

**Solidarity Bahrain B.S.C.**  
**FINANCIAL STATEMENTS**  
**31 DECEMBER 2020**

**Financial statements**

**For the year ended 31 December 2020**

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## **Solidarity Bahrain B.S.C.**

### **General information**

**For the year ended 31 December 2020**

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#### **Commercial registration**

5091 obtained on 17 August 1976

#### **Board of Directors**

Tawfeeq Shehab

Chairman of the Board, Chairman of Nomination & Remuneration Committee and member of the Audit & Risk Committee (Independent Non-Executive Director)

Ashraf Bseisu

Vice Chairman of the Board, Chairman of the Executive Committee and Member of the Nomination & Remuneration Committee (Executive Director)

Dr. Nadhem Al Saleh

Board Member, Chairman of Audit & Risk Committee, member of Corporate Governance Committee and member of Nomination & Remuneration Committee (Independent Non-Executive Director)

Sharif Ahmadi

Board Member, Chairman of Corporate Governance Committee, and member of the Executive Committee (Independent Non-Executive Director)

Venkatesan Muniswamy

Board Member and member of the Executive Committee (Executive Director)

Bashar Sameer Nass

Board member and member of Audit & Risk Committee (Non-Independent Non-Executive Director)-

Ali Isa Ahmed Abdulrahim

Board member and member of the Executive Committee (Non-Independent Non-Executive Director)

#### **Executive Committee**

Ashraf Bseisu – Chairman  
Sharif Ahmadi  
Venkatesan Muniswamy  
Ali Abdulrahim

#### **Audit and Risk Committee**

Nadhem Al Saleh – Chairman  
Tawfeeq Shehab  
Bashar Sameer Nass

#### **Nomination and Remuneration Committee**

Tawfeeq Shehab – Chairman  
Nadhem Al Saleh  
Ashraf Bseisu

## **Solidarity Bahrain B.S.C.**

### **General information (continued) For the year ended 31 December 2020**

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#### **Corporate Governance Committee**

Mr. Sharif Ahmadi – Chairman  
Dr. Nadhem Al Saleh  
Shaikh Dr. Osama Bahar – Member of the Sharia Supervisory Board

#### **Sharia Supervisory Board**

Shaikh Dr. Osama Bahar

Chairman of Sharia Supervisory Board and member of Corporate Governance Committee

Shaikh Mohsin Shaikh A. Hussain Al Asfoor

Member of Sharia Supervisory Board

Shaikh Abdul Naser Al Mahmood

Member of Sharia Supervisory Board

#### **Management**

Jawad Mohammed

Chief Executive Officer

Nandakumar Duraiswamy

Deputy General Manager – Operations

Jai Prakash Pandey

Assistant General Manager – Business Development

Mohammed Awachi

Assistant General Manager – Corporate Support

Yaser Al Hammadi

Head of Compliance, Risk Management and MLRO

Sanjeev Aggarwal

Head of Finance

#### **Address**

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Flat 71, Building 2080, Road 2825, Block 428  
PO Box 5282  
Seef Area, Manama – Kingdom of Bahrain  
Telephone: 17585222  
Fax: 17585200  
Website: [www.solidarity.com.bh](http://www.solidarity.com.bh)

#### **Principal bankers**

Itthmaar Bank B.S.C. (c), Kingdom of Bahrain  
Ahli United Bank B.S.C., Kingdom of Bahrain

#### **Auditor**

Deloitte & Touche – Middle East  
P.O. Box 421  
Manama, Kingdom of Bahrain

#### **Actuary**

Lux Actuaries and Consultants  
PO Box 50912 – Manama, Kingdom of Bahrain

#### **Shares registrar**

Bahrain Clear, Kingdom of Bahrain

**Report of the Board of Directors  
For the year ended 31 December 2020**

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On behalf of the Board of Directors, we are pleased to present the annual report and financial statements of Solidarity Bahrain B.S.C. (the Company) for the year ended 31 December 2020. This proved to be a most extraordinary year, marked by an unprecedented dual public health and economic crisis resulting from the COVID-19 coronavirus global pandemic.

**Combating COVID-19**

The Company took early pre-emptive steps to mitigate the impact of the pandemic. These focused on protecting the health and safety of our staff; and enabling clients to conduct their transactions with the Company wholly online. This proactive approach proved to be successful in maintaining day-to-day operations despite the majority of staff working from home, and in avoiding any serious business disruptions.

The Board of Directors is highly appreciative of the comprehensive measures being taken by the Government of Bahrain to combat COVID-19. These include its fiscal support and stimulus initiatives, which have limited the effects of the coronavirus on the economy, business sector and society; and its highly-effective public awareness campaign. In turn, the Company played its part by supporting the local community with a donation to the Feena Khair (There is Good in Us) campaign organised by the Royal Humanitarian Foundation; and through a special 'Thank You' initiative to reward those customers who were among the frontline heroes of #Team Bahrain in combating the coronavirus pandemic.

**Financial Results**

Despite the unprecedented economic challenges during the year, Solidarity Bahrain posted a positive financial performance in 2020, and managed to achieve modest growth over the previous year. Key highlights include net profit increasing by 6 per cent to BD 3.08 million from BD 2.90 million in 2019; and an improvement in the loss ratio which stood at 60 per cent at the end of the year compared with 62 per cent at the end of 2019. While gross contributions declined by 2 per cent to BD 30.20 million, net contributions grew by 1 per cent to BD 15.07 million. As at 31 December 2020, total shareholders' equity had increased to BD 28.33 million from BD 27.27 million at the end of 2019; with earnings per share rising to Bahraini fils 22.38 versus 21.81 fils for the prior year. Based on these results, the Board of Directors is proposing a cash dividend for 2020 of 17.5 per cent for approval by Shareholders at the Annual General Meeting to be held on 28 March 2021.

The Company maintained its compliance with Rulebook Volume 3 of the Central Bank of Bahrain, and has determined the solvency margin and available capital as at 31 December 2020. The capital available to cover the solvency margin is BD 17.30 million; while the minimum solvency margin required is BD 2.88 million for general takaful business, and BD 553 thousand for family takaful business. The available capital is over five times that of the required regulatory margin.

**Ratings Confirmation**

AM Best has affirmed the Company's Financial Strength Rating (FSR) of "B++" (Good) and Long-Term Issuer Credit Rating (Long-Term ICR) of "bbb+"; with both these ratings having a 'Stable' outlook. These affirmations reflect the Company's balance sheet strength, which is underpinned by its risk-adjusted capitalisation at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR). They also underline the Company's very good level of liquidity and good financial flexibility, being listed on the Bahrain Bourse, and having no debt leverage. We view these ratings as an important independent validation of the successful actions we are taking to ensure the Company's continued strategic growth, business development and sustainable profitability.



## **Solidarity Bahrain B.S.C.**

### **Report of the Board of Directors (continued) For the year ended 31 December 2020**

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#### **Industry Recognition**

The Company's achievements during the year were recognised by the receipt of additional prestigious industry awards. These include being named 'Best Digital Transformation Insurance Company in Bahrain' by the Global Economics Awards 2020; and 'Best CSR Company in Bahrain' by the Global Banking & Finance Awards 2020. The Board also takes this opportunity to congratulate Chief Executive Officer Mr. Jawad Mohammed on being named by the Global Economics magazine as 'Best Insurance CEO in Bahrain' for 2020.

#### **Strategic Progress**

We are pleased to report that the Company's 2018-2020 'Blue' strategy concluded on a positive note at the end of the year. During this period, #Team Solidarity has successfully met the strategic objective of differentiating the Company in a price-driven and highly-competitive insurance sector, by focusing on quality, digital innovation, superior customer care, and a unique employee experience. The Board has approved a new three-year 'ACTS' strategy, which is based on the key pillars of Agility, Collaboration, Transformation and Scaling-up; and with an ultimate focus on customer centricity.

A notable strategic achievement during 2020 was the signing of a Letter of Intent by Solidarity Bahrain, for the proposed merger with T'azur Company, a prominent Bahrain-based Takaful provider. Subject to final regulatory and shareholder approvals, the transaction is expected to be completed during 2021. Significantly, this represents the Company's second merger and acquisition initiative in a span of just three years, following the recent integration of Al Ahlia Insurance Company.

#### **Future Outlook**

While it is difficult to predict the future with any degree of certainty, a number of key factors underline the Board's cautiously optimistic outlook for Solidarity Bahrain in 2021. These include the Kingdom of Bahrain's successful vaccination rollout, which ranks among the most effective anti-COVID inoculation programmes in the world; and the Government's continued prudent coronavirus awareness and enforcement initiatives. In addition, the IMF forecasts Bahrain's GDP growing to 3.3 per cent next year, on the back of higher oil prices and improved economic activity across the GCC. Based on the achievements of #Team Solidarity during 2020, and with a new three-year strategy due to kick off in January 2021, we consider that the Company is well positioned to meet all future challenges, given the absence of any further unexpected shocks.

#### **Acknowledgements**

On behalf of the Board of Directors, we extend our sincere appreciation to His Majesty the King of Bahrain, and His Royal Highness the Crown Prince and Prime Minister, for their wise leadership and reform programme, and their support for the Kingdom's insurance sector.

Grateful acknowledgements are also due to the Central Bank of Bahrain, the Bahrain Bourse, the Ministry of Industry, Commerce & Tourism, and other Government institutions, for their continued professional advice and guidance during the year.

In addition, we express our gratitude to the shareholders of Solidarity Bahrain for their unwavering encouragement and assistance; and to the Company's participants, business partners and other stakeholders, for their continued support and confidence. We also pay special tribute to the dedicated efforts and contributions of the Company's management and staff, and the executive management of Solidarity Group Holding, during this exceptionally-challenging and historically-unprecedented year.

Tawfeeq Shebab  
Chairman

Ashraf Bselsu  
Vice Chairman

22 February 2021

## **Solidarity Bahrain B.S.C.**

### **Board of Directors profile**

**For the year ended 31 December 2020**

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#### **Tawfeeq Shehab – Chairman of the Board, Chairman of Nomination & Remuneration Committee and member of Audit & Risk Committee (Independent Non-Executive Director) - Effective 27<sup>th</sup> December 2017**

- Independent Non-Executive Director
- Bahraini National
- Master's Degree "MBA" from University of Pennsylvania, Indiana, USA and an Associate member of the Chartered Insurance Institute of the UK
- Over 32 years of experience in insurance and financial services

#### **Key Positions & Directorships held**

- Board Member of Motor Compensation Fund
- Formerly, Director of Insurance Supervision Directorate – Central Bank of Bahrain, Bahrain
- Formerly, Director at Insurance Directorate – Ministry of Industry, Commerce and Tourism, Bahrain
- Formerly, General Manager of Al Ahlia Insurance Company B.S.C.

#### **Ashraf Bseisu – Vice Chairman, Chairman of the Executive Committee and member of the Nomination & Remuneration Committee (Executive Director) – Effective 27<sup>th</sup> December 2017**

- Executive Director
- Bahraini National
- Masters' in Business Management and Information System from the "London School of Economics", United Kingdom and Bachelor's degree from "Southern Methodist University" in the United States of America.
- An Associate member of the Chartered Insurance Institute of the UK
- Associate member of the American Institute of Management Accountants.
- 31 years of experience in insurance and financial services

#### **Key Positions & Directorships held:**

- Group Chief Executive Officer and member of the Executive Committee of Solidarity Group Holding B.S.C. (closed) – Bahrain. Chairman of the Board and Executive Committee and Member of Nomination & Remuneration Committee of First Insurance Company PLC., Jordan
- Chairman of Solid Ventures W.L.L., Bahrain
- Chairman of Solid Capital W.L.L., Bahrain
- Chairman of the Technical Committee of Arab War Risk Insurance Syndicate (AWRIS)
- Vice Chairman, and Chairman of the Executive Committee and a member of the Investment Committee of Solidarity Saudi Takaful Company, KSA
- Board Member and member of the Executive Committee of the Bank of Bahrain and Kuwait (BBK) – Bahrain
- Board Member and member of the Audit committee of United Insurance Company B.S.C. (c)
- Board Member and Chairman of Remuneration Committee, Bahrain Institute of Banking & Finance
- Formerly, Chairman of Solidarity Takaful S.A, Luxembourg
- Formerly, Chairman of Al Moazarah Investment Company, Jordan
- Formerly, Chairman of Al Somood Investment Company, Jordan
- Formerly, Chairman of the Bahrain Insurance Association (BIA)
- Formerly, President of the General Arab Insurance Federation (GAIF)

## **Solidarity Bahrain B.S.C.**

### **Board of Directors profile (continued) For the year ended 31 December 2020**

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#### **Dr. Nadhem Al Saleh– Board Member, Chairman of Audit & Risk Committee, member of Corporate Governance Committee and member of Nomination & Remuneration Committee (Independent Non-Executive Director) – Effective 27<sup>th</sup> December 2017**

- Independent Non-Executive Director.
- Bahraini National
- Ph.D. in Finance from Brunel University, England, Master's Degree "MBA" from University of Pennsylvania, Indiana, USA and Bachelor Degree of Petroleum Engineering from University of Baghdad, Iraq.
- 47 years experience in academia and commerce

#### **Key Positions & Directorships held:**

- Board Member of APM Terminals B.S.C & Chairman of the Audit, Risk and Compliance Committee & Member of Nomination & Remuneration Committee
- Member of Board of Trustee of Kanoo Award for Creativity & Excellence- (2015) & Member of the Award Executive Committee
- Member of Finance & Administrator Committee – Higher Education Council, Bahrain.
- Former lecturer of Finance & Accounting at University of Bahrain
- Formerly, Vice president of Scientific Research- University of Bahrain
- Formerly, Dean of Scientific Research, University of Bahrain
- Formerly, Faculty Member, College of Business Administration, University of Bahrain
- Formerly, Member, Higher Education Council, Bahrain
- Formerly, Member, University of Bahrain Committee to Review the Budget
- Formerly, Member, National Charter Action Committee, Bahrain
- Formerly, Member, Association of Arab Human Resource Development
- Formerly, General Manager, Saleh Al-Saleh Company, Bahrain

#### **Sharif Ahmadi – Board Member, Chairman of Corporate Governance Committee and Member of the Executive Committee (Independent Non-Executive Director) – Effective 27<sup>th</sup> December 2017**

- Independent Non-Executive
- Bahraini National
- Holds a BSc in Electrical Engineering and Electronics from the UK.
- Rich Managerial and Business experience serving on the board of various companies.
- 43 years' experience in commerce and industry

#### **Key Positions & Directorships**

- Board Member and Managing Director, Paper Arts Product Company, Bahrain
- Board Member and Managing Director, Dar Al Khaleej for Trading & Contracting, Bahrain
- Board Member and Joint Managing Director, Bahrain Waste Treatment Company
- Executive Director, National Institute for Industrial Training, Bahrain



## **Solidarity Bahrain B.S.C.**

### **Board of Directors profile (continued) For the year ended 31 December 2020**

#### **Venkatesan Muniswamy – Board Member and member of the Executive Committee (Executive Director) - Effective 27th December 2017**

- Executive Director
- Indian National
- Bachelors' degree in Commerce from University of Madras, India, Fellow member of the Institute of Chartered Accountants of India and an Associate member of the Insurance Institute of India.
- 34 years of experience in Insurance Industry covering Finance, Accounting, Investments, Internal Audit, Reinsurance, Compliance, Corporate Governance and Risk Management.

#### **Key Positions & Directorships held:**

- Chief Operating Officer of Solidarity Group Holding B.S.C. (c), Bahrain
- Vice-Chairman of Solid Ventures W.L.L., Bahrain
- Vice-Chairman of Solid Capital W.L.L., Bahrain
- Formerly Board Member of Solidarity Takafol SA, Luxembourg
- Formerly Board Member of Al Somood Investment Company, Jordan
- Formerly Board Member of Al Moazarah Investment Company, Jordan
- Formerly, Board Member & Member of the Audit Committee of First Insurance Company PLC., Jordan
- Formerly, Board Member of Mulkiyat Investment Company, Jordan
- Formerly, Finance Manager at Al Ahlia Insurance Company, Bahrain
- Formerly, Administrative Officer at United India Insurance Co Ltd., Chennai

#### **Bashar Sameer Nass - Board member and member of the Audit & Risk Committee (Non-Independent Non-Executive) - Effective 19 February 2018**

- Non-Independent Non-Executive
- Bahraini National
- Holds a Bachelor's degree in Constructions Management from the University of Westminster in UK
- Over 13 years of experience in Constructions Management

#### **Key Positions & Directorships held:**

- Director of Nass the Group and Nass Corporation B.S.C.
- Board Member and Managing Director, Nass International Trading, Bahrain
- Board Member, Nass Commercial, Bahrain
- Board Member, Abrasive Technology Industries, Bahrain
- Chief Executive Officer, Nass Procurement & Logistics, Bahrain
- Formerly, Board Member, American Chamber of Commerce, Bahrain

#### **Ali Isa Ahmed Abdulrahim – Board Member and Member of the Executive Committee (Non-Independent Non-Executive) – Effective 4th February 2019**

- Non-Independent Non-Executive
- Bahraini National
- Holds a Master of Business Administration (Majored in Marketing & Management) - McCallum Graduate School of Business – Boston, USA and a Bachelor of Science (Majored in Economic & Finance with a minor in Politics) – Bentley University – Boston, USA
- 9 years experience in investments, F&B, Marine, Active Entertainment, Sports, and Real Estate

#### **Key Positions & Directorships held:**

- Board Member and Managing Director – Rahim Holdings (Manama, Bahrain)

## **Solidarity Bahrain B.S.C.**

### **Executive management profile**

**For the year ended 31 December 2020**

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#### **Jawad Mohammed – Chief Executive Officer**

Jawad Mohammed has 26 years' experience in business management and insurance industry. He joined Solidarity from its inception, having previously worked for the Ministry of Education, Bahrain National Holding, and Al Ahlia Insurance in the Kingdom of Bahrain.

Jawad is a Member of the Investment Committee of Solidarity Group Holding, and also represents the Group on the Boards of various subsidiary companies. He is a Board Member and Chairman of the Risk Committee, and Member of the Nomination & Remuneration Committee, of Solidarity Saudi Takaful Company; and Board Member, and Chairman of the Risk Committee and IT Committee, of First Insurance Company, Jordan. His other Board Memberships include Solid Ventures W.L.L., Bahrain; Solid Capital W.L.L., Bahrain. He is also Vice-Chairman of the Bahrain Insurance Association and a Board member in Health 360° Ancillary Services W.L.L.

Jawad is an Associate of the Chartered Insurance Institute, UK; and a Certified Anti-Money Laundering & Compliance Specialist. He holds an MSc in Computing from the University of Sunderland, UK; and a BSc in Computer Science from Bangalore University, India. He also attended the Gulf Executive Development Program at the Darden School of Business, University of Virginia, USA.

#### **Nandakumar Duraiswamy – Deputy General Manager - Operations**

D. Nandakumar has 41 years' experience in general insurance, having worked in both India and Bahrain. Prior to joining Solidarity Bahrain in 2012, he was a Senior Manager at Al Ahlia Insurance Company BSC, Bahrain. Previously, he spent 26 years in various management and technical positions with the United India Insurance Company, India.

A Qualified Chartered Insurer, D. Nandakumar is a Fellow of the Insurance Institute of India; and an Associate Member of the Chartered Insurance Institute, UK. He holds Master's and Bachelor's degrees from the University of Madras, India; and a Bachelor of General Law degree from Madurai Kamaraj University, India.

#### **Jai Prakash Pandey – Assistant General Manager – Business Development**

Jai Prakash Pandey has 25 years' experience in business development and marketing within the insurance industry, in Bahrain and India. He has particular expertise in sales management, marketing planning, product development, strategic and budget planning, and customer relationship management. He joined Solidarity Bahrain in 2007, having previously worked as Business Development Manager with Infodata Limited, Bahrain; and as a Systems Engineer with Gray Technologies (Tata Institute of Fundamental Research) in Mumbai, India.

Jai is a Qualified Electronics Engineer, and an Associate Member of the Chartered Insurance Institute (ACII), UK. He holds an MBA in Marketing from the Indira Gandhi National Open University (IGNOU) University, Delhi, India; and a Bachelor in Engineering in Electronics from Bombay University, India.



**Executive management profile (continued)**

**For the year ended 31 December 2020**

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**Mohammed Awachi – Assistant General Manager – Corporate Support**

Mohammed Awachi has 22 years' professional experience in strategic planning, project management, change management, information technology and service delivery. Joining Solidarity Bahrain from its inception, he has been involved in several key Company projects, including creation of the IT department, development of a Business Continuity Plan, establishment of the physical Branch Network, and the launch of Digital Services. Prior to joining the Company, he worked for DHL Worldwide Express, Bahrain; and Bahrain & Kuwait Insurance Company, Bahrain. Mohammed holds a BSc in Computer Science from AMA International University, Bahrain

Mohammed holds a BSc in Computer Science from AMA International University, Bahrain

**Yaser Al Hammadi – Head of Compliance and Risk Management & Money Laundering Reporting Officer (MLRO)**

Yaser Al Hammadi has 15 years' experience in banking and financial services, with particular expertise in the areas of compliance, risk management, business development, operations and investments. Prior to joining Solidarity in 2012, he was Head of Risk Management and Compliance at Sakana Holistic Housing Solutions, Bahrain; and previously worked at Kuwait Finance House, Bahrain.

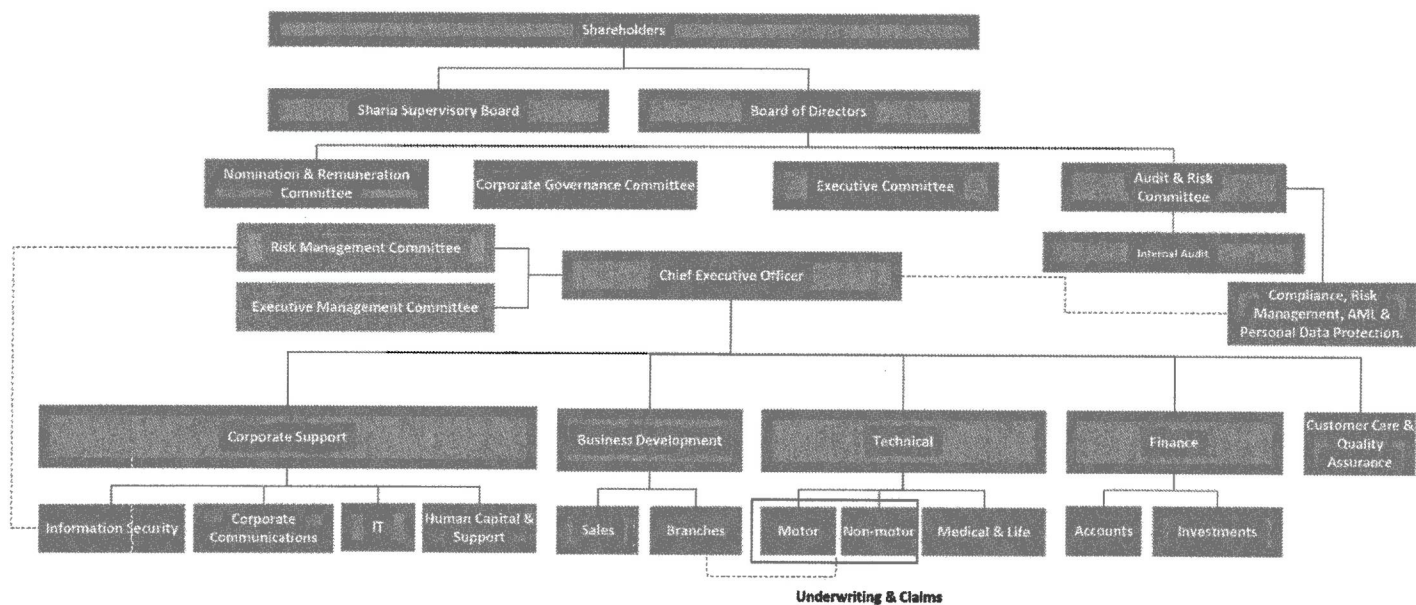
Yaser is a Member of The Professional Risk Managers' International Association, US and Member of the Chartered Institute for Securities and Investment, UK; and a Certified Insurance Supervisor. He holds an MBA from the University of Glamorgan, UK; a Degree in Chemical Engineering from the University of Bahrain; an Advanced Diploma in Islamic Banking & Finance from the Bahrain Institute of Banking & Finance; a FFRM from the Bahrain Institute of Banking & Finance. Yaser completed a Leadership Development Program from the University of Virginia Darden School of Business, US.

**Sanjeev Aggarwal – Head of Finance**

Sanjeev Aggarwal has 16 years' experience in financial control, accounting, auditing, compliance and risk management. Prior to joining Solidarity Bahrain in 2014, he worked with reputed audit firms in India and Bahrain, where he conducted external and internal audits, system audits and special purpose assignments for clients in the insurance, financial services, investments, manufacturing, real estate and construction sectors.

Sanjeev is an Associate of the Chartered Insurance Institute, UK; an Associate of the Chartered Accountants of India; an Associate of the Insurance Institute of India; and holds a Bachelor's degree in Commerce from the University of Delhi, India. He is a Member of the Finance Committee of the Bahrain Insurance Association.

**Organisational chart**  
For the year ended 31 December 2020



**Corporate Governance**

**For the year ended 31 December 2020**

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The Company remains committed to compliance with the regulatory requirements of the Corporate Governance Guidelines as a framework for the governance of the Company. These guidelines are developed to cover matters specifically stated in the Bahrain Commercial Companies Law, Bahrain's Corporate Governance Code (the "CGC"), the Company's Articles of Association, Rulebook Volume "3" of the Central Bank of Bahrain (the "CBB"), and other corporate governance matters deemed appropriate by the Board.

With reference to Module HC and its principles in the Rulebook Volume "3" of the CBB, we are pleased to apprise that the Company is in compliance and has effectively implemented the regulations as stated in the Rulebook, reinforcing the values of responsibility, accountability, fairness and transparency of the Company.

**Ownership Structure**

Solidarity Group Holding B.S.C (Closed) owns 84.17% of the Company's capital, and various individual and corporate shareholders own the remaining 15.83%. Furthermore, Mr. Ashraf Bseisu (the Vice-Chairman) and Mr. Sayed Jawad Mohammed (the CEO) each holds 26,812 shares on behalf of and for the beneficial interest of Solidarity Group Holding B.S.C (Closed).

**The Board**

The Board of the Company consists of seven (7) members. At least half of the Company's Board should be non-executive directors and at least three (3) of those persons should be independent directors.

The Company is controlled through its Board of Directors that is ultimately accountable and responsible for the management and performance of the Company. The Board's main roles are to provide entrepreneurial leadership, approve Company's strategic policies, plans and objectives and ensure that the necessary financial and other resources are made available to meet those objectives.

The specific responsibilities reserved to the Board include:

- Review and approve the Company's strategic plans, business plans and budgets, management structure and responsibilities, and systems and controls framework.
- Assess the adequacy of capital to support the business risks of the Company.
- Ensure compliance with the laws, rules, regulations, accounting and auditing principles, and internal policies governing the business of the Company.
- Maintain the integrity of the Company's relationship with its shareholders.

The Board is assisted by four sub-committees; the Audit & Risk Committee, the Corporate Governance Committee, the Executive Committee and the Nomination & Remuneration Committee. The roles and responsibilities of these committees have been defined by their charters duly approved by the Board. The Board is also supported by the Management Investment Committee of the parent company.



**Corporate Governance** (continued)  
**For the year ended 31 December 2020**

**Board Meetings and Attendances Policy**

The Board is required to meet at least four times in a financial year.

Schedule of Board Meetings and attendance in 2020 (All Board meeting were convened in the Kingdom of Bahrain):

<b>Board Members</b>	<b>25 Feb</b>	<b>12 May</b>	<b>05 Aug</b>	<b>22 October</b>	<b>11 Nov</b>	<b>10 Dec</b>
Mr. Tawfeeq Shehab – Chairman (Independent Non-Executive)	✓	✓	✓	✓	✓	✓
Mr. Ashraf Bseisu – Vice Chairman (Executive Director)	✓	✓	✓	✓	✓	✓
Dr. Nadhem Al Saleh (Independent Non-Executive)	✓	✓	✓	✓	✓	✓
Mr. Sharif Ahmadi (Independent Non-Executive)	✓	X	✓	✓	✓	✓
Mr. Venkatesan M. (Executive Director)	✓	✓	✓	✓	✓	✓
Mr. Bashar Nass (Non-Executive)	✓	✓	✓	✓	✓	✓
Mr. Ali Isa Abdulrahim (Non-Executive)	✓	✓	✓	✓	✓	✓

**Board Committees**

**Audit and Risk Committee**

The Audit and Risk Committee shall consist of at least three members. The majority of the members of the members including the chairman must be independent or non-executive directors. The committee must meet at least four times a year.

The Audit and Risk Committee is responsible for the review of the financial statements on a regular basis to ensure the Company has followed appropriate accounting policies and made appropriate estimates and judgments, taking into account the views of the external auditors. In addition, the Audit and Risk Committee is also responsible for ensuring compliance with relevant laws and regulations.

Schedule of Audit and Risk Committee meetings and attendance in 2020:

<b>Audit and Risk Committee Members</b>	<b>25 Feb</b>	<b>12 May</b>	<b>05 Aug</b>	<b>11 Nov</b>
Dr. Nadhem Al Saleh (Independent Non-Executive)	✓	✓	✓	✓
Tawfeeq Shehab (Independent Non-Executive)	✓	✓	✓	✓
Bashar Nass (Non-Independent Non-Executive)	✓	✓	✓	✓

## Solidarity Bahrain B.S.C.

### Corporate Governance (continued) For the year ended 31 December 2020

#### Nomination & Remuneration Committee

The Nomination & Remuneration Committee shall consist of at least three members. The majority of the members of the committee including the Chairman shall be independent and/or non-executive directors.

The Nomination and Remuneration Committee is responsible to assist in proposing for the appointment of new/additional director(s) to the Board of the Company. The Committee shall also assist the Board in the consideration of personnel and remuneration issues within Company.

Schedule of Nomination and Remuneration Committee meetings and attendance in 2020:

Nomination & Remuneration Committee	25 Feb	19 Nov
Tawfeeq Shehab (Independent Non-Executive)	✓	✓
Nadhem Al Saleh (Independent Non-Executive)	X	✓
Ashraf Bseisu (Executive Director)	✓	✓
Sharif Ahmadi	✓	N/A

#### Corporate Governance Committee

The Corporate Governance Committee shall consist of at least three members who are only independent directors. One of the members shall be a Shari'a scholar who is a member of the Shari'a Supervisory Board ("SSB") of the Company, for the purpose of leading the Committee on Shari'a-related governance issues. The Committee shall meet at least once a year.

The Corporate Governance Committee is responsible for the oversight and monitoring of the implementation of the Corporate Governance Guidelines by working together with the management, the Audit & Risk Committee, and the SSB. In addition, the Committee is responsible for providing to the Board reports and recommendations based on its findings during the normal course of the exercise of its functions.

Corporate Governance Committee Members:

	Corporate Governance Members
1	Sharif Ahmadi (Independent Non-Executive)
2	Dr. Nadhem Al Saleh (Independent Non-Executive)
3	Shaikh/ Dr. Osama Bahar – Member of the Sharia Supervisory Board

Schedule of Corporate Governance Committee meetings and attendance in 2020:

Corporate Governance Committee	08 Dec
Sharif Ahmadi (Independent Non-Executive)	✓
Dr. Nadhem Al Saleh (Independent Non-Executive)	✓
Shaikh/ Dr. Osama Bahar – Member of the Sharia Supervisory Board	✓



## Solidarity Bahrain B.S.C.

### Corporate Governance (continued) For the year ended 31 December 2020

#### Executive Committee

The Executive committee has the following responsibilities:

- The development and recommendation of strategic plans for consideration by the Board that reflect the long-term objectives and priorities established by the Board;
- Implementation of the strategies and policies of the Company as determined by the Board;
- Monitoring of the operational and financial results against plans and budgets;
- Monitoring the quality and effectiveness of the investment process against objectives and guidelines; and
- Prioritizing allocation of capital, technical and human resources.

Schedule of Executive Committee meetings and attendance in 2020:

Executive Committee	27 Jan	23 Mar	06 May	25 Jun	08 Oct	06 Dec
Ashraf Bseisu - Chairman	✓	✓	✓	✓	✓	✓
Sharif Ahmadi	✓	✓	✓	✓	✓	✓
Venkatesan Muniswamy	✓	✓	✓	✓	✓	✓
Ali Abdulrahim	N/A	N/A	✓	✓	✓	✓

#### Number of directorships of Board Members:

Board Members	Number of Other Directorships in Bahrain
Mr. Tawfeeq Shehab– Chairman ( <i>Independent Non-Executive</i> )	-
Mr. Ashraf Bseisu – Vice Chairman ( <i>Executive Director</i> )	6
Dr. Nadhem Al Saleh ( <i>Independent Non-Executive</i> )	1
Mr. Sharif Ahmadi ( <i>Independent Non-Executive</i> )	4
Mr. Venkatesan M. ( <i>Executive Director</i> )	2
Mr. Bashar Sameer Nass ( <i>Non-Independent Non-Executive</i> )	2
Mr. Ali Isa Abdulrahim ( <i>Non-Independent Non-Executive</i> )	1

#### Independent Director

An 'independent director' is a director whom the board has specifically determined the he has no material relationship which could affect his independence of judgment, taking into account all known facts. The board considers that, although a particular director meets the formal requirements, he may not be independent owing to specific circumstances of the person or the company, ownership structure of the company, or for any other reason. Independent director means a non-executive director of company who, or whose family shareholders either separately or together with him or each other, does not have any material pecuniary relationships or transactions with the company (not counting director's remuneration for this purpose) and in particular who, during the one year preceding the time in question met all the following conditions:

(a) Was not an employee of the Company;

(b) Did not:

(i) Make to, or receive from, the company payments of more than 31,000 BD or equivalent (not counting director's remuneration);

(ii) Own more than a 10% share or other ownership interest, directly or indirectly, in an entity that made to or received from the company payments of more than such amount;

**Corporate Governance (continued)**  
**For the year ended 31 December 2020**

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**Independent Director (continued)**

- (iii) Act as a general partner, manager, director or officer of a partnership or company that made to or received from the company payments of more than such amount;
- (iv) Have any significant contractual or business relationship with the company which could be seen to materially interfere with the person's capacity to act in an independent manner;
- (c) Did not own directly or indirectly (including for this purpose ownership by any family member or related person) 5% or more of the shares of any type or class of the Company;
- (d) Was not engaged directly or indirectly as an auditor or professional advisor for the company; and
- (e) Was not an associate of a Director or a member of senior management of the company.

For purposes of this definition, the 'payments' referred to in paragraph (b)(i), (b)(ii) and (b)(iii) do not include monies received from dividends; reference to such payments only applies to contractual payments for services rendered to the company by the director or company concerned, or paid (or payable) by the concerned director or company to the company for services provided by the company.

- (a) Where the term "family" or "family member " is used reference is made to: spouse, father, mother, son(s) or daughter(s); and
- (b) Where the term "associate" is used reference is made to:
  - (i) Spouse, father, mother, son(s) or daughter(s); or
  - (ii) A person who is an employee or partner.

**Executive Management Committee**

The Executive Management Committee members shall comprise of the Chief Executive Officer and of SB's heads of key functions. At all times, the Deputy General Manager – Operations, Assistant General Manager– Business Development and Head of Finance will be members of the Committee. The Chairman of the Committee shall be the CEO, and the Committee may elect a deputy from its members to stand in, when the CEO is absent. The Executive Management Committee shall meet at least four times a year.

The Executive Management Committee is an advisory body and is a forum for corporate governance implementation and review, operational monitoring and control, inter-company communication, idea generation, and strategic planning.

**Risk Management Committee**

The Risk Management Committee members shall consist of at least six members. The Chairman of the Committee shall be the Chief Executive Officer. The Risk Management Committee shall meet at least four times a year.

The objective of the Risk Management Committee is to act as a body that assists management in overseeing the development and implementation of a risk management framework and to identify and measure risks associated with the various functions or activities of the Company.

**Director Orientation and Continuing Education**

The Board has established an orientation process for new directors. With the assistance of the Board Secretary, the Chairman of the Board shall review the Board's role and duties with the new directors upon becoming members, including information from internal and external sources. From time to time throughout the year, the Board would invite members of management to address particular subjects of interest to the Board to assist Board members in remaining aware of current issues, trends and concerns.



**Election system of Directors**

The Directors shall be appointed by the General Shareholders Meeting from among candidates proposed by the Board of Directors on the recommendation of the Nomination and Remuneration Committee of Solidarity Bahrain B.S.C. Board. Appointments to the Board of Directors shall be made on the basis of merit and objective criteria. For each new Director's appointment, an assessment shall be made, in the light of the Company's requirements, of the existing and necessary competences, expertise and experience in the Board in accordance with the principles of diversity.

**Directors Remuneration**

The Board of Directors are paid sitting fees for the Board and various Board Committee meetings. The annual remuneration is considered and approved by the shareholders at the annual general meeting as per the relevant regulations of Ministry of Industry, Commerce and Tourism and Central Bank of Bahrain. The Directors remuneration, if approved and paid, is accounted as an expense in the year of payment as per applicable Accounting Standards and CBB regulations.

**Employees Remuneration**

The Company's Human Resource Policy is to attract, train, motivate and retain the human resources of the company. As per company's policy, the salary and benefits are reviewed periodically and accordingly suitable revisions are made to salaries and benefits. Training Need Analysis is carried out annually and accordingly required training programs are arranged for the employees. Similarly, employees are encouraged to pursue insurance and professional courses to achieve their career development milestones. The Human Capital & Support department is responsible for implementing the HR policies and strategies under the support and guidance from senior management. The employees are provided with benefits like medical & group life insurance covers, performance incentives, retirement benefits and various awards and rewards based on their performance and excellence.

**Code of Conduct**

**Board of Directors**

The Code of Conduct is included as part of the Board Charter in which the directors have adopted and will adhere to the code of conduct in respect to their behaviour that outlines areas of conflict of interest, confidentiality, their scope of responsibilities and to act with honesty, integrity and in good faith, with due diligence and care, with a view to the best interest of the Company and its stakeholders.

**Staff**

The Company has in place a code of conduct and ethics which is applicable to all the employees of the Company and covers amongst other things conflicts of interest, disclosure and confidentiality of information including the media.

**Whistle blower policy**

A whistle blower policy is in place as approved by the Board.

**Auditors**

Under the recommendation of the Board of Directors through the Audit & Risk Committee, the shareholders re-appointed Deloitte and Touche Middle East, Bahrain as the external auditors. In addition, the Board re-appointed BDO Jawad Habib as internal auditors.

Under the authority given to the Board by the shareholders, the remuneration details can be obtained on request from the Head of Compliance and Risk Management.

There are no non-Audit services provided by the external auditor for the Company in 2020.



*In the name of Allah, the Merciful, the Compassionate*

**Report of the Shari'a Supervisory Board**  
For the financial year ended 31 December 2020

Thanks to Allah, the Almighty, Prayers and Peace be upon the True Messenger, His Relatives and All His Companions.

**To the Shareholders and Policyholders of Solidarity Bahrain B.S.C.**

Assalamu Alaikum Wa Rahmat Allah Wa Barakatuh

In compliance with our appointment to undertake the duties of Shari'a supervision, we hereby submit the following report:

We have reviewed the procedures relating to the transactions and the applications introduced by the Company during the year ended on 31.12.2020. The Board has reviewed and confirmed the implementations of the principles and guidelines governing the relationship between the policyholders and shareholders in order to identify the right of each side. Discussions took place with the Company's officers with regard to its items on the attached notes. The Board gave its Shari'a directives for the Company transactions and answered the queries made by the management.

The Company's management is responsible for ensuring that the Company conducts its business in accordance with Islamic Shari'a rules and principles. It is our responsibility to form an independent opinion based on our review of the operations of the Company, and to report to you.

**In our opinion:**

- a) The surplus distribution, charging of losses and expenses to the policyholders and shareholders fully conforms to the principles established by ourselves in compliance with Shari'a rules and principles.
- b) There are no gains realized from prohibited sources or from methods forbidden according to the Shari'a rules and principles.
- c) The calculation of Zakah is in compliance with Islamic Shari'a rules and principles and as directed by the Shari'a Supervisory Board. It should be noted that responsibility for payment of Zakah is undertaken by the shareholders.

We pray to Allah, the Almighty to grant the Company continued success for purifying business from suspicions and prohibitions.

Assalamu Alaikum Wa Rahmat Allah Wa Barakatuh

Dated 05 Rajab 1442 H, corresponding to 17 February 2021

**Members of the Shari'a Supervisory Board:**

**Shaikh Dr. Osama Bahar**  
Chairman

**Shaikh Mohsin Abdul Hussain Al Asfoor**  
Member

**Shaikh Abdul Nasser Al Mahmood**  
Member

## **INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of  
Solidarity Bahrain B.S.C.  
Manama, Kingdom of Bahrain

### **Report on the audit of the financial statements**

#### ***Opinion***

We have audited the accompanying financial statements of Solidarity Bahrain B.S.C. (the "Company"), which comprise the statement of financial position as at December 31, 2020 and the related statements of income and participants' revenues and expenses, participants' surplus and deficit, changes in shareholders' equity and cash flows for the year then ended, and to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020, and the results of the operations, its cash flows, changes in shareholders' equity for the year then ended in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI").

In our opinion, the Company has also complied with the Islamic Shari'ah Principles and Rules as determined by the Shari'ah Supervisory Board of the Company during the year ended December 31, 2020.

#### ***Basis for opinion***

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions ("ASIFIs") issued by AAOIFI. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the financial Statements* section of our report. We are independent of the Company in accordance with the AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions ("the Code") together with the other ethical requirements that are relevant to our audit of the Company's financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with those requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### ***Key audit matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

**Key Audit Matters (continued)**

Key audit matter / risk	How the key audit matter was addressed in the audit
<p><b>Valuation of takaful and insurance technical liabilities</b></p> <p>Takaful and insurance contract liabilities amounted to BHD 26,526 thousand as of December 31, 2020 as detailed in note 9 to the financial statement.</p> <p>Takaful and insurance technical liabilities ("technical provisions") are material balances within the financial statements. The valuation of technical provisions is judgmental, and requires a number of assumptions to be made that involve a high degree of estimation. This is particularly the case for those technical provisions that are recognised in respect of claims that have occurred, but have not yet been reported (IBNR) to the Company.</p> <p>The key estimates that drive the reserving calculations include loss ratios, estimates of the frequency and severity of claims and, where appropriate, the discount rates for longer tail classes of business by line of business.</p> <p>The valuation of technical provisions depends on accurate data of current and historical claims since they are often used to form expectations about future claims.</p> <p>The calculation of the technical provisions involves judgments about future events, both internal and external to the business. Any small change in the assumptions used can lead to material impacts on the valuation of the technical provisions.</p> <p>As a result of all the above factors, we consider the valuation of takaful and insurance technical liabilities as a key audit matter.</p> <p>Please refer notes 2, 3 and 9 of the financial statements for the accounting policy, disclosures of the related judgements and estimates and other details relating to technical provisions.</p>	<p>In relation to the key audit matter, our procedures included the following:</p> <ul style="list-style-type: none"> <li>• Understanding, assessing and testing the design, implementation and operational effectiveness of the key controls in the Company's reserving process, including controls over the review and approval of the reserves, and controls over the extraction of data from the underwriting systems.</li> <li>• Testing samples of claim reserves by comparing the estimated amount of specific case reserves to appropriate documentation, such as reports from loss adjusters.</li> <li>• Testing the operating effectiveness of relevant controls designed to assist in ensuring the integrity of the data used in the actuarial reserving process.</li> <li>• Re-performing reconciliations between the claim data recorded in the Company's systems and the data used in the actuarial reserving calculations.</li> <li>• Recalculating the unearned contribution reserve based on the earning period on takaful contracts existing as at December 31, 2020.</li> <li>• Evaluating the objectivity, skill, qualification and competence of the external actuary used by the Company.</li> <li>• Reviewing the engagement letter with the independent external actuary to determine if the scope was sufficient for audit purposes.</li> </ul> <p>In addition, with the assistance of our internal actuarial specialists, we reviewed and challenged the actuarial report compiled by the external actuary of the Company and calculations underlying these provisions, paying particular attention to the following areas:</p> <ul style="list-style-type: none"> <li>• Appropriateness of the calculation methods and model used;</li> <li>• Review of key assumptions;</li> <li>• Sensitivities of key assumptions;</li> <li>• Consistency of methodologies and assumptions between valuation periods; and</li> <li>• General application of financial and mathematical rules</li> </ul> <p>We assessed the Company's disclosure in the financial statements, relating to this matter, against the requirements of the FAS issued by the AAOIFI.</p>



***Other information***

The Board of Directors is responsible for the other information. The other information comprises the annual report but does not include the financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the Board of Directors' report and other sections which forms part of the annual report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

***Responsibilities of the Board of Directors for the financial statements***

The Board of Directors is responsible for the Company's undertaking to operate in accordance with Islamic Sharia Rules and Principles as determined by the Company's Shariah Supervisory Board.

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

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

***Auditors' responsibilities for the audit of the financial statements***

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

***Auditors' responsibilities for the audit of the financial statements (continued)***

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on other regulatory requirements**

As required by the Bahrain Commercial Companies Law of 2001 (and subsequent amendments) and the Central Bank of Bahrain (CBB) Rulebook (Volume 3), we report that:

- a) the Company has maintained proper accounting records and the financial statements are in agreement therewith;
- b) the financial information contained in the Board of Directors' report is consistent with the financial statements;
- c) Nothing has come to our attention which causes us to believe that the Company has breached any of the applicable provisions of the Bahrain Commercial Companies Law of 2001 (and subsequent amendments), the Central Bank of Bahrain and Financial Institutions Law No. 64 of 2006 (as amended), the CBB Rulebook (Volume 3 and applicable provisions of Volume 6), and the CBB directives and regulations (as contained in Volume 3 of the CBB Rulebook), rules and procedures of the Bahrain Bourse or the terms of the Company's memorandum and articles of association, having occurred during the year that might have had a material adverse effect on the business of the Company or on its financial position; and
- d) satisfactory explanations and information have been provided to us by the Directors in response to all our requests.

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

*Deloitte & Touche*

Deloitte & Touche – Middle East

Partner Registration No. 157

February 22, 2021



## Solidarity Bahrain B.S.C.

STATEMENT OF FINANCIAL POSITION  
As at 31 December 2020

In thousands of Bahraini Dinars											
Note		General Takaful fund		Family Takaful fund		Conventional (run-off) fund		Shareholders' fund		Total	
		2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
<b>Assets</b>											
4	Cash and cash equivalents	2,225	2,061	137	116	357	597	1,617	1,139	4,336	3,913
5	Placements with financial institutions	8,476	5,238	782	1,040	254	619	8,920	8,897	16,412	15,794
6	Investments	1,000	815	2,408	2,620	-	-	18,147	16,824	21,555	20,259
7	Investments in an associate	-	-	-	-	-	-	175	-	175	-
8	Takaful and insurance receivables	8,760	9,718	143	89	246	374	-	-	9,149	10,181
9	Relataful and reinsurance share of technical liabilities	10,137	12,293	319	317	452	419	-	-	10,908	13,029
10.1	Deferred acquisition costs	-	-	-	-	1	4	497	428	432	432
11	Prepayments and other assets	1,416	2,598	163	70	135	171	1,076	1,663	2,790	4,522
12	Takaful participants' assets – under run-off management	-	-	-	-	-	-	139	119	139	119
13	Property and equipment	-	-	-	-	-	-	2,177	1,239	2,177	1,239
	<b>Total assets</b>	<b>32,014</b>	<b>32,723</b>	<b>3,932</b>	<b>4,252</b>	<b>1,445</b>	<b>2,184</b>	<b>30,748</b>	<b>30,329</b>	<b>68,139</b>	<b>69,488</b>
<b>Liabilities, participants' funds and shareholders' equity</b>											
<b>Liabilities</b>											
9	Takaful and insurance technical liabilities	24,766	25,952	432	429	1,328	1,769	-	-	26,526	28,150
10.2	Unearned commission reserves	373	432	-	-	4	10	-	-	377	442
14	Family takaful technical reserve	-	-	3,057	3,258	-	-	-	-	3,057	3,258
15	Takaful and insurance payables	7,937	7,038	138	-	60	139	-	-	8,135	7,177
16	Other liabilities	483	1,221	2	281	53	286	2,281	2,943	2,819	4,711
12	Takaful participants' liabilities – under run-off management	-	-	-	-	-	-	139	119	139	119
	<b>Total liabilities</b>	<b>33,559</b>	<b>34,643</b>	<b>3,829</b>	<b>3,988</b>	<b>1,445</b>	<b>2,184</b>	<b>2,420</b>	<b>3,062</b>	<b>41,053</b>	<b>43,857</b>
<b>Participants' funds</b>											
	Shareholders' equity	(1,545)	(1,920)	303	284	-	-	-	-	(1,242)	(1,636)
<b>Shareholders' equity</b>											
17.2	Share capital	-	-	-	-	-	-	12,000	12,000	12,000	12,000
17.4	Treasury shares	-	-	-	-	-	-	(4)	(4)	(4)	(4)
18	Statutory reserve	-	-	-	-	-	-	3,182	2,913	3,182	2,913
	Share premium	-	-	-	-	-	-	4,182	4,182	4,182	4,182
	Property revaluation reserve	-	-	-	-	-	-	747	747	747	747
	Investment fair value reserve	-	-	-	-	-	-	2,064	1,889	2,064	1,889
	Retained earnings	-	-	-	-	-	-	6,157	5,540	6,157	5,540
	<b>Total shareholders' equity</b>	<b>-</b>	<b>-</b>	<b>3,302</b>	<b>4,252</b>	<b>1,445</b>	<b>2,184</b>	<b>28,328</b>	<b>27,267</b>	<b>28,328</b>	<b>27,267</b>
	<b>Total liabilities, participants' funds and shareholders' equity</b>	<b>32,014</b>	<b>32,723</b>	<b>3,932</b>	<b>4,252</b>	<b>1,445</b>	<b>2,184</b>	<b>30,748</b>	<b>30,329</b>	<b>68,139</b>	<b>69,488</b>

The financial statements which consist of pages 24 to 75 were approved by the Board of Directors on 22 February 2021 and signed on its behalf by:

Tawfeeq Shehab  
Chairman

Ashraf Bseisu  
Vice Chairman

Jawad Mohammed  
Chief Executive Officer

# Solidarity Bahrain B.S.C.

## STATEMENT OF INCOME AND PARTICIPANTS' REVENUES AND EXPENSES For the year ended 31 December 2020

Note	General Takaful fund		Family Takaful fund		Conventional (run-off) fund		Shareholders' fund		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Takaful/conventional revenues										
Gross contributions/premium	29,846	30,531	334	256	24	65	-	-	30,204	30,852
Retakaful share of gross contributions/premium	(14,891)	(15,605)	(480)	(505)	(53)	(94)	-	-	(15,424)	(16,194)
Retained contributions/premium	14,955	14,926	(146)	(249)	(29)	(19)	-	-	14,780	14,658
Movement in unearned contributions/premium, net	283	312	-	-	5	4	-	-	288	316
Net contributions/premium earned	15,238	15,238	(146)	(249)	(24)	(15)	-	-	15,068	14,974
Net commission earned	845	844	-	-	-	-	-	-	853	869
Profit commission and other income	165	110	29	249	8	25	-	-	194	359
Total takaful/conventional revenues	16,248	16,192	(117)	-	(16)	10	-	-	16,115	16,202
Takaful/conventional expenses										
Gross claims paid	(9,357)	(10,839)	(138)	(491)	(220)	(2,564)	-	-	(9,715)	(13,884)
Claims recovered from retakaful/reinsurance and other parties	1,020	1,421	119	360	58	982	-	-	1,197	2,783
Net claims paid	(8,337)	(9,418)	(19)	(131)	(162)	(1,572)	-	-	(8,518)	(11,121)
Movement in outstanding claims – gross	529	(1,179)	(1)	119	418	4,145	-	-	946	3,085
Movement in outstanding claims – retakaful/reinsurance	(1,783)	538	1	(119)	51	(2,189)	-	-	(1,731)	(1,970)
Net claims incurred	(9,591)	(9,959)	(19)	(131)	307	384	-	-	(9,303)	(9,706)
Transfer to family takaful technical reserve	-	-	108	149	-	-	-	-	108	149
Total takaful/conventional expenses	(9,591)	(9,959)	90	18	307	384	-	-	(9,194)	(9,557)
Technical surplus	6,657	6,233	(27)	18	291	394	-	-	6,921	6,645
Wakala fee	(6,477)	(6,207)	(83)	(63)	-	-	-	-	(6,560)	(6,270)
Surplus/(deficit) from takaful/conventional operations	180	26	(110)	(45)	291	394	-	-	361	375
Wakala fee	-	-	-	-	-	-	-	-	6,560	6,270
Investment income, net	195	182	129	124	-	-	6,270	1,530	1,771	1,836
Other income	-	-	-	-	-	-	298	-	298	-
Technical surplus transferred from conventional (run-off) fund	-	-	-	-	(291)	(394)	-	-	-	-
Mudanib share	-	-	-	-	-	-	291	394	-	-
Employee costs	-	-	-	-	-	-	108	102	108	102
Commission expenses incurred	-	-	-	-	-	-	(2,450)	(2,350)	(2,450)	(2,350)
TPA fees	-	-	-	-	-	-	(1,052)	(983)	(1,052)	(983)
Other operating expenses	-	-	-	-	-	-	(401)	(421)	(401)	(421)
Provision for doubtful receivables, net	-	-	-	-	-	-	(1,950)	(1,568)	(1,950)	(1,568)
Net profit and surplus for the year	375	208	19	79	-	-	2,685	2,616	3,079	2,903
Basic and diluted earnings per share							22.38 Fils	21.81 Fils		

The financial statements which consist of pages 24 to 75 were approved by the Board of Directors on 22 February 2021 and signed on its behalf by

Tawfeeq Shehab  
Chairman

Ashraf Basal  
Vice Chairman

Jawad Mohammed  
Chief Executive Officer

The notes to 22 on pages 68 to 75 form an integral part of the financial statements.

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**STATEMENT OF PARTICIPANTS' SURPLUS AND DEFICIT**  
**For the year ended 31 December 2020**

In thousands of Bahraini Dinars

**2020**

At 1 January  
 Surplus for the year

**At 31 December**

<b>Accumulated (deficit)/surplus</b>	
<b>General Takaful</b>	<b>Family Takaful</b>
(1,920)	284
375	19
<b>(1,545)</b>	<b>303</b>

**2019**

At 1 January  
 Surplus for the year

**At 31 December**

<b>Accumulated (deficit)/surplus</b>	
<b>General Takaful</b>	<b>Family Takaful</b>
(2,128)	205
208	79
<b>(1,920)</b>	<b>284</b>



**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**For the year ended 31 December 2020**

In thousands of Bahraini Dinars

**2020**

	Share capital	Treasury shares	Statutory reserve	Share premium	Property revaluation reserve	Investment fair value reserve	Retained earnings	Total
At 1 January	12,000	(4)	2,913	4,182	747	1,889	5,540	27,267
Net profit for the year	-	-	-	-	-	-	2,685	2,685
Dividends declared	-	-	-	-	-	-	(1,799)	(1,799)
Transfer to statutory reserve (Note 18)	-	-	269	-	-	-	(269)	-
Transferred to investment income on disposal of equity instruments	-	-	-	-	-	(30)	-	(30)
Change in fair value of equity investments	-	-	-	-	-	205	-	205
<b>At 31 December</b>	<b>12,000</b>	<b>(4)</b>	<b>3,182</b>	<b>4,182</b>	<b>747</b>	<b>2,064</b>	<b>6,157</b>	<b>28,328</b>

**2019**

	Share capital	Treasury shares	Statutory reserve	Share premium	Property revaluation reserve	Investment fair value reserve	Retained earnings	Total
At 1 January	12,000	(4)	2,651	4,182	747	1,646	4,685	25,907
Net profit for the year	-	-	-	-	-	-	2,616	2,616
Dividends declared	-	-	-	-	-	-	(1,499)	(1,499)
Transfer to statutory reserve (Note 18)	-	-	262	-	-	-	(262)	-
Change in fair value of equity investments	-	-	-	-	-	243	-	243
<b>At 31 December</b>	<b>12,000</b>	<b>(4)</b>	<b>2,913</b>	<b>4,182</b>	<b>747</b>	<b>1,889</b>	<b>5,540</b>	<b>27,267</b>

The notes 1 to 37 on pages 29 to 75 form an integral part of the financial statements.

## STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

In thousands of Bahraini Dinars

	Note	2020	2019
<b>OPERATING ACTIVITIES</b>			
Combined profit & surplus for the year		3,079	2,903
Adjustments for:			
Depreciation	13	251	154
Provision for employees end of service benefits	16 (b)	30	32
Investment income, net	21	(1,771)	(1,836)
Exchange loss	6.1	26	-
Amortisation during the year, net	21	50	31
Provision for doubtful receivables, net	8.1	156	358
<b>Operating cash flows before working capital changes</b>		<b>1,821</b>	<b>1,642</b>
Changes in working capital:			
Decrease/(increase) in takaful and insurance receivables		876	(110)
Decrease in retakaful and reinsurance share of technical liabilities		2,121	799
Decrease in deferred acquisition costs		(66)	(26)
Decrease/(increase) in prepayments and other assets		1,655	(251)
Decrease in takaful and insurance technical liabilities		(1,624)	(2,530)
(Decrease)/increase in unearned commission reserves		(65)	55
Decrease in family takaful technical reserves		(201)	(309)
Increase in takaful and insurance liabilities		958	1,714
(Decrease)/increase in other liabilities		(1,486)	334
<b>Working capital changes</b>		<b>2,168</b>	<b>(324)</b>
Payment towards employees end of service benefits	16 (b)	(7)	(31)
<b>Net cash generated from operating activities</b>		<b>3,982</b>	<b>1,287</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of equipment	13	(1,189)	(282)
Purchase of investments		(2,783)	(5,782)
Purchase of Investments in an associate	7	(175)	-
Placements with financial institutions, net		(618)	398
Proceeds from disposal of investments carried at amortised cost		1,733	6,265
Investment income received		1,701	1,562
<b>Net cash (used in)/generated from investing activities</b>		<b>(1,331)</b>	<b>2,161</b>
<b>FINANCING ACTIVITY</b>			
Dividends paid during the year		(2,228)	(1,430)
<b>Net cash used in financing activity</b>		<b>(2,228)</b>	<b>(1,430)</b>
<b>Net increase in cash and cash equivalents</b>		<b>423</b>	<b>2,018</b>
Cash and cash equivalents at the beginning of the year	4	3,913	1,895
<b>Cash and cash equivalents at the end of the year</b>	4	<b>4,336</b>	<b>3,913</b>
Shareholders' fund		1,617	1,139
Participants' fund		2,362	2,177
Conventional (run-off) fund		357	597
<b>Cash and cash equivalents at the end of the year</b>	4	<b>4,336</b>	<b>3,913</b>

The notes 1 to 37 on pages 29 to 75 form an integral part of the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2020**

In thousands of Bahraini Dinars

**1 GENERAL INFORMATION**

Solidarity Bahrain B.S.C. ("the Company") is a public shareholding company incorporated in the Kingdom of Bahrain under commercial registration number 5091 obtained on 17 August 1976. The majority shareholder of the Company is Solidarity Group Holding B.S.C. (c) (the "Parent Company" or the "Group").

The Company is licensed by the Central Bank of Bahrain ("CBB") to carry out the following principal activities:

- (i) Developing and providing protection covers for property, engineering, general accident, liability, marine cargo, marine hull, aviation, medical, group life, motor, level term assurance and decreasing term assurance; and
- (ii) Management of general takaful and family takaful funds in accordance with the Islamic Shari'a principles. The Company on behalf of the participants of the fund manages these funds.

The Company's general takaful funds comprise of all protection covers except decreasing term assurance and level term assurance which are part of family takaful fund.

The conventional run-off fund represents technical assets and liabilities of the insurance portfolio of the company (formerly Al Ahlia Insurance) prior to merger. This portfolio is under run-off and belongs to the shareholders' fund. The same is disclosed separately in the primary statements.

**2 BASIS OF PREPARATION**

**2.1 Statement of compliance**

The Company has certain assets, liabilities and related income and expenses which are not Sharia compliant that pertain to conventional insurance as these existed before the Company converted to an Islamic Takaful Insurance company. These are currently presented in accordance with Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") standards in the financial statements for the year ended 31 December 2020 as appropriate. The Parent Company's Sharia Supervisory Board has approved the Parent Company's resolution to convert all the assets and liabilities of AAIC into Sharia Compliant Products within two years renewable from the date of the transfer. Further, Company's Sharia Supervisory Board resolved to extend the time period for conversion of conventional assets and liabilities into Sharia Compliant for additional three years in December 2019.

The financial statements for the year ended 31 December 2020 have been prepared in accordance with the Financial Accounting standards ("FAS") issued by the AAOIFI, and the requirements of the Bahrain Commercial Companies Law Decree Number 21 of 2001, the CBB and Financial Institutions Law 2006 and the insurance regulations set out in the CBB Rulebook Volume 3 and applicable provisions of the CBB Rulebook Volume 6 of the Rulebook issued by the Central Bank of Bahrain as well as the associated resolutions, rules and procedures of the Bahrain Bourse.

**2.2 Principle financial statements**

In accordance with FAS 12 "General Presentation and Disclosure in the Financial Statements of Islamic Takaful Companies" issued by the AAOIFI, the Company is required to present the statement of financial position comprising shareholder and participant assets and liabilities, the statement of income and participants revenues and expenses, the statement of participants' surplus and deficit, the statement of changes in shareholders' equity and the statement of cash flows. Participants include policies issued for both General Takaful and Family Takaful insurance.

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2020**

In thousands of Bahraini Dinars

**2 BASIS OF PREPARATION (CONTINUED)**

**2.3 Basis of measurement**

The financial statements have been prepared under the historical cost convention, except for equity type investments measured at fair value through equity and debt type investments measured at amortized cost.

The preparation of 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 Company's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believe that the underlying assumptions are appropriate and that the Company's financial statements therefore fairly present its financial position as at 31 December 2020 and the results for the year then ended. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

**2.4 Foreign currency translation**

**(i) Functional and presentation currency**

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

**(ii) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income and participants' revenue and expenses. Translation differences on non-monetary items classified as equity type investments measured at fair value through equity are included in investments fair value reserve.

**2.5 Going concern**

Management have assessed the Company's ability to continue on a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the Board of Directors of the Company are not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.



**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2020**

In thousands of Bahraini Dinars

**2 BASIS OF PREPARATION (CONTINUED)****2.6 New accounting standards, amendments and pronouncements****(i) New accounting standards: issued and effective**

For the year ended 31 December 2020, the Company has adopted all of the new and revised standards and interpretations issued by the AAOIFI that are relevant to its operations and effective for periods beginning on 1 January 2020.

The application of these new AAOIFI accounting standards has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

**(ii) New accounting standards: issued but not yet effective**

The following new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2021 and are expected to be relevant to the Company:

**(a) FAS 30 "Impairment and credit losses and liabilities expected to result in losses" (effective 1 January 2021)**

This Standard sets out the accounting treatment of expected impairment and credit losses for financing, investments and high-risk commitments in Islamic financial institutions. The requirements of this Standard with respect to expected credit losses is substantially similar to the requirements of IFRS 9 Financial Instruments (IFRS 9).

**(b) FAS 31, "Investment Agency"**

The Standard aims at determining the requirements for the preparation of reports related to the Investment Agency and the transactions that are in line with best practices of both the agent and the client. The mandatory implementation date of the Standard is January 1, 2021.

**(c) FAS 32 "Ijarah" (effective 1 January 2021)**

This supersedes FAS 8 "Ijarah and Ijarah Muntahia Bittamleek" sets out principle for classification, measurement and presentation and disclosure of Ijarah. It defines new measurement and recognition principles for initial recognition for right-of-use assets, requirements to identify and separate Ijarah and non-Ijarah components and new measurement and recognition principles for Ijarah.

**(d) FAS 33 "Investments in sukuk, shares and similar instruments" (effective 1 January 2021)**

FAS 33 (which supersedes earlier FAS 25) sets out the improved principles for classification, recognition, measurement, presentation and disclosure of investment in sukuk, shares and other similar instruments of investments made by Islamic financial institutions (IF's / the institutions), in line with Shari'a principles. It defines the key types of instruments of Sharita compliant investments and defines the primary accounting treatments commensurate to the characteristics and business model of the institution under which the investments are made, managed and held.

**(e) FAS 34 "Financial reporting for sukuk-holders" (effective 1 January 2021)**

FAS 34 aims to establish the principles of accounting and financial reporting for assets and businesses underlying the sukuk to ensure transparent and fair reporting to all relevant stakeholders, particularly including sukuk-holders.

**(f) FAS 35 "Risk reserves" (effective 1 January 2021)**

This accounting standard and financial reporting on risk reserves have been developed to mitigate the various risks faced by stakeholders, particularly investors. The mandatory date for applying IFRS 35 is January 1, 2021, with early application allowed.

**(g) FAS 36 First Time Adoption of AAOIFI Financial Accounting Standards**

The standard provides principles of financial reporting for Islamic financial institutions (the institutions), to be applied in the financial statements prepared for the first time according to the AAOIFI FASs, and to prescribe the transitional effects at the time of adoption. This standard does not have any impact on the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

In thousands of Bahraini Dinars

**2 BASIS OF PREPARATION (CONTINUED)**

- (h) *'FAS 37 "Financial Reporting by Waqf Institutions" (effective 1 January 2022)*  
The standard establishes principles of financial reporting by Waqf financial institutions, which are established and operated in line with Shari'ah principle and rules.
- (i) *FAS 38 Wa'ad Khiyar and Tahawwut (effective 1 January 2022)*  
The standard prescribes the accounting and reporting principles and requirements for Wa'ad (promise), Khiyar (option) and Tahawwut (hedging) arrangements for the institutions.

The Board of Directors are currently assessing the impact of the above standards, interpretations and amendments on the financial statements of the Company.

**2.7 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(i) ***Takaful and retakaful contracts***

(a) ***Takaful contracts***

As an Islamic insurance provider, the Company issues contracts that are based on cooperative activity by risk sharing. The Company classifies all its contracts individually as takaful contracts.

Takaful contracts are those contracts where the takaful operator accepts significant takaful risk from the participant by agreeing to compensate the participant if a specified uncertain future event adversely affects the participant. Such contracts may also transfer financial risk. As a general guideline, the Company defines significant takaful risk as the possibility of having to pay benefits on the occurrence of a takaful event. Takaful risk is risk other than financial risk that is transferred from the holder of a contract to the issuer. Financial risk is the risk of a possible future change in one or more of a security price, index of prices or rates or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Takaful risk is significant if, and only if, a takaful event could cause the Company to pay significant additional benefits. Once a contract is classified as a takaful contract it remains classified as a takaful contract until all rights and obligations are extinguished or expired.

(b) ***Retakaful contracts***

Retakaful contracts are contracts entered into by the Company with retakaful operators for the purpose of limiting its net loss potential through the diversification of its risks, under which the Company is compensated for losses on takaful contracts issued.

Assets, liabilities, income and expense arising under 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 Company from its direct obligations to its participants.

The benefits to which the Company is entitled under its retakaful contracts held are recognised as retakaful assets. These assets consist of balances due from retakaful operators on settlement of claims and other receivables such as profit commissions and retakaful operator's share of outstanding claims that are dependent on the expected claims and benefits arising under the takaful contracts covered under retakaful contracts. Amounts recoverable from or due to retakaful operators are recognised consistently with the amounts associated with the underlying takaful contracts and in accordance with the terms of each retakaful contract. Retakaful liabilities are primarily contributions payable for retakaful contracts and are recognised as an expense when due.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

In thousands of Bahraini Dinars

**2 BASIS OF PREPARATION (CONTINUED)****2.7 Summary of significant accounting policies (continued)****(i) Takaful and retakaful contracts (continued)****(c) Participants' takaful funds**

The participants' takaful funds comprise of general takaful fund and family takaful fund which represent the accumulated undistributed surplus or deficit in respect of contracts in force at the reporting date. It also includes fair value reserves of investments at fair value through equity.

**(d) 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. The unexpired portion of such contributions is included under "Unearned contributions" in the statement of financial position. The earned proportion of contributions is recognised as revenue in the statement of income and participants' revenues and expenses.

**(c) Retakaful contributions**

*Retakaful contributions* are amounts paid to retakaful operators in accordance with the retakaful contracts of the Company. In respect of proportional and non-proportional retakaful contracts, the amounts are recognised in the statement of income and participants' revenues and expenses as per the terms of these contracts.

**(d) Unearned contributions**

Unearned contributions are amounts of contributions under takaful contracts which are to be earned in the following or subsequent financial periods, for the unexpired period of takaful content as at the reporting date.

In order to spread the contributions earned over the period of the takaful contracts, the proportion attributable to subsequent periods is deferred as provision for unearned contributions and is calculated as follows:

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

The provision for unearned contributions represents contributions received for risks that have not yet expired. The reserve is matched with the contribution earned and released. The change in provision for unearned contributions is taken to the statement of income and participants' revenues and expenses and accordingly, Takaful revenue is recognised over the period of risk.

**(g) Gross claims**

Gross claims are recognised in the statement of income and participants' revenues and expenses when the claim amount payable to participants and third parties is determined as per the terms of the takaful contracts. Gross claims 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.

**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2020**

In thousands of Bahraini Dinars

**2 BASIS OF PREPARATION (CONTINUED)****2.7 Summary of significant accounting policies (continued)****(i) Takaful and retakaful contracts (continued)****(h) Claims recovered**

Claims recovered include amounts recovered from retakaful operators and other insurance companies in respect of the gross claims paid by the Company, in accordance with the retakaful contracts held by the Company and also includes salvage and other claims recoveries. 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.

**(i) Outstanding claims**

Outstanding claims are based on the estimated ultimate cost of all claims incurred but not settled at the statement of financial position date, whether reported or not, together with the related claims handling costs and reduction for salvage and other recoveries. Provisions for outstanding claims reported is based on estimates of the loss, which will eventually be payable on each unpaid claim, established by management based on currently available information and past experience modified for changes reflected in current conditions, increased exposure, rising claims costs and the severity and frequency of recent claims, as appropriate. Outstanding claims are not discounted for time value of money. The methods used, and the estimates made, are reviewed regularly.

The provision for claims incurred but not reported ('IBNR') is made per the actuarial valuation which is updated on the basis of the latest valuation reports.

Any difference between the provisions for outstanding claims at the statement of financial position date and settlements and provisions for the following year is included in the statement of income and participants' revenues and expenses for that year.

**(j) Liability adequacy test**

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the takaful liabilities using current estimates of future cash flows under takaful contracts. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used. Any deficiency is charged to statement of income and participants' revenues and expenses by establishing a provision for losses arising from liability adequacy tests.

**(k) Commission income and expense**

Commission income represents commissions received from reinsurers under the terms of ceding and are deferred over the period of the takaful contract. Commission income that relates to periods of risk that extend beyond the end of the financial year are reported as unearned commission reserves.

Commission expense represents commission, brokerage and other variable underwriting costs directly associated with acquiring business are amortised over the period of the takaful contract. Acquisition costs that relate to periods of risk that extend beyond the end of the financial year are reported as deferred acquisition costs.



**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2020**

In thousands of Bahraini Dinars

**2 BASIS OF PREPARATION (CONTINUED)**

**2.7 Summary of significant accounting policies (continued)**

**(i) Takaful and retakaful contracts (continued)**

**(k) Commission income and expense (continued)**

In order to spread the commission income and expense earned over the period of the takaful contracts, the Company defers commission income and expense as follows:

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

**(l) Family takaful technical reserves**

Family takaful technical reserves represent the present value of future obligations in respect of family takaful contracts which comprises of long term decreasing term assurance and level term policies. The fund comprises of only protection takaful policies.

**(ii) Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand, current accounts with banks and bank deposits with original maturities of three months or less, subject to insignificant risk of changes in fair value.

**(iii) Placements with financial institutions**

Placements with financial institutions comprise placements made with Islamic banks and other Islamic financial institutions with original maturities of more than three months.

**(iv) Investments**

**(a) Classification**

The Company classifies its investments in the following categories:

- Debt type instruments
  - At amortised cost
  - At fair value through income statement
- Equity type instruments
  - At fair value through income statement
  - At fair value through equity

A debt type investment shall be classified and measured at amortised cost if the instrument is managed on a contractual yield basis and if the instrument is not held for trading and has not been designated at fair value through the statement of income and participants' revenues and expenses.

At inception, a debt type instrument, which is managed on a contractual yield basis, can only be designated at fair value through the statement of income and participants' revenues and expenses if it eliminates an accounting mismatch that would otherwise arise on measuring assets or liabilities or recognising the gains and losses on them on different basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

In thousands of Bahraini Dinars

2 BASIS OF PREPARATION (CONTINUED)

2.7 Summary of significant accounting policies (continued)

(iv) *Investments (continued)*

(b) *Recognition and de-recognition*

Investments are recognised at the trade date (i.e. the date that the Company contracts to purchase or sell the asset, at which date the Company becomes party to the contractual provisions of the instrument). Investments are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all risk and rewards of ownership.

(c) *Measurement principles*

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus capital repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The calculation of the effective profit rate includes all fees paid or received that are an integral part of the effective profit rate.

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

The Company measures the fair value of quoted investments using the market bid-prices in an active market for that instrument.

(d) *Measurement*

Investments are measured initially at fair value, which is the value of the consideration given. Trading investments are initially recognized at fair value and transaction costs are expenses in the statement of income and participants' revenues and expenses. Other investments are recognized at fair value, plus attributable transaction costs.

Investments carried at amortised cost

At the end of each financial reporting period, investments carried at amortised cost shall be re-measured as such using the effective profit rate method. All gains or losses arising from the amortisation process and those arising on de-recognition or impairment of the investment, are recognised in the shareholder's statement of income or participants' statement of revenues and expenses.

Investments carried at fair value through income statement

At the end of each financial reporting period, investments carried at fair value through the statement of income and participants' revenues and expenses shall be re-measured at their fair value at the end of each reporting period. The resultant re-measurement gains or loss, if any, shall be recognised in the shareholder's statement of income or participant's statement of revenues and expenses.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

In thousands of Bahraini Dinars

**2 BASIS OF PREPARATION (CONTINUED)****2.7 Summary of significant accounting policies (continued)****(iv) Investments (continued)****(d) Measurement (continued)***Investments carried at fair value through equity*

At the end of each financial reporting period, investments carried at fair value through equity shall be re-measured at their fair value at the end of each reporting period. The resultant re-measurement gain or loss, if any, shall be recognised in the equity under "investments fair value reserve" taking into consideration the split between the portion to shareholder's equity and the portion related to the participants' fund.

**(v) Investment in an associate**

The Company's investment in an associate is accounted for under the equity method of accounting. Associate is entity over which the Company exercises significant influence and which are neither subsidiaries nor joint ventures. Investments in an associate is carried in the statement of financial position at cost, plus post-acquisition changes in the Company's share of net assets of the associate, less any impairment in the value of individual investments.

**(vi) Takaful and insurance receivables**

Takaful and insurance 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 and insurance 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 income and participants' revenues and expenses.

Retakaful and reinsurance contracts are contracts entered into by the Company with reinsurers for the purpose of limiting its net loss potential through the diversification of its risks, under which the Company is compensated for losses on takaful and insurance contracts issued.

Assets, liabilities, income and expense arising from ceded retakaful and reinsurance contracts are presented separately from the assets, liabilities, income and expense from the related takaful and reinsurance contracts because the retakaful and reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

The benefits to which the Company is entitled under its retakaful and reinsurance contracts held are recognised as retakaful and reinsurance assets. These assets consist of balances due from retakaful and reinsurance companies on settlement of claims and other receivables such as profit commissions and retakaful and reinsurance share of outstanding claims that are dependent on the expected claims and benefits arising under the related retakaful and reinsurance contracts.

Amounts receivable from or due to retakaful and reinsurance companies are recognised consistently with the amounts associated with the underlying takaful and insurance contracts and in accordance with the terms of each retakaful and reinsurance contract.



**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2020

In thousands of Bahraini Dinars

**2 BASIS OF PREPARATION (CONTINUED)****2.7 Summary of significant accounting policies (continued)****(vii) Property and equipment**

Property and equipment are stated at cost less accumulated depreciation and any impairment in value, with the exception of freehold land which is stated at open market values, based on periodical valuations conducted by external independent property valuers. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is recognized and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is recognized only when it increases the future economic benefits of the related item of property and equipment. All other expenditure is recognized in the statement of statement of income and participants' revenues and expenses as the expense is incurred.

Depreciation on property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Building	20 years
Furniture, fixtures office and computer equipment	3 to 5 years
Motor vehicles	4 to 5 years
Software	3 to 10 years

The carrying values of the property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists, and where the carrying values exceed the estimated recoverable amounts, the property and equipment are written-down to their recoverable amounts.

Property and equipment of the Company are revalued and their useful lives are revised by independent professional valuers once every 5 years. Increases in the carrying amount arising on revaluation of property are credited to a property revaluation reserve in the statement of changes in shareholder's equity. Decreases that offset previous increases of the same class of revalued assets are charged against the revaluation reserve. On disposal of the revalued assets, the balance in the revaluation reserve relating to these assets is transferred to retained earnings.

**(viii) Provisions**

The Company recognises provisions when it has a present legal or constructive obligation as a result of past event, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

**(ix) Employees' end of service benefits****(a) Bahraini employees**

Pension rights (and other social benefits) for Bahraini employees covered by Social Insurance Organization for Social Insurance scheme to which employees and employers contribute monthly on a fixed-percentage-salaries basis. The Company's share of contributions to this scheme, which is a defined contribution scheme is recognised as an expense in the shareholder's statement of income.

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2020**

In thousands of Bahraini Dinars

**2 BASIS OF PREPARATION (CONTINUED)**

**2.7 Summary of significant accounting policies (continued)**

**(ix) Employees' end of service benefits**

**(b) Expatriate employees**

Expatriate employees are entitled to leaving indemnities payable under the Bahraini Labour Law for private sector, based on length of service and final remuneration. Provision for this unfunded commitment which represents a defined benefit plan has been made by calculating the notional liability had all employees left at the reporting date. The liability recognised in the statement of financial position in respect of the employees' end of service benefits is the present value at the reporting date.

**(x) Surplus / deficit in participants' funds**

Surplus in participants' funds represents surplus of revenues over expenses arising from takaful activities and are distributed among the participants by calendar year on development of business. The timing, quantum and the basis of distribution are decided by the Shari'a Supervisory Board of the Company.

Deficit in participants' funds that cause cash deficit which results in participants' fund inability to meet its day to day expenses and obligations, a Qard Hassan must be extended immediately by shareholder fund. The cash being sought by the participant's fund must be physically transferred from shareholder fund to cover cash deficit of participants' fund. The participants' fund does not have any cash deficit as at the reporting period.

**(xi) Share capital**

Financial instruments issued by the Company are classified as share capital only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's ordinary shares are classified as equity instruments.

**(xii) Treasury shares**

Where the Company purchases its own equity share capital, the consideration paid including any attributable transaction costs are deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any profit or loss is included in the statement of changes in shareholders' equity.

**(xiii) Dividends on share capital**

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

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

**(xiv) Impairment**

The Company assesses at each reporting date whether there is an objective evidence that a specific financial asset is impaired. Objective evidence that investments and other assets are impaired can include the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of issuers in the group, or economic conditions that correlate with defaults in the group.

**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2020**

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**2 BASIS OF PREPARATION (CONTINUED)****2.7 Summary of significant accounting policies (continued)****(xiv) Impairment (continued)****(a) Investments carried at amortised cost**

For investments carried at amortised cost impairment is measured as the difference between the carrying amount of the investments and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses are recognised in income statement and reflected in an allowance account. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the income statement. The Company considers evidence of impairment for investments carried at amortised cost at both a specific asset and collective level. All individually significant investments are assessed for specific impairment.

All individually significant investments found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Investments that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

**(b) Investments designated at fair value through equity**

For investments designated at fair value through equity, an assessment is performed at the end of each reporting period whether there is any objective evidence that the investment is impaired. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised is transferred from equity and recognised in the statement of income and participants' revenues and expenses.

**(c) Non-financial assets**

The carrying amount of the Company's non-financial assets (other than for investments covered above), are reviewed at each statement of reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use or fair value less costs to sell. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

**(xv) Wakala fee and mudarib share**

The Company manages the operations on behalf of the participants for a wakala fee calculated as a proportion of gross contributions of General Takaful and Family Takaful fund within the Wakala fee per cent approved by the Shari'a Supervisory Board. Wakala fee is recognised on an accrual basis and recognised as an expense in the participants fund and income in the shareholders fund.

Mudarib share is fees charged on the participants' net investment income for managing investment activities.



**NOTES TO THE FINANCIAL STATEMENTS**

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**2 BASIS OF PREPARATION (CONTINUED)**

**2.7 Summary of significant accounting policies (continued)**

**(xvi) Investment income**

Investment income comprises income from investments and placements with financial institutions. Income includes contractually determined and quantifiable income at the commencement of the transaction and profit distribution, dividend income, realised gains/losses on disposal of investments.

Income which is both contractually determined and quantifiable at the commencement of the transaction is accrued on the straight-line basis over the period of the transaction. Income which is not contractually determined or quantifiable, is recognised when reasonably certain of realisation or when realised. Gains and losses on disposal of investments are determined on the basis of the difference between net disposal proceeds and the carrying amount of the investments at the date of sale and they are recognised at the time of disposal.

**(xvii) Salvage and subrogation reimbursements**

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

**(xviii) Conventional insurance run-off portfolio**

The Company's principal activities, prior to its transition to Islamic Takaful insurance, involved carrying out insurance and reinsurance of all risks. Following the conversion of the Company, the Company ceased issuing any new conventional contracts with the pre-existing portfolio placed under run-off. The conventional insurance run-off portfolio is disclosed separately in the primary statements and belongs to the shareholders' fund.

**3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

**3.1 Provision for outstanding claims**

Considerable judgement by management is required in the estimation of amounts due to policyholders arising from claims made under Takaful and insurance policies. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the statement of financial position date and for the expected ultimate cost of IBNR at the statement of financial position date. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends.

Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred and claims incurred but not reported, on a quarterly basis.

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2020**

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**3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)**

**3.2 Impairment of takaful and insurance receivables**

An estimate of the collectible amount of Takaful and insurance receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due, based on historical recovery rates.

Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the statement of income.

**3.3 Impairment of investments**

The Company treats investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

**3.4 Family takaful technical reserves**

Family takaful technical 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 the registered actuary.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2020

In thousands of Bahraini Dinars

**4 CASH AND CASH EQUIVALENTS**

	2020	2019
Cash and current account balances	2,892	2,604
Call account balances	1,444	772
Placements with maturities less than three months	-	537
	<b>4,336</b>	<b>3,913</b>

Balances in current accounts are held in non-profit bearing accounts and the average profit rate on balances held in call accounts is 1.02% (2019: 1.15%)

Placements are held with financial institutions in Bahrain with an original maturity of three months or less with average profit rate of Nil (2019: 1.76%).

**5 PLACEMENTS WITH FINANCIAL INSTITUTIONS**

	2020	2019
Placements held with a related party (Note 25.2 (b))	2,013	1,282
Placements held with other financial institutions	14,399	14,512
	<b>16,412</b>	<b>15,794</b>

Placements are held with financial institutions in Bahrain with an original maturity of more than three months with average profit rate of 3.12% (2019: 3.83%).

**6 INVESTMENTS**

	2020	2019
<b>Debt type instruments</b>		
Amortised cost:		
Quoted instruments	15,127	15,238
<b>Equity type instruments</b>		
Fair value through equity:		
Quoted instruments	4,778	3,371
Unquoted instruments	1,650	1,650
	<b>21,555</b>	<b>20,259</b>

6.1 The movement in investments carried at amortised cost is as follows:

	2020	2019
At the beginning of the year	15,238	15,865
Additions during the year	1,364	5,597
Disposals during the year	(1,399)	(6,193)
Amortisation during the year, net	(50)	(31)
Exchange loss	(26)	-
	<b>15,127</b>	<b>15,238</b>
At the end of the year		



**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2020**

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**6 INVESTMENTS (CONTINUED)**

6.2 The movement in investments carried at fair value through equity is as follows:

	<b>2020</b>	<b>2019</b>
At the beginning of the year	5,021	4,593
Additions during the year	1,419	185
Disposals during the year	(188)	-
Transferred to investment income on disposal of equity instruments	(30)	-
Change in fair value, net	206	243
At the end of the year	<b>6,428</b>	<b>5,021</b>

6.3 Investments carried at fair value through equity are broken down as follows:

	<b>2020</b>	<b>2019</b>
Quoted equity instruments	4,778	3,371
Unquoted equity instruments	1,650	1,650
	<b>6,428</b>	<b>5,021</b>

**7 INVESTMENTS IN AN ASSOCIATE**

	<b>2020</b>	<b>2019</b>
Interest in Health 360 Ancillary Services W.L.L.	<b>175</b>	-

This associate is engaged in third party administrator (TPA) company activities and is based in the Kingdom of Bahrain. The Company has entered into a shareholders' agreement and participated in a capital increase to acquire 20% Interest in Health 360 Ancillary Services W.L.L. The Company has fulfilled all its obligations towards acquisition of newly issued shares in Health 360 and the same is duly reflected in the amended memorandum and articles of Health 360 as approved by its shareholders in an extraordinary general assembly. Process to update Health 360 records at MOICT, pursuant to the EGM approval is currently underway.

The following table summarises the financial information of Health 360 Ancillary Services W.L.L as included in its own financial statements. The results and share of net assets are based on management accounts as at 31 December 2020.

	<b>2020</b>	<b>2019</b>
Total assets	1,698	-
Total liabilities	(781)	-
<b>Net assets (100%)</b>	<b>917</b>	-
<b>Company's share of net assets (20%)</b>	<b>183</b>	-

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

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## 8 TAKAFUL AND INSURANCE RECEIVABLES

	2020	2019
Due from:		
Participants and policyholders	6,341	5,793
Brokers	1,447	2,397
Takaful and insurance companies in relation to subrogation	1,948	2,818
Takaful/retakaful and insurance/reinsurance companies	658	562
	10,394	11,570
Less: provision for doubtful takaful and insurance receivables	(1,245)	(1,389)
	<b>9,149</b>	<b>10,181</b>

Included in the above insurance receivables are BD 246 thousand (2019: BD 374 thousand) held under conventional insurance run-off fund.

The Company assesses impairment on individual and specific basis. The Company assesses on a case by case basis whether there is any objective evidence that the outstanding balance is impaired for contribution due and claims recovery that are considered individually significant.

The Company records impairment allowance when the Company is satisfied that the recovery of the amount is not probable.

## 8.1 The movement in provision for doubtful takaful and insurance receivables is as follows:

	2020	2019
At the beginning of the year	1,389	1,031
Charge for the year	156	358
Write-off during the year	(300)	-
At the end of the year	<b>1,245</b>	<b>1,389</b>

## 8.2 At 31 December, the aging of unimpaired takaful and insurance receivables is as follows:

	Past due but not impaired			Total
	Neither past due nor impaired	181 to 365 days	More than 365 days	
2020	5,937	2,749	463	9,149
2019	5,982	3,117	1,082	10,181

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

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**9 TAKAFUL AND INSURANCE TECHNICAL LIABILITIES AND RETAKAFUL AND REINSURANCE SHARE OF TECHNICAL LIABILITIES**

	2020		2019	
	Takaful funds	Conventional fund – run off	Takaful funds	Conventional fund – run off
<b>Gross</b>				
Unearned contributions/premiums	14,529	10	15,184	33
Outstanding claims	10,669	1,318	11,197	1,736
	25,198	1,328	26,381	1,769
<b>Retakaful/reinsurance</b>				
Retakaful unearned contributions /reinsurance unearned premiums	(7,577)	(9)	(7,949)	(27)
Retakaful/reinsurance share of outstanding claims	(2,879)	(443)	(4,661)	(392)
	(10,456)	(452)	(12,610)	(419)
<b>Net</b>				
Unearned contributions/premiums	6,952	1	7,235	6
Outstanding claims	7,790	875	6,536	1,344
	<b>14,742</b>	<b>876</b>	<b>13,771</b>	<b>1,350</b>

**9.1 Unearned contributions/premiums and their retakaful/reinsurance share**

	2020		2019	
	Takaful funds	Conventional fund – run off	Takaful funds	Conventional fund – run off
<b>Unearned contributions/premiums</b>				
Beginning of the year	15,184	33	14,612	50
Gross contributions/premiums written during the year	29,846	24	30,531	65
Gross contributions/premiums earned	(30,501)	(47)	(29,959)	(82)
Movement in unearned contributions/premiums	(655)	(23)	572	(17)
<b>End of the year</b>	<b>14,529</b>	<b>10</b>	<b>15,184</b>	<b>33</b>
<b>Retakaful/reinsurance unearned contributions/premiums</b>				
Beginning of the year	7,949	27	7,065	40
Retakaful/reinsurance contributions/ premiums ceded during the year	14,891	53	15,605	84
Retakaful/reinsurance contributions/premiums incurred	(15,263)	(71)	(14,721)	(97)
Movement in retakaful/reinsurance unearned contributions/premiums	(372)	(18)	884	(13)
<b>End of the year</b>	<b>7,577</b>	<b>9</b>	<b>7,949</b>	<b>27</b>
<b>Net unearned contributions/premiums</b>	<b>6,952</b>	<b>1</b>	<b>7,235</b>	<b>6</b>



## NOTES TO THE FINANCIAL STATEMENTS

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## 9 TAKAFUL AND INSURANCE TECHNICAL LIABILITIES AND RETAKAFUL AND REINSURANCE SHARE OF TECHNICAL LIABILITIES (CONTINUED)

## 9.2 Outstanding claims and their retakaful share

	2020		2019	
	Takaful funds	Conventional fund – run off	Takaful funds	Conventional fund – run off
<b>Outstanding claims</b>				
At the beginning of the year				
- Claims incurred and reported	9,991	1,659	8,620	5,602
- Claims incurred but not reported (IBNR)	1,206	77	1,517	279
	11,197	1,736	10,137	5,881
Claims paid during the year	(9,495)	(220)	(11,330)	(2,554)
Claims incurred during the year	8,967	(198)	12,390	(1,591)
Movement in outstanding claims	(528)	(418)	1,060	(4,145)
At the end of the year	<b>10,669</b>	<b>1,318</b>	11,197	1,736
Represented by:				
- Claims incurred and reported	6,927	1,108	9,991	1,659
- Claims incurred but not reported (IBNR)	3,742	210	1,206	77
<b>Retakaful/reinsurance share of outstanding claims</b>				
At the beginning of the year				
- Retakaful/reinsurance share of claims incurred and reported	(4,486)	(396)	(3,923)	(2,563)
- Retakaful/reinsurance share of claims incurred but not reported (IBNR)	(175)	4	(219)	(18)
	(4,661)	(392)	(4,142)	(2,581)
Claims recovered during the year	1,139	58	1,781	982
Retakaful/reinsurance share of claims incurred during the year	643	(109)	(2,300)	1,207
Movement in retakaful/reinsurance share outstanding claims	1,782	(51)	(519)	2,189
At the end of the year	<b>(2,879)</b>	<b>(443)</b>	(4,661)	(392)
Represented by:				
- Retakaful/reinsurance share of claims incurred and reported	(2,031)	(443)	(4,486)	(396)
- Retakaful/reinsurance share of claims incurred but not reported (IBNR)	(848)	-	(175)	4
<b>Net outstanding claims</b>				
At the end of the year	<b>7,790</b>	<b>875</b>	6,536	1,344
Represented by:				
- Net claims incurred and reported	4,896	665	5,505	1,263
- Net claims incurred but not reported (IBNR)	2,894	210	1,031	81

**NOTES TO THE FINANCIAL STATEMENTS**  
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**10 DEFERRED ACQUISITION COSTS AND UNEARNED COMMISSION RESERVES****10.1 Deferred acquisition costs**

	2020		2019	
	Shareholders' fund	Conventional fund – run off	Shareholders' fund	Conventional fund – run off
At the beginning of the year	428	4	402	5
Commissions paid during the year	1,121	3	1,009	8
Commissions incurred during the year	(1,052)	(6)	(983)	(9)
At the end of the year	<b>497</b>	<b>1</b>	<b>428</b>	<b>4</b>

**10.2 Unearned commission reserves**

	2020		2019	
	Takaful funds	Conventional fund – run off	Takaful funds	Conventional fund – run off
At the beginning of the year	432	10	363	24
Commissions received during the year	786	8	913	20
Commissions earned during the year	(845)	(14)	(844)	(34)
At the end of the year	<b>373</b>	<b>4</b>	<b>432</b>	<b>10</b>

The commissions incurred and commissions earned under the conventional insurance (run-off) fund for the year ended 31 December 2020 is BD 6 thousand (2019: 9 thousand) and BD 14 thousand (2019: 34 thousand) respectively. Accordingly, net commissions earned is BD 8 thousand (2019: net commission incurred BD 25 thousand) for the year ended 31 December 2020.

**11 PREPAYMENTS AND OTHER ASSETS**

	2020	2019
Deposit with Third Party Administrator (TPA)	40	40
Statutory deposit	134	129
Accrued income	428	506
Prepaid expenses and other assets	1,416	2,091
Receivable from takaful/conventional funds (Note 16)	772	1,756
	<b>2,790</b>	<b>4,522</b>

Included in the above other assets are BD 135 thousand (2019: BD 171 thousand) that are held under conventional run-off fund.

Statutory deposits are maintained under the regulations of the Central Bank of Bahrain and Financial Institutions Law, 2006. Such deposits cannot be withdrawn except with the approval of the Central Bank of Bahrain.

## NOTES TO THE FINANCIAL STATEMENTS

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## 12 TAKAFUL PARTICIPANTS' ASSETS AND LIABILITIES – UNDER RUN OFF MANAGEMENT

In accordance with the approval from Central Bank of Bahrain, the shareholders of the SGT assumed assets and liabilities of Solidarity Family Takaful Participants Fund as at 1 July 2012 to manage the run-off of the fund and was accordingly transferred to the Company as part of the transfer of business, assets and liabilities from SGT. The Company did not accept any new risk relating to run-off portfolio, and surplus and deficit pertaining to assets and liabilities under run-off management are recorded within the fund balance at each reporting date.

The Parent company has committed to compensate the Company for any adverse development in the run-off of the fund. Therefore, the Company has no material financial or takaful risk on assets and liabilities under run-off management.

	2020	2019
Cash and bank balances	62	57
Other investments	77	62
<b>Total assets under run-off management</b>	<b>139</b>	<b>119</b>

	2020	2019
Unearned contribution and mortality reserves	33	33
Takaful and other payables	38	39
Unit linked reserve	30	9
	101	81
Participants' surplus assets over liabilities	38	38
<b>Total liabilities under run-off management</b>	<b>139</b>	<b>119</b>

## 13 PROPERTY AND EQUIPMENT

## 2020

	Land and building	Furniture, fixtures office, software and computer equipment	Motor vehicles	Total
<b>Cost</b>				
At 1 January	853	1,777	17	2,647
Additions	-	1,189	-	1,189
At 31 December	<b>853</b>	<b>2,966</b>	<b>17</b>	<b>3,836</b>
<b>Accumulated depreciation</b>				
At 1 January	53	1,340	15	1,408
Charge for the year	-	249	2	251
At 31 December	<b>53</b>	<b>1,589</b>	<b>17</b>	<b>1,659</b>
<b>Net book amount</b>				
At 31 December	<b>800</b>	<b>1,377</b>	<b>-</b>	<b>2,177</b>



## NOTES TO THE FINANCIAL STATEMENTS

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## 13 PROPERTY AND EQUIPMENT (CONTINUED)

2019

**Cost**

At 1 January

Additions

At 31 December

**Accumulated depreciation**

At 1 January

Charge for the year

At 31 December

**Net book amount**

At 31 December

	Land and building	Furniture, fixtures office, software and computer equipment	Motor vehicles	Total
At 1 January	853	1,495	17	2,365
Additions	-	282	-	282
At 31 December	853	1,777	17	2,647
At 1 January	53	1,190	11	1,254
Charge for the year	-	150	4	154
At 31 December	53	1,340	15	1,408
At 31 December	800	437	2	1,239

## 14 FAMILY TAKAFUL TECHNICAL RESERVE

At the beginning of the year  
Refund during the year  
Net decrease during the year

At the end of the year

2020	2019
3,258	3,567
(92)	(160)
(109)	(149)
<b>3,057</b>	<b>3,258</b>

## 15 TAKAFUL AND INSURANCE PAYABLES

Due to participants and policyholders  
Due to Takaful and insurance companies  
Due to garages

2020	2019
705	514
6,584	6,039
846	624
<b>8,135</b>	<b>7,177</b>

Included in the above takaful and insurance payables are BD 60 thousand (2019: BD 139 thousand) that are held under conventional run-off fund.

## 16 OTHER LIABILITIES

Unclaimed dividends  
Employees' end of service benefits (Note 16.b)  
Accrued expenses and other payables  
Payable to takaful/conventional funds (Note 11)

2020	2019
32	461
194	171
1,821	2,323
772	1,756
<b>2,819</b>	<b>4,711</b>

Included in the above other liabilities are BD 53 thousand (2019: BD 266 thousand) that are held under conventional run-off fund.

**NOTES TO THE FINANCIAL STATEMENTS**  
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**16 OTHER LIABILITIES (CONTINUED)**

Employees' end of service benefits are as follows:

*(a) Local employees*

The contributions made by the Company towards the pension scheme for Bahraini nationals administered by the Social Insurance Organisation in the Kingdom of Bahrain for the year ended 31 December 2020 amounted to BD 151 thousand (2019: BD 145 thousand).

*(b) Expatriate employees*

The movement in employees' end of service benefits applicable to expatriate employees are as follows:

	2020	2019
At the beginning of the year	171	170
Charge for the year	30	32
Payments during the year	(7)	(31)
At the end of the year	<b>194</b>	<b>171</b>
Total number of staff employed by the Company	<b>133</b>	<b>131</b>

**17 SHARE CAPITAL****17.1 Authorised**

Authorised shares of 150,000,000 at BD 0.100 each  
 (2019: 150,000,000 shares of BD 0.100 each)

Number of shares (thousands)	Share capital
150,000	15,000

**17.2 Issued and fully paid**

At 31 December 2019

At 31 December 2020

Number of shares (thousands)	Share capital
120,000	12,000
120,000	12,000

The Company's total issued and fully paid share capital at 31 December 2020 comprises 120,000,000 shares at BD 0.100 each. The share capital of the Company is denominated in BD and these shares are traded on Bahrain Bourse in BD.

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**17 SHARE CAPITAL (CONTINUED)****17.3 Additional information on shareholding pattern**

- (a) The names and nationalities of the major shareholders, holding shareholding interest of 5% or more and the number of shares at 31 December 2020 and 2019 are as follows:

31 December 2020		
	Number of shares	Percentage of holding interest
Solidarity Group Holding B.S.C. (c)	101,005,461	84.17%
Others	18,994,539	15.83%
	120,000,000	100%

31 December 2019		
	Number of shares	Percentage of holding interest
Solidarity Group Holding B.S.C. (c)	101,005,461	84.17%
Others	18,994,539	15.83%
	120,000,000	100%

- (b) The Company has only one class of equity shares and the holders of the shares have equal voting rights.
- (c) The distribution of the Company's equity shares, i.e. the number of holders and their percentage shareholding as at 31 December 2020 and 2019 is set out below:

31 December 2020		
Number of shareholders	Number of shares	Percentage of total Outstanding Shares
Less than 1%	2,188	14,417,825
More than 1% up to less than 5%	2	4,576,714
More than 5%	1	101,005,461
	2,191	120,000,000
		100%



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**17 SHARE CAPITAL (CONTINUED)****17.3 Additional information on shareholding pattern (continued)**

- (c) The distribution of the Company's equity shares, i.e. the number of holders and their percentage shareholding as at 31 December 2020 and 2019 is set out below (continued):

31 December 2019		
Number of shareholders	Number of shares	Percentage of total Outstanding Shares
Less than 1%	2,195	14,417,825
More than 1% up to less than 5%	2	4,576,714
More than 5%	1	101,005,461
	2,198	120,000,000
		100%

- (d) Details of the Directors' interests in the Company's shares are as follows:

<u>Name of the Directors</u>	Number of shares	
	2020	2019
Ashraf Adnan Bseisu	26,812	26,812
Sharif Ahmadi	116,986	116,986
	143,798	143,798

Mr. Ashraf Adnan Bseisu holds 26,812 shares on behalf of and for the beneficial interest of Solidarity Group Holding B.S.C. (c).

Mr. Jawad Mohammed (Chief Executive Officer) holds 26,812 shares on behalf of and for the beneficial interest of Solidarity Group Holding B.S.C. (c).

**17.4 Treasury shares**

The Company owned its own shares amounting to BD 4 thousand at 31 December 2020 (2019: BD 4 thousand). The shares are held as treasury shares and the Company has the right to reissue these shares at a later date.

**18 STATUTORY RESERVE**

In accordance with the provisions of the Bahrain Companies Commercial Law 2001, 10% of the net profit of the Company is transferred to a statutory reserve until such time the statutory reserve equals 50% of the paid-up share capital of the Company. The reserve is not available for distribution except in such circumstances as stipulated in the Bahrain Commercial Companies law. The Company has transferred BD 269 thousand to the statutory reserve for the year ended 31 December 2020 (2019: BD 262 thousand).

## NOTES TO THE FINANCIAL STATEMENTS

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## 19 BASIC AND DILUTED EARNINGS PER SHARE

	2020	2019
Net profit for the year	2,685	2,616
Weighted average number of shares outstanding	119,950,219	119,950,219
Basic and diluted earnings per 100 fils share	22.38 fils	21.81 fils

The earnings per share have been computed on the basis of net profit for the year divided by the weighted average number of shares outstanding for the year, net of treasury shares.

## 20 WAKALA FEE

The Company receives Wakala fee for administration of the takaful funds on behalf of the participants. The maximum chargeable Wakala fee which has been certified by Actuary and approved by the Shari'a Supervisory Board for the year ended 31 December 2020 is 25% (2019: 25%) for the general takaful fund and 25% (2019: 25%) for family takaful fund on the overall gross contributions.

## 21 INVESTMENT INCOME, NET

	2020	2019
Income from placements with financial institutions	544	613
Income from debt instruments	895	831
Income from equity instruments	524	553
Amortisation during the year, net	(50)	(31)
Investment management expenses	(34)	(28)
<b>Net investment income</b>	<b>1,879</b>	<b>1,938</b>
Mudarib share*	(108)	(102)
	<b>1,771</b>	<b>1,836</b>
Shareholders' fund investment income	1,447	1,530
General takaful fund investment income, net of Mudraib share	195	182
Family takaful fund investment income, net of Mudraib share	129	124
	<b>1,771</b>	<b>1,836</b>

*\*Mudarib share*

The shareholders manage the participants' investments and charge 25% for the year ended 31 December 2020 (2019: 25%) of the investment income earned by takaful funds as mudarib share, as approved by the Shari'a Supervisory Board. Mudarib share has been included in shareholders' statement of income.

## 22 TAKAFUL RISK MANAGEMENT

## 22.1 Overview

Takaful and financial risk management of the Company is managed within the overall framework of the Company's strategy for managing takaful and financial risk. The following sections describe the takaful risk faced by the Company and its takaful risk management strategies. The Company's Business Management Committee monitors aggregate risk data and take overall risk management decisions.

## NOTES TO THE FINANCIAL STATEMENTS

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**22 TAKAFUL RISK MANAGEMENT (CONTINUED)****22.1 Overview (continued)**

The Company accepts takaful risk through its written takaful contracts. The risk under a takaful contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. The Company is exposed to uncertainty surrounding the timing, frequency and severity of claims under these contracts.

**22.2 Underwriting strategy**

The Company's underwriting strategy for the participants' pool is driven by the general underwriting guidelines of the Company. The objective of this strategy is to build balanced portfolios based on a large number of similar risks. This reduces the variability of the portfolios outcome. The underwriting strategy is set out in the annual business plan that establishes the classes of business to be written, the territories in which business is to be written and the industry sectors in which the Company is prepared to underwrite. This strategy is cascaded by the business units to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write by line size, class of business, territory and industry in order to ensure appropriate risk selection within the portfolio. The underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal. The Company's Executive Management Committee meets monthly to review certain management information including contribution income and key ratios by class of business.

**22.3 Sensitivity analysis**

The following tables provide an analysis of the sensitivity of participants' revenue and expenses and total participants' fund to changes in the expense rate and expected loss ratio used to measure general takaful and family takaful contract provisions and retakaful assets at the reporting date. The analysis has been prepared for a change in variable with other assumptions remaining constant. The effect is shown before and after retakaful on the net surplus during the year.

2020	Participants' fund revenues and expenses		Conventional run-off fund revenues and expenses	
	Gross of retakaful	Net of retakaful	Gross of reinsurance	Net of reinsurance
Expense rate				
1 percent increase	239	232	293	294
1 percent decrease	549	556	289	288
Expected change in the net incurred claims				
1 percent increase	304	298	293	294
1 percent decrease	484	490	289	288

2019	Participants' fund revenues and expenses		Conventional run-off fund revenues and expenses	
	Gross of retakaful	Net of retakaful	Gross of reinsurance	Net of reinsurance
Expense rate				
1 percent increase	100	123	410	398
1 percent decrease	474	451	378	390
Expected change in the net incurred claims				
1 percent increase	163	186	410	398
1 percent decrease	411	388	378	390



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**22 TAKAFUL RISK MANAGEMENT (CONTINUED)****22.4 Terms and conditions of significant takaful contracts**

An overview of the terms and conditions of significant takaful contracts written by the Company, and the key factors upon which the timing and uncertainty of future cash flows of these contracts depends are detailed in the table below.

Type of contract	Terms and conditions	Key factors affecting future cash flows
Property & engineering	Property & engineering takaful indemnifies, subject to any limits or excesses, the participant against the loss or damage to their own material property and business interruption arising from this damage.	The risk on any policy varies according to many factors such as location, safety measures in place and the age of the property. The event giving rise to a claim for damage to buildings or contents usually occurs suddenly (as for fire and burglary) and the cause is easily determinable. Claims are generally notified promptly and can be settled without delay. The cost of repairing or rebuilding assets, of replacement or indemnity for contents and the time taken to restart or resume operations to original levels for business interruption losses are the key factors influencing the level of claims under these policies.
General accident & liability	Under general accident & liability contracts, compensation is paid for injury suffered by individuals, including employees or members of public.	The timing of claim reporting and settlement is a function of factors such as the nature of the coverage, the policy provisions and the jurisdiction in which the contract is written. Typically, liability damage claims take a long period of time to finalise and settle. Estimating claims provisions for these claims involves uncertainties such as the reporting lag, the number of parties involved in the claim, whether the insured event is over multiple time periods and the potential amounts of the claim. The majority of bodily injury claims are decided based on the laws in force and court judgement, and are settled within two – three years.
Motor	Motor takaful contracts provide cover in respect of participants' motor vehicles and their liability to third parties in respect of damage to property and injury. The exposure on motor takaful contracts is normally limited to the replacement value of the vehicle and a policy limit in respect of third party damage. Exposure to third party bodily injury is unlimited in accordance with statutory requirements.	In general, claims reporting lags are minor and claim complexity is relatively low. The frequency of claims is affected by adverse weather conditions, and the volume of claims is higher in adverse weather conditions. The number of claims is also correlated with the economic activity, which affects the amount of traffic activity. The majority of bodily injury claims are decided based on the laws in force and court judgement, and are settled within two – three years.
Directors' & officers' liability	Directors' & Officers Liability Contracts indemnify directors for their wrongful and negligent act is their capacity as director of an entity.	By its nature it is a low frequency high severity class influenced by the jurisdiction, level of corporate governance regulations, legal environment and litigious nature of the public at large. It has a long tail and would generally take a long period to settle. Reserving is quite difficult due to time lag, number of people involved and the changes in the corporate laws.
Medical	These contracts reimburse costs for medical treatment and hospital expenses. The participant is indemnified for only part of the cost of medical treatment or benefits are fixed.	Claims under these contracts depend on both the incidence of participants becoming ill and the duration over which they remain ill. Claims are generally notified promptly and can be settled without delay. This permits contribution revisions to respond reasonably quickly to adverse claims experience.

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**22 TAKAFUL RISK MANAGEMENT (CONTINUED)****22.4 Terms and conditions of significant takaful contracts (continued)**

Type of contract	Terms and conditions	Key factors affecting future cash flows
Group life	Group life contracts cover the life of the employees of an organization. The benefits covered include death, partial and permanent disablement.	Claims are generally notified promptly and can be settled without delay. The dominant product style is an annually renewable takaful contract. This permits contribution revisions to respond reasonably quickly to adverse claims experience.
Mortgage (DTA)	Mortgage DTA contracts indemnify financing institutions for the value of the loan availed by a participant and takaful protection to participants. Exposure occurs on death, critical illness and total permanent disability.	Claims reporting lags are minor and claim complexity is relatively low. The amount of claim is limited to the reducing balance based on policy amortization schedule and sum assured against takaful protection policies. The majority of critical illness and total permanent disability claims are decided based on medical judgement, and are settled within six months.

**22.5 Retakaful strategy**

The Company retakaful a portion of the takaful risks it underwrites in order to control its exposure to losses and protect capital resources. Ceded retakaful contains credit risk, as in the financial risk management note. The Company's Management Committee decides the minimum security criteria for acceptable retakaful and monitoring the purchase of retakaful by the business units against those criteria. The Committee monitors developments in the retakaful programme and its ongoing adequacy. The business units buy a combination of proportionate and non-proportionate retakaful treaties to reduce the net exposure to the Company for any single event. In addition, underwriters are allowed to buy facultative retakaful in certain specified circumstances. All purchases of facultative retakaful are subject to business unit pre-approval, and the total expenditure on facultative retakaful is monitored on a policy basis at a business unit level.

**22.6 Risk exposure and concentration of takaful risk**

The following table shows the Company's exposure to general takaful and family takaful risk by category of business. The table also shows the geographical concentration of these risks and the extent to which the Company has covered these risks by retakaful.

**2020****Geographical area****Bahrain & GCC:**

Gross

**Net of retakaful**

Non-Motor	Motor	Medical	Group Life	Family takaful	Total
8,346	9,151	10,579	1,794	334	30,204
773	8,837	4,730	586	(146)	14,780

**2019****Geographical area****Bahrain & GCC:**

Gross

**Net of retakaful**

Non-Motor	Motor	Medical	Group Life	Family takaful	Total
7,872	9,953	11,101	1,670	256	30,852
598	9,673	4,091	545	(249)	14,658

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**22 TAKAFUL RISK MANAGEMENT (CONTINUED)****22.7 Claims development**

The development of takaful liabilities provides a measure of the Company's ability to estimate the ultimate value of claims. The top half of each table below illustrates how the Company's estimate of total claims outstanding for each accident year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the statement of financial position.

**(a) Takaful claims – Gross**

<b>Accident year</b>	<b>2016 and Prior</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Total</b>
Estimate of ultimate claims costs:						
At end of reporting year	68,756	10,585	12,027	14,169	12,553	12,553
One year later	68,734	9,239	10,624	11,609		11,609
Two years later	69,457	9,016	10,234			10,234
Three years later	69,304	8,715				8,715
Four years later	68,968					68,968
Current estimate of cumulative claims	68,968	8,715	10,234	11,609	12,553	112,079
Cumulative payments to date	(67,803)	(8,153)	(9,072)	(10,077)	(6,305)	(101,410)
<b>Total reserves included in the statement of financial position</b>	<b>1,165</b>	<b>562</b>	<b>1,162</b>	<b>1,532</b>	<b>6,248</b>	<b>10,669</b>

**(b) Takaful claims – Net**

<b>Accident year</b>	<b>2016 and Prior</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Total</b>
Estimate of ultimate claims costs:						
At end of reporting year	38,159	6,446	8,959	10,544	10,050	10,050
One year later	37,797	6,124	8,491	9,995		9,995
Two years later	37,552	6,105	8,566			8,566
Three years later	37,584	6,113				6,113
Four years later	37,609					37,609
Current estimate of net cumulative claims	37,609	6,113	8,566	9,995	10,050	72,333
Cumulative net payments to date	(36,794)	(5,709)	(7,847)	(8,903)	(5,290)	(64,543)
<b>Total net reserves included in the statement of financial position</b>	<b>815</b>	<b>404</b>	<b>719</b>	<b>1,092</b>	<b>4,760</b>	<b>7,790</b>



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## 22 TAKAFUL RISK MANAGEMENT (CONTINUED)

## 22.7 Claims development (continued)

## (c) Conventional insurance (run-off) claims – Gross

Accident year	2016 and Prior	2017	2018	2019	2020	Total
Estimate of ultimate claims costs:						
At end of reporting year	33,458	10,690	3,285	224	236	236
One year later	31,312	9,657	3,009	148		148
Two years later	31,166	8,953	3,018			3,018
Three years later	30,971	8,625				8,625
Four years later	29,835					29,835
Current estimate of cumulative claims	29,835	8,625	3,018	148	236	41,862
Cumulative payments to date	(29,305)	(8,310)	(2,787)	(124)	(18)	(40,544)
<b>Total reserves included in the statement of financial position</b>	<b>530</b>	<b>315</b>	<b>231</b>	<b>24</b>	<b>218</b>	<b>1,318</b>

## (d) Conventional insurance (run-off) claims – Net

Accident year	2016 and Prior	2017	2018	2019	2020	Total
Estimate of ultimate claims costs:						
At end of reporting year	22,628	6,521	2,727	181	217	217
One year later	21,437	6,139	2,545	98		98
Two years later	21,247	6,168	2,562			2,562
Three years later	21,080	5,845				5,845
Four years later	20,450					20,450
Current estimate of net cumulative claims	20,450	5,845	2,562	98	217	29,172
Cumulative net payments to date	(20,281)	(5,581)	(2,339)	(89)	(7)	(28,297)
<b>Total net reserves included in the statement of financial position</b>	<b>169</b>	<b>264</b>	<b>223</b>	<b>9</b>	<b>210</b>	<b>875</b>

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**23 CAPITAL MANAGEMENT**

The Company's management policy is to maintain a strong capital base so as to maintain investor, counterparty and market confidence and to sustain the future development of the business. The Company's objectives for managing capital are:

- To safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.
- To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Company is supervised by the Central Bank of Bahrain (CBB) which sets out the minimum capital requirements. It is the Company's policy to hold capital as an aggregate of the capital requirement and a specified margin, to absorb changes in both capital and capital requirements. The Company manages the capital structure and makes adjustments within the framework of the Group's strategy, in the light of changes in economic conditions and the risk characteristics of the underlying assets.

The CBB rulebook stipulates the solvency margin requirements for Takaful funds. The Company has met the above requirements of the CBB.

**24 FINANCIAL RISK MANAGEMENT**

**24.1 Overview**

The Company's financial risk management policies are within the overall framework of the Group's strategy for managing financial risk. The Group has overall responsibility for the establishment and oversight of the Group's risk management framework. The Company's Board of Directors has established the Risk Management Committee, which is responsible for implementing and monitoring the Company's risk management policies. The Committee reports regularly to the Company's Board Audit and Risk Committee on its activities.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company has exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's exposure to each of the above risks, the policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements. The Company has established an Audit and Risk Committee that oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Audit and Risk Committee is assisted in its oversight role by Company's Internal Audit.

## NOTES TO THE FINANCIAL STATEMENTS

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## 24 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 24.2 Credit risk

Credit risk is the risk of financial loss to the Company if counterparty fails to meet its contractual obligations. The Company's key areas of exposure to credit risk include:

- placements with financial institutions, investments, and cash and cash equivalents.
- receivables, including amounts due from takaful contracts, participants, brokers, retakaful operators' share of takaful liabilities, amounts due from retakaful operators in respect of payments already made to participants.

The nature of the Company's exposures to credit risk and its objectives, policies and processes for managing credit risk have not changed significantly from the prior period.

(i) *Management of credit risk*

The Company manages its credit risk in respect of its deposits, placements and investments by placing limits on its exposure to a single counterparty. The Company has a policy of investing after evaluating the credit quality of investments, reviewing public rating information and internal investigations about investments.

The Company's exposure to individual participants and groups of participants is monitored by the individual business units as part of its credit control process. Financial analyses are conducted for significant exposures to individual participants or homogenous groups of participants. The Company's retakaful counterparty exposures are managed by the Company which assesses the creditworthiness of all retakaful operators by reviewing public rating information and from internal investigations. The impact of retakaful operator default is measured regularly and managed accordingly.

(ii) *Maximum exposure to credit risk*

The carrying amount of financial assets (net of impairment) represents the maximum credit exposure at the reporting date:

	2020	2019
Cash and cash equivalents	4,336	3,913
Placements with financial institutions	16,412	15,794
Investments	15,127	15,238
Takaful and insurance receivables	9,149	10,181
Retakaful/reinsurance share of outstanding claims (excluding IBNR)	2,474	4,882
Other assets	2,018	2,592
	<b>49,516</b>	<b>52,600</b>



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## 24 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 24.2 Credit risk (continued)

(iii) Analysis of receivable from takaful and retakaful operators:

2020	Neither past due nor impaired	Past due but not impaired	Past due and impaired	Provision for doubtful takaful and insurance receivables	Total
Takaful and insurance receivables	5,937	3,212	1,245	(1,245)	9,149
Retakaful/reinsurance share of outstanding claims (excluding IBNR)	2,474	-	-	-	2,474
	<b>8,411</b>	<b>3,212</b>	<b>1,245</b>	<b>(1,245)</b>	<b>11,623</b>

2019	Neither past due nor impaired	Past due but not impaired	Past due and impaired	Provision for doubtful takaful and insurance receivables	Total
Takaful and insurance receivables	5,982	4,199	1,389	(1,389)	10,181
Retakaful/reinsurance share of outstanding claims (excluding IBNR)	4,882	-	-	-	4,882
	<b>10,864</b>	<b>4,199</b>	<b>1,389</b>	<b>(1,389)</b>	<b>15,063</b>

(iv) Age analysis (Takaful and insurance receivables)

	2020		2019	
	Gross	Provisions	Gross	Provisions
0 to 6 months	5,937	-	5,982	-
6 to 12 months	2,749	-	3,787	335
More than 12 months	1,708	1,245	1,801	1,054
	<b>10,394</b>	<b>1,245</b>	<b>11,570</b>	<b>1,389</b>

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## 24 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 24.3 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations from its financial and takaful liabilities that are settled by delivering cash or another financial asset. The Company is exposed to daily calls on its available cash resources mainly from claims arising from takaful contracts. Liquidity risk may arise from a number of potential areas, such as a duration mismatch between assets and liabilities and unexpectedly high levels of claims.

(i) *Management of liquidity risk*

The Company's approach to managing liquidity is to ensure, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation. The Company's approach to managing its liquidity risk is as follows:

- Budgets are prepared and revised on a regular basis to predict cash outflows from takaful contracts over the short, medium and long term;
- Assets purchased by the Company are required to satisfy specified marketability requirements;
- The Company maintains cash and liquid assets to meet daily calls on its takaful contracts.

(ii) *Exposure to liquidity risk*

An analysis of the contractual maturities of the Company's financial liabilities (including contractual undiscounted profit payments) is presented follows:

## 2020

Takaful and insurance technical liabilities  
Takaful and insurance payables  
Other liabilities

Contractual undiscounted cash flows	
Carrying amount	Total cash outflows
26,526	26,526
8,135	8,135
2,047	2,047
<b>36,708</b>	<b>36,708</b>

## 2019

Takaful and insurance technical liabilities  
Takaful and insurance payables  
Other liabilities

Contractual undiscounted cash flows	
Carrying amount	Total cash outflows
28,150	28,150
7,177	7,177
2,955	2,955
<b>38,282</b>	<b>38,282</b>

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**24 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**24.4 Market risks**

Market risk is the risk that changes in market prices, such as profit rates, foreign exchange rates and equity prices which will affect the value of the Company's assets, the amount of its liabilities and/or the Company's income. Market risk arises in the Company due to fluctuations in the value of liabilities and the value of investments held. The Company is exposed to market risk on its financial assets, including those held to back linked contracts to the extent that the fees earned by the Company on these contracts are often dependent on the market value of the underlying portfolio.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The nature of the Company's exposures to market risks and its objectives, policies and processes for managing credit risk have not changed significantly from the prior period.

The Company manages its market risk, locally in accordance with its asset liability management framework. The Investment Committee of the Company manages and monitors market risks. This committee was established by the Board of Directors of the Company and consists of both executive and non-executive members. The Investment Committee reports regularly to the Company's Board of Directors on its activities.

For each of the major components of market risk the Company has policies and procedures in place which detail how each risk should be managed and monitored. The management of each of these major components of major risk and the exposure of the Company at the reporting date to each major risk are addressed below.

*(i) Profit rate risk*

Profit rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market profit rates. Floating rate instruments expose the Company to cash flow profit rate, whereas fixed profit rate instruments expose the company to fair value profit risks. The Company has no significant concentration of the profit rate risk.

*(ii) Currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's currency risk is related to changes in exchange rates applicable to the settlements in foreign currencies. The Company's exposure to currency risk is not significant as the majority of its investments, receivables and payables are denominated in Bahraini Dinars or denominated in currencies which are pegged to US Dollar.

*(iii) Other market price risk*

The Company is exposed to equity price risk which arises from equity type instruments. The primary goal of the Company's investment strategy is to ensure risk free returns and invest excess surplus fund available with the Company in risk free securities. Market price risk arises from investment held by the Company. The Company's Investment Committee monitors its investment portfolio based on market expectations. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Company's Investment Committee. Equity 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 Company has an unquoted equity investment carried at cost where the impact of changes in equity prices will only be reflected when the investment is sold or deemed to be impaired and then the income statement will be impacted.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

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## 24 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 24.4 Market risks (continued)

## (iv) Sensitivity analysis to profit rate risk

The table below shows the results of sensitivity testing on the Company's combined profit and surplus and the equity. The sensitivity analysis indicates the effect of changes in market risk factors arising from the impact of the changes in these factors on the Company's financial assets and liabilities and its takaful assets and liabilities.

2020

*Profit rate risk*

- + 100 basis points shift in yield curves
- 100 basis points shift in yield curves

Combined  
profit and  
surplus3,223  
2,583

Equity

3,223  
2,583

2019

*Profit rate risk*

- + 100 basis points shift in yield curves
- 100 basis points shift in yield curves

Combined  
profit and  
surplus3,223  
2,583

Equity

3,223  
2,583

## 25 RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include the significant shareholder and entities over which the Company and the shareholder exercises significant influence, directors and executive management of the Company.

## 25.1 Transactions with key management personnel

Key management personnel of the Company comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Company. Board remuneration of BD 63 thousand is paid to the Board of Directors of the Company during the year (2019: BD 52). Sitting fees paid to the members of the Committees of the Board of Directors amounting BD 37 thousand (2019: BD 32 thousand) and salaries and benefits paid to key members of management amounting to BD 349 thousand (2019: BD 333 thousand). End of service benefits due to key management personnel as at 31 December 2020 amounting to BD 171 thousand (2019: BD 132 thousand).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

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## 25 RELATED PARTIES (CONTINUED)

## 25.2 Transactions and balances with related parties

## a) Transactions with related parties

*Gross contributions:*

Parent company

Entities under common control

*Retakaful contributions:*

Entities under common control

*Income from placements:*

Entities under common control

*Gross paid claims:*

Entities under common control

2020	2019
48	22
2,446	1,640
17	13
98	50
315	522

## b) Balances

*Payables:*

Entities under common control

*Placements with financial institutions:*

Entities under common control

*Receivables:*

Parent company

Entities under common control

*Claims outstanding:*

Entities under common control

*Cash and cash equivalents:*

Entities under common control

2020	2019
15	96
2,013	1,282
2	48
654	332
642	685
1,495	1,191

## 26 SHARI'A SUPERVISORY BOARD

The Company's business activities are subject to the supervision of the Shari'a Board consisting of three scholars appointed by the General Assembly annually. The Shari'a Supervisory Board has the power to review the Company's business operations and activities in order to confirm that the Company is complying with Shari'a rules and principles. The Shari'a Supervisory Board will have access to all the Company's records, transactions and information sources.

## 27 EARNINGS PROHIBITED BY SHARI'A

There were no earnings (2019: BD nil) realised during the year from transactions which are not permitted by Sharia Supervisory Board.

**NOTES TO THE FINANCIAL STATEMENTS**

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**28 ZAKAH**

Zakah of BD 82 thousand (2019: BD 107 thousand) at the rate of 1 fils (2019: 1 fils) per share is to be directly borne by the shareholder and, accordingly, the financial statements include no provision for Zakah. Zakah base is calculated using the 'Net Invested Funds' method. The components used in Zakah computation are share capital, statutory reserve, retained earnings and fair value reserves reduced by participants' equity, investments held not for trading and property and equipment. The basis of computation is approved by the Sharia Supervisory Board and the amounts payable are notified to shareholder.

**29 SEGMENTAL INFORMATION**

The Company makes operating decisions on a combined basis for general takaful, family takaful and conventional insurance run-off fund. Management monitors the underwriting results and performance of the Company using the following business segments:

- Non-motor which includes fire, marine, general accident, liability, Aviation and engineering lines of business.
- Motor.
- Medical.
- Group Life which includes group life and credit life business.
- Family Takaful which includes long term decreasing term and level term business.

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



**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2020

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**29 SEGMENTAL INFORMATION (CONTINUED)**

	2020						2019					
	Non-Motor (*)	Motor	Medical	Group Life	Family Takaful	Total	Non-Motor (*)	Motor	Medical	Group Life	Family Takaful	Total
<b>Takaful/conventional revenues</b>												
Gross contributions/premiums	8,346	9,151	10,579	1,794	334	30,204	7,872	9,953	11,101	1,670	256	30,852
Retakaful/reinsurance contributions/premiums	(7,573)	(314)	(5,849)	(1,208)	(480)	(15,424)	(7,274)	(280)	(7,010)	(1,125)	(505)	(16,194)
<b>Retained contributions/premiums</b>	773	8,837	4,730	586	(146)	14,780	598	9,673	4,091	545	(249)	14,658
Movement in unearned contributions/premiums, net	(96)	458	(74)	-	-	288	(13)	296	34	(1)	-	316
<b>Net contributions/premiums earned</b>	<b>677</b>	<b>9,295</b>	<b>4,656</b>	<b>586</b>	<b>(146)</b>	<b>15,068</b>	<b>585</b>	<b>9,969</b>	<b>4,125</b>	<b>544</b>	<b>(249)</b>	<b>14,974</b>
Commission income/(expense)	568	25	198	-	-	791	850	26	49	-	-	925
Movement in unearned commission, net	133	-	(71)	-	-	62	(46)	8	(18)	-	-	(56)
Profit commission and other income	112	40	7	6	29	194	49	44	17	-	249	359
<b>Net commission earned/(incurred)</b>	<b>813</b>	<b>65</b>	<b>134</b>	<b>6</b>	<b>29</b>	<b>1,047</b>	<b>853</b>	<b>78</b>	<b>48</b>	<b>-</b>	<b>249</b>	<b>1,228</b>
<b>Total takaful/conventional revenues</b>	<b>1,490</b>	<b>9,360</b>	<b>4,790</b>	<b>592</b>	<b>(117)</b>	<b>16,115</b>	<b>1,438</b>	<b>10,047</b>	<b>4,173</b>	<b>544</b>	<b>-</b>	<b>16,202</b>

(\*) Non - motor includes fire, marine, aviation, general accident, liability and engineering.

**NOTES TO THE FINANCIAL STATEMENTS**  
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**29 SEGMENTAL INFORMATION (CONTINUED)**

	2020					2019						
	Non-Motor (*)	Motor	Medical	Group Life	Family Takaful	Total	Non-Motor (*)	Motor	Medical	Group Life	Family Takaful	Total
<b>Takaful/conventional expenses</b>												
Gross claims paid	318	5,080	3,267	912	138	9,715	1,334	7,450	3,620	989	491	13,884
Claims recovered from retakaful/reinsurance and others	(267)	(18)	(6)	(787)	(119)	(1,197)	(1,104)	(270)	(202)	(827)	(360)	(2,763)
<b>Net claims paid</b>	<b>51</b>	<b>5,062</b>	<b>3,261</b>	<b>125</b>	<b>19</b>	<b>8,518</b>	<b>230</b>	<b>7,180</b>	<b>3,418</b>	<b>162</b>	<b>131</b>	<b>11,121</b>
Movement in outstanding claims – gross	969	(2,627)	235	476	1	(946)	(2,367)	(425)	(344)	170	(119)	(3,085)
Movement in outstanding claims – retakaful/reinsurance	(556)	2,619	19	(350)	(1)	1,731	2,193	(559)	21	(104)	119	1,670
<b>Net claims incurred/(recovered)</b>	<b>464</b>	<b>5,054</b>	<b>3,515</b>	<b>251</b>	<b>19</b>	<b>9,303</b>	<b>56</b>	<b>6,196</b>	<b>3,095</b>	<b>228</b>	<b>131</b>	<b>9,706</b>
Transfer to family takaful technical reserve	-	-	-	-	(109)	(109)	-	-	-	-	(149)	(149)
<b>Technical surplus</b>	<b>1,026</b>	<b>4,306</b>	<b>1,275</b>	<b>341</b>	<b>(27)</b>	<b>6,921</b>	<b>1,382</b>	<b>3,851</b>	<b>1,078</b>	<b>316</b>	<b>18</b>	<b>6,645</b>
<b>Identifiable assets</b>	<b>6,344</b>	<b>2,543</b>	<b>5,164</b>	<b>1,413</b>	<b>3,932</b>	<b>19,396</b>	<b>5,698</b>	<b>6,054</b>	<b>7,017</b>	<b>1,033</b>	<b>4,252</b>	<b>24,054</b>
<b>Identifiable liabilities</b>	<b>7,904</b>	<b>12,504</b>	<b>5,415</b>	<b>1,750</b>	<b>3,629</b>	<b>31,202</b>	<b>6,896</b>	<b>14,749</b>	<b>5,540</b>	<b>1,244</b>	<b>3,968</b>	<b>32,397</b>

(\*) Non - motor includes fire, marine, aviation, general accident, liability and engineering.

Assets amounting to BD 48.743 million (2019: BD 45.434 million) and liabilities amounting to 9.851 million (2019: BD 11.460 million) are not specifically identifiable.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2020**

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**30 FAIR VALUE OF FINANCIAL INSTRUMENTS**

The fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or broker price quotations. For all other financial instruments, the Company determines fair values using other valuation techniques.

**Fair value hierarchy**

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included with in level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

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

The table below analyses financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position. All fair value measurements below are recurring:

		Level 1	Level 2	Level 3	Total
<b>31 December 2020</b>					
<b>Investments at fair value</b>		4,778	-	1,650	6,428
		<b>4,778</b>	<b>-</b>	<b>1,650</b>	<b>6,428</b>
<b>31 December 2019</b>					
<b>Investments at fair value</b>		3,371	-	1,650	5,021
		<b>3,371</b>	<b>-</b>	<b>1,650</b>	<b>5,021</b>

No transfers out of, or into, the level 3 measurement classification occurred during the year ended 31 December 2020 (31 December 2019: 3).



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

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## 30 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The table below sets out the Company's classification of each class of financial assets and liabilities, and their fair values:

2020	Fair value through equity	Held-to-maturity	Loans and receivables	Total carrying value	Fair value
Cash and cash equivalents	-	-	4,336	4,336	4,336
Placements with financial institutions	-	-	16,412	16,412	16,412
Investments	6,428	15,127	-	21,555	21,753
Takaful and insurance receivables	-	-	9,149	9,149	9,149
Retakaful and reinsurance share of technical liabilities	-	-	10,060	10,060	10,060
Other assets	-	-	2,018	2,018	2,018
<b>Total financial assets</b>	<b>6,428</b>	<b>15,127</b>	<b>41,975</b>	<b>63,530</b>	<b>63,728</b>
Takaful and insurance technical liabilities	-	-	22,574	22,574	22,574
Takaful and insurance payables	-	-	8,135	8,135	8,135
Other liabilities	-	-	2,047	2,047	2,047
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>32,756</b>	<b>32,756</b>	<b>32,756</b>

2019	Fair value through equity	Held-to-maturity	Loans and receivables	Total carrying value	Fair value
Cash and cash equivalents	-	-	3,913	3,913	3,913
Placements with financial institutions	-	-	15,794	15,794	15,794
Investments	5,021	15,238	-	20,259	20,682
Takaful and insurance receivables	-	-	10,181	10,181	10,181
Retakaful and reinsurance share of technical liabilities	-	-	12,858	12,858	12,858
Other assets	-	-	2,592	2,592	2,592
<b>Total financial assets</b>	<b>5,021</b>	<b>15,238</b>	<b>45,338</b>	<b>65,597</b>	<b>66,020</b>
Takaful and insurance technical liabilities	-	-	26,867	26,867	26,867
Takaful and insurance payables	-	-	7,177	7,177	7,177
Other liabilities	-	-	2,955	2,955	2,955
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>36,999</b>	<b>36,999</b>	<b>36,999</b>

The carrying value of the Company's financial instruments except investments were deemed to approximate fair value due to the immediate or short-term maturities of those financial instruments.

**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2020**

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**31 CAPITAL ADEQUACY AND SOLVENCY MARGIN**

The Central Bank of Bahrain (CBB) rulebook stipulates that solvency margin requirements are determined on a combined basis of both participants' and the shareholder's funds together. The capital available to cover solvency margin required is as follows:

	<b>2020</b>	<b>2019</b>
Margin required for Family Takaful fund	533	551
Margin required for General Takaful fund	2,876	2,951
Total margin required	<b>3,409</b>	<b>3,502</b>
Capital available to cover solvency margin	17,299	14,844
Excess capital	<b>13,890</b>	<b>11,342</b>

**32 CONTINGENT LIABILITIES AND COMMITMENTS**

The Company is a defendant in a number of cases brought by policyholders and third parties in respect of claims which the Company disputes. While it is not possible to predict the eventual outcome of such legal actions, the management has made provisions which, in their opinion, are adequate. There are no material commitments as at the year ended 31 December 2020 (2019: nil).

**33 SUBSEQUENT EVENTS**

There were no significant events subsequent to 31 December 2020 and occurring before the date of signing of the financial statements that would have a significant impact on these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**  
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**34 TOTAL COMPREHENSIVE INCOME**

	2020					2019				
	General takaful fund	Family takaful fund	Conventional (run-off) fund	Shareholders' fund	Total	General takaful fund	Family takaful fund	Conventional (run-off) fund	Shareholders' fund	Total
Net profit and surplus for the year	375	19	-	2,685	3,079	208	79	-	2,616	2,903
Other comprehensive income to be reclassified to statement of income and participants' revenues and expenses in subsequent year:	-	-	-	205	205	-	-	-	243	243
Fair value changes arising during the year	-	-	-	(30)	(30)	-	-	-	-	-
Transferred to investment income on disposal of equity instruments	-	-	-	-	-	-	-	-	-	-
Other comprehensive income for the year to be reclassified to statement of income and participants' revenues and expenses in subsequent years	-	-	-	175	175	-	-	-	243	243
Total comprehensive income for the year	375	19	-	2,860	3,254	208	79	-	2,859	3,146



**NOTES TO THE FINANCIAL STATEMENTS**

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**35 DIRECTORS' REMUNERATION AND DIVIDENDS**

***Directors' remuneration***

**Proposed by the Board of Directors**

The Board of Directors of the Company propose to pay BD 63 thousand towards directors' remuneration apart from the regular sitting fees for the year ended 31 December 2020 (2019: BD 63 thousand for the year ended 31 December 2019 paid in 2020). This is subject to the approval of shareholders in the Annual General Meeting.

***Dividends***

***Declared and paid***

Cash dividend amounted to BD 1.799 million (15% of the paid up capital) was declared and paid in 2020 for the year ended 31 December 2019 (2019: Cash dividend of BD 1.499 million).

***Proposed by the Board of Directors***

The Board of Directors of the Company proposes to pay cash dividend of 17.5% of the paid up capital for the year ended 31 December 2020 (2019: Cash dividend of 15% of the paid up capital). The proposed dividend only becomes payable once it has been approved by the shareholders in the Annual General Meeting and, accordingly, the proposed dividend has not been accounted for in these financial statements.

**36 COMPARATIVES**

Certain prior year figures have also been reclassified to conform to the current year presentation. This did not affect the financial position or results for the year.

**37 IMPACT OF COVID-19**

The outbreak of the novel Coronavirus (COVID-19) in early 2020 in most countries has caused widespread disruptions to business, with a consequential negative impact on economic activities. Therefore, it is challenging now, to predict the full extent and duration of its business and economic impact.

In light of COVID-19, the Company has considered whether any adjustments and changes in judgments, estimates and risk management are required to be considered and reported in the financial statements. Below are the key assumptions about the future and other key sources of estimation that may have a significant risk of causing material adjustments to the condensed interim financial information:

***Impairment of financial assets:***

The Company has assessed the impairment of its financial assets based on judgement, by considering the relevant macroeconomic factors relative to the economic climate of the respective markets in which it operates. The Company has also assessed the exposures in potentially affected sectors for any indicators of impairment and concluded there is no material impact on account of COVID-19.

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**37 IMPACT OF COVID-19 (CONTINUED)**

*Impairment of non-financial assets:*

The Company has performed a qualitative assessment, considering the minimal impact of COVID-19 on entities operating in the insurance sector, and compared the actual results for the current year against corresponding prior year and industry benchmarks to conclude there is no material impact on account of COVID-19.

*Commitment and contingent liabilities:*

The Company has assessed the impact of any operational disruptions, including any contractual challenges and changes in business or commercial relationships among the Company and customers, with a view of potential increase in contingent liabilities and commitments, no issues were noted.

*Government support:*

The Government of Kingdom of Bahrain has announced various economic stimulus programmes to support businesses in these challenging times. The Company has received benefits in the form of waiver of Electricity and Water Authority utility bills and partial reimbursement of salaries of employees from the Unemployment Fund.

Included in statement of income is BD 298 thousands of government support received relating to supporting the payroll of Company's employees and utility bills.

*Going concern:*

The Company has performed an assessment of whether it is a going concern in the light of current economic conditions and all available information about future risks and uncertainties. The projections have been prepared covering the Company's future performance, capital and liquidity. The impact of COVID-19 may continue to evolve, but at the present time the projections show that the Company has ample resources to continue in operational existence and its going concern position remains largely unaffected and unchanged as of the date of approval of these financial statement. As a result, this financial statement has been appropriately prepared on a going concern basis.

## **Supplementary disclosure to the financial statements related to the financial impact of COVID-19**

With reference to the CBB circular OG/259/2020 dated 14<sup>th</sup> July 2020 on supplementary disclosure on the financial impact of COVID-19, Solidarity Bahrain would like to provide the following information:

On 21<sup>st</sup> February 2020, Kingdom of Bahrain confirmed the first case of COVID-19 whilst Health Ministry in Bahrain was on high alert and started implementing pre-emptive measures from January 2020. On 11<sup>th</sup> March 2020, World Health Organization (WHO) declared COVID-19 outbreak a global pandemic and asserted the threat posed by this virus. This pandemic is an unprecedented event, which has resulted in a global shutdown and caused severe repercussions for economies across the globe. To deter the spread, countries across the globe have taken several measures; complete and partial lockdown, travel restrictions, quarantine measures, closure of public facilities, restriction on certain business activities among many others.

To ease out the financial impact of COVID-19, Bahrain government announced generous stimulus packages to support the citizens, residents, private sector and local businesses to withstand the financial burdens caused by the current situation. All such measures had a positive impact, directly or indirectly across all the sectors and boosted the confidence in this challenging time.

Solidarity Bahrain has also benefitted from the stimulus package in form of wage support and waiver of utility bills for three months totalling BD 298 thousand, and to display its sincere solidarity with the nationwide efforts during this challenging time, the Company made a modest contribution of BD 75 thousand to Feena Kahir Bahrain COVID-19 Fund.

Despite the current economic challenges, Solidarity Bahrain has so far shown great resilience and managed to achieve modest growth compared to last year. Although it is very difficult to ascertain the full financial impact, the impact on some of the key fundamentals of the Company for year ended 31 December 2020 is as follows:

- Achieved modest growth in net profits while there is slight decline in gross contributions compared to last year.
- No material impact of the value of equity investment portfolio measured at fair value and therefore no impairment was warranted as at 31 December 2020.
- No major impact on the receivable recoverability and the Company's liquidity position is very strong and there is no adverse impact on its working capital.
- The Company hold strong solvency position and its net available capital as at 31 December 2020 is over 5 times of the solvency margin required as per CBB regulations.

The above information does not represent the full comprehensive assessment of COVID-19 impact on the Company. In addition, this information is not subject to a formal review by the external auditors.