

Takaful International Company B.S.C.

Consolidated financial statements for the year ended

31 DECEMBER 2016

CONTENTS

	Page
General information	2
Directors and Management	3
Independent auditors' report to the Board of Directors	4 to 5
Consolidated financial statements	
Consolidated statement of financial position	6
Consolidated statement of profit or loss	7
Consolidated statement of changes in shareholders' equity	8
Consolidated statement of changes in participants' fund	9
Consolidated statement of cash flows	10
Notes to the consolidated financial statements	11 to 47

Takaful International Company B.S.C.

General information

Commercial registration no.	21100 obtained on 11 April 1989
Telephone number	17565656
Fax number	17582688
E-mail address	takaful@takafulweb.com
Web site	www.takaful.bh
Bankers	Bahrain Islamic Bank Al Salam Bank Kuwait Finance House National Bank of Bahrain Bank of Bahrain and Kuwait Ahli United Bank
Auditors	Ernst & Young 10 th Floor East Tower, Bahrain World Trade Center PO Box 140 Manama Kingdom of Bahrain
Listing	Bahrain Bourse
Actuary	<u>Family Takaful</u> ΣICG Actuaries & Management Consultants Ltd. 70, Omirou, Nea Smyrni, 17121, Athens, Greece <u>General Takaful</u> Abdul Rahim Abdul Wahab, Pakistan
Registrars	Bahrain Bourse PO Box 3203 Manama Kingdom of Bahrain
Registered office	Building No 680, Road No 2811 Seef District 428 Kingdom of Bahrain
Postal address	P O Box 3230 Manama Kingdom of Bahrain

Takaful International Company B.S.C.

Directors and Management

Board of Directors

Mr Jamal Ali Al Hazeem	-	Chairman (elected with effect from 23 March 2016)
Mr Murad Ali Murad	-	Chairman (resigned with effect from 23 March 2016)
Mr Khalil Ebrahim Nooruddin	-	Vice-Chairman
Mr Khaled Saud Abdulaziz Alhasan		Director
Mr Othman Ebrahim Al Askar		Director
Mr Ebrahim Mohamed Sharif Alrayes		Director
Mr Ebrahim Hussain Al Jassmi		Director
Mr Ahmed AbdulRahman Bucheeri		Director
Mr AbdulRahman Abdulla Mohammed		Director
Mr Khalid Jamal Al-Muzaire		Director
Mr Abdulla Rabea Mohamed Rabea		Director

Audit Committee

Mr Jamal Ali Al Hazeem	-	Chairman (resigned with effect from 23 March 2016)
Mr Khalid Jamal Al Muzaire	-	Chairman (elected with effect from 23 March 2016)
Mr Ebrahim Mohamed Sharif Alrayes	-	Member
Mr Khalil Ebrahim Nooruddin	-	Member (elected with effect from 23 March 2016)

Executive Management

Mr Younis J. Al Sayed	-	Chief Executive
Mr Essam M. Al Ansari	-	General Manager
Mr Abdulaziz A. Al Othman	-	Deputy General Manager
Mr Ali E. Noor	-	Deputy General Manager - Business Development, IT and Unit Link
Mr Ahmed E. Suwailem	-	Mr Ahmed Suwailem - Assistant General Manager - General Takaful
Mr Santosh Shreenivas Prabhu	-	Financial Controller

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF TAKAFUL INTERNATIONAL COMPANY B.S.C.

Report on the consolidated financial statements

We have audited the accompanying consolidated statement of financial position of Takaful International B.S.C. (the "Company") and its subsidiary (together the "Group") as of 31 December 2016, and the related consolidated statements of profit or loss, changes in shareholders' equity, changes in participants' fund and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information. These consolidated financial statements and the Company's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2016, the results of its operations, its cash flows, changes in participants' fund and changes in shareholders' equity for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI.

Other matters

Till 31 December 2015, the Company used to prepare the financial statements on an unconsolidated basis. The previous unconsolidated financial statements for the year ended 31 December 2015 have been audited by other auditors whose audit opinion dated 23 February 2016 have expressed unqualified opinion and conclusion on those financial statements respectively.

Further, as stated in note 35 to the consolidated financial statements, the Group has not prepared the financial statements on a consolidated basis in the past and therefore the comparative information as at 31 December 2015 in the accompanying consolidated statement of financial position and for the year ended 31 December 2015 included in the accompanying consolidated statements of profit or loss, statements of changes in shareholders' equity, changes in participants' fund and cash flows and related notes have been restated and not necessarily corresponds to previously issued audited financial statements.

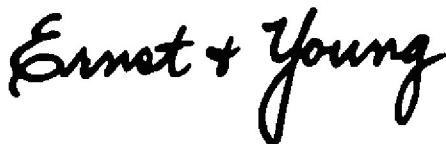
**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
TAKAFUL INTERNATIONAL COMPANY B.S.C. (continued)**

Report on other regulatory requirements

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 3), we report that:

- a) the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith; and
- b) the consolidated financial information contained in the Board of Directors' report is consistent with the consolidated financial statements.

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 3 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Company's memorandum and articles of association during the year ended 31 December 2016 that might have had a material adverse effect on the business of the Company or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Group has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Company.



Partner's registration no. 115
20 February 2017
Manama, Kingdom of Bahrain

Takaful International Company B.S.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

Notes	Shareholders			General takaful			Family takaful			Total		
	31 December 2016	31 December 2015	Restated 1 January 2015	31 December 2016	31 December 2015	1 January 2015	31 December 2016	31 December 2015	1 January 2015	31 December 2016	31 December 2015	Restated 1 January 2015
	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD
ASSETS												
Cash and Investments:												
Statutory deposit	125,000	125,000	125,000	-	-	-	-	-	-	125,000	125,000	125,000
Cash and cash equivalents	1,114,232	1,274,697	974,239	5,331,443	3,114,838	1,033,981	847,819	1,371,043	1,371,043	7,608,103	5,237,154	3,379,263
Available-for-sale Investments	2,428,308	2,420,460	3,116,834	773,056	958,361	910,079	1,735,654	1,103,519	1,103,519	4,686,569	5,114,475	5,130,432
	3,667,540	3,820,157	4,216,073	6,104,499	4,072,999	1,944,060	2,583,473	2,474,562	2,474,562	12,419,672	10,476,629	8,634,695
Takaful and re-takaful balances receivable	-	-	-	8,578,362	7,812,919	10,294,067	378,373	552,448	552,448	9,018,826	8,191,292	10,846,515
Due from re-takaful companies	-	-	-	-	-	-	-	-	-	-	-	-
in connection with outstanding claims	-	-	-	8,285,559	8,105,700	8,587,011	586,192	339,713	339,713	8,981,992	8,691,832	8,926,724
Deferred re-takaful contribution	-	-	-	2,702,966	2,075,252	3,741,314	84,912	-	-	3,030,352	2,160,164	3,741,314
Deferred policy acquisition costs	706,739	769,705	-	-	-	713,957	-	81,638	81,638	706,739	769,705	795,605
Due from re-takaful companies in connection with family takaful technical reserves	-	-	-	-	-	-	1,625,398	1,454,661	1,454,661	1,707,505	1,625,398	1,454,661
Property and equipment	2,272,525	2,351,551	1,977,987	-	-	-	-	2,272,525	2,351,551	2,272,525	2,351,551	1,977,987
Receivable from takaful funds	983,532	33,439	707,076	-	-	-	-	-	-	983,532	33,439	707,076
Other receivables and prepayments	312,488	86,999	127,598	104,982	67,230	54,762	9,632	6,526	6,526	448,406	163,861	168,866
Amounts due from related parties	654	585	962	-	-	-	-	-	-	654	585	962
TOTAL ASSETS	7,963,478	7,062,436	7,029,696	25,776,368	22,134,100	25,335,181	5,267,980	4,909,548	4,909,548	39,490,203	34,464,516	37,274,425
SHAREHOLDERS' EQUITY, PARTICIPANTS' FUND AND LIABILITIES												
Shareholders' equity												
Share capital	6,250,000	6,250,000	6,250,000	-	-	-	-	-	-	6,250,000	6,250,000	6,250,000
Statutory reserve	519,727	480,066	480,066	-	-	-	-	-	-	519,727	480,066	480,066
General reserve	200,000	200,000	200,000	-	-	-	-	-	-	200,000	200,000	200,000
Accumulated losses	(679,213)	(1,036,159)	(280,787)	-	-	-	-	-	-	(679,213)	(1,036,159)	(280,787)
Investments fair value reserve	(23,543)	(74,368)	(241,217)	12,833	(35,792)	(192,271)	(37,293)	6,442	6,442	(43,751)	(147,453)	(427,046)
Equity attributable to shareholders of the parent	6,266,971	5,819,539	6,408,062	12,833	(35,792)	(192,271)	(37,293)	6,442	6,442	6,246,763	5,746,454	6,222,233
Non-controlling interests	70,586	15,902	14,058	-	-	-	-	-	-	70,586	15,902	14,058
Total equity	6,337,557	5,835,441	6,422,120	12,833	(35,792)	(192,271)	(37,293)	6,442	6,442	6,317,349	5,762,356	6,236,291
(Deficit)/surplus in participants' fund	-	-	-	(1,346,519)	(1,425,425)	(340,141)	1,060,272	918,338	918,338	(137,262)	(365,153)	578,197
Liabilities												
Gross outstanding claims	-	-	-	11,004,805	12,116,302	11,923,718	732,458	388,223	388,223	11,738,496	12,846,760	12,311,941
Unearned contributions reserve	-	-	-	8,226,306	7,794,482	8,222,100	134,716	-	-	8,688,463	7,929,198	8,222,100
Unearned re-takaful commissions	-	-	-	480,289	340,597	739,641	2,880	315	315	485,316	343,477	739,956
Family takaful technical reserves	-	-	-	-	-	-	2,527,505	2,270,828	2,270,828	2,780,868	2,527,505	2,270,828
Re-takaful/ takaful and other payables	567,550	535,361	-	5,675,492	2,750,330	3,658,042	817,740	1,176,676	1,176,676	6,024,812	4,103,431	4,834,718
Other liabilities and provisions	812,703	478,317	423,389	748,294	588,767	762,228	1,966	3,514	3,514	1,562,963	1,068,186	1,189,131
Employees' terminal benefits	245,668	213,317	164,187	974,968	4,839	561,864	28,600	145,212	145,212	245,668	213,317	184,187
Payable to shareholders	-	-	-	-	-	-	8,564	-	-	983,532	33,439	707,076
Total liabilities	1,625,921	1,226,995	607,576	27,110,154	23,595,317	25,867,593	4,574,041	3,894,768	3,894,768	33,310,116	29,067,313	30,459,937
TOTAL SHAREHOLDERS' EQUITY, PARTICIPANTS' FUND AND LIABILITIES	7,963,478	7,062,436	7,029,696	25,776,368	22,134,100	25,335,181	5,267,980	4,909,548	4,909,548	39,490,203	34,464,516	37,274,425

Mr Khalid Ebrahim Nooruddin
Vice-Chairman

Mr Khalid Jamal Al-Muzaire
Director

Mr. Younis J. Al Sayed
Chief Executive

Takaful International Company B.S.C.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2016

	Shareholders			General takaful			Family takaful			Total		
	Restated			Year ended			Year ended			Year ended		
	31 December 2016	31 December 2015	BD	31 December 2016	31 December 2015	BD	31 December 2016	31 December 2015	BD	31 December 2016	31 December 2015	BD
Note												
Revenues												
Gross contributions	26	-	-	19,067,866	18,120,156		1,887,284	1,525,957		20,925,150	19,646,113	
Retakaful share	26	-	-	(6,239,023)	(5,309,514)		(633,336)	(469,269)		(6,872,359)	(5,778,783)	
Retained contributions		-	-	12,818,843	12,810,642		1,233,948	1,056,688		14,052,791	13,867,330	
Movement in unearned contributions	12	-	-	196,890	(1,248,449)		(84,967)	(49,804)		110,923	(1,288,253)	
Net earned contributions		-	-	13,014,733	11,562,193		1,148,981	1,006,884		14,163,714	12,569,077	
Net commission and other takaful income/(expenses)		-	-	1,373,142	1,671,061		150	(86,246)		1,373,292	1,504,813	
Total takaful revenue		-	-	14,387,875	13,233,254		1,149,131	920,638		15,537,006	14,153,890	
Expenses												
Gross claims settled	10	-	-	(18,113,915)	(16,606,370)		(931,862)	(533,624)		(20,045,877)	(17,139,994)	
Claims recovered from retakaful and other parties	10	-	-	7,899,708	7,802,230		807,003	437,685		8,706,711	8,239,915	
Net movement in outstanding claims	10	-	-	1,291,366	(673,894)		29,008	(97,755)		1,320,364	(771,649)	
Net claims incurred		-	-	(9,822,861)	(9,478,034)		(86,851)	(193,694)		(10,019,802)	(9,671,728)	
Transfer to family takaful technical reserve (Charge) due to surrender of policies		-	-	-	-		(171,254)	(85,940)		(171,254)	(85,940)	
Provision for impaired takaful receivables	9	-	-	79,131	(1,289,520)		(1,088)	(26,059)		78,043	(26,059)	
Total takaful expenses		-	-	(9,843,720)	(10,767,554)		(394,486)	(408,929)		(10,238,206)	(11,176,483)	
Surplus from takaful operations before wakala fees		-	-	4,544,155	2,465,700		754,645	511,707		5,298,800	2,977,407	
Wakala fees		-	-	(4,323,971)	(3,365,052)		(863,549)	(389,119)		(4,977,520)	(3,754,171)	
Surplus/(Deficit) from takaful operations after wakala fees		-	-	220,184	(899,352)		101,096	122,588		321,280	(776,764)	
Wakala fees	22	4,977,620	3,754,171	-	-		-	-		4,977,620	3,754,171	
Investment income	23	133,676	341,828	53,276	28,582		140,961	118,093		327,913	488,503	
Mudarib share	22	48,559	26,096	(13,319)	(9,382)		(35,240)	(17,714)		-	-	
		5,169,765	4,122,095	39,967	20,200		106,721	100,379		5,305,433	4,242,674	
Management, general and administrative expenses and depreciation		(3,180,092)	(3,595,860)	-	-		-	-		(3,180,092)	(3,595,860)	
Net acquisition costs	13	(1,637,016)	(929,710)	-	-		-	-		(1,637,016)	(929,710)	
Impairment loss on Available-for-sale investments	8	(231,801)	(1,135,781)	(161,335)	(206,132)		(57,732)	(81,033)		(470,868)	(1,422,946)	
Other income - net	24	292,445	785,728	-	-		-	-		292,445	785,728	
Net management, general and administrative expenses		(4,756,484)	(4,875,823)	(161,335)	(206,132)		(57,732)	(81,033)		(4,995,631)	(5,162,708)	
Net profit (loss) and surplus/(deficit) for the year		403,291	(753,528)	78,808	(1,085,284)		149,086	141,334		631,182	(1,696,878)	
Attributable to:												
Shareholders of the parent		396,607	(755,372)									
Non-controlling interests		6,684	1,644									
		403,291	(753,528)									
Earnings per share	7	6.35 Fils	(12.09) Fils									

Mr. Khalid Ebrahim Nooruddin
Vice-Chairman

Mr. Khalid Jamal Al-Muzairi
Director

Mr. Younis J. Al-Sayed
Chief Executive

Takaful International Company B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2016

	Share capital	Statutory reserve	General reserve	Accumulated losses	Investments to		Non-controlling interests	Total equity
	BD	BD	BD	BD	fair value reserve	shareholders of the Parent	BD	BD
Balance at 1 January 2016 as previously reported	6,250,000	480,066	200,000	(1,036,159)	(74,368)	5,819,539	-	5,819,539
Effect of change due to consolidation (note 35)	-	-	-	-	-	-	15,902	15,902
At 1 January 2016 - Restated	6,250,000	480,066	200,000	(1,036,159)	(74,368)	5,819,539	15,902	5,835,441
Profit for the year	-	-	-	396,607	-	396,607	6,684	403,291
Other comprehensive income	-	-	-	-	50,825	50,825	-	50,825
Total comprehensive income for the year	-	-	-	396,607	50,825	447,432	6,684	454,116
Transfer to statutory reserve	-	39,661	-	(39,661)	-	-	-	-
Increase in subsidiary capital (note 3)	-	-	-	-	-	-	48,000	48,000
At 31 December 2016	6,250,000	519,727	200,000	(679,213)	(23,543)	6,266,971	70,586	6,337,557
Balance at 1 January 2015 as previously reported	6,250,000	480,066	200,000	(280,787)	(241,217)	6,408,062	-	6,408,062
Effect of change due to consolidation (note 35)	-	-	-	-	-	-	14,058	14,058
At 1 January 2015 - Restated	6,250,000	480,066	200,000	(280,787)	(241,217)	6,408,062	14,058	6,422,120
Profit for the year	-	-	-	(755,372)	-	(755,372)	1,844	(753,528)
Other comprehensive income	-	-	-	-	166,849	166,849	-	166,849
Total comprehensive income (loss) for the year - Restated	-	-	-	(755,372)	166,849	(588,523)	1,844	(586,679)
At 31 December 2015 - Restated	6,250,000	480,066	200,000	(1,036,159)	(74,368)	5,819,539	15,902	5,835,441

The attached explanatory notes 1 to 36 form part of these consolidated financial statements.

Takaful International Company B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN PARTICIPANTS' FUND

For the year ended 31 December 2016

	Investments fair value reserve					Total BD
	General takaful BD	Family takaful BD	General takaful BD	Family takaful BD		
At 1 January 2016						
Realised fair value losses on available-for-sale investments	(1,425,425)	1,060,272	(35,792)	(37,293)		(438,238)
Unrealised fair value gains on available-for-sale investments	-	-	15,271	13,632		28,903
(Deficit)/surplus for the year	78,806	149,085	33,354	(9,380)		23,974
At 31 December 2016	(1,346,619)	1,209,357	12,833	(33,041)		(157,470)
At 1 January 2015						
Realised fair value losses on available-for-sale investments	(340,141)	918,338	(192,271)	6,442		392,368
Unrealised fair value gains/(losses) on available-for-sale investments	-	-	19,006	(4,300)		14,706
Deficit/(surplus) for the year	(1,085,284)	141,934	137,473	(39,435)		98,038
At 31 December 2015	(1,425,425)	1,060,272	(35,792)	(37,293)		(438,238)

Takaful International Company B.S.C.
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	31 December 2016 BD	31 December 2015 BD
OPERATING ACTIVITIES		
Net profit (loss) for the year	403,291	(753,528)
Surplus/(deficit) from participants' operations	227,891	(943,350)
Adjustments for:		
Investment income	(262,744)	(582,110)
Impairment loss on available-for-sale investments	470,868	1,422,946
(Gains)/losses on disposal of property and equipment	(5,253)	(32,004)
Depreciation	210,975	276,328
Finance Costs	-	25,483
(Gains)/losses on sale of available-for-sale investments	(65,169)	93,607
Provision for impairment of general takaful balances receivable	(78,043)	1,392,756
Write offs to general takaful and retakaful balances receivable	41,762	1,032,473
Movement in unearned contributions	(110,923)	1,288,248
Movement in unearned commissions	204,805	(370,579)
Movement in family takaful technical reserve	171,254	85,940
Operating profit before changes in operating assets and liabilities	1,208,713	2,936,210
Changes in operating assets and liabilities:		
Retakaful and takaful balance receivables	(791,253)	229,994
Other receivables and prepayments	(284,545)	25,025
Amount due from related parties	(69)	377
Due from retakaful companies in connection with outstanding claims	(210,100)	234,832
Gross outstanding claims	(1,110,264)	536,819
Retakaful and takaful balance payables	2,721,381	(731,287)
Other liabilities and provisions	494,777	(120,945)
Employees' leaving indemnity, net	32,351	29,130
Net cash from operating activities	2,060,992	3,140,155
INVESTING ACTIVITIES		
Investment income received	327,913	488,503
Purchase of property and equipment	(131,949)	(755,370)
Proceeds from sale of property and equipment	5,253	137,482
Purchase of available-for-sale investments	(1,136,434)	(3,043,261)
Proceeds from the sale of available-for-sale investments	1,197,174	1,915,865
Net cash from/(used in) investing activities	261,957	(1,256,781)
FINANCING ACTIVITIES		
Finance Costs Paid	-	(25,483)
Increase in share capital of subsidiary - Non controlling interest	48,000	-
Net cash from financing activities	48,000	(25,483)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,370,949	1,857,891
Cash and cash equivalents, beginning of the year	5,237,154	3,379,263
CASH AND CASH EQUIVALENTS, END OF THE YEAR	7,608,103	5,237,154

The attached explanatory notes 1 to 36 form part of these consolidated financial statements.

Takaful International Company B.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2016

1 ORGANISATION AND ACTIVITIES

Takaful International Company B.S.C. ("the Company"). The Company is a Bahraini public shareholding company registered with the Ministry of Industry and Commerce in the Kingdom of Bahrain and operates under commercial registration number 21100 obtained on 11 April 1989. The Company and its subsidiary (together the "Group") provide Takaful and related products and services.

The activities of the Group are organised on the principles of Shari'a. The principal activity of the Group is to manage the General and Family takaful activities and investments by adopting wakala and mudarabha models respectively, on behalf of the participants in accordance with the Islamic Shari'a principles. The retakaful activities are organised on an underwriting year basis with the participants pooling their contributions to compensate for losses suffered in the pool on occurrence of a defined event.

The registered office of the Group is in the Kingdom of Bahrain.

The consolidated financial statements of the Group were authorised for issue in accordance with a resolution of the Board of Directors dated 20 February 2017.

2 BASIS OF PRESENTATION

Statement of compliance

The consolidated financial statements have been prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Central Bank of Bahrain and Financial Institutions Law 2006, the Insurance Regulations set out in Volume 3 and applicable provisions of Volume 6 of the Insurance Rulebook issued by the Central Bank of Bahrain and the requirements of the Bahrain Commercial Companies Law, Decree Number 21 of 2001. For the matters which are not covered by AAOIFI standards, International Financial Reporting Standards ("IFRS") have been applied.

Accounting convention

The consolidated financial statements have been prepared under the historical cost convention modified to include the measurement at fair value of available-for-sale investments.

The preparation of consolidated financial statements in conformity with FAS 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.

Functional currency

The consolidated financial statements have been presented in Bahraini Dinars (BD) which is the functional currency of the Group except when otherwise indicated.

3 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3 BASIS OF CONSOLIDATION (continued)

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

The following is the subsidiary of the Group:

<i>Name of the subsidiary</i>	<i>Country of incorporation</i>	<i>Effective ownership</i>		<i>Principal activity</i>
		<i>2016</i>	<i>2015</i>	
Health 360 Ancillary Services Co W.L.L.	Bahrain	60%	60%	Third Party administration

Following a resolution by the shareholders of the Group at the Board Meeting held on 10th November 2015 and necessary regulatory approvals, the Group injected additional capital by an amount of BD 120,000 in its subsidiary Health 360 Ancillary Services Co W.L.L. which was proportionately subscribed by all shareholders of the subsidiary.

4 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the annual audited financial statements of the Group prepared as at, and for the year ended 31 December 2015:

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Takaful

As an Islamic insurance provider, the Group issues contracts that are based on co-operative activity by risk sharing or financial risk, or both. The Group classifies all its contracts individually as either takaful contracts or investment contracts.

Takaful contracts are those contracts where the insurer accepts significant insurance risk from the participants by agreeing to compensate the participants if a specified uncertain future event adversely affects the participants. 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. Investment contracts are contracts where there is insignificant transfer of insurance risk from the participants to the Group. They are accounted for as financial instruments under IAS 39: "Financial Instruments: Recognition and Measurement" and revenue arising from such contracts is recognised in accordance with IAS 18 Revenue Recognition.

General takaful

Gross contributions

Gross contributions comprise the total contributions receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy incepts. Contributions include any adjustments arising in the accounting period for contributions receivable in respect of business written in prior accounting periods. Contributions collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience and are included in contributions written.

Unearned contributions are those proportions of contributions written in a year that relate to periods of risk after the consolidated statement of financial position date. The proportion attributable to subsequent periods is deferred as a provision for unearned contributions and is calculated as follows:

- By the '24th method' for all annual takaful contracts, except for marine cargo business; and
- By the '6th method' for marine cargo business.

Retakaful share

Retakaful share comprise the total contributions payable for the whole cover provided by contracts entered into during the period and are recognised on the date on which the policy incepts. Contributions include any adjustments arising in the accounting period in respect of retakaful contracts incepting in prior accounting periods.

Net commission

The Group defers commission income and expense in order to spread the commission income and expense earned over the terms of the insurance contracts 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.

Retakaful commission income and commission paid are recognised at the time when retakaful contracts are written.

Gross claims settled

Gross claims settled include all claims occurring during the year, whether reported or not, related claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Claims recovered from retakaful and other parties are recognised when the related gross claims settled are recognised according to the terms of the relevant contracts.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

General takaful

General takaful reserves

i) Gross outstanding claims

Gross outstanding claims are based on the estimated ultimate cost of all claims incurred but not settled at the consolidated statement of financial position date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the consolidated statement of financial position date. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

ii) Unearned contributions

The provision for unearned contributions represents contributions received for risks that have not yet expired. The reserve is matched with the contributions earned and released.

iii) Liability adequacy test

At each reporting date the Group reviews its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned contributions. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate the deficiency is recognised in the statement of profit or loss by setting up a provision for liability adequacy.

Family takaful

Family takaful technical reserves represent the present value of future benefit obligations in respect of family takaful contracts in force at the consolidated statement of financial position date. The reserve consists of two types of funds namely protection takaful and savings takaful.

The protection takaful and savings takaful reserve is determined annually by the Group's appointed actuary. Reserves for individual family takaful contracts are calculated on a prospective method. The liabilities are valued using discounted cash flow (DCF) with a discount rate of 4.25% per annum (2015: 4.25% per annum).

Maturity and survival benefits are charged against the technical reserve when due. Encashment and surrenders are accounted for when paid or when cover ceases. Death and disability claims are accounted for when notified.

Gross contributions

Gross contributions are recognised in the statement of profit or loss on the due date of the contributions.

Retakaful share

Retakaful share comprise the total contributions payable for the whole cover provided by contracts entered into during the period and are recognised on the date on which the policy incepts. Contributions include any adjustments arising in the accounting period in respect of retakaful contracts incepting in prior accounting periods.

Net commission

Retakaful commission income and commission paid are recognised at the time retakaful contracts are written.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Family takaful (continued)

Gross claims settled

Claims settled are charged to the statement of profit or loss, in the year in which claims arise.

Claims recovered from retakaful and other parties are recognised when the related gross claims settled are recognised according to the terms of the relevant contracts.

Family takaful reserves

i) Gross outstanding claims

Provision for outstanding claims is based on estimates of the loss, which will eventually be payable on each unpaid claims, established by the management in the light of the currently available information and past experiences and modified for changes reflected in current creditors, 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.

ii) Unearned contributions

The provision for unearned contributions represents contributions received for risks that have not yet expired. The reserve is matched with the contributions earned and released.

iii) Liability adequacy test

At each reporting date the Group reviews its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned contributions. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate the deficiency is recognised in the statement of profit or loss by setting up a provision for liability adequacy.

Qard Hassan

This is a loan granted by the shareholders to the policyholders for the purpose of meeting the minimum required margin of solvency mentioned in the takaful Regulations set out in Volume 3 of the takaful Rule Book issued by the Central Bank of Bahrain or to cover any cash deficit in the participants fund(s). The loan is profit free and has no fixed repayment terms. Qard Hassan is tested annually for impairment.

Surplus/deficit in participants' fund

If the surplus in the participants' fund at the end of a three year period is sufficiently large, a percentage of the surplus is distributed between participants that have not made a claim, in proportion to their risk contributions to the fund after accounting for reserves. The distributions are approved by the Group's Shari'a Supervisory Board. Any remaining surplus after the distribution remains in the participants' fund.

A cash deficiency in participants' fund is made good by a qard hassan from the shareholders' fund. This qard is to be repaid from future surpluses arising from takaful operations on a priority basis. This qard is tested for impairment and the portion of the qard that is considered impaired is charged to the statement of profit or loss.

On liquidation of the fund, the accumulated surplus in the participants' fund, if any, after meeting all obligations (including repayment of the outstanding amount of qard hassan), will be dealt with after consulting with the Group's Shari'a Supervisory Board. In case of an accumulated deficit, any qard hassan outstanding at the time of liquidation will not be repayable by the participants' fund and the shareholders' fund will forego such outstanding amount.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and at bank and short-term deposits with original maturities of three months or less.

Trade and settlement date accounting

All regular way purchases and sales of financial assets are recognised on the trade date which is the date that the Group commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of assets within the period generally established by regulation or convention in the market place.

Available for sale investments

The Group classifies its investments into available-for-sale category. The Group determines the classification of its financial assets on initial recognition.

Financial assets are recognised initially at fair value, including directly attributable transaction costs.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale. These investments are initially recorded at fair value. After initial measurement these are remeasured at fair value. Fair value gains and losses are reported as a separate component in other comprehensive income until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative fair value gains and losses previously reported in other comprehensive income are transferred to the statement of profit or loss. Dividend income on available for sale investments are included under investment income in the statement of profit or loss.

Takaful and retakaful receivables

Takaful receivables are recognised when due and are measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of takaful receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of profit or loss.

Retakaful contracts are contracts entered into by the Group with reinsurers for the purpose of limiting its net loss potential through the diversification of its risks, under which the Group is compensated for losses on takaful contracts issued. Assets, liabilities and income and expense arising from ceded retakaful contracts are presented separately from the assets, liabilities, income and expense from the related takaful contracts because the retakaful arrangements do not relieve the Group from its direct obligations to its policyholders. The benefits to which the Group is entitled under its retakaful contracts held are recognised as retakaful assets. These assets consists of balances due from retakaful companies on settlement of claims and other receivables such as profit commissions and retakaful share of outstanding claims that are dependent on the expected claims and benefits arising under the related retakaful contracts. Amounts recoverable from or due to retakaful companies are recognised consistently with the amounts associated with the underlying takaful contracts and in accordance with the terms of each retakaful contract.

Policy acquisition costs

Policy acquisition costs which include commission, brokerage and other variable underwriting costs directly associated with acquiring business are amortised over the period of the policy. Acquisition costs that relate to periods of risk that extend beyond the end of the financial year are reported as deferred acquisition costs.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment, including owner-occupied property, is stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment losses. Replacement or major inspection costs are capitalised when incurred and if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

The assets' residual values and useful lives and method are reviewed and adjusted if appropriate at each financial year end.

Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. Impairment losses are recognised in the statement of profit or loss as an expense.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss in the year the asset is derecognised.

Following are the useful lives of classes of property and equipment:

Buildings on freehold land	30 years
Furniture and fixtures	5-10 years
Office equipment	5 years
Motor vehicles	4 years

Receivables from takaful funds

Receivables from takaful funds represent the amount of wakala, management and other fees recoverable from the takaful funds of the Group.

Foreign currency transactions

The consolidated financial statements are presented in Bahraini Dinars which is the functional currency of the Group. The Group's Qatar branch, however uses the Qatari Riyal as its functional currency.

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the consolidated statement of financial position date. All differences are taken to the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to the statement of profit or loss, except for differences relating to items where gains or losses are recognised directly in equity, in which case the gain or loss is recognised in equity.

Dividends on share capital

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Group's shareholders. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the consolidated statement of financial position date are dealt with as an event after the reporting period.

Share capital

Share capital is classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Group and are presented separately in the interim consolidated statements of income and comprehensive income and within equity, separately from the parent's shareholders' equity.

Revenue recognition

Investment income

Income from investment in murabaha deposits is recognised on a time proportion basis using the effective profit rate method.

Rental income

Rental income is recognised on an accrual basis.

Dividends

Dividends are recognised as income when the Group's right to receive the payment is established.

Wakala fee

The Group manages the general and family takaful operations on behalf of the participants for a wakala fee which is recognised on an accrual basis. Wakala fee is recognised as an expense in the participants' statement of profit or loss and as an income in the shareholders' statement of profit or loss.

Mudarib share

The investments of the participants are also managed by the Group for a mudarib share in the investment income on the basis of mudarabha model. Mudarib share is recognised as expense in the statement of participants' statement of profit or loss and as income in the shareholders' statement of profit or loss.

Retakaful commissions

Commissions receivable on outward retakaful contracts are deferred and amortised over the term of the expected premiums payable.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

Income and expense is not offset in the statement of profit or loss unless required or permitted by any accounting standard or interpretation.

Fair value of financial instruments

The Group measures financial instruments such as available for sale investments at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value of financial instruments (continued)

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset for its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

The Group's management determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted available-for-sale financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operations.

Management assesses the need to involve external valuers for valuation of investment properties at each reporting date.

Impairment of financial assets

The Group assesses at each consolidated statement of financial position date whether a financial asset or group of financial assets is impaired.

Available-for-sale financial assets

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in other comprehensive income, is transferred from other comprehensive income to the statement of profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the statement of profit or loss. Reversals of impairment losses on debt instruments classified as available-for-sale are reversed through the statement of profit or loss if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in the statement of profit or loss.

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of profit or loss.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' terminal benefits

The Group provides end of service benefits to its expatriate employees in accordance with the relevant regulations. The entitlement to these benefits is based upon the employees' final salaries and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment based on the notional amount payable if all employees had left at the consolidated statement of financial position date.

With respect to its national employees, the Group makes contributions to the Social Insurance Organisation calculated as a percentage of the employees' salaries in accordance with the relevant regulations. The Group's obligations are limited to these contributions, which are expensed when due.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Financial liabilities

The financial liabilities of the Group consist of retakaful and takaful payables and other liabilities and provisions. These financial liabilities are initially recognised at fair value and are subsequently remeasured at amortised cost using the effective profit rate method.

Retakaful and takaful payables

Retakaful balances payable are primarily contributions payable for retakaful contracts and are recognised as an expense when due.

Liability adequacy tests are performed at each consolidated statement of financial position date to ensure the adequacy of the takaful liabilities using current best estimates of future contractual cash flows under takaful contracts. Any deficiency is immediately charged to the statement of profit or loss by establishing a provision for losses arising from liability adequacy tests.

Payables and accruals

Liabilities are recognised for amounts to be paid in the future for services received, whether billed by the provider or not.

Earnings prohibited by Shari'a

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for charitable purposes.

5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements in accordance with FAS issued by AAQIFI requires the Group's management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. The most significant uses of judgements and estimates are as follows:

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 estimating the liability that the Group will ultimately pay for such claims. The provision for claims incurred but not reported is an estimation of claims which are expected to be reported subsequent to the consolidated statement of financial position date, for which the insured event has occurred prior to the consolidated statement of financial position date.

All insurance contracts are subject to a liability adequacy test, as is explained in the accounting policy for general and family takaful reserves above.

5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Impairment losses on available-for-sale securities

The Group determines that available-for-sale unquoted equity securities and managed funds are impaired when there has been a significant or prolonged decline in the fair value below its cost. 'significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. The Group treats 'significant' as 30% and 'prolonged' as one year. 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, amongst other factors, the normal volatility in share price, evidence of deterioration in the financial health of the investee, industry and sector performance and operating and financing cash flows.

Impairment losses on takaful and retakaful receivables

The Group assesses takaful and retakaful receivables that are individually significant and takaful and retakaful receivables included in a group of financial assets with similar credit risk characteristics for impairment. Takaful and retakaful receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. This assessment of impairment requires judgement. In making this judgement, the Group evaluates credit risk characteristics that consider past-due status being indicative of the inability to pay all amounts due as per contractual terms.

Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Family takaful reserves

Family takafaal reserves represent the present value of future obligations in respect of contracts in force at the reporting date, computed based on internal calculation which is reviewed and assessed by an external actuary.

6 STATUTORY DEPOSITS

Statutory deposits are maintained under the regulations of the Central Bank of Bahrain and Financial Institutions Law, 2006. Such deposits, which depend on the nature of the takaful business and the number of branches, cannot be withdrawn except with the approval of the Central Bank of Bahrain. A sum of BD125,000 (2015: BD125,000) has been deposited with Bahrain Islamic Bank B.S.C. in the name of the Group and for the order of Central Bank of Bahrain.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 CASH AND CASH EQUIVALENTS

Call account balances, deposits and certificates earn effective profit rates ranging between 1.15% and 6% per annum (2015: between 1.25% and 3.8% per annum).

The current account balances with banks are non-profit bearing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

8 AVAILABLE-FOR-SALE INVESTMENTS

	31 December 2016			31 December 2015		
	Shareholders	General	Family	Shareholders	General	Family
	BD	takaful	takaful	BD	takaful	takaful
Opening balance	2,420,460	958,361	1,735,654	3,116,834	910,079	1,103,519
Additions during the year	1,060,934	-	75,500	1,437,626	158,726	1,446,909
Disposals during the year	(872,110)	(52,595)	(272,469)	(1,165,068)	(60,791)	(690,006)
Realised fair value gains/(losses) on sale of available-for-sale investments (Note 23)	36,266	15,271	13,632	(108,313)	19,006	(4,300)
Impairment loss for the year	(231,801)	(181,335)	(57,732)	(1,135,781)	(206,132)	(81,033)
Unrealised fair value gains/(losses) recognised in investment fair value reserve	14,559	33,354	(9,380)	275,162	137,473	(39,435)
Closing balance	2,428,308	773,056	1,485,205	2,420,460	958,361	1,735,654
						5,114,475

During the year, the Group has performed an impairment test of its available-for-sale investments and concluded that certain of those investments are impaired. Accordingly, the impairment loss of BD 470,868 (2015: BD 1,422,946) has been charged to the statement of profit or loss.

Included within the available-for-sale investments are shares with a carrying value of BD 30,152 (31 December 2015: 53,030) held in the name of a related party, on behalf and for the beneficial interest, of the Group.

The available-for-sale investments include unquoted equity shares which do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, and are therefore stated at cost. In the opinion of the Group's management, the fair values of these unquoted equity shares are not expected to be significantly different from their carrying amounts.

Analysis of available-for-sale Investments

	31 December 2016			31 December 2015		
	Shareholders	General	Family	Shareholders	General	Family
	BD	takaful	takaful	BD	takaful	takaful
Shares listed on stock exchanges	313,296	56,063	-	635,154	57,032	103,314
Quoted managed funds	329,845	18,643	73,920	345,727	18,638	47,881
Unquoted managed funds	390,460	470,348	230,872	369,235	655,219	259,445
Unquoted equity investments	204,556	-	-	189,907	-	-
Quoted sukuks	1,190,151	228,002	1,180,413	880,437	227,472	1,325,014
Closing balance	2,428,308	773,056	1,485,205	2,420,460	958,361	1,735,654
						5,114,475

Takaful International Company B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

9 RETAKAFUL AND TAKAFUL RECEIVABLES

	31 December 2016		31 December 2015	
	General takaful	Family takaful	General Takaful	Family takaful
	BD	BD	BD	BD
Due from takaful companies	2,702,120	-	3,293,060	-
Due from retakaful companies	868,202	124,178	889,509	226,153
Due from takaful participants	3,311,132	184,729	2,690,172	79,828
Other receivables	2,185,011	146,460	1,549,173	86,208
Allowance for impairment	(488,103)	(14,903)	(608,995)	(13,816)
Closing balance	<u>8,578,362</u>	<u>440,464</u>	<u>7,812,919</u>	<u>378,373</u>
				<u>8,191,292</u>

Retakaful and takaful receivable consist of balances due from retakaful and takaful companies domiciled mainly in the Middle East.

At 31 December 2016, in the opinion of the Group's management, a provision of BD 503,006 is required towards impairment of retakaful and takaful receivables (2015: BD622,811). The movement in the provision for impaired retakaful and takaful receivables is as follows:

	31 December 2016	31 December 2015
At 1 January	BD	BD
(Reversal) / charge during the year	622,811	262,528
Written-off for the year	(78,043)	1,392,756
	(41,762)	(1,032,473)
At 31 December	<u>503,006</u>	<u>622,811</u>

As at 31 December, the ageing of unimpaired retakaful and takaful receivables is as follows:

Age in days	General takaful		Family takaful	
	Current	Overdue and not impaired	Current	Overdue and not impaired
	2016	2015	2016	2015
	BD	BD	BD	BD
Neither past due nor impaired	3,279,746	2,325,082	295,364	148,127
91 to 180 days	-	-	-	-
181 to 365 days	-	-	-	-
More than 365 days	-	-	-	-
	<u>3,279,746</u>	<u>2,325,082</u>	<u>295,364</u>	<u>148,127</u>
				<u>145,100</u>
				<u>230,246</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

9 RETAKAFUL AND TAKAFUL RECEIVABLES (continued)

The net retakaful and takaful receivables are expected to be fully recoverable. It is not the practice of the Group to obtain collateral over retakaful and takaful receivables.

10 OUTSTANDING CLAIMS

	2016			2015		
	Gross BD	Retakaful share BD	Net BD	Gross BD	Retakaful share BD	Net BD
<i>At 1 January</i>						
Reported claims	7,512,470	(5,077,024)	2,435,446	7,398,234	(5,634,014)	1,764,220
IBNR claims	5,336,290	(3,614,868)	1,721,422	4,913,707	(3,292,710)	1,620,997
	<u>12,848,760</u>	<u>(8,691,892)</u>	<u>4,156,868</u>	<u>12,311,941</u>	<u>(8,926,724)</u>	<u>3,385,217</u>
Claims incurred during the year	18,935,613	(8,916,811)	10,018,802	17,676,813	(8,005,083)	9,671,730
Claims paid during the year	(20,045,877)	8,706,711	(11,339,166)	(17,139,994)	8,239,915	(8,900,079)
	<u>11,738,496</u>	<u>(8,901,992)</u>	<u>2,836,504</u>	<u>12,848,760</u>	<u>(8,691,892)</u>	<u>4,156,868</u>
<i>At 31 December</i>						
Reported claims	9,393,618	(7,728,726)	1,664,892	7,512,470	(5,077,024)	2,435,446
IBNR claims	2,344,878	(1,173,266)	1,171,612	5,336,290	(3,614,868)	1,721,422
	<u>11,738,496</u>	<u>(8,901,992)</u>	<u>2,836,504</u>	<u>12,848,760</u>	<u>(8,691,892)</u>	<u>4,156,868</u>

All dues from retakaful companies in connection with outstanding claims are unimpaired and are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Group to obtain collateral over dues from retakaful companies in connection with outstanding claims.

Takaful International Company B.S.C.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

11 CLAIMS DEVELOPMENT

Each year the Group estimates the ultimate value of claims for the year. A comparison of this estimate with the actual liability for each year provides a measure of the Group's ability to accurately estimate claims.

Gross claims

Accident year

**Total
BD**

**2016
BD**

**2015
BD**

**2014
BD**

**2013
BD**

**2012
BD**

Estimate of ultimate claims costs:

At end of reporting year

One year later

Two years later

Three years later

Four years later

Current estimate of cumulative claims

Cumulative payments to date

Sub-total

Reserve in respect of prior years

Incurred but not yet reported

Total reserve included in the consolidated statement of financial position

13,646,905

14,978,334

14,986,319

15,221,115

15,267,257

15,267,257

(15,003,304)

263,953

16,567,011

18,467,631

19,107,158

19,198,026

-

19,198,026

(18,756,542)

441,484

15,946,367

17,932,091

18,475,922

-

-

18,475,922

(17,596,728)

879,194

14,514,832

16,017,019

-

-

-

16,017,019

(14,585,898)

1,431,121

19,313,479

-

-

-

-

19,313,479

(13,330,577)

5,982,902

394,964

2,344,878

11,738,496

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

12 UNEARNED CONTRIBUTIONS AND DEFERRED RETAKAFUL CONTRIBUTIONS

	2016			2015		
	Gross BD	Retakaful share BD	Net BD	Gross BD	Retakaful share BD	Net BD
At 1 January	7,929,198	(2,160,164)	5,769,034	8,222,100	(3,741,314)	4,480,786
Contributions written	20,925,150	(6,872,359)	14,052,791	19,646,113	(5,778,783)	13,867,330
Contributions earned	(20,165,885)	6,002,171	(14,163,714)	(19,939,015)	7,359,933	(12,579,082)
At 31 December	8,688,463	(3,030,352)	5,658,111	7,929,198	(2,160,164)	5,769,034

13 DEFERRED POLICY ACQUISITION COSTS

	2016 BD	2015 BD
At 1 January	769,705	795,605
Acquisition costs during the year	1,574,050	903,810
Amortisation for the year	(1,637,016)	(929,710)
At 31 December	706,739	769,705

14 UNEARNED RETAKAFUL COMMISSIONS

	2016 BD	2015 BD
At 1 January	343,477	739,956
Retakaful commissions received	1,515,131	1,188,334
Retakaful commissions earned	(1,373,292)	(1,584,813)
At 31 December	485,316	343,477

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 OTHER RECEIVABLES AND PREPAYMENTS

Other receivables are unimpaired and expected, on the basis of past experience, to be fully recoverable within 12 months from the consolidated statement of financial position date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

16 PROPERTY AND EQUIPMENT

	Freehold land BD	Buildings on freehold land BD	Furniture and fixtures BD	Office equipment BD	Motor vehicles BD	Capital work-in- progress BD	Total BD
Cost							
At 31 December 2014	492,148	1,266,765	891,367	1,251,331	188,780	66,963	4,157,354
Additions	579,720	120,280	1,380	95,834	1,000	31,821	830,035
Transfers	-	-	-	-	-	(74,665)	(74,665)
Disposals	-	(131,844)	-	-	(84,500)	-	(216,344)
At 31 December 2015	1,071,868	1,255,201	892,747	1,347,165	105,280	24,119	4,696,380
Additions	-	-	2,009	122,059	32,000	-	156,068
Disposals	-	-	-	-	(14,000)	(24,119)	(38,119)
At 31 December 2016	1,071,868	1,255,201	894,756	1,469,224	123,280	-	4,814,329
Accumulated depreciation							
At 31 December 2014	-	379,485	638,387	1,050,017	111,478	-	2,179,367
Charge for the year	-	44,872	77,159	124,492	29,805	-	276,328
Disposals for the year	-	(36,742)	-	-	(74,124)	-	(110,866)
At 31 December 2015	-	387,615	715,546	1,174,509	67,159	-	2,344,829
Charge for the year	-	41,931	72,501	71,215	25,328	-	210,975
Disposals for the year	-	-	-	-	(14,000)	-	(14,000)
At 31 December 2016	-	429,546	788,047	1,245,724	78,487	-	2,541,804
Net book amount							
At 31 December 2016	1,071,868	825,655	106,709	223,500	44,793	-	2,272,525
At 31 December 2015	1,071,868	867,586	177,201	172,656	38,121	24,119	2,351,551

Capital work-in-progress primarily represents amounts incurred towards construction of new facilities and which are yet to be completed.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

17 RECEIVABLE FROM TAKAFUL FUNDS

Receivable from takaful funds includes amounts due from General takaful and Family takaful policyholders on account of wakala fees and inter-entity balances.

18 RELATED PARTIES

Related parties represent major shareholders, directors and key management personnel of the Company and its Parent, and entities controlled, jointly controlled or significantly influenced by such parties. All transactions with such related parties are conducted on normal terms and conditions.

Transactions with related parties included in the statement of profit or loss are as follows:

	31 December 2016	
	Key management personnel BD	Shareholders BD
Gross contributions	8,246	1,084,793
	31 December 2015	
	Key management personnel BD	Shareholders BD
Gross contributions	3,011	1,075,486

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

	31 December 2016	
	Key management personnel BD	Shareholders BD
Statutory deposit	-	125,000
Cash and cash equivalents	-	478,128
Available-for-sale investments	-	140,304
Takaful and retakaful balances receivable	4,235	58,506
Amounts due from related parties	-	654
	31 December 2015	
	Key management personnel BD	Shareholders BD
Statutory deposit	-	125,000
Cash and cash equivalents	-	150,000
Available-for-sale investments	-	140,304
Takaful and retakaful balances receivable	262	65,548
Amounts due from related parties	-	585

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

18 RELATED PARTIES (continued)**Compensation of key management personnel**

The remuneration of directors and other members of key management during the year was as follows:

	2016	2015
	BD	BD
Salaries and benefits	425,340	424,561
Remuneration and attendance fees to Directors	65,343	60,894
Employees' end of service benefits	15,765	15,765
	506,448	501,220

19 EQUITY AND RESERVES

	31 December	31 December
	2016	2015
	BD	BD
Authorised share capital:		
Ordinary shares		
200,000,000 ordinary shares of 100 fils each		
(2015: 200,000,000 ordinary shares of 100 fils each)	20,000,000	20,000,000
Issued and fully paid-up capital:		
Ordinary shares		
62,500,000 ordinary shares of 100 fils each		
(2015: 62,500,000 ordinary shares of 100 fils each)	6,250,000	6,250,000

Additional information on shareholding pattern

i) The names and nationalities and number of shares held by the major shareholders individually holding 5% and more of the issued and fully paid-up share capital as at 31 December 2016 and 2015 respectively is as follows:

Name of the shareholders	Nationality	Number of shares	Percentage of shareholding interest
Bahrain Kuwait Insurance Company	Bahraini	25,582,845	40.93%
Bahrain Islamic Bank B.S.C.	Bahraini	14,220,486	22.75%
Al Amana Alama State of Kuwait	Kuwaiti	5,250,000	8.40%
International Investment Group	Kuwaiti	3,991,187	6.39%

ii) The Group has only one class of equity shares and the holders of the shares have equal voting rights.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

19 EQUITY AND RESERVES (continued)

iii) The distribution pattern of equity shares, setting out the number of shareholders and percentages in the following categories is as follows:

31 December 2016			
	Number of shareholders	Number of shares	Percentage of total outstanding shares
Less than 1%	224	8,440,776	13.51%
1% up to less than 5%	3	5,014,706	8.02%
5% up to less than 10%	2	9,241,187	14.79%
10% up to less than 50%	2	39,803,331	63.69%
	231	62,500,000	100.00%
31 December 2015			
	Number of shareholders	Number of shares	Percentage of total outstanding shares
Less than 1%	225	8,815,776	14.11%
1% up to less than 5%	3	4,764,706	7.62%
5% up to less than 10%	2	9,116,187	14.59%
10% up to less than 50%	2	39,803,331	63.68%
	232	62,500,000	100.00%

Statutory reserve

As required by the Bahrain Commercial Companies Law and the Insurance Regulations contained in Volume 3 of the Central Bank of Bahrain Rulebook, 10% of the profit for the year is to be transferred to a statutory reserve until such time as the reserve equals 50% of the paid up share capital. The reserve is not available for distribution except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following approval of the Central Bank of Bahrain. During the year ended 31 December 2016, the Group transferred an amount of BD 39,661 to the statutory reserve.

General reserve

Appropriations to the general reserve are made as proposed by the Board of Directors and approved by the shareholders. The reserve represents retained earnings and is available for distribution subject to approval of the Central Bank of Bahrain.

Dividends

There is no dividend payable to shareholders for the year ended 31 December 2016 [2015: Nil].

Takaful International Company B.S.C.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

20 OTHER LIABILITIES AND PROVISIONS

	31 December 2016			31 December 2015		
	Share- holders	General takaful	Family takaful	Share- holders	General takaful	Family takaful
	BD	BD	BD	BD	BD	BD
Staff related accruals	229,971	-	-	128,750	-	-
Unclaimed share of profit	110,125	7,590	-	144,130	7,588	-
Accruals and other payables	472,607	740,704	1,966	205,437	581,179	1,102
	812,703	748,294	1,966	478,317	588,767	1,102
						1,068,186

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

21 EMPLOYEES' TERMINAL BENEFITS

The contributions made by the Group towards the pension scheme for Bahraini nationals administered by the Social Insurance Organisation in the Kingdom of Bahrain for the year ended 31 December 2016 amounted to BD 141,369 (2015: BD 169,594).

The movement in leaving indemnity liability applicable to employees is as follows:

	31 December 2016 BD	31 December 2015 BD
Opening balance	213,317	182,686
Accruals for the year	42,115	47,838
Payments during the year	(9,764)	(17,207)
Closing balance	<u>245,668</u>	<u>213,317</u>
Total number of staff employed by the Group	<u>133</u>	<u>134</u>

22 WAKALA FEE AND MUDARIB SHARE

The shareholders manage the general and family takaful operations for the participants' and charge 23% (2015: 18%) and 35% (2015: 25%) respectively of gross contributions as a wakala fee. The shareholders also manage the participants' investment funds as a mudarib and charge 25% (2015: 25%) and 25% (2015: 15%) of the general takaful and family takaful investment income earned by the participants' investment funds, respectively. The maximum chargeable wakala fee and mudarib share, as approved by the Shari'a Supervisory Board, are 35% (2015: 35%) and 25% (2015: 25%) respectively.

23 INVESTMENT INCOME

	Year ended 31 December 2016			
	Share- holders BD	General takaful BD	Family takaful BD	Total BD
Deposit income	11,532	49,752	28,611	89,895
Profit/(loss) on investment	75,269	(13,265)	97,115	159,119
Dividend income	10,609	1,518	1,603	13,730
Realised fair value (losses)/gains on sale of investment securities (Note 8)	36,266	15,271	13,632	65,169
	<u>133,676</u>	<u>53,276</u>	<u>140,961</u>	<u>327,913</u>
	Year ended 31 December 2015			
	Share- holders BD	General takaful BD	Family takaful BD	Total BD
Deposit income	12,215	7,672	23,491	43,378
Profit on investment securities	425,906	1,347	94,600	521,853
Dividend income	12,020	557	4,302	16,879
Realised fair value (losses)/gains on sale of investment securities (Note 8)	(108,313)	19,006	(4,300)	(93,607)
	<u>341,828</u>	<u>28,582</u>	<u>118,093</u>	<u>488,503</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

24 OTHER INCOME - NET

	<i>Year ended 31 December 2016 BD</i>	<i>Year ended 31 December 2015 BD</i>
Other income		
TPA fees and other income from subsidiary	268,230	209,926
Rental income	27,100	27,300
Profits on sale of property and equipment	5,253	32,004
Foreign exchange gain	3,681	-
Profits on Ijarah Muntahia Bittamleek facility	-	605,300
	<u>304,264</u>	<u>874,530</u>
Other expense		
Investment expense	(11,819)	(44,568)
Finance costs on Ijarah Muntahia Bittamleek facility	-	(25,483)
Foreign exchange loss	-	(18,751)
	<u>(11,819)</u>	<u>(88,802)</u>
	<u><u>292,445</u></u>	<u><u>785,728</u></u>

25 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares issued during the year.

	<i>Year ended 31 December 2016 BD</i>	<i>Year ended 31 December 2015 BD</i>
Net profit / (loss)	<u>396,607</u>	<u>(755,372)</u>
Weighted average number of ordinary shares issued	<u>62,500,000</u>	<u>62,500,000</u>
Earnings per share	<u>6.35 Fils</u>	<u>(12.09) Fils</u>

The Group does not have any potentially dilutive ordinary shares, hence the diluted earnings per share and earnings per share are identical.

26 SEGMENTAL UNDERWRITING RESULTS**Business segments – primary reporting segment**

For management purposes, the Group is organised into departments based on the classes of insured risks. The reportable operating segments of the Group are as follows:

Motor and general accident	: Motor, general accidents, engineering and aviation
Fire	: Fire and allied perils
Marine	: Marine cargo, marine hull
Medical takaful	: Medical expense cover

Management monitors the underwriting results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on underwriting profit. The following table presents of segment revenues, measurement of segment profit for the year and their reconciliation to the Group's income and profit for the year.

Takaful International Company B.S.C.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

26 SEGMENTAL UNDERWRITING RESULTS (continued)

Business segments – primary reporting segment

The Group's primary segment reporting format is business segments. 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 to those of other business segments. The Group's primary business segments are divided into General Takaful (with further line of business) and Family Takaful.

An analysis of the gross participant's contributions, net contributions retained and net results for its main classes of general and family takaful is as follows:

	General Takaful				Family Takaful	
	For the twelve months ended 31 December 2016				Twelve months ended 31 December 2016	
	Motor, general accident, engineering and aviation BD	Fire BD	Marine BD	Medical BD	Total BD	Total BD
Gross contributions	11,234,870	2,940,408	505,953	4,376,635	19,057,866	1,967,284
Retakaful share	(3,306,226)	(2,459,519)	(428,198)	(45,080)	(6,239,023)	(633,336)
Retained contributions	7,928,644	480,889	77,755	4,331,555	12,818,843	1,233,948
Movement in unearned contributions	145,031	(66,594)	(4,288)	121,741	195,890	(84,967)
Net earned contributions	8,073,675	414,295	73,467	4,453,296	13,014,733	1,148,981
Net commissions and other takaful income	748,387	510,313	85,748	28,694	1,373,142	150
Net claims incurred	(5,931,375)	(114,060)	6,906	(3,884,322)	(9,922,851)	(95,951)
Transfer to family takaful technical reserve	-	-	-	-	-	(171,254)
(Charge) due to surrender of policies	-	-	-	-	-	(126,193)
Reversal of (provision for) impaired takaful receivables	54,628	-	-	24,503	79,131	(1,088)
Wakala fees	2,945,315	810,548	166,121	622,171	4,544,155	754,645
	(2,669,069)	(748,476)	(118,632)	(787,794)	(4,323,971)	(653,549)
Surplus/ (Deficit) from takaful operations	276,246	62,072	47,489	(165,623)	220,184	101,096
						321,280

Takaful International Company B.S.C.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

26 SEGMENTAL UNDERWRITING RESULTS (continued)

	General Takaful				Family Takaful	
	For the twelve months ended 31 December 2015				Twelve months ended 31 December 2015	
	Motor, general accident, engineering and aviation BD	Fire BD	Marine BD	Medical BD	Total BD	Total BD
Gross contributions	10,413,727	2,901,512	488,076	4,316,841	18,120,156	19,646,113
Retakaful share	(2,291,083)	(2,521,862)	(410,662)	(85,907)	(5,309,514)	(5,778,783)
Retained contributions	8,122,644	379,650	77,414	4,230,934	12,810,642	13,867,330
Movement in unearned contributions	(221,775)	21,477	(1,082)	(1,047,069)	(1,248,449)	(1,298,253)
Net earned contributions	7,900,869	401,127	76,332	3,183,865	11,562,193	12,569,077
Net commissions and other takaful income /(expense)	354,997	442,494	129,617	743,953	1,671,061	1,584,813
Net claims incurred	(6,305,027)	(34,964)	(65,123)	(3,072,920)	(9,478,034)	(9,671,728)
Transfer to family takaful technical reserve	-	-	-	-	-	(85,940)
(Charge) due to surrender of policies	-	-	-	-	-	(26,059)
(Provision for)/ reversal of impaired takaful receivables	(632,633)	(121,590)	(28,330)	(506,967)	(1,289,520)	(1,392,756)
Wakala fees	1,318,206	687,067	112,496	347,931	2,465,700	2,977,407
	(2,020,844)	(580,302)	(73,211)	(690,695)	(3,365,052)	(3,754,171)
(Deficit) / Surplus from takaful operations	(702,638)	106,765	39,285	(342,764)	(899,352)	(776,764)

Takaful International Company B.S.C.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

26 SEGMENTAL UNDERWRITING RESULTS (continued)

	General Takaful				Family Takaful	
	Motor, general accident, engineering and aviation BD	Fire BD	Marine BD	Medical BD	Unallocated assets/ liabilities BD	Total BD
Identifiable assets and liabilities as on 31 December 2016						
Identifiable assets	11,389,196	1,996,738	339,386	1,206,283	10,844,765	25,776,368
Identifiable liabilities	15,473,342	2,845,487	397,073	77,183	8,317,069	27,110,154
Identifiable assets and liabilities as on 31 December 2015 - Restated						
Identifiable assets	7,501,515	3,153,260	724,723	6,296,129	4,458,473	22,134,100
Identifiable liabilities	9,885,287	3,793,326	434,492	3,823,411	4,197,584	22,134,100
Identifiable assets and liabilities as on 1 January 2015 - Restated						
Identifiable assets	8,436,332	3,501,995	858,287	7,476,445	5,062,122	25,335,181
Identifiable liabilities	10,987,831	4,100,257	575,488	4,743,123	5,460,894	25,867,593

The activities of the Group are restricted to carrying out takaful, on the principles of Sharia'a significant portion of which is concentrated in the GCC countries which are subject to similar risks and rewards and hence geographical segmental information has not been presented.

Takaful International Company B.S.C.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

26 SEGMENTAL UNDERWRITING RESULTS (continued)

Geographical segments – secondary reporting segment

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

The Group's activities is to manage the General and Family takaful activities and investments by adopting wakala and mudarabha models respectively, on behalf of the participants in accordance with the Islamic Shari'a principles with operations in the State of Qatar as well.

The geographical segment reporting of the Group as at 31 December 2016 and 2015 is as follows:

	<i>Gross contributions by location</i>		<i>Non-current assets by location of assets</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
	<i>BD</i>	<i>BD</i>	<i>BD</i>	<i>BD</i>
Kingdom of Bahrain	19,737,064	18,347,426	2,231,522	2,274,912
State of Qatar	1,188,086	1,298,687	41,003	56,927

27 RISK MANAGEMENT

Financial instruments consist of financial assets and financial liabilities. The Group has no derivative financial instruments.

Financial assets and liabilities carried on the consolidated statement of financial position include statutory deposits, cash and cash equivalents, available-for-sale investments and retakaful and takaful receivables, retakaful and takaful payables, other liabilities and payable to shareholders. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Risk management

The Board of Directors has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives monthly reports from the Financial Controller through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The Group's internal auditors also review the risk management policies and processes and report their findings to the Audit Committee.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

The risks involved with financial instruments and the Group's approach to managing such risks are discussed below:

Takaful risk

The risk under a takaful contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of a takaful contract, this risk is random and therefore unpredictable. The principal risks that the Group faces under such contracts is the occurrence of the insured event and the severity of the reported claim. The Group's risk profile is improved by diversification of these risks of losses to a large portfolio of contracts as a diversified portfolio is less likely to be affected by an unexpected event in a single subset.

27 RISK MANAGEMENT (continued)

Takaful risk (continued)

The Group principally issues the following types of takaful contracts: Marine, Motor and Fire and General Accident. Risks under these policies usually cover twelve months. For General Accident takaful contracts the most significant risks arise from accidents, climate changes, natural disasters and terrorist activities. These risks do not vary significantly in relation to the location of the risk insured type of risk insured or by industry.

The primary risk control measure in respect of insurance risk is the transfer of the risks to third parties via retakaful. The retakaful business ceded is placed on a proportional and non-proportional basis with retention limits varying by lines of business. The placements of retakaful contracts are diversified so that the Group is not dependent on a single retakaful operator or a single retakaful contract.

Retakaful is used to manage insurance risk. Although the Group has retakaful arrangements, they do not, however, discharge the Group's liability as the primary takaful operator and thus a credit risk exposure remains with respect to retakaful ceded to the extent that any retakaful operator may be unable to meet its obligations under such retakaful arrangements. The Group minimises such credit risk by entering into retakaful arrangements with retakaful operators having good credit ratings, which are reviewed on a regular basis. The creditworthiness of retakaful operators is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract. Reserve risks are controlled by constantly monitoring the provisions for claims that have been submitted but not yet settled and by amending the provisions, if deemed necessary.

The Group does not have any single takaful contract or a small number of related contracts that cover low frequency, high-severity risks such as earthquakes, or takaful contracts covering risks for single incidents that expose the Group to multiple takaful risks. The Group has adequately reinsured for takaful risks that may involve significant litigation. A 5% change in the average claims ratio will have no material impact on the statement of profit or loss (2015: same). The geographical and segmental concentration of takaful risk is set out in note 26.

Retakaful risk

Retakaful is used to manage takaful risk. Although the Group has retakaful arrangements, this does not, however, discharge the Group's liability as primary insurer and thus a credit risk remains with respect to retakaful ceded if any retakaful Group is unable to meet its obligations to the Group under such retakaful arrangements, the Group remains liabilities for the gross claim. The Group minimises such credit risk by entering into retakaful arrangements with counter-parties having good credit ratings. The creditworthiness of retakaful companies is re-assessed annually by reviewing their financial strength and credit rating prior to finalisation of any contract. Solvency risks are controlled by regularly monitoring the provisions for claims that have been submitted but not yet settled and by amending the provisions, if deemed necessary.

Profit rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market profit rates. The Group is exposed to market risk with respect to its Islamic investments. The Group limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in international investment markets. In addition, the Group actively monitors the key factors that affect stock market movements, including analysis of the operational and financial performance of investments. The Group's other assets and liabilities, in the opinion of the management, are not sensitive to profit rate risk.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

27 RISK MANAGEMENT (continued)

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's principal transactions are carried out in Bahraini Dinar, Qatari Riyal and US\$. As the Bahraini Dinar and the Qatari Riyal are pegged to the United States Dollar, the Group's exposure to currency risk is considered minimal by management. The table below summarises the Group's exposure to foreign currency exchange rate risk at the consolidated statement of financial position date by categorising monetary assets and liabilities by major currencies.

The net exposure to market risk at the reporting date is the carrying value of the financial assets classified as available-for-sale investments.

31 December 2016					
	Bahraini Dinar BD	US Dollars BD	Qatari Riyals BD	Others BD	Total BD
Net exposure	2,227,159	3,473,970	152,851	326,107	6,180,087

31 December 2015					
	Bahraini Dinar BD	US Dollars BD	Qatari Riyals BD	Others BD	Total BD
Net exposure	655,447	3,302,800	602,695	-	4,560,942

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Group is exposed to price risk with respect to its investments (quoted and unquoted shares, sukuks and managed funds).

The Group is exposed to market risk with respect to its investments in equities, managed funds and sukuks. The impact on investment fair value reserve and equity of a 1% increase/decrease in prices would be +/- of BD 46,866 (2015: +/- of BD 51,144).

The management has set up an investment policy to manage its investment portfolio. The Group limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in international equity and bond markets. In addition, the Group actively monitors the key factors that affect stock market movements, including analysis of the operational and financial performance of investees.

A geographical analysis of the Group's available-for-sale investments is:

	31 December 2016 BD	31 December 2015 BD
Kingdom of Bahrain	2,498,846	2,152,857
Other GCC countries	1,177,080	1,673,620
Asia/BRIC	936,723	778,298
United States	-	92,595
Other countries/global	73,920	417,105
	4,686,569	5,114,475

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

27 RISK MANAGEMENT (continued)

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group adopts policies and procedures in order to maintain credit risk exposures within limits. These limits have been set on the basis of the types of exposures and the credit rating of the counter party and are regularly monitored by the management.

For all classes of financial assets held by the Group, other than those related to retakaful contracts as described in takaful risk above, the maximum credit risk exposure to the Group is the carrying value as disclosed in the consolidated statement of financial position.

The Group does not enter into derivatives to manage credit risk, although in certain isolated cases may take steps to mitigate such risks if it is sufficiently concentrated. Quantitative disclosures of the credit risk exposure in relation to financial assets are set out below.

	At 31 December 2016	
	Carrying	Maximum
	value	exposure
Financial assets	BD	BD
Cash and cash equivalents	7,608,103	7,608,103
Retakaful and takaful receivables	9,018,826	9,018,826
Dues from retakaful companies in connection with outstanding claims	8,901,992	8,901,992
Other receivables and prepayments	448,406	448,406
Amounts due from related parties	654	654
Statutory deposit	125,000	125,000
Total financial assets	26,102,981	26,102,981

	At 31 December 2015	
	Carrying	Maximum
	value	exposure
Financial assets	BD	BD
Cash and cash equivalents	5,237,154	5,237,154
Retakaful and takaful receivables	8,191,292	8,191,292
Dues from retakaful companies in connection with outstanding claims	8,691,892	8,691,892
Other receivables and prepayments	163,861	163,861
Amounts due from related parties	585	585
Statutory deposit	125,000	125,000
Total financial assets	22,409,784	22,409,784

The Group seeks to limit its credit risk with respect to participants by setting credit limits and monitoring outstanding receivables.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

27 RISK MANAGEMENT (continued)

Liquidity risk

The table below summarises the maturity profile of the assets and liabilities of the Group based on remaining undiscounted contractual obligations. As the Group does not have any interest bearing liabilities, the totals in the table match the consolidated statement of financial position.

	31 December 2016			
	One year or less BD	More than one year BD	No term BD	Total BD
ASSETS				
Cash and cash equivalents	7,608,103	-	125,000	7,733,103
Available-for-sale investments	449,626	4,236,943	-	4,686,569
Takaful and retakaful balances receivable	8,068,760	950,066	-	9,018,826
Due from retakaful companies			-	
in connection with outstanding claims	8,901,992	-	-	8,901,992
Deferred retakaful contribution	3,030,352	-	-	3,030,352
Deferred policy acquisition costs	706,739	-	-	706,739
Due from retakaful companies in connection			-	
with family takaful technical reserves	1,707,505	-	-	1,707,505
Property and equipment	-	-	2,272,525	2,272,525
Receivable from takaful funds	983,532	-	-	983,532
Other receivables and prepayments	448,406	-	-	448,406
Amounts due from related parties	654	-	-	654
	31,905,669	5,187,009	2,397,525	39,490,203
LIABILITIES				
Gross outstanding claims	11,738,496	-	-	11,738,496
Unearned contributions reserve	8,688,463	-	-	8,688,463
Unearned retakaful commissions	485,316	-	-	485,316
Family takaful technical reserves	2,780,866	-	-	2,780,866
Retakaful/ takaful and other payables	6,824,812	-	-	6,824,812
Other liabilities and provisions	1,562,963	-	-	1,562,963
Employees' terminal benefits	-	245,668	-	245,668
Payable to shareholders	983,532	-	-	983,532
	33,064,448	245,668	-	33,310,116
	31 December 2015			
	One year or less BD	More than one year BD	No term BD	Total BD
ASSETS				
Cash and cash equivalents	5,237,154	-	125,000	5,362,154
Available-for-sale investments	985,440	4,129,035	-	5,114,475
Takaful and retakaful balances receivable	4,632,731	3,558,561	-	8,191,292
Due from retakaful companies				
in connection with outstanding claims	8,691,892	-	-	8,691,892
Deferred retakaful contribution	2,160,164	-	-	2,160,164
Deferred policy acquisition costs	769,705	-	-	769,705
Due from retakaful companies in connection				
with family takaful technical reserves	1,625,398	-	-	1,625,398
Property and equipment	-	-	2,351,551	2,351,551
Receivable from takaful funds	33,439	-	-	33,439
Other receivables and prepayments	163,861	-	-	163,861
Amounts due from related parties	585	-	-	585
	24,300,369	7,687,596	2,476,551	34,464,516

Takaful International Company B.S.C.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

27 RISK MANAGEMENT (continued)

Liquidity risk (continued)

	31 December 2015			
	One year or less	More than one year	No term	Total
	BD	BD	BD	BD
LIABILITIES				
Gross outstanding claims	12,848,760	-	-	12,848,760
Unearned contributions reserve	7,929,198	-	-	7,929,198
Unearned retakaful commissions	343,477	-	-	343,477
Family takaful technical reserves	2,527,505	-	-	2,527,505
Retakaful/ takaful and other payables	4,103,431	-	-	4,103,431
Other liabilities and provisions	1,068,186	-	-	1,068,186
Employees' terminal benefits	-	213,317	-	213,317
Payable to shareholders	33,439	-	-	33,439
	28,853,996	213,317	-	29,067,313

28 CAPITAL ADEQUACY AND SOLVENCY MARGIN REQUIREMENTS

Solvency margin requirements are determined in accordance with the regulatory requirements established by the Central Bank of Bahrain and are calculated with reference to a prescribed contributions and claims basis. Where these calculations resulting solvency margin requirements falling below the minimum fund size prescribed by regulations, such minimum fund size is considered as the required margin of solvency. The shareholders' available capital for the Company is BD 6,427,000 as of 31 December 2016 (2015: BD 5,918,000). As at 31 December 2016 the deficiency of capital amounted to BD (1,206,000) compared to BD (2,969,000) as at 31 December 2015, after considering the net admissible assets of General Participants and Family Takaful Funds to cover solvency margin (BD 4,711,000) compared to BD 5,096,000 and the required solvency margin of BD 2,922,000 (2015: BD 3,791,000)

During the year ended 31 December 2016, the Group's Board of Directors submitted a restoration of net available capital plan to the Central Bank of Bahrain. Further, the Board of Directors of the Group resolved in their meeting held on 4 January 2017 to recommend to the Company's shareholders in the Annual General Meeting to increase the Company's issued share capital by BD 3 million.

29 SHARI'A SUPERVISORY BOARD

The Group's business activities are subject to the supervision of a Shari'a supervisory Board consisting of three members appointed by the Board of Directors. The Shari'a Supervisory Board performs a supervisory role in order to determine whether the operations of the Group are conducted in accordance with Islamic Shari'a rules and principles.

30 ZAKAH

Zakah of BD 103,568 at 1.66 fils per share (2015: BD 91,812 at 1.47 fils per share) is to be directly borne by the shareholders and, accordingly, the consolidated financial statements includes no provision for Zakah. The components used in the computation of Zakah are share capital, statutory reserve, general reserve and retained earnings, participants' equity and property and equipment. The basis of computation is approved by the Shari'a Supervisory Board and the amounts payable are notified to the shareholders.

31 EARNINGS PROHIBITED UNDER SHARI'A

There were no earnings retained during the year (2015: Nil) from transactions which are not permitted under Shari'a.

Takaful International Company B.S.C.
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

32 CONTINGENT LIABILITIES

The Group is a defendant in a number of cases brought by takaful contract holders in respect of claims which the Group disputes. While it is not possible to predict the eventual outcome of such legal actions, the Directors' have made provisions which, in their opinion, are adequate to cover any resultant liabilities.

33 COMMITMENTS

a) Operating lease commitments

The minimum lease commitments under cancellable operating leases are as follows:

	31 December 2016 BD	31 December 2015 BD
Not later than 1 year	63,239	76,440

b) Other commitments

The commitments towards available-for-sale investments are as follows:

	31 December 2016 BD	31 December 2015 BD
Available-for-sale investments	6,387	34,499

34 QARD AL HASSAN

In accordance with the capital adequacy requirements of the Central Bank of Bahrain' Insurance Rulebook, there is no Qard apportionment made through the Insurance Firm Return for the year ended 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

35 COMPARATIVE INFORMATION

Till 31 December 2015, the Company used to equity account the joint-venture and accordingly prepared the financial statements on an unconsolidated basis. However, from 1 January 2016, the management has reassessed the control and concluded to consolidate the entity which was previously classified as a joint-venture. The consolidation has been done retrospectively. This is the first set of consolidated financial statements, therefore certain comparative balances in these consolidated statements of financial position, income, comprehensive income, changes in equity and changes in cashflows have been restated and will not necessarily correspond to the previously issued audited financial statements for the years ended 31 December 2015 and 31 December 2014.

The summarised effects of the above change are as follows:

	31 December 2015		1 January 2015	
	(Restated)	(Previously reported)	(Restated)	(Previously reported)
	BD	BD	BD	BD
<i>Consolidated statement of financial position</i>				
<i>- shareholders</i>				
Cash and investments:				
Statutory deposit	125,000	125,000	125,000	125,000
Cash and cash equivalents	1,274,697	1,208,440	974,239	938,583
Available-for-sale investments	2,420,460	2,420,460	3,116,834	3,116,834
Investment in equity-accounted joint venture	-	24,003	-	21,088
Deferred policy acquisition costs	769,705	769,705	-	-
Property and equipment	2,351,551	2,331,839	1,977,967	1,953,711
Receivable From Takaful Funds	33,439	33,439	707,076	707,076
Other receivables and prepayments	86,999	85,403	127,598	113,254
Due from a related party	585	585	982	962
Total assets	7,062,436	6,998,874	7,029,696	6,976,508
Retakaful/ takaful and other payables	535,361	532,426	-	-
Other liabilities and provisions	478,317	437,683	423,389	385,760
Employees' terminal benefits	213,317	209,226	184,187	182,686
Total liabilities	1,226,995	1,179,335	607,576	568,446
Equity:				
- Equity attributable to shareholders of the parent	5,819,539	5,819,539	6,408,062	6,408,062
- Minority interests	15,902	-	14,058	-
Total equities and liabilities	7,062,436	6,998,874	7,029,696	6,976,508
Net impact on net assets	63,562		53,188	

Takaful International Company B.S.C.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

35 COMPARATIVE INFORMATION (continued)

	<u>31 December 2015</u>	
	<i>(Restated)</i>	<i>(Previously reported)</i>
	<i>BD</i>	<i>BD</i>
<i>Consolidated statement of profit or loss</i>		
<i>- shareholders</i>		
Wakala Fees	3,754,171	3,754,171
Investment income	341,828	344,743
Mudarib Share	26,096	26,096
Management, general and administrative expenses and depreciation	(3,595,860)	(3,390,543)
Net Acquisition Cost	(929,710)	(929,710)
Impairment loss on available-for-sale investments	(1,135,781)	(1,135,781)
Other income / (loss)	785,728	575,652
	<u>(753,528)</u>	<u>(755,372)</u>
Net profit attributable to:		
- Shareholders of the parent	(755,372)	(755,372)
- Non-controlling interests	1,844	-
	<u>(753,528)</u>	<u>(755,372)</u>

36 TOTAL COMPREHENSIVE INCOME

	<i>Restated</i>	
	<i>Year ended</i>	
	<i>31 December</i>	
	<i>2016</i>	<i>2015</i>
	<i>BD</i>	<i>BD</i>
Net profit (loss) for the year	<u>403,291</u>	<u>(753,528)</u>
Other comprehensive income		
Items that will or may be reclassified to statement of profit or loss		
Net realised fair value gain (losses) on available-for-sale investments	36,266	(108,313)
Unrealised fair values losses on available-for-sale investments	14,559	275,162
Other comprehensive income for the year	<u>50,825</u>	<u>166,849</u>
Total comprehensive income (loss) for the year	<u>454,116</u>	<u>(586,679)</u>
Attributable to:		
Shareholders of the parent	447,432	(588,523)
Non-controlling interests	6,684	1,844
	<u>454,116</u>	<u>(586,679)</u>