insurance KD</i> | <i>Medical insurance KD</i> | | |
| <i>Six months ended 30 June 2020</i> | | | | | | | | | | |
| Segment revenue | 2,659,727 | 6,024,342 | 27,610,529 | 4,691,918 | 6,124,619 | 47,111,135 | 6,153,287 | 50,434,718 | 56,588,005 | 103,699,140 |
| Segment results net underwriting income | 920,784 | 1,228,296 | 2,286,492 | 1,435,487 | 1,622,786 | 7,493,845 | 545,384 | 8,668,229 | 9,213,613 | 16,707,458 |
| <i>Six months ended 30 June 2019</i> | | | | | | | | | | |
| Segment revenue | 2,672,515 | 6,420,116 | 28,001,979 | 4,346,974 | 6,262,180 | 47,703,764 | 8,563,440 | 44,540,059 | 53,103,499 | 100,807,263 |
| Segment results net underwriting income (loss) | 1,294,683 | 3,406,483 | (1,649,320) | 736,024 | 1,038,900 | 4,826,770 | 800,656 | 5,269,058 | 6,069,714 | 10,896,484 |

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

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7 SEGMENT INFORMATION (continued)

b) Segmental interim condensed consolidated statement of financial position:

| <i>As at 30 June 2020</i> | <i>General risk insurance KD</i> | <i>Life and medical insurance KD</i> | <i>Un-allocated KD</i> | <i>Total KD</i> |
|-------------------------------|--------------------------------------|--|----------------------------|---------------------|
| Total assets | 524,697,907 | 121,166,357 | 235,507,788 | 881,372,052 |
| Total liabilities | 462,300,689 | 168,162,871 | 112,871,765 | 743,335,325 |
| <i>As at 31 December 2019</i> | <i>General risk Insurance KD</i> | <i>Life and medical insurance KD</i> | <i>Un-allocated KD</i> | <i>Total KD</i> |
| Total assets | 514,591,829 | 111,169,809 | 137,404,806 | 763,166,444 |
| Total liabilities | 424,470,438 | 121,868,788 | 81,980,828 | 628,320,054 |
| <i>As at 30 June 2019</i> | <i>General risk insurance KD</i> | <i>Life and medical insurance KD</i> | <i>Un-allocated KD</i> | <i>Total KD</i> |
| Total assets | 410,192,702 | 95,399,806 | 139,141,486 | 644,733,994 |
| Total liabilities | 336,231,737 | 94,736,473 | 99,183,083 | 530,151,293 |

8 RELATED PARTY DISCLOSURES

Related parties represent associated companies, major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Parent Company's management.

Transactions with related parties included in the interim condensed consolidated statement of income are as follows:

| | <i>Six months ended 30 June 2020</i> | | <i>Six months ended 30 June 2019</i> | |
|--|--|----------------------|--|----------------------|
| | <i>Premiums KD</i> | <i>Claims KD</i> | <i>Premiums KD</i> | <i>Claims KD</i> |
| Directors and key management Personnel | 199,173 | 3,216 | 218,339 | 2,379 |
| Other related parties | 3,301,245 | 136,841 | 2,704,661 | 843,241 |
| | 3,500,418 | 140,057 | 2,923,000 | 845,620 |

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

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8 RELATED PARTY DISCLOSURES (continued)

Balances with related parties included in the interim condensed consolidated statement of financial position are as follows:

| | 30 June 2020 | | (Audited) 31 December 2019 | | 30 June 2019 | |
|--|---|---|---|---|---|---|
| | Amounts owed by related parties KD | Amounts owed to related Parties KD | Amounts owed by related parties KD | Amounts owed to related parties KD | Amounts owed by related parties KD | Amounts owed to related parties KD |
| Directors and key management personnel | 222,402 | - | 330,964 | 150 | 325,686 | 7,920 |
| Other related parties | 1,970,021 | 78,192 | 1,042,903 | 1,108,589 | 1,596,405 | 1,096,134 |
| | 2,192,423 | 78,192 | 1,373,867 | 1,108,739 | 1,922,091 | 1,104,054 |

The Group holds certain deposits and call accounts with a related party financial institution amounting to KD 6,904,768 (31 December 2019: KD 29,194,150 and 30 June 2019: KD 4,892,088). The Group also holds bonds issued by a major shareholder and other related companies amounting to KD 4,838,250 (31 December 2019: KD 4,816,500 and 30 June 2019: KD 4,817,000).

Compensation of key management personnel is as follows:

| | Six months ended 30 June | |
|--|-----------------------------|----------------|
| | 2020 KD | 2019 KD |
| Salaries and other short-term benefits | 292,446 | 292,446 |
| Employees' end of service benefits | 123,296 | 122,488 |
| | 415,742 | 414,934 |

9 CONTINGENT LIABILITIES

As at 30 June 2020, the Group was contingently liable in respect of letters of guarantees and other guarantees amounting to KD 60,256,177 (31 December 2019: KD 55,335,102 and 30 June 2019: KD 57,548,440).

10 FAIR VALUE MEASUREMENT

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of investments held to maturity, debt securities (loans), investments available for sale, investments carried at fair value through profit or loss, loans secured by life insurance policies, premiums and insurance balances receivable, reinsurance on outstanding claims, time deposits, bank balances and short term deposits. Financial liabilities consist of bank overdrafts, insurance payable and certain other liabilities.

The fair values of financial instruments, with the exception of certain available for sale investments carried at cost, are not materially different from their carrying values. The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in an active market for identical assets and liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: other techniques which use inputs which have a significant effect on the recorded fair value are not based on observable market data.

Gulf Insurance Group K.S.C.P. and its Subsidiaries

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10 FAIR VALUE MEASUREMENT (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

| | <i>Fair value measurement using</i> | | | Total KD |
|--|-------------------------------------|----------------------|----------------------|---------------------|
| | Level 1 <i>KD</i> | Level 2 <i>KD</i> | Level 3 <i>KD</i> | |
| 30 June 2020 | | | | |
| Assets measured at fair value | | | | |
| Investments available for sale: | | | | |
| Quoted equity securities | 14,653,246 | - | - | 14,653,246 |
| Unquoted equity securities | - | 20,048 | 6,214,550 | 6,234,598 |
| Quoted managed funds | 198,068 | - | - | 198,068 |
| Quoted bonds | 27,993,875 | - | - | 27,993,875 |
| Unquoted managed funds | - | 500,308 | 20,345 | 520,653 |
| Investments carried at fair value through profit or loss: | | | | |
| <i>Held for trading:</i> | | | | |
| Quoted securities | 4,727,408 | - | - | 4,727,408 |
| <i>Designated upon initial recognition:</i> | | | | |
| Managed funds of quoted securities | 22,779,973 | - | - | 22,779,973 |
| Property and equipment | | | | |
| Land | - | 15,747,846 | - | 15,747,846 |
| Buildings | - | 16,412,032 | - | 16,412,032 |
| Investment properties | - | 6,393,604 | - | 6,393,604 |
| Total | 70,352,570 | 39,073,838 | 6,234,895 | 115,661,303 |
| | | | | |
| | <i>Fair value measurement using</i> | | | Total KD |
| | Level 1 <i>KD</i> | Level 2 <i>KD</i> | Level 3 <i>KD</i> | |
| 31 December 2019 | | | | |
| Assets measured at fair value | | | | |
| Investments available for sale: | | | | |
| Quoted equity securities | 11,433,900 | - | - | 11,433,900 |
| Unquoted equity securities | 240,990 | 20,192 | 5,632,027 | 5,893,209 |
| Quoted managed funds | 221,438 | - | - | 221,438 |
| Quoted bonds | 26,725,541 | - | - | 26,725,541 |
| Unquoted managed funds | - | 654,514 | 22,443 | 676,957 |
| Investments carried at fair value through profit or loss: | | | | |
| <i>Held for trading:</i> | | | | |
| Quoted securities | 4,844,468 | - | - | 4,844,468 |
| <i>Designated upon initial recognition:</i> | | | | |
| Managed funds of quoted securities | 21,485,251 | - | - | 21,485,251 |
| Property and equipment | | | | |
| Land | - | 15,913,719 | - | 15,913,719 |
| Buildings | - | 16,882,747 | - | 16,882,747 |
| Investment properties | - | 6,166,079 | - | 6,166,079 |
| | 64,951,588 | 39,637,251 | 5,654,470 | 110,243,309 |

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10 FAIR VALUE MEASUREMENT (continued)

| | <i>Fair value measurement using</i> | | | Total KD |
|--|-------------------------------------|-------------------|------------------|-------------------|
| | Level 1 KD | Level 2 KD | Level 3 KD | |
| <i>30 June 2019</i> | | | | |
| Assets measured at fair value | | | | |
| <i>Investments available for sale:</i> | | | | |
| Quoted equity securities | 11,327,645 | - | - | 11,327,645 |
| Unquoted equity securities | - | 20,360 | 5,656,708 | 5,677,068 |
| Quoted managed funds | 222,902 | - | - | 222,902 |
| Quoted bonds | 21,326,662 | - | - | 21,326,662 |
| Unquoted managed funds | - | 673,681 | 22,443 | 696,124 |
| <i>Investments carried at fair value through profit or loss:</i> | | | | |
| <i>Held for trading:</i> | | | | |
| Quoted securities | 4,917,969 | - | - | 4,917,969 |
| <i>Designated upon initial recognition:</i> | | | | |
| Managed funds of quoted securities | 19,022,503 | - | - | 19,022,503 |
| <i>Property and equipment</i> | | | | |
| Land | - | 13,071,772 | - | 13,071,772 |
| Buildings | - | 14,723,219 | - | 14,723,219 |
| <i>Investment properties</i> | | | | |
| | - | 5,232,119 | - | 5,232,119 |
| Total | <u>56,817,681</u> | <u>33,721,151</u> | <u>5,679,151</u> | <u>96,217,983</u> |

The following table shows a reconciliation of the opening and closing amount of level 3 financial assets which are recorded at fair value.

| | <i>As at 1 January 2020 KD</i> | <i>Loss recorded in the interim condensed consolidated statement of income KD</i> | <i>Gain recorded in the interim condensed consolidated statement of comprehensive income KD</i> | <i>Net purchases and disposals KD</i> | <i>As at 30 June 2020 KD</i> |
|---|--|---|---|---|--|
| <i>Financial assets available for sale:</i> | | | | | |
| Unquoted equity securities | 5,632,027 | (808,500) | 83,723 | 1,307,300 | 6,214,550 |
| Unquoted managed funds | 22,443 | (2,098) | - | - | 20,345 |
| | <u>5,654,470</u> | <u>(810,598)</u> | <u>83,723</u> | <u>1,307,300</u> | <u>6,234,895</u> |

Gulf Insurance Group K.S.C.P. and its Subsidiaries

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10 FAIR VALUE MEASUREMENT (continued)

| | <i>At 1 January 2019 KD</i> | <i>Transfer from Level 3 to Level 2 KD</i> | <i>Loss recorded in the consolidated statement of income KD</i> | <i>Gain recorded in the consolidated statement of comprehensive income KD</i> | <i>Net purchases and disposals KD</i> | <i>At 31 December 2019 KD</i> |
|---|---|--|---|---|--|---|
| <i>Investments available for sale:</i> | | | | | | |
| Unquoted equity securities | 5,770,801 | - | - | - | (138,774) | 5,632,027 |
| Unquoted managed funds | 55,650 | - | (14,836) | - | (18,371) | 22,443 |
| | <u>5,826,451</u> | <u>-</u> | <u>(14,836)</u> | <u>-</u> | <u>(157,145)</u> | <u>5,654,470</u> |
| | | | <i>As at 1 January 2019 KD</i> | <i>Loss recorded in the interim condensed consolidated statement of income KD</i> | <i>Gain (loss) recorded in the interim condensed consolidated statement of comprehensive income KD</i> | <i>As at 30 June 2019 KD</i> |
| <i>Financial assets available for sale:</i> | | | 5,770,801 | - | (114,093) | 5,656,708 |
| Unquoted equity securities | | | 55,650 | (14,836) | (18,371) | 22,443 |
| Unquoted managed funds | | | <u>5,826,451</u> | <u>(14,836)</u> | <u>159,661</u> | <u>5,679,151</u> |

11 COVID-19 IMPACT

The existence of novel corona virus was confirmed in early 2020 and has spread globally, causing disruptions to businesses and economic activity. In light of the rapid spread of COVID-19 across the globe, various economies and sectors have faced significant disruptions and uncertainty as a result of measures taken by governments to contain or delay the spread of the virus. As of to date, the actual scope of the impact is very difficult to measure.

Recoverability of receivables

The COVID-19 outbreak led to a significant increase in the credit risk of companies within the economy as a result of operational disruption.

Based on management's, the Group has not identified a material impact to the recoverability of receivables for the period ended 30 June 2020.

Fair value measurement of financial instruments

COVID-19 outbreak led to significant market turmoil and price volatility on the global financial markets.

The Group is closely monitoring whether the fair values of the financial assets and liabilities represent the price that would be achieved for transactions between market participants in the current scenario.

Based on management's, the Group has not identified a material impact to the fair values of financial assets and liabilities for the period ended 30 June 2020 except for what is disclosed in the condensed consolidated interim financial information under financial assets available for sale.

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11 COVID-19 IMPACT (continued)

Fair value measurement of investment properties

As the real estate market becomes slower moving, adjustments may be required to adjust the fair values of the properties in order to reflect the current economic circumstances.

Based on management's, this is in early stages and there is limited information available on the 2020 outlook for the real estate market and how the situation will progress in light of COVID-19. The Group has not identified any significant impact to the fair values of investment properties for the period ended 30 June 2020. The Group will consistently monitor the market and ensure that the prices used by the Group are an accurate representation of fair values.

Outstanding claims

The Group expected that there is no material impact on its risk position and provision balances for outstanding claims for the period ended 30 June 2020. It will continue monitoring its claims experience and the developments around the pandemic and revisit the assumptions and methodologies in future reporting periods.