The Bahrain National Holding Company BSC

CONSOLIDATED FINANCIAL STATEMENTS
2016

CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

CONTENTS

GENERAL INFORMATION

Board of Directors

Farook Yusuf Almoayyed	*- Chairman*
Abdulhussain Khalil Dewani	*- Vice Chairman*
Jehad Yusuf Amin	*- Director*
Abdulrahman Mohamed Juma	*- Director*
Ali Hassan Mahmood	*- Director*
Ghassan Qassim Fakhroo	*- Director*
Talal Fuad Kanoo	*- Director*
Sami Mohamed Sharif Zainal	*- Director*
Ayad Saad Algosaibi	*- Director*
Redha Abdulla Faraj	*- Director*
Mohammed Kadhim	*- Board Secretary*

General Management – BNH Group

Sameer Al Wazzan	*- Chief Executive*
Anand Subramaniam	*- Chief Financial Officer*

General Management – BNI

Joseph M. Rizzo	*- General Manager (until 31 December 2016)*
Masood Bader	*- Deputy General Manager (General Manager effective from 1 January 2017)*
Eman Salem Mujali	*- Assistant General Manager*

General Management – BNL

Sahar Al Ajjawi	*- General Manager*

General Management – iAssist

Sergio Martinez Fernandez	*- General Manager*

Registered office

P.O. Box 843, 9th floor, BNH Tower,
Seef Business District,
Kingdom of Bahrain
Telephone: 17 587300
Fax: 17 583099
e-mail: ce@bnhgroup.com
website: www.bnhgroup.com

Listing

Bahrain Bourse

Auditors to the Group

KPMG Fakhro
P.O. Box 710,
Kingdom of Bahrain

Registrars to the group

Fakhro Karvy Computershare W.L.L

Actuaries

Actuscope Consulting Actuaries
Berytech Technological Pole, Mar Roukoz, Mkalles
P O Box 11-7503 Riad El Solh
Beirut 1107 2240
Lebanon

Primary bankers to the group

Ahli United Bank
National Bank of Bahrain

BNI's branches:

Manama - Seef Area:
BNH Tower,
Seef Business District, Manama

Manama Center:
City Centre Building, Ground Floor, 203,
Government Avenue, Manama

Manama – Zinj Area:
Manama Plaza, Building No. 63, Shop No. P 61,
Abdul Rahman Jassim Kanoo Avenue, Manama/Bu Ashira 332

Muharraq branch:
Shop. 1232,
Road 1535, Block 215, Muharraq

Sanad branch:
BNH Sanad Building 1809,
Al-Estiglal Highway, Road 4634, Block 646, Al Nuwaidrat

Budaiya branch:
Najeebi Complex,
Building No.3, Shop No.3, Saar Avenue, Saar 515

Hamad Town branch:
Shop No. 255,
Road No. 305, Block 1203, Hamad Town

Sitra branch:
Building No. 946,
Road No. 115, Sitra 601

Isa Town branch:
Isa Town Mall,
Shop No. 16, Isa Town

Chairman's Message

On behalf of the Board of Directors, I am pleased to present to you the annual report of Bahrain National Holding B.S.C. (BNH) for the year ended 31st December 2016.

2016 was a year of many challenges, but also of significant progress. As anticipated, the insurance market continued to be highly competitive, with the wider economic situation posing additional difficulties. Business was impacted by the Government's decisions to rationalize spending, lift subsidies on select items, and increase its fees on some services as a way of managing the national deficit. BNH's results during the year demonstrated the resilience of the group to these challenges.

We welcome the Central Bank of Bahrain's (CBB) initiative, in the final quarter of 2016 requiring insurance companies to reconcile their motor subrogation claims with counterparties. This is a positive step, as it reduces the insurance sector's receivables and counterparty risks. As a result, we received additional claims data allowing us and the independent actuary, to better estimate the company's claims reserves. In line with our conservative philosophy, we increased our claims reserves, which marginally impacted our underwriting results. On the positive side, we witnessed a healthy growth in our motor premiums as well as positive underwriting performance in our general insurance. Our investment portfolio continued its consistent performance in 2016 despite difficult and volatile market conditions.

Gross written premiums remained steady compared to 2015, with the total premiums standing at BD28.4 million, and due to the additional precautionary measures mentioned above, net underwriting profit recorded a slight decrease, from BD2.3 million in 2015 to BD1.9 million in 2016. The net profit for the period was BD3.9 million, compared to BD4.2 million, with shareholders' equity, experiencing a slight increase. Meanwhile, basic earnings per share fell from 37.8 fils in 2015 to 36.2 fils in 2016.

We expect greater stability in oil prices relative to the previous years to give the government more flexibility in facing the challenge of managing the deficit, without affecting growth and spending on infrastructure. We also expect the Government to further diversify its sources of income, reducing its dependence on oil revenue and moving forwards towards a more sustainable growth model.

Our focus remains on improving our insurance products and acquiring a larger share of the market, while diversifying revenue and raising profitability. The ultimate aim is to continue to strengthen customers' trust in our services.

On behalf of the Board of Directors, I would like to express my sincere appreciation and gratitude to His Majesty King Hamad bin Isa Al Khalifa, His Royal Highness Prime Minister Prince Khalifa bin Salman Al Khalifa, and His Royal Highness the Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister, Prince Salman bin Hamad Al Khalifa for their wise leadership and support of the Kingdom's financial sector.

I also extend my thanks to all the ministries, institutions, and government agencies, especially the Ministry of Industry and Commerce, the Central Bank of Bahrain, the Ministry of Finance, and the Bahrain Stock Exchange, for their guidance and continuous support.

Last, but not least, I would like to take this opportunity to thank all our shareholders, customers and business partners for their continuous trust and loyalty, and also the members of the Board of Directors, the Executive Management and all employees for their efforts and dedication during 2016.

Farook Yusuf Almoayyed
Chairman of the Board

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Audit
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Kingdom of Bahrain

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CR No. 6220

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
The Bahrain National Holding Company BSC
P.O. Box 843, 9th floor, BNH Tower,
Seef Business District, Kingdom of Bahrain

Report on the audit of the consolidated financial statements

Opinion
We have audited the accompanying consolidated financial statements of Bahrain National Holding Company B.S.C. (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis of opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Technical insurance provisions
(refer to the use of estimate and management judgement in note 2(h), accounting policy in note 2(f)(ii) & 2(f)(iii) and Note 13 to the consolidated financial statements.

Description	**How the matter was addressed in our audit**
We focused on this matter because: • The Group has significant insurance provisions (representing 62.9% of total liabilities) relating to outstanding claims, claims that have been incurred at reporting date but have not yet been reported to the Group, and unearned premiums; and • The valuation of outstanding claims and other insurance provisions is a key judgement area due to the level of subjectivity inherent in estimating the impact of claims, in particular claims that have been incurred at reporting date but have not yet been reported to the Group.	Our audit procedures included: • testing the design and operating effectiveness of the key controls around recording and reserving process for reported claims, unreported claims and unearned premium; • testing a sample of outstanding claims and related reinsurance recoveries and subrogation claims, focusing on those with most significant impact on the financial statements to assess whether claims and related recoveries are appropriately estimated; • assessing and challenging the key reserving assumptions including loss ratios, frequency and severity of claims, and reasonableness of estimate made by the Group. We also evaluated whether reserving was consistent in approach, with sufficient justification for changes in assumptions. We used our industry knowledge to benchmark the Group's reserving methodologies and estimates of losses. Our audit focused on lines of business with most inherent uncertainty. Furthermore, we were assisted by our own actuarial specialists to understand and evaluate Group's actuarial practice and provisions established. We also considered the work and findings of external independent actuarial experts engaged by the Group to corroborate our own findings; and • assessing the adequacy of the Group's disclosures related to technical insurance provisions in the consolidated financial statements by reference to the requirements of the relevant accounting standards.

Valuation and Impairment of available for sale financial investments

(refer to the use of estimate and management judgement in note 2(h)(iii), accounting policy in note 2(f)(xii) and Note 5 to the consolidated financial statements)

Description	How the matter was addressed in our audit
We focused on this matter because: • Financial investments comprise 31.6% of total assets in the consolidated financial statements and is considered one of the drivers of operations and performance. We don't consider these investments to be at high risk of significant misstatement, or to be subject to a significant risk of judgment because they mainly comprise liquid, quoted investments. However due to their materiality in the context of the financial statements as a whole, they are considered to be one of the areas which we focused on; • Of the total financial investment, a significant amount (representing 76.1% of total financial investments) comprise "available-for-sale securities" having carrying value of BD 20.1 million; • These available for sale securities comprise of 49% quoted equity securities and quoted managed funds, 31.4% quoted government bonds and corporate bonds (debt securities) and 18.8% unlisted funds, carried at fair value, the measurement of which requires use of estimates and judgements; and • The Group makes subjective judgments over both timing of recognition of impairment and the estimation of the amount of such impairment.	We understood and tested key controls and focused on: • documenting and assessing the processes in place to record investment transactions and to value the quoted investment portfolio; • agreeing the valuation of the quoted equity and debt securities and managed funds to externally quoted prices; and • for unlisted managed funds, the appropriateness of the valuation methodology selected and compared key underlying financial data inputs to external sources. For impairment of available-for-sale equity securities and managed funds, we: • examined whether management has identified all investments that have experienced a decline in fair value below cost; and • evaluated the reasonableness and consistency of the application of the criteria to determine that a significant or prolonged decline in fair value below cost has led to recognition of impairment. For impairment of available for sale debt securities, we: • evaluated individual debt security for any signs of significant financial difficulty of the issuer; • assessed if there has been a default or past due event; and • assessed if there had been a significant drop in fair value. We also assessed the adequacy of the Group's disclosures in relation to valuation and impairment of available-for-sale financial investments by reference to the requirements of the relevant accounting standards.

Impairment of insurance receivables and recoveries

(refer to the use of estimate and management judgement in note 2(h)(iii), accounting policy in note 2(f)(vii) & 2(f)(xii) and Note 4 to the consolidated financial statements.

Description	How the matter was addressed in our audit
We focused on this matter because: • The Group has significant insurance receivables from policy holders and other insurance companies and recoverable amounts from reinsurance companies. The Group faces a risk of non-recoverability of these receivables due to financial difficulties of the counter parties; • Estimation of the recoverable amount and determining the level of impairment allowance involves judgement and estimation uncertainty; and • The Group makes subjective judgments over both timing of recognition of impairment and the estimation of the amount of such impairment.	Our audit procedures included: • testing the design and operating effectiveness of controls over the process of collection and identification of doubtful balances; • focusing on those accounts with the most significant potential impact on the consolidated financial statements, reconciliation of statement of accounts and receipts subsequent to the year-end; and • evaluating the adequacy of the Group's disclosures related to insurance receivables and impairment allowance in the consolidated financial statements by reference to the requirements of the relevant accounting standards.

Other information

The board of directors is responsible for the other information. The other information comprises the annual report but does not include the consolidated financial statements and our auditor's report thereon. Prior to the date of this auditors' report, we obtained the Chairman's report and the remaining sections of the annual report are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the board of directors for the consolidated financial statements

The board of directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the board of directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.

- Conclude on the appropriateness of the board of director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended 31 December 2016 and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by the Bahrain Commercial Companies Law, we report that:

a) the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
b) the financial information contained in the chairman's report is consistent with the consolidated financial statements;
c) we are not aware of any violations during the year of the Bahrain Commercial Companies Law or the terms of the Company's memorandum and articles of association that would have had a material adverse effect on the business of the Company or on its financial position; and
d) satisfactory explanations and information have been provided to us by management in response to all our requests.

The engagement partner on the audit resulting in this independent auditor's report is Balasubramanian Mahesh.

KPMG

KPMG Fakhro
Partner Registration No. 137
21 February 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2016 *(In thousands of Bahraini Dinars)*

	Note	2016	2015
ASSETS			
Cash and cash equivalents	3	5,048	3,965
Placements with banks	3	8,996	6,973
Insurance and other receivables	4	9,185	7,930
Financial investments	5	26,379	29,865
Equity accounted investees	6	15,670	13,806
Reinsurers' share of insurance technical reserves	7	10,523	12,537
Deferred acquisition cost	24	628	610
Investment properties	9	3,099	3,261
Intangible assets	10	282	319
Property and equipment	11	3,429	3,631
Statutory deposits	12	125	125
Total assets		**83,364**	83,022
LIABILITIES			
Insurance technical reserves	13	24,522	26,772
Insurance payables	17	3,492	2,792
Borrowings		-	202
Other liabilities	18	6,272	5,536
Total liabilities		**34,286**	35,302
Total net assets		**49,078**	47,720
EQUITY			
Share capital	20	11,350	11,350
Treasury shares	20 c	(1,868)	(1,868)
Share premium	20 g	3,990	3,990
Statutory reserve	21 a	5,675	5,675
General reserve	21 b	13,585	13,585
Investment fair value reserve	21 c	2,263	2,543
Retained earnings		11,854	10,169
Equity attributable to shareholders of the parent company		**46,849**	45,444
Non-controlling interest	8	2,229	2,276
Total equity		**49,078**	47,720

The Board of Directors approved the consolidated financial statements consisting of pages 9 to 67 on 21 February 2017.

Farook Yusuf Almoayyed	Abdulhussain Khalil Dewani	Sameer Al Wazzan
Chairman	*Vice Chairman*	*Chief Executive Officer*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2016

(In thousands of Bahraini Dinars)

	Note	**2016**	2015
Gross insurance premiums	23	28,401	28,401
Reinsurers' share of gross insurance premiums		(12,449)	(12,958)
Retained premiums		15,952	15,443
Net change in reserve for unearned premiums		(314)	(617)
Net premiums earned		**15,638**	14,826
Gross claims paid		(21,624)	(22,925)
Claims recoveries		11,608	13,580
Outstanding claims adjustment - gross	14 d	1,992	4,947
Outstanding claims adjustment - reinsurance	14 d	(2,230)	(4,061)
Net claims incurred		**(10,254)**	(8,459)
Gross underwriting profit		**5,384**	6,367
Life assurance actuarial reserve (charge)/release	16	(4)	98
Net commission and fee income/(expense)	24	605	(7)
General and administration expenses	26 a	(4,080)	(4,093)
Net underwriting profit		**1,905**	2,365
Net investment income	25	1,628	2,046
Share of profit of equity accounted investees	6	2,108	1,549
Corporate expenses	26 b	(1,732)	(1,756)
Profit for the year		**3,909**	4,204
Profit attributable to:			
Parent company		3,880	4,049
Non-controlling interest	8	29	155
		3,909	4,204
Basic earnings per share (100 fils per share)	20 e	**36.2 fils**	37.8 fils

The Board of Directors approved the consolidated financial statements consisting of pages 9 to 67 on 21 February 2017.

Farook Yusuf Almoayyed
Chairman

Abdulhussain Khalil Dewani
Vice Chairman

Sameer Al Wazzan
Chief Executive Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016 *(In thousands of Bahraini Dinars)*

	Note	2016	2015
Profit for the year		**3,909**	4,204
Other comprehensive income / (loss):			
Items that may be reclassified to profit or loss:			
Available-for-sale securities:			
- Change in fair value during the year		129	(490)
- Transfer to statement of profit or loss on impairment of securities		132	111
- Transfer to statement of profit or loss on disposal of securities		(585)	(1,364)
Share of other comprehensive income of equity accounted investees		65	(269)
Other comprehensive loss for the year		**(259)**	(2,012)
Total comprehensive income for the year		**3,650**	2,192
Total comprehensive income attributable to:			
Parent company		3,600	2,080
Non-controlling interest	8	50	112
		3,650	2,192

The consolidated financial statements consist of pages 9 to 67.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016

(In thousands of Bahraini Dinars)

2016	Attributable to the owners of the parent company								Non-controlling Interest	Total Equity
	Share capital	Treasury shares	Statutory reserve	Share premium	General reserve	Fair value reserve	Retained earnings	Total		
Balance at 1 January 2016	**11,350**	**(1,868)**	**5,675**	**3,990**	**13,585**	**2,543**	**10,169**	**45,444**	**2,276**	**47,720**
Profit for the year	-	-	-	-	-	-	3,880	3,880	29	3,909
Other comprehensive loss for the year	-	-	-	-	-	(280)	-	(280)	21	(259)
Total comprehensive income for the year	-	-	-	-	-	**(280)**	**3,880**	**3,600**	**50**	**3,650**
Dividends declared for 2015	-	-	-	-	-	-	(2,145)	(2,145)	(97)	(2,242)
Donations declared for 2015	-	-	-	-	-	-	(50)	(50)	-	(50)
Appropriations approved by shareholders	-	-	-	-	-	-	**(2,195)**	**(2,195)**	**(97)**	**(2,292)**
Balance at 31 December 2016	**11,350**	**(1,868)**	**5,675**	**3,990**	**13,585**	**2,263**	**11,854**	**46,849**	**2,229**	**49,078**

2015	Attributable to the owners of the parent company								Non-controlling Interest	Total Equity
	Share capital	Treasury shares	Statutory reserve	Share premium	General reserve	Fair value reserve	Retained earnings	Total		
Balance at 1 January 2015	11,350	(1,868)	5,675	3,990	13,585	4,512	8,315	45,559	2,284	47,843
Profit for the year	-	-	-	-	-	-	4,049	4,049	155	4,204
Other comprehensive loss for the year	-	-	-	-	-	(1,969)	-	(1,969)	(43)	(2,012)
Total comprehensive income for the year	-	-	-	-	-	(1,969)	4,049	2,080	112	2,192
Dividends declared for 2014	-	-	-	-	-	-	(2,145)	(2,145)	(120)	(2,265)
Donations declared for 2014	-	-	-	-	-	-	(50)	(50)	-	(50)
Appropriations approved by shareholders	-	-	-	-	-	-	(2,195)	(2,195)	(120)	(2,315)
Balance at 31 December 2015	11,350	(1,868)	5,675	3,990	13,585	2,543	10,169	45,444	2,276	47,720

The consolidated financial statements consist of pages 9 to 67.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2016

(In thousands of Bahraini Dinars)

	Note	2016	2015
OPERATING ACTIVITIES			
Insurance operations			
Premiums received net of acquisition costs		28,188	28,712
Payments to insurance and reinsurance companies		(11,717)	(13,368)
Claims paid to policyholders		(21,556)	(23,080)
Claims recovered from reinsurers and salvage recoveries		10,880	13,678
Cash flows from insurance operations		**5,795**	5,942
Investment operations			
Dividends and interest received		1,176	1,357
Proceeds from sale and redemptions of financial investments		12,960	16,850
Payments for purchases of financial investments		(9,242)	(13,985)
Bank deposits with maturities of more than three months		(9,121)	(6,973)
Redemption proceeds from bank deposits		7,098	3,846
Acquisition of subsidiary, net of cash acquired		-	(479)
Payments for investment in equity accounted investees		(160)	(328)
Proceeds from sale of investment in equity accounted investees		-	126
Dividends received from equity accounted investees		469	685
Rent received		248	172
Cash flows from investment operations		**3,428**	1,271
Expenses paid		(5,570)	(5,369)
Cash flows from operating activities		**3,653**	1,844
INVESTMENT ACTIVITIES			
Purchase of property, equipment and intangible assets		(265)	(309)
Cash flows used in investment activities		**(265)**	(309)
FINANCING ACTIVITIES			
Proceeds from bank borrowings		-	47
Repayment of bank borrowings		(191)	(713)
Finance costs paid		(13)	(27)
Dividends paid to non-controlling interest		(97)	(120)
Dividends paid to shareholders		(1,975)	(2,094)
Donations paid		(29)	(33)
Cash flows used in financing activities		**(2,305)**	(2,940)
Total net cash flows during the year		**1,083**	(1,405)
Cash and cash equivalents at 1 January		3,965	5,370
Cash and cash equivalents at 31 December	3	**5,048**	3,965

The consolidated financial statements consist of pages 9 to 67.

1 STATUS AND OPERATIONS

The Bahrain National Holding Company BSC (the "Company") was incorporated in 1998, as a Bahraini public shareholding company, by Charter of His Highness the Amir of the Kingdom of Bahrain to transact various types of investment business. The Company was listed on the Bahrain Bourse on 3 January 1999.

2 SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and Bahrain Commercial Companies Law 2001. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

b) Basis of preparation

The consolidated financial statements have been drawn up from the accounting records of the Company and its subsidiaries under the historical cost convention, except for securities carried at fair value through profit or loss and available-for-sale securities, which are stated at their fair values.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 2 h.

c) New standards, amendments and interpretations effective from 1 January 2016

The following standards, amendments and interpretations, which became effective as of 1 January 2016, are relevant to the Group:

(i) Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).

The amendments to IAS 16 prohibits entities from using a revenue based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted if the intangible asset is expressed as a measure of revenue or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Early adoption is permitted.

The adoption of this amendment had no significant impact on the consolidated financial statements.

2 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(ii) *Annual Improvements to IFRSs 2012–2014 Cycle – various standards.*

The annual improvements to IFRSs to 2012-2014 cycles include a number of amendments to various IFRSs. Most amendments will apply prospectively for annual periods beginning on or after 1 January 2016; earlier application is permitted (along with the special transitional requirement in each case), in which case the related consequential amendments to other IFRSs would also apply.

The adoption of these amendments had no significant impact on the consolidated financial statements.

The following are the key amendments in brief:

- IFRS 5 – when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution' or vice versa, this does not constitute a change to a plan of sale or distribution and does not have to be accounted for as such

- IFRS 7 – specific guidance for transferred financial assets to help management determine whether the terms of a servicing arrangement constitute 'continuing involvement' and, therefore, whether the asset qualifies for derecognition

- IFRS 7 – that the additional disclosures relating to the offsetting of financial assets and financial liabilities only need to be included in interim reports if required by IAS 34

- IAS 19 – that when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important and not the country where they arise

- IAS 34 – what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report' and adds a requirement to cross-reference from the interim financial statements to the location of that information.

(iii) *Disclosure Initiative (Amendments to IAS 1).*

The amendments to IAS 1 Presentation of Financial Statements are made in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments provide clarifications on a number of issues, including:

- Materiality – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.

- Disaggregation and subtotals – line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals.

- Notes – confirmation that the notes do not need to be presented in a particular order.

- OCI arising from investments accounted for under the equity method – the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.

2 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

According to the transitional provisions, the disclosures in IAS 8 regarding the adoption of new standards/accounting policies are not required for these amendments.

The adoption of this amendment had no significant impact on the consolidated financial statements.

d) New standards, amendments and interpretations issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2016 and earlier application is permitted; however; the Group has not early applied the following new or amended standards in preparing these consolidated financial statements.

(i) Disclosure Initiative (Amendments to IAS 7)

The amendments require disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

To satisfy the new disclosure requirements, the Group intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

The Group has not early adopted Disclosure Initiative (Amendments to IAS 7) in its consolidated financial statements for the year ended 31 December 2016.

(ii) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group is currently performing an initial assessment of the potential impact of the adoption of IFRS 15 on its consolidated financial statements.

(iii) IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
In September 2016, the IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the upcoming new insurance contracts standard (IFRS 17).

2 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2021 at the latest. An entity may apply the temporary exemption from IFRS 9 if: (i) it has not previously applied any version of IFRS 9 before and (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016. The overlay approach allows an entity applying IFRS 9 to reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for the designated financial assets being the same as if an entity had applied IAS 39 to these designated financial assets.

An entity can apply the temporary exemption from IFRS 9 for annual periods beginning on or after 1 January 2018. An entity may start applying the overlay approach when it applies IFRS 9 for the first time.

The Group has performed an assessment of the amendments and as the activities of the Group are predominantly connected with insurance, the Group has opted to apply the temporary exemption in its reporting period starting on 1 January 2018.

(iv) IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard- i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

The Group is currently performing an initial assessment of the potential impact of the adoption of IFRS 15 on its consolidated financial statements.

(v) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

The IASB has made limited scope amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures.

The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations).

2 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's investors in the associate or joint venture.

The effective date for these changes has now been postponed until the completion of a broader review – which the IASB hopes will result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

The Group does not expect to have a significant impact on its consolidated financial statements.

e) Basis of consolidation

(i) Subsidiaries
Subsidiaries are entities controlled by the Group. The Group 'controls' an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

(ii) Non-controlling interest (NCI)
Non-controlling interest represent their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as an equity transaction.

(iii) Loss of control
When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in the statement of profit or loss. Any interest retained in the former subsidiary is measured at measured at fair value when control is lost.

(iv) Interest in equity-accounted investee
The Group's interests in equity-accounted investees comprise interests in associates and a joint venture.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint venture are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity accounted investees, until the date on which significant influence or joint control ceases.

(v) Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee.

2 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

f) Basis of accounting

(i) Insurance and investment contracts

The Group issues contracts that transfer insurance risk or financial risk or both. The Group classifies all its contracts individually as either insurance contracts or investment contracts. Contracts which contain both insurance components and investment components, and where the investment component can be measured independently from the insurance component, are "unbundled" i.e. separately classified and accounted for as insurance contracts and investment contracts.

Investment contracts have been accounted for and recognized in accordance with IAS 39 – Financial Instruments: Recognition and Measurement and Insurance Contracts has been accounted for and recognized in accordance with IFRS 4 – Insurance Contracts.

Insurance contracts are those contracts where the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. Such contracts may also transfer financial risk. As a general guideline, the Group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event.

(ii) General insurance business

Gross insurance premiums
Gross insurance premiums in respect of annual policies are credited at policy inception. In respect of policies with a term of more than one year, the premiums are spread over the tenure of the policies on a straight-line basis, the unexpired portion of such premiums being included under "insurance technical reserves" in the statement of financial position.

Reinsurers' share of gross insurance premiums
Reinsurance ceded, in respect of proportional reinsurance transactions, is matched with the premiums received. Non-proportional reinsurance cost is accounted for when incurred.

Unearned premiums
Unearned premiums are estimated amounts of premiums under insurance contracts which are to be earned in the following or subsequent financial periods, for the unexpired period of insurance as at the reporting date. Unearned premiums have been calculated on gross premiums as follows:

- by the 24th method for all annual insurance contracts, except for marine cargo business, and
- by the 6th method for marine cargo business, in order to spread the contributions earned over the tenure of the insurance contracts.

Claims settled
Claims settled in the year are charged to the statement of profit or loss net of reinsurance, salvage and other recoveries. At the reporting date, provision is made for all outstanding claims including claims incurred but not reported (IBNR).

Outstanding claims
For general insurance contracts, estimates have to be made for both the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not reported (IBNR) at the reporting date.

2 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

Provision for outstanding claims are based on estimates of the loss, which will eventually be payable on each unpaid claim, established by management in the light of current available information and past experience and modified for changes reflected in current conditions, increased exposure, rising claims costs and the severity and frequency of recent claims, as appropriate.

The IBNR provision is based on statistical information related to actual past experience of claims incurred but not reported. The IBNR provision also includes a further amount, subject to annual review by management, to meet certain contingencies such as:

- unexpected and unfavorable court judgments which may require a higher payout than originally estimated; and
- settlement of claims, which may take longer than expected, resulting in actual payouts being higher than estimated.

General insurance provisions are not discounted for time value of money, due to the expected short duration to settlement.

Commission income

Commission income represents commissions received from reinsurers under the terms of ceding and is net of acquisition costs paid. Commission income is matched with premiums earned resulting in an element of unearned commission being carried forward at the reporting date.

Deferred commission and acquisition costs

Commission expense and other acquisition costs incurred during the financial period that vary with and are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relate to subsequent financial periods are deferred to the extent that they are recoverable out of the future revenue margins. Deferred acquisition costs (DAC) are capitalized and amortized on a straight line basis over the life of the contract. All other acquisition costs are recognized as an expense when incurred. Deferred acquisition costs are shown net of deferred commission income in the statement of financial position.

Salvage and subrogation reimbursements

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (salvage). The Group may also have the right to pursue third parties for payment of some or all costs (subrogation). Salvage recoveries are recognized on receipt and subrogation claims are recognized when right to receive is established.

General and administration expenses

General and administration expenses include direct operating expenses. All expenses are charged to the statement of profit or loss in the year in which they are incurred.

(iii) Life assurance business

The life assurance operations underwrites two categories of policies:

- Term life assurance including group term assurance which are of short duration, normally for periods of 12 months; and
- Participating (with profits) policies whereby the assured is entitled to a share of the profits from a pool of investments, such share being distributed at the discretion of Bahrain National Life Assurance Company.

2 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

Gross insurance premiums
Gross insurance premiums from life assurance business are recognized when due, except for single premiums received on certain long-term policies; such single premiums are spread over the tenures of the policies on a straight-line basis. Single premiums are those relating to policies issued by the Group where there is a contractual obligation for the payment of only one premium.

Reinsurers' share of gross insurance premiums
Reinsurance, in respect of proportional reinsurance transactions, is matched with the premiums received. Non-proportional reinsurance cost is accounted for when incurred.

Claims
Claims arising on maturity are recognized when the claim becomes due for payment under the policy terms. Death claims and surrenders under participating contracts are accounted for on the date of notification. Annuity payments are recorded when due.

Bonuses
Bonuses to policyholders on profit-linked insurance contracts are recognised when declared by the Group.

Outstanding claims
Provision for outstanding claims is based on estimates of the loss, which will eventually be payable on each unpaid claim, established by the management in the light of currently available information and past experience and modified for changes reflected in current conditions, increased exposure, rising claims costs and the severity and frequency of recent claims, as appropriate. Outstanding claim provisions are not discounted for time value of money.

Life assurance actuarial reserve
The life assurance actuarial reserve represents the present value of the future benefit obligations in respect of policies in force at the reporting date. The life assurance actuarial reserve is credited by the net investment income arising out of the investments made by the Company on behalf of the life assurance policyholders. At the reporting date, the net value of the life assurance actuarial reserve is adjusted to a minimum of the actuarially estimated current value of future benefit obligations under the Group's policies in force at the reporting date. The shortfall, if any, is charged to the statement of profit or loss.

Surpluses, if any, are released to the statement of profit or loss at the discretion of the Board of Directors. The surplus represents amounts arising out of participating contracts, the allocation of which has not been determined at the reporting date and future allocations of which are at the discretion of the Group.

Fee and commission income
Fee and commission income from insurance and investment contract policyholders are charged for policy administration and investment management services. The fee is recognized as revenue in the period in which it is received unless it relates to services to be provided in future periods where these are deferred and recognised in the statement of profit or loss as the service is provided over the term of the contract.

(iv) Liability adequacy test
At each reporting date, liability adequacy tests are performed to ensure the adequacy of the insurance liabilities, net of related deferred acquisition costs using current estimates of future cash flows under insurance contracts. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used.

2 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

Any deficiency is immediately charged to the statement of profit or loss by establishing a provision for losses arising from liability adequacy tests.

(v) *Reinsurance contracts*
Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts in Note 2 f) (i) are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts. The benefits to which the Group is entitled under its reinsurance contracts held are recognized as reinsurance assets.

These assets consists of balances due from reinsurers on settlement of claims and other receivables such as profit commissions and reinsurers share of outstanding claims that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are recognized consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense when due.

The Group assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in the statement of profit or loss. Objective evidence for impairment is assessed as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not be able to receive all the amounts due under the terms of the contract and that the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

(vi) *Financial assets and financial liabilities*

Classification
Investments carried at fair value through profit or loss are financial assets that are held for trading.

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity.

Available-for-sale investments are financial assets that are not investments carried at fair value through profit or loss or held-to-maturity or loans and receivables. These include investments in quoted and unquoted equity securities.

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are stated at amortised cost, adjusted for changes in fair value under any effective hedging arrangement, less provision for impairment.

Recognition and de-recognition
Investment securities are initially recognised at fair value, plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments carried at fair value through profit or loss is initially recognised at fair value, and transaction cost are expensed in the profit or loss. Investments are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement
Investment securities are measured initially at fair value, which is the value of the consideration given, including transaction costs. Subsequent to initial recognition, investments at fair value through profit or loss and available-for-sale investments are re-measured to fair value. Held-to-maturity investments and loans and advances are measured at amortised cost less any impairment allowances. Available-for-sale investments which do not have a quoted market price or other appropriate methods from which to derive reliable fair values, are stated at cost less impairment allowances.

Gains and losses on subsequent measurement
Gains and losses arising from a change in the fair value of investments carried at fair value through profit or loss are recognised in the statement of profit or loss in the period in which they arise. Gains and losses arising from a change in the fair value of available-for-sale investments are recognised in a separate fair value reserve in other comprehensive income and when the investments are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the fair value reserve is transferred to the income statement. Gains or losses arising from re-measurement, at amortised cost, of held-to-maturity securities at each reporting date are transferred to investment income.

Fair value basis
In respect of quoted equities and bonds, the fair value is the closing market price of the security at the reporting date. In the absence of active markets or other appropriate methods from which to derive reliable fair values, the unquoted securities are stated at cost, less impairment allowance. In respect of private equity funds, the fair value is provided by the fund manager. The fair value of closed-ended managed funds, which are traded on securities exchanges, is the closing market price of the fund at the reporting date.

Gains or losses on disposal of investments
Gains or losses on disposal of investments are included under investment income. In the event of disposal, collection or impairment of available-for-sale securities, the cumulative gains and losses recognised in other comprehensive income are transferred to the statement of profit or loss.

(vii) Receivables
Receivables are initially measured at invoiced amount, being the fair value of the policyholder, insurance companies and reinsurance companies receivables and subsequently carried at amortised cost less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

(viii) Cash and cash equivalent
For the purpose of statement of cash flows, cash and cash equivalents comprise cash in hand, bank balances and short-term highly liquid assets (placements with financial institutions) with maturities of three months or less when acquired.

(ix) Intangible assets
Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

2 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is three to five years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(x) *Property and equipment*
Property and equipment are stated at cost less accumulated depreciation and provision for impairment losses, if any. The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Subsequent expenditure
Expenditure subsequent to initial recognition is capitalised only when it increases future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the statement of profit or loss as an expense when incurred.

Depreciation
Depreciation on property and equipment is provided on cost on a straight-line basis at annual rates, which are intended to write-off the cost of the assets, less estimated realizable value at the end of the useful life of the item, over the useful life of the assets. The useful lives of different categories of property and equipment are as under:

Categories	Useful live in years
Building	25 years
Machinery	10 years
Computer and office equipment	4 years
Furniture, fixtures and telephone systems	5 years
Motor vehicles	4 years
Office improvements	3 years

Depreciation is charged to the statement of profit or loss. When an item of property and equipment is sold, transferred or otherwise permanently withdrawn from use, the cost and accumulated depreciation relating thereto are eliminated from the statement of financial position, the resulting gain or loss being recognised in the statement of profit or loss.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(xi) *Investment properties*
Investment properties are initially measured at cost and subsequently at cost less accumulated depreciation and any accumulated impairment.

Any gain or loss on disposal of investment properties (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(xii) *Impairment of assets*
The Group assesses at each reporting date whether there is objective evidence that an asset is impaired. Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the company, or economic conditions that correlate with defaults in the company.

2 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

Financial assets carried at amortised cost

For financial assets carried at amortised cost, impairment is measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses are recognised in statement of profit or loss and reflected in an allowance account.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the statement of profit or loss.

Impairment of available-for-sale investments

The Group assesses at each reporting date whether there is objective evidence that a financial asset is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the market value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale equity securities, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss.

Impairment losses recognised in the statement of profit or loss on AFS equity instruments are subsequently reversed through the statement of comprehensive income. For available-for-sale investments carried at cost, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is assessed to be below the cost of the investment.

Non-financial assets

The carrying amount of the Group's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated or impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets of cash generating units (CGU's). The recoverable amount of an asset or a cash generating unit is the greater of its value in use or fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the assets or CGU.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the statement of profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(xiii) Borrowings

Borrowings are recognised initially as proceeds are received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

2 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(xiv) *Employees' benefits*

Bahraini employees

Pensions and other social benefits for Bahraini employees are covered by the Social Insurance Organisation, which is a "defined contribution scheme" in nature under IAS 19 'Employee Benefits', and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis.

Expatriate employees

Expatriate employees on fixed contracts are entitled to leaving indemnities payable under the Bahraini Labour Law for the Private Sector of 2012, based on length of service and final remuneration. Provision for this unfunded commitment, , which is a "defined benefit scheme" in nature under IAS 19, has been made by calculating the notional liability had all employees left at the reporting date.

Employee savings scheme

The Group has a voluntary employees saving scheme. The Group and the employee contribute monthly on a fixed percentage of salaries basis to the scheme.

(xv) *Share Capital*

Equity shares are classified as equity. Incremental costs directly attributable to the issue of the ordinary shares and share options are recognized as a deduction from equity.

(xvi) *Dividends*

Dividends to shareholders are recognised as a liability in the period in which they are declared.

(xvii) *Directors' remunerations*

Directors' remunerations are charged to the statement of profit or loss in the year in which they are incurred.

(xviii) *Segment reporting*

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Board of Directors and Group's Executive Committee to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Board of Directors and Executive Committee include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

g) Foreign currency translation

(i) *Functional and presentation currency*

Items included in the consolidated financial statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Bahraini Dinars, which is the Group's functional and presentation currency.

2 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary items classified as available-for-sale financial assets are included in investments fair value reserve.

(iii) Other group companies
The other Group companies functional currencies are denominated in Bahraini Dinar, and hence, there is no translation of financial statements of the group companies.

h) Critical accounting estimates and judgments in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) The ultimate liability arising from claims made under insurance contracts
The estimation of the ultimate liability arising from claims made under insurance contracts is the Group's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Group will ultimately pay for such claims.

The estimation for claims incurred but not reported (IBNR) using statistical models include an estimation made to meet certain contingencies such as unexpected and unfavorable court judgments which may require a higher payout than originally estimated and settlement of claims, which may take longer than expected, resulting in actual payouts being higher than estimated.

(ii) Life assurance actuarial reserve estimation
Life insurance liabilities are recognised when contracts are entered into and premiums are charged.

For long-term life insurance contracts, liabilities are currently measured by using the 'Net Premium' valuation method. The liability is determined as the discounted value of the expected future benefits, policyholder options and guarantees, less the discounted value of the expected net premiums that would be required to meet the future cash outflows based on the valuation assumptions used.

The liability for life insurance contracts, mainly yearly renewable and group life contracts, comprises the provision for unearned premiums calculated on the basis of 1/365 reserving method, as well as for claims outstanding, which may include an estimate of the incurred claims that have not yet been reported to the Group. Adjustments to the liabilities at each reporting date are recorded in the statement of profit or loss. Profits originated from margins of adverse deviations on run-off contracts are recognised in the statement of profit or loss over the life of the contract, whereas losses are fully recognised in the consolidated statement of profit or loss during the first year of run-off. The liability is recognised when the contract expires, is discharged or is cancelled. The assumptions are reviewed on yearly basis and include assumptions for incidence rates like mortality and morbidity, expenses and discount rates.

2 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

Incidence assumptions are based on standard industry mortality rate tables adjusted in order to reflect the historical experience of the country and company in particular. These tables estimates the number of deaths in order to determine the value of the benefit payments and the value of the valuation premiums.

The interest rate applied when discounting cash flows is based on prudent expectation of current market returns, expectations about future economic and financial developments as well as the analysis of investment income arising from the assets backing long term insurance contracts. For the long term plans an assumption of 4.5% is currently used.

(iii) Impairment losses for available-for-sale securities and receivables
The Group determines that available-for-sale equity securities and managed funds are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgement. In the case of quoted equity securities in active markets, the Group considers a decline in value below cost of 30%, or a decline that persists for more than 270 days as an indicator of impairment. In the case where markets for the investment are assessed to be inactive, the Group determines impairment based on its assessment of the investee companies' financial health, industry and sector performance.

Where fair values are not available, the recoverable amount of such investment is estimated to test for impairment. In making this judgement, the Group evaluates among other factors, the normal volatility in share price, evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Impairment losses on held-to-maturity securities carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in statement of profit or loss and reflected in an allowance against the investment.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the statement of profit or loss.

Impairment losses on held-to-maturity securities carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in statement of profit or loss and reflected in an allowance against the investment. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the statement of profit or loss.

(iv) Classification of investments
In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments designated at fair value through profit or loss, held-to-maturity or available-for-sale investment securities. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification.

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2 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(v) *Classification of Arabian Shield Cooperative Insurance Company (ASCIC) as an associate*
The Group classified the Arabian Shield Cooperative Insurance Company as an associate of the Group although the Group only owns a 15% ownership interest in ASCIC. An associate is an entity over which the investor has significant influence. The Group exercises significant influence over ASCIC, as it has a representation on the board of directors and participates in policy-making processes, including participation in decisions about dividends or other distributions and in advise on technical matters via representation on the Executive and Investment Committee of ASCIC. The Group's extent of ownership is also significant relative to other shareholders.

3 CASH AND BALANCES WITH BANKS

	2016	2015
Cash and bank current accounts	5,048	2,396
Short-term deposits with maturities of three months or less	-	1,569
Cash and cash equivalents	**5,048**	3,965
Placements with banks with maturities of more than three months	8,996	6,973
Total cash and balances with banks	**14,044**	10,938

Information about the Group's exposure to interest rate and credit risks are included in Note 28.

4 INSURANCE AND OTHER RECEIVABLES

	2016	2015
Insurance receivables		
Policyholders	3,193	2,919
Less: provision for impairment of receivables from policyholders	(333)	(314)
Insurance and reinsurance companies	5,064	4,210
Less: provision for impairment of receivables from insurance and reinsurance companies	(447)	(321)
	7,477	6,494
Other receivables		
Recoverable deposits	377	335
Accrued income	824	652
Prepayments and advances	104	170
Others	403	279
	1,708	1,436
Balance as at 31 December	**9,185**	7,930

For the year ended 31 December 2016 (In thousands of Bahraini Dinars)

4 INSURANCE AND OTHER RECEIVABLES (continued)

Movement in provision for impairment during the year is as follow:

	2016	2015
Balance at beginning of the year	635	501
Additional amounts provided during the year	147	138
Balances recovered during the year	(2)	(4)
Balance at end of the year	**780**	635

Information about the Group's exposure to credit and market risks, and impairment losses for receivables are included in Note 28.

5 FINANCIAL INVESTMENTS

	2016	2015
Securities carried at fair value through profit or loss	1,499	2,664
Available-for-sale securities	20,080	22,249
Held-to-maturity securities	4,800	4,952
Balance as at 31 December	**26,379**	29,865

a) Securities carried at fair value through profit or loss

	2016	2015
Listed securities:		
- Equities	486	794
- Government bonds	209	244
- Corporate bonds	309	444
- Managed funds	390	1,059
Unlisted funds	105	123
Total	**1,499**	2,664

Movement during the year		
Opening balance as at 1 January	2,664	2,821
Purchases	185	1,055
Sales	(1,335)	(1,059)
Valuation losses	(15)	(153)
Balance as at 31 December	**1,499**	2,664

Information about the Group's exposure to credit and market risk, and fair value measurement, is included in notes 28, 29, 30, and 32.

For the year ended 31 December 2016 (In thousands of Bahraini Dinars)

5 *FINANCIAL INVESTMENTS (continued)*

b) Available-for-sale securities

	2016	2015
Listed securities:		
- Equities	7,061	9,239
- Government bonds	1,766	2,005
- Corporate bonds	4,548	2,969
- Managed funds	2,772	3,563
Unlisted securities and funds	3,933	4,473
Total	**20,080**	22,249

Movement during the year		
Opening balance as at 1 January	22,249	25,823
Purchases	7,765	11,717
Sales	(9,640)	(13,619)
Fair value movement	(162)	(1,561)
	20,212	22,360
Impairments	(132)	(111)
Balance as at 31 December	**20,080**	22,249

Investments in unlisted securities and funds include investments of BD 170 thousand (2015: BD 161 thousand) carried at cost less impairment in the absence of a reliable measure of fair value.

Information about the Group's exposure to credit and market risk, and fair value measurement, is included in notes 28, 29, 30, and 32.

c) Held-to-maturity securities

	2016 Fair value	2015 Fair value	**2016 Carrying value**	2015 Carrying value
Government bonds	3,567	2,878	3,451	2,788
Corporate bonds	1,416	2,249	1,349	2,164
Total	**4,983**	5,127	**4,800**	4,952

Movement during the year		
Opening balance as at 1 January	4,952	5,028
Purchases	1,318	1,034
Disposals on maturity	(1,476)	(1,094)
Exchange gains/(losses)	6	(16)
Balance as at 31 December	**4,800**	4,952

Information about the Group's exposure to credit and market risk is included in notes 28, 29 and 30.

For the year ended 31 December 2016 (In thousands of Bahraini Dinars)

5 FINANCIAL INVESTMENTS (continued)

d) Policyholders' investments

The Group identified specific investments as policyholders' investments. These investments represent the funding of the life assurance actuarial reserve. The Group has adopted this step as a measure of protection for policyholders. Surpluses, if any, of these investments over the life assurance actuarial reserve may be dealt with at the discretion of the Group. The carrying value of the policyholders' investments (including investments of the staff retirement scheme) at the reporting date, included under "financial investments" are as follows:

	2016	2015
Financial investments	**2,346**	3,460
Life assurance actuarial reserve (Note 16)	**2,804**	3,383

6 EQUITY ACCOUNTED INVESTEES

a) Interests in associates

Details of each of the Group's associates at the end of the reporting period are as follows:

Name of the entity	**Place of business / country of incorporation**	**Percentage of ownership interest**		**Nature of relationship**	**Principal activities**
		2016	2015		
National Finance House BSC (c)	Kingdom of Bahrain	34.93 %	34.93 %	Associate	Engaged in consumer and auto finance business
Al Kindi Specialised Hospital W.L.L.	Kingdom of Bahrain	27 %	25 %	Associate	Engaged in providing private medical services
United Insurance Company BSC (c)	Kingdom of Bahrain	20 %	20 %	Associate	Primarily provides insurance coverage for motor vehicles
Arabian Shield Cooperative Insurance Company	Kingdom of Saudi Arabia	15.29 %	15.27 %	Associate	Transact various types of general insurance business

During the year, the Group increased its direct holding in the voting capital of Al Kindi Specialised Hospital W.L.L.from 25% to 27%.

For the year ended 31 December 2016 (In thousands of Bahraini Dinars)

6 *EQUITY ACCOUNTED INVESTEES (continued)*

b) The movements in the investment in associates and joint venture are as follows:

2016	**National Finance House**	**Al Kindi Specialised Hospital**	**United Insurance Company**	**Arabian Shield Cooperative Insurance Company ****	**Total**
Balance at beginning of the	**4,578**	**1,026**	**2,318**	**5,884**	**13,806**
Payment for acquisition of shares	-	150	-	10	160
Share of profit	431	325	535	817	2,108
Dividends received	(183)	(36)	(250)	-	(469)
Share of other comprehensive	-	-	65	-	65
Balance at end of the year	**4,826**	**1,465**	**2,668**	**6,711**	**15,670**

2015	iAssist Middle East *	National Finance House	Al Kindi Specialised Hospital	United Insurance Company	Arabian Shield Cooperative Insurance Company **	Total
Balance at beginning of the year	433	4,299	754	2,503	5,426	13,415
Payment for acquisition of shares	-	-	-	-	328	328
Proceeds from sale of shares	-	-	-	-	(126)	(126)
Share of profit/(loss)	(27)	436	293	591	256	1,549
Dividends received	-	(157)	(28)	(500)	-	(685)
Share of other comprehensive	-	-	7	(276)	-	(269)
Reclassified as a subsidiary	(406)	-	-	-	-	(406)
Balance at end of the year	-	4,578	1,026	2,318	5,884	13,806

* During the year 2015, the Group increased its direct holding in the voting capital of iAssist Middle East WLL from 50% to 100%, obtaining full control of iAssist Middle East WLL.

** The market value of Group's investments in Arabian Shield Cooperative Insurance Company based on the price quoted in Saudi Stock Exchange as at 31 December 2016 was BD 12,430 thousand (31 December 2015: BD 8,116 thousands).

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6 *EQUITY ACCOUNTED INVESTEES (continued)*

c) Latest available interim financial information of the material associates of the Group are as follows:

2016	**National Finance House**	**United Insurance Company**	**Arabian Shield Cooperative Insurance Company**
Total assets	51,316	23,652	33,335
Total liabilities	37,501	10,311	2,303
Net assets	13,815	13,341	31,032
Revenue	3,014	7,485	60,111
Profit	1,151	2,915	2,923
Other comprehensive loss	-	(925)	-

2015	National Finance House	United Insurance Company	Arabian Shield Cooperative Insurance Company
Total assets	47,815	20,954	28,435
Total liabilities	34,707	9,366	2,757
Net assets	13,108	11,588	25,678
Revenue	2,868	7,005	46,266
Profit	1,100	2,803	862
Other comprehensive income	-	11	-

d) Reporting dates of interim financial information of associates

For equity accounting and for disclosing financial information of the material associates, the information is taken from the unaudited interim financial statements for the eleven months ended November 30, 2016 and 2015. While, for Arabian Shield Cooperative Insurance Company the said information is taken from the unaudited interim financial statements for the nine months ended September 30, 2016 and 2015.

7 REINSURERS' SHARES OF INSURANCE TECHNICAL RESERVES

	2016	2015
Outstanding claims recoverable from reinsurers (refer note 14)	5,405	7,635
Reinsurers' share of unearned premiums (refer note 15)	5,118	4,902
Balance as at 31 December	**10,523**	12,537

Amounts due from reinsurers in respect of claims already paid by the Group on the contracts that are reinsured are included in insurance receivables (Refer Note 4).

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8 INVESTMENTS IN SUBSIDIARIES

Set out below are the Group's subsidiaries at 31 December 2016. Unless otherwise stated, they have share capital consisting solely of ordinary shares, that are held directly by the Group and the proportion of ownership interests held equals to the voting rights held by the Group. The country of incorporation or registration is also their principal place of business:

Name of the entity	Place of business / country of incorporation	Date of incorporation	Ownership interest held by the Group		Ownership interest held by non-controlling interest		Principal activities
			2016	2015	**2016**	2015	
Bahrain National Insurance Company BSC (c)	Bahrain	30 December 1998	100%	100%	-	-	Transact various types of general insurance business.
Bahrain National Life Assurance Company BSC (c)	Bahrain	4 October 2000	75%	75%	25%	25%	Transact the business of life assurance, medical insurance, retirement planning and savings.
iAssist Middle East Company WLL	Bahrain	14 January 2010	100%	100%	-	-	Transact the business of automobile smash repairs, roadside assistance and automobile services.

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8 *INVESTMENTS IN SUBSIDIARIES (continued)*

Subsidiaries with material non-controlling interests
The table below shows details of non-wholly owned subsidiary of the Group that have material non-controlling interests (NCI), before any intra-group elimination:

Bahrain National Life Assurance Company BSC (c)

	2016	2015
Cash and cash equivalents	1,521	1,352
Placements with banks	1,533	725
Insurance and other receivables	1,266	1,062
Reinsurers' share of insurance technical reserves	1,913	1,383
Deferred acquisition costs	154	143
Financial investments	10,017	11,379
Intangible assets	40	81
Equipment	12	11
Statutory deposits	50	50
Insurance technical reserves	(5,541)	(5,568)
Insurance payables	(590)	(484)
Other liabilities	(1,479)	(1,039)
Net assets (100 %)	**8,896**	9,095
Carrying amount of NCI	**2,229**	2,276
Net premium earned	1,931	2,072
Net claims incurred	(1,189)	(795)
General and administration expenses	(619)	(650)
Net commission expenses	(340)	(370)
(Charge) / release from life assurance actuarial reserve	(4)	98
Net investment income	339	265
Net profit	**118**	620
Other comprehensive income / (loss)	83	(170)
Total comprehensive income	**201**	450
NCI's share of profit (25%)	**29**	155
NCI's share of total comprehensive income (25%)	**50**	112
Cash flows (used in)/from operating activities	(455)	586
Cash flows from/(used in) investing activities	1,022	(682)
Cash flows used in financing activities, before dividends to NCI	(293)	(360)
Cash flows used in financing activities, cash dividends to NCI	(97)	(120)
Donations paid	(8)	-
Net change in cash and cash equivalents	**169**	(576)