

Solidarity Bahrain B.S.C.

FINANCIAL STATEMENTS

31 DECEMBER 2019

CONTENTS	Page(s)
General information	3 – 4
Report of the Board of Directors	5 – 6
Board of Directors profile	7 – 10
Executive Management profile	11 – 12
Organisational chart	13
Corporate Governance	14 – 19
Report of the Shari’a Supervisory Board	20
Independent auditor’s report	21 – 22
Financial statements	
Statement of financial position	23
Statement of income and participants’ revenues and expenses	24
Statement of participants’ surplus and deficit	25
Statement of changes in shareholders’ equity	26
Statement of cash flows	27
Notes to the financial statements	28 – 73

Solidarity Bahrain B.S.C.

General information

For the year ended 31 December 2019

Commercial registration

5091 obtained on 17 August 1976

Board of Directors

Tawfeeq Shehab

Chairman of the Board, member of the Audit & Risk Committee and Chairman of Nomination & Remuneration 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, member of Nomination & Remuneration 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 (Non-Independent Non-Executive Director) - Effective 4 February 2019

Executive Committee

Ashraf Bseisu – Chairman
Sharif Ahmadi
Venkatesan Muniswamy

Audit and Risk Committee

Nadhem Al Saleh – Chairman
Tawfeeq Shehab
Bashar Sameer Nass

Nomination and Remuneration Committee

Tawfeeq Shehab – Chairman
Sharif Ahmadi
Nadhem Al Saleh
Ashraf Bseisu

Solidarity Bahrain B.S.C.

General information (continued)

For the year ended 31 December 2019

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. Abdul Satar Abugudda
Shaikh Mohsin Shaikh A. Hussain Al
Asfoor
Shaikh Dr. Osama Bahar

Chairman of Sharia Supervisory Board
Member of Sharia Supervisory Board

Member of Sharia Supervisory Board and Member of Corporate
Governance Committee

Management

Jawad Mohammed
Nandakumar Duraiswamy
Jai Prakash Pandey
Mohammed Awachi
Yaser Al Hammadi
Sanjeev Aggarwal

Chief Executive Officer
Deputy General Manager – Operations
Assistant General Manager – Business Development
Assistant General Manager – Corporate Support
Head of Compliance, Risk Management and MLRO
Head of Finance

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Seef Area, Manama – Kingdom of Bahrain
Telephone: 17585222
Fax: 17585200
Website: www.solidarity.com.bh

Principal bankers

Ithmaar 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

On behalf of the Board of Directors, we take pleasure in presenting the annual report and financial statements of Solidarity Bahrain BSC (the Company) for the year ended 31 December 2019. This proved to be another successful year for the Company, marked by positive financial results, sound strategic progress and significant operational developments.

Financial Results

Despite ongoing economic volatility, challenging market conditions, and an increasingly competitive insurance sector, Solidarity Bahrain posted a positive financial performance in 2019. Key highlights include an increase of 2.6 per cent in gross contributions to BD 30.85 million from BD 30.07 million in 2018; while net profit grew by 13 per cent to BD 2.90 million compared with BD 2.58 million the previous year. The overall takaful loss ratio of 67 per cent remained on par with the ratio for 2018. As at 31 December 2019, total shareholders' equity had grown to BD 27.27 million from BD 25.91 million at the end of 2018; with earnings per share rising to Bahraini fils 21.81 versus 19.22 fils for the prior year. Based on these results, the Board of Directors is proposing a cash dividend for 2019 of 15 per cent for approval by Shareholders at the Annual General Meeting to be held on 26 March 2020.

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 2019. The capital available to cover the solvency margin is BD 15.50 million; while the minimum solvency margin required is BD 2.95 million for general takaful business, BD 551 thousand for family takaful business, and BD 657 thousand for conventional insurance run-off business. The available capital is over three times that of the required margin.

Rating Upgrade

In December 2019, AM Best upgraded the Company's Long-Term Issuer Credit Rating (Long-Term ICR) to "bbb+" from "bbb" and affirmed its Financial Strength Rating (FSR) of B++ (Good). The outlook of the Long-Term ICR has been revised to Stable from Positive, while the outlook of the FSR remains Stable. The Long-Term ICR upgrade reflects the improvement in the business profile, achieved through a stronger competitive position in Bahrain, following the integration of Al Ahlia Insurance Company, which was acquired in 2016 by Solidarity Group Holding BSC(c). The current rating reflects 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), its good liquidity and its financial flexibility, with access to the debt and the equity markets.

We view these latest ratings, which are the highest among insurance companies with operations limited to the Kingdom of Bahrain, 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.

Strategic Progress

We are pleased to report that Solidarity Bahrain made excellent progress during 2019 in implementing its current three-year strategy. The objective is to differentiate 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.

Notable strategic achievements include the successful commissioning of the TCS BaNCS core insurance system, and accreditation to ISO 27001; plus the launch of a new Digital branch in Seef Mall and Video Conferencing Insurance Service, both of which are additional industry firsts for the Company in Bahrain.

At the same time, we strengthened the human capital framework of Solidarity Bahrain with a number of senior management promotions, and an interactive soft skills training programme for all front and back office staff; while continuing to enhance brand awareness and perception through expanded public relations activities and increased use of social media channels.

Changes to the Board

During the year, Mr. Abhijit Singh retired from the Board of Directors, and we take this opportunity to thank him for his valuable contribution during his term of office with Solidarity Bahrain. In turn, we welcome Mr. Ali Isa Abdulrahim, who joined the Board in February 2019, and whose diversified financial and commercial experience will benefit the Company.

Future Outlook

Forecasts of improved GDP growth for Bahrain's economy in 2020, together with increased investment in infrastructure and construction projects, and the introduction of compulsory medical insurance, will benefit the Kingdom's insurance sector next year. With this positive outlook and our solid achievements in 2019, we are optimistic about the prospects for the Company in the short to medium term.

Acknowledgements


On behalf of the Board of Directors, we extend our sincere appreciation to His Majesty King Hamad Bin Isa Al Khalifa, the King of Bahrain, His Royal Highness Prince Khalifa Bin Salman Al Khalifa, the Prime Minister, and His Royal Highness Prince Salman Bin Hamad Al Khalifa, the Crown Prince and First Deputy Prime Minister, for their wise leadership and reform programme, and their support for the Kingdom's Takaful and 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.

We would like to express our gratitude to the shareholders of Solidarity Bahrain for their unwavering encouragement and assistance; and to the Company's management and staff, and the executive management of Solidarity Group Holding, for their dedicated efforts and contributions during 2019. We also thank the Company's participants, business partners and other stakeholders, for their continued support and confidence.



Tawfeeq Shebab
Chairman



Ashraf Bseisu
Vice Chairman

25 February 2020

Solidarity Bahrain B.S.C.

Board of Directors profile For the year ended 31 December 2019

Tawfeeq Shehab

Chairman

Independent Non-Executive Director

Effective 27 December 2017

Chairman of Nomination & Remuneration Committee and Member of Audit & Risk Committee

Bahraini National

Over 3 1years' experience in insurance and financial services

Key Positions & Directorships

Board Member of Motor Compensation Fund, Bahrain

Former Positions & Directorships

General Manager, Al Ahlia Insurance Company BSC, Bahrain

Director, Insurance Supervision Directorate - Central Bank of Bahrain

Director, Insurance Directorate - Ministry of Industry, Commerce and Tourism, Bahrain

Qualifications

Associate Member of the Chartered Insurance Institute, UK

MBA from University of Pennsylvania, Indiana, USA

Ashraf Bseisu

Vice Chairman

Executive Director

Effective 27 December 2017

Chairman of the Executive Committee and Member of the Nomination & Remuneration Committee

Bahraini National

30years' experience in insurance and financial services

Key Positions & Directorships

Group Chief Executive Officer, Solidarity Group Holding BSC(c), Bahrain

Chairman, Solidarity Takaful S.A, Luxembourg

Chairman, Solid Ventures W.L.L., Bahrain

Chairman, Solid Capital W.L.L., Bahrain

Chairman, and Chairman of the Executive Committee, and Member of Nomination & Remuneration Committee:

First Insurance Company Plc., Jordan

Chairman, Al Moazarah Investment Company, Jordan

Chairman, Al Somood Investment Company, Jordan

Vice Chairman, and Chairman of the Executive Committee, and Member of the Investment Committee:

Solidarity Saudi Takaful Company, KSA

Board Member and Member of the Executive Committee: BBK, Bahrain

Board Member and Member of Audit Committee, United Insurance Company BSC(c), Bahrain

Board Member and Chairman of Remuneration Committee, Bahrain Institute of Banking & Finance

Solidarity Bahrain B.S.C.

Board of Directors profile (continued) For the year ended 31 December 2019

Ashraf Bseisu (continued)

Former Positions & Directorships

President, General Arab Insurance Federation
Chairman, Bahrain Insurance Association
Chairman, Arab War Risk Insurance Syndicate
Member, Executive Council, Gulf insurance Federation
Chief Financial & Administrative Officer, Trust International Insurance Company, Bahrain

Qualifications

Associate Member of the Chartered Insurance Institute, UK
Associate Member of the American Institute of Management Accountants
Associate Member of American Society of Civil Engineers
Member of Bahrain Computer Society, Chartered Institute for IT, UK
MSc in Business in Analysis, Design and Management of Information Systems from the London School of Economics, UK
BSc in Civil Engineering (Minor in Applied Mathematics & Finance) from the Southern Methodist University, Dallas, Texas, USA

Dr. Nadhem Al Saleh

Board Member
Independent Non-Executive Director
Effective 27 December 2017
Chairman of Audit & Risk Committee, Member of Corporate Governance Committee and Member of Nomination & Remuneration Committee
Bahraini National
46 years' experience in academia and commerce

Key Positions & Directorships

Board Member, and Chairman of Audit, Risk & Compliance Committee, and Member of Nomination & Remuneration Committee: APM Terminals BSC, Bahrain
Member of Finance & Administration Committee, Higher Education Council, Bahrain
Member, Board of Trustees of Kanoo Award for Creativity & Excellence, and Member of the Award Executive Committee

Former Positions & Directorships

Assistant Professor of Finance, University of Bahrain
Dean of Scientific Research, University of Bahrain
Faculty Member, College of Business Administration, University of Bahrain
Member, Higher Education Council, Bahrain
Member, University of Bahrain Committee to Review the Budget
Member, National Charter Action Committee, Bahrain
Member, Association of Arab Human Resource Development
General Manager, Saleh Al-Saleh Company, Bahrain

Solidarity Bahrain B.S.C.

Board of Directors profile (continued) For the year ended 31 December 2019

Dr. Nadhem Al Saleh (continued)

Qualifications

PhD in Finance from Brunel University London, Uxbridge, UK
MBA from University of Pennsylvania, Indiana, USA
Bachelor's degree in Petroleum Engineering from University of Baghdad, Iraq

Sharif Ahmadi

Board Member
Independent Non-Executive Director
Effective 27 December 2017
Chairman of Corporate Governance Committee, Member of Nomination & Remuneration Committee and Member of the Executive Committee
Bahraini National
42 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

Qualifications

BSc in Electrical Engineering and Electronics from the UK

Venkatesan Muniswamy

Board Member
Executive Director
Effective 27 December 2017
Member of the Executive Committee
Indian National
33 years' experience in the insurance industry covering finance, accounting, investments, mergers & acquisitions, internal audit, reinsurance, compliance, corporate governance, risk management and operations management.

Key Positions & Directorships

Chief Operating Officer, Solidarity Group Holding BSC(c), Bahrain
Vice-Chairman, Solid Ventures W.L.L., Bahrain
Vice-Chairman, Solid Capital W.L.L., Bahrain
Board Member, Solidarity Takaful SA, Luxembourg
Board Member, Al Somood Investment Company, Jordan
Board Member, Al Moazarah Investment Company, Jordan

Former Positions & Directorships

Board Member and Member of Audit Committee: First Insurance Company Plc., Jordan
Board Member, Mulkiyat Investment Company, Jordan
Finance Manager, Al Ahlia Insurance Company, Bahrain
Administrative Officer, United India Insurance Co Ltd., Chennai, India

Solidarity Bahrain B.S.C.

Board of Directors profile (continued) For the year ended 31 December 2019

Venkatesan Muniswamy (continued)

Qualifications

Fellow of the Institute of Chartered Accountants of India
Associate Member of the Insurance Institute of India
Bachelors' degree in Commerce from University of Madras, India

Bashar Sameer Nass

Board Member
Non-Independent Non-Executive Director
Effective 19 February 2018
Member of the Audit & Risk Committee
Bahraini National
12 years' experience in construction management and commerce

Key Positions & Directorships

Board Member, Nass the Group and Nass Corporation BSC, Bahrain
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

Former Positions & Directorships

Board Member, American Chamber of Commerce, Bahrain

Qualifications

Bachelor's degree in Construction Management from University of Westminster, London, UK

Ali Isa Ahmed Abdulrahim

Board Member
Non-Independent Non-Executive Director
Effective 4 February 2019
Bahraini National
8 years' experience in investments, F&B, Marine, Active Entertainment, Sports, and Real Estate

Key Positions & Directorships

Board Member and Managing Director, Rahim Holdings, Bahrain

Qualifications

Master of Business Administration (Major in Marketing & Management) - McCallum Graduate School of Business – Boston, USA.
Bachelor of Science (Major in Economic & Finance with a minor in Politics) – Bentley University – Boston, USA.
Boot Camp (Negotiations & Bargaining) – London School of Economics (LSE) – London, UK.
Certified Financial Modeler (CFM) – International Academy of Business and Financial Management (IABFM).

Solidarity Bahrain B.S.C.

Executive management profile

For the year ended 31 December 2019

Jawad Mohammed

Chief Executive Officer

Jawad Mohammed has 25 years' experience in business management and insurance industry. He joined Solidarity Bahrain from its inception, having previously worked for Bahrain National Holding and the Ministry of Education 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 WLL, Bahrain; Solid Capital WLL, Bahrain; Al Somood Investment Company, Jordan; and Al Moazarah Investment Company, Jordan. He is also Vice-Chairman of the Bahrain Insurance Association.

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 attended the Gulf Executive Development Program at the Darden School of Business, University of Virginia, USA.

D. Nandakumar

Deputy General Manager - Operations

D. Nandakumar has 40 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 24 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.

Solidarity Bahrain B.S.C.

Executive management profile (continued) **For the year ended 31 December 2019**

Mohammed Awachi

Assistant General Manager - Corporate Support

Mohammed Awachi has 21 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

Yaser Al Hammadi

Head of Compliance and Risk Management & Money Laundering Reporting Officer (MLRO), and Secretary to the Board of Directors

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.

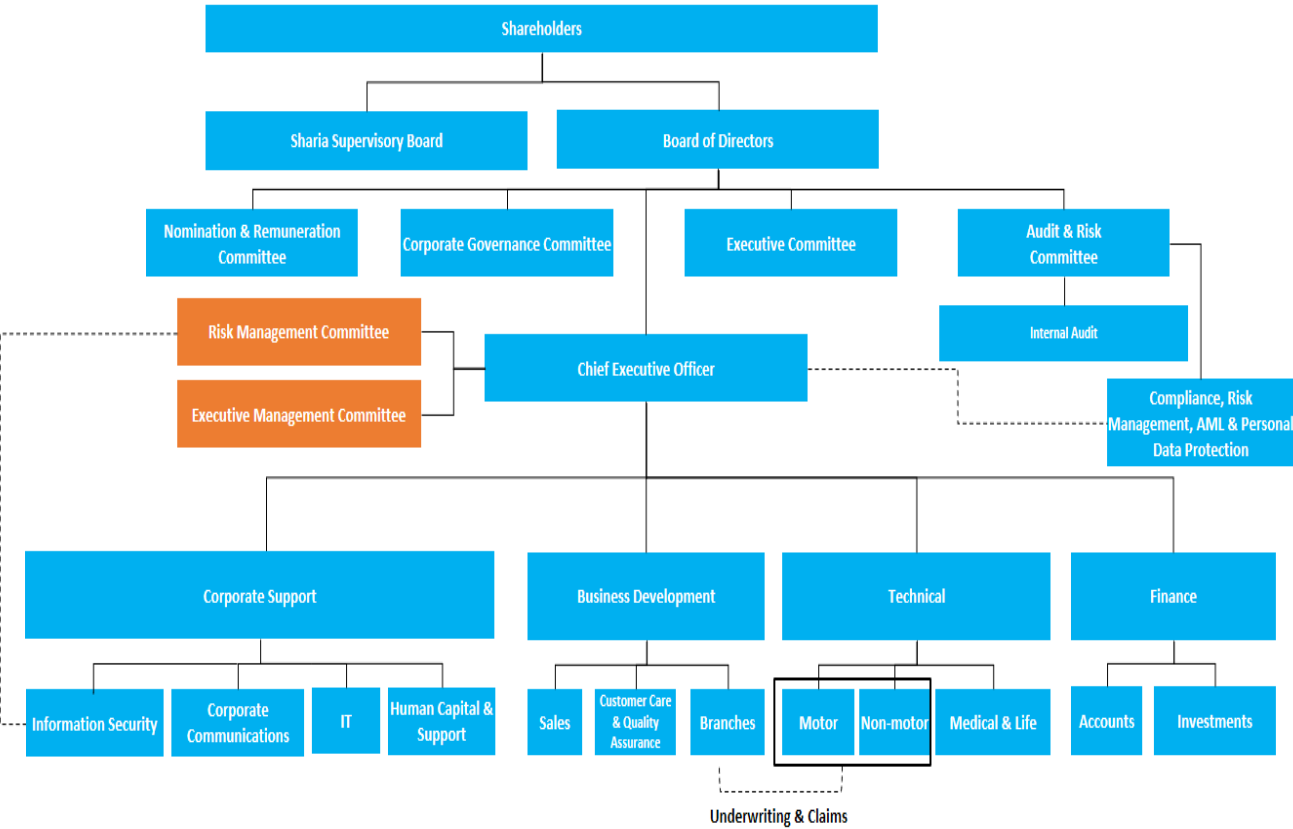
Sanjeev Aggarwal

Head of Finance

Sanjeev Aggarwal has 15 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 2019



Solidarity Bahrain B.S.C.

Corporate Governance

For the year ended 31 December 2019

Solidarity Bahrain is committed to upholding the highest standards of corporate governance in line with international best practice, in order to maximise operational effectiveness, enhance shareholder value, and protect the interests of all stakeholders.

The Company has put in place a robust and comprehensive Corporate Governance Framework (the Framework) in full compliance with local governing laws and regulations. These comprise the Bahrain Commercial Companies Law and the Company's Articles of Association; the Bahrain Corporate Governance Code issued by the Ministry of Industry, Commerce & Tourism and embraced by the Central Bank of Bahrain (CBB); and the CBB Rulebook Volume 3, incorporating the Higher Controls Module.

The adoption and implementation of such regulations, along with the continuous review and adherence to the Company's Corporate Governance Framework, is the responsibility of the Board of Directors.

The Framework reflects Solidarity Bahrain's culture, policies, stakeholder relationships, and its corporate values of responsibility, accountability, fairness and transparency.

OWNERSHIP STRUCTURE

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

THE BOARD

The Board of the Company consists of seven (7) members. At least half of the Board should be Non-Executive directors and at least three (3) of those persons should be Independent Directors.

The Board of Directors 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.

BOARD RESPONSIBILITIES

The specific responsibilities of the Board include the following:

- 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.

Solidarity Bahrain B.S.C.

Corporate Governance (continued) For the year ended 31 December 2019

BOARD MEETINGS AND ATTENDANCE POLICY

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

Board Meetings and Attendance in 2019

(All Board meeting were convened in the Kingdom of Bahrain)

Board Members	25 Feb	12 May	06 Aug	12 Nov	12 Dec
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)	✓	✓	X	✓	✓
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, 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 judgements, taking into account the views of the external auditors. In addition, the Audit and Risk Committee is responsible for ensuring compliance with all relevant laws and regulations.

Audit and Risk Committee Meetings and Attendance in 2019

Audit and Risk Committee Members	25 Feb	12 May	06 Aug	12 Nov
Dr. Nadhem Al Saleh (Independent Non-Executive)	✓	✓	✓	✓
Tawfeeq Shehab (Independent Non-Executive)	✓	✓	✓	✓
Bashar Nass (Non-Independent Non-Executive)	✓	✓	X	✓

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 Directors to the Board. The Committee shall also assist the Board in the consideration of personnel and remuneration issues within the Company.

Nomination and Remuneration Committee Meetings and Attendance in 2019

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

Corporate Governance Committee

The Corporate Governance Committee shall consist of at least three members who must be Independent Directors. One of the members shall be a Shari'a Scholar who is a member of the Company's Shari'a Supervisory Board (SSB), 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 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 Meetings and Attendance in 2019

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

Executive Committee

The Executive Committee has the following responsibilities:

- 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.
- Prioritizing allocation of capital, technical and human resources.

Executive Committee Meetings and Attendance in 2019

Executive Committee	28 Jan	25 Mar	06 May	30 Jun	30 Sep	03 Dec
Ashraf Bseisu – Chairman	✓	✓	✓	✓	✓	✓
Sharif Ahmadi	X	✓	✓	✓	✓	✓
Venkatesan Muniswamy	✓	✓	✓	✓	✓	✓

Other Directorships of Board Members

Board Members	Number of Other Directorships in Bahrain
Tawfeeq Shehab – Chairman (<i>Independent Non-Executive</i>)	-
Ashraf Bseisu – Vice Chairman (<i>Executive Director</i>)	4
Dr. Nadhem Al Saleh (<i>Independent Non-Executive</i>)	1
Sharif Ahmadi (<i>Independent Non-Executive</i>)	-
Venkatesan M. (<i>Executive Director</i>)	2
Bashar Sameer Nass (<i>Non-Independent Non-Executive</i>)	2
Mr. Ali Isa Abdulrahim (<i>Non-Independent Non-Executive</i>) (Effective 4 February 2019)	1

INDEPENDENCE OF DIRECTORS

As defined by the Bahrain Corporate Governance Code, and embraced by the CBB, an 'independent director' is a Director whom the Board has specifically determined to have no material relationship which could affect his independence of judgement, taking into account all known facts. As at 31 December 2019, three Directors of Solidarity Bahrain were classified as Independent Directors.

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 will invite members of Management to address particular subjects of interest to the Board, in order to assist members in remaining aware of current issues, trends and concerns.

Election of Directors

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

COMPLIANCE & ANTI-MONEY LAUNDERING

The Head of Compliance and Risk Management & Money Laundering Reporting Officer (MLRO) – an independent role reporting directly to the Board Audit & Risk Committee and administratively to the Chief Executive Officer – is responsible for ensuring the Company's compliance with the rules, regulations and guidelines of the Central Bank of Bahrain and other regulatory authorities. These cover corporate governance and risk management; personal data protection; customer due diligence, beneficial ownership and know your customer (KYC); and anti-money laundering and combating the financing of terrorism.

MANAGEMENT

The Chief Executive Officer (CEO) is delegated by the Board of Directors with responsibility for the day-to-day management of the Company. The CEO is supported by a well-qualified and experienced Executive Management team, and by two committees: Executive Management Committee and Risk Management Committee.

Executive Management Committee

The Executive Management Committee members shall comprise the Chief Executive Officer and 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 Committee shall meet at least four times a year.

The Executive Management Committee is an advisory body. It acts as 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 CEO. The 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.

REMUNERATION

Directors' Remuneration

Members of the Board of Directors are paid sitting fees for Board and 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 the 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 policy, salaries and benefits are reviewed periodically, and accordingly, suitable revisions are made. A Training Need Analysis is carried out annually, and accordingly, required training programmes are arranged for 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 of Senior Management. Employees are provided with benefits such as medical and group life insurance cover, 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 forms part of the Board Charter. Directors will adhere to the Code in respect to their behaviour that outlines areas such as conflict of interest, confidentiality, and their scope of responsibilities. They will act with honesty, integrity and in good faith, and with due diligence and care, with a view to acting in the best interest of the Company and its stakeholders.

Solidarity Bahrain B.S.C.

Corporate Governance (continued) **For the year ended 31 December 2019**

Staff

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

WHISTLE-BLOWING POLICY

A whistle-blowing policy is in place as approved by the Board. It is designed to enable the airing of genuine concerns regarding suspected malpractice within Solidarity Bahrain, enhancing transparency, and safeguarding the Company's integrity.

COMMUNICATIONS WITH STAKEHOLDERS

Solidarity is committed to communicating with all stakeholders in a professional, transparent, accurate and timely manner. Main communications channels include the annual general meeting, annual reports and quarterly financial reports, corporate website, and regular announcements in the local media.

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 2019.

In the name of Allah, the Merciful, the Compassionate

Report of the Shari'a Supervisory Board

For the financial year ended 31 December 2019

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 31.12.2019. 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 26 Jumada Al-Akhirah 1441 H, corresponding to 20 February 2020

Members of the Shari'a Supervisory Board:

Shaikh Dr. Abdul Satar Abughuddah
Chairman

Shaikh Mohsin Abdul Hussain Al Asfoor
Member

Shaikh Dr. Osama Bahar
Member



INDEPENDENT AUDITOR'S REPORT

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

Report on the financial statements

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, 2019 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 a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and to operate in accordance with Islamic Shari'a rules and principles. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and the results of its operations, changes in participants' surplus and deficit, changes in shareholders' equity and its cash flows for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on regulatory requirements and other matters

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 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, 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 Company has also complied with the Islamic Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Company.

Deloitte & Touche,

DELOITTE & TOUCHE – MIDDLE EAST
Partner Registration No. 157
Manama, Kingdom of Bahrain

February 25, 2020

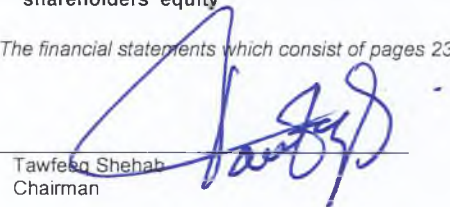
STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

In thousands of Bahraini Dinars

	Note	General Takaful fund		Family Takaful fund		Conventional (run-off) fund		Shareholders' fund		Total	
		2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Assets											
Cash and cash equivalents	4	2,061	655	116	371	597	283	1,139	586	3,913	1,895
Placements with financial institutions	5	5,238	5,830	1,040	722	619	314	8,897	9,326	15,794	16,192
Investments	6	815	741	2,620	2,573	-	1,195	16,824	15,949	20,259	20,458
Takaful and insurance receivables	7	9,718	8,327	89	154	374	1,948	-	-	10,181	10,429
Retakaful and reinsurance share of technical liabilities	8	12,293	10,771	317	436	419	2,621	-	-	13,029	13,828
Deferred acquisition costs	9.1	-	-	-	-	4	5	602	575	606	580
Prepayments and other assets	10	2,598	1,551	70	338	171	817	1,509	1,189	4,348	3,895
Takaful participants' assets – under run-off management	11	-	-	-	-	-	-	119	226	119	226
Property and equipment	12	-	-	-	-	-	-	1,239	1,111	1,239	1,111
Total assets		32,723	27,875	4,252	4,594	2,184	7,183	30,329	28,962	69,488	68,614
Liabilities, participants' funds and shareholders' equity											
Liabilities											
Takaful and insurance technical liabilities	8	25,952	24,200	429	549	1,769	5,931	-	-	28,150	30,680
Unearned commission reserves	9.2	432	363	-	-	10	24	-	-	442	387
Family takaful technical reserve	13	-	-	3,258	3,567	-	-	-	-	3,258	3,567
Takaful and insurance payables	14	7,038	4,957	-	-	139	506	-	-	7,177	5,463
Other liabilities	15	1,221	483	281	273	266	722	2,943	2,829	4,711	4,307
Takaful participants' liabilities – under run-off management	11	-	-	-	-	-	-	119	226	119	226
Total liabilities		34,643	30,003	3,968	4,389	2,184	7,183	3,062	3,055	43,857	44,630
Participants' funds		(1,920)	(2,128)	284	205	-	-	-	-	(1,636)	(1,923)
Shareholders' equity											
Share capital	16	-	-	-	-	-	-	12,000	12,000	12,000	12,000
Treasury shares	16.4	-	-	-	-	-	-	(4)	(4)	(4)	(4)
Statutory reserve	17	-	-	-	-	-	-	2,913	2,651	2,913	2,651
Share premium		-	-	-	-	-	-	4,182	4,182	4,182	4,182
Property revaluation reserve		-	-	-	-	-	-	747	747	747	747
Investment fair value reserve		-	-	-	-	-	-	1,889	1,646	1,889	1,646
Retained earnings		-	-	-	-	-	-	5,540	4,685	5,540	4,685
Total shareholders' equity		-	-	-	-	-	-	27,267	25,907	27,267	25,907
Total liabilities, participants' funds and shareholders' equity		32,723	27,875	4,252	4,594	2,184	7,183	30,329	28,962	69,488	68,614

The financial statements which consist of pages 23 to 73 were approved by the Board of Directors on 25 February 2020 and signed on its behalf by:



Tawfeeq Shehab
Chairman



Ashraf Bseisu
Vice Chairman



Jawad Mohammed
Chief Executive Officer

The notes 1 to 35 on pages 28 to 73 form an integral part of the financial statements.

STATEMENT OF INCOME AND PARTICIPANTS' REVENUES AND EXPENSES

For the year ended 31 December 2019

In thousands of Bahraini Dinars

	Note	General Takaful fund		Family Takaful fund		Conventional (run-off) fund		Shareholders' fund		Total	
		2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Takaful/conventional revenues											
Gross contributions/premium		30,531	29,433	256	562	65	77	-	-	30,852	30,072
Retakaful share of gross contributions/premium		(15,605)	(14,126)	(505)	(531)	(84)	(84)	-	-	(16,194)	(14,741)
Retained contributions/premium		14,926	15,307	(249)	31	(19)	(7)	-	-	14,658	15,331
Movement in unearned contributions/premium, net		312	(2,889)	-	-	4	2,549	-	-	316	(340)
Net contributions/premium earned		15,238	12,418	(249)	31	(15)	2,542	-	-	14,974	14,991
Net commission earned/(incurred)		844	737	-	-	25	(1)	-	-	869	736
Profit commission and other income		110	207	249	364	-	63	-	-	359	634
Total takaful/conventional revenues		16,192	13,362	-	395	10	2,604	-	-	16,202	16,361
Takaful/conventional expenses											
Gross claims paid		(10,839)	(9,330)	(491)	(33)	(2,554)	(5,180)	-	-	(13,884)	(14,543)
Claims recovered from retakaful/reinsurance and other parties		1,421	2,393	360	14	982	1,326	-	-	2,763	3,733
Net claims paid		(9,418)	(6,937)	(131)	(19)	(1,572)	(3,854)	-	-	(11,121)	(10,810)
Movement in outstanding claims – gross		(1,179)	(1,677)	119	(363)	4,145	3,464	-	-	3,085	1,424
Movement in outstanding claims – retakaful/reinsurance		638	299	(119)	307	(2,189)	(1,769)	-	-	(1,670)	(1,163)
Net claims incurred		(9,959)	(8,315)	(131)	(75)	384	(2,159)	-	-	(9,706)	(10,549)
Transfer to family takaful technical reserve	13	-	-	149	(103)	-	-	-	-	149	(103)
Total takaful/conventional expenses		(9,959)	(8,315)	18	(178)	384	(2,159)	-	-	(9,557)	(10,652)
Technical surplus		6,233	5,047	18	217	394	445	-	-	6,645	5,709
Wakala fee	19	(6,207)	(5,084)	(63)	(140)	-	-	-	-	(6,270)	(5,224)
Surplus/(deficit) from takaful/conventional operations		26	(37)	(45)	77	394	445	-	-	375	485
Wakala fee	19	-	-	-	-	-	-	6,270	5,224	6,270	5,224
Investment income, net	20	182	122	124	108	-	-	1,530	1,444	1,836	1,674
Technical surplus transferred from conventional (run-off) fund		-	-	-	-	(394)	(445)	394	445	-	-
Mudarib share	20	-	-	-	-	-	-	102	77	102	77
Employee costs		-	-	-	-	-	-	(2,350)	(2,220)	(2,350)	(2,220)
Commission expenses incurred	9	-	-	-	-	-	-	(1,404)	(1,111)	(1,404)	(1,111)
Other operating expenses		-	-	-	-	-	-	(1,568)	(1,517)	(1,568)	(1,517)
Provision for doubtful receivables, net	7.1	-	-	-	-	-	-	(358)	(36)	(358)	(36)
Net profit and surplus for the year		208	85	79	185	-	-	2,616	2,306	2,903	2,576
Basic and diluted earnings per share	18							21.81 Fils	19.22 fils		

The financial statements which consist of pages 23 to 73 were approved by the Board of Directors on 25 February 2020 and signed on its behalf by:

Tawfeeq Shehab
ChairmanAshraf Bseisi
Vice ChairmanJawad Mohammed
Chief Executive Officer

The notes 1 to 35 on pages 28 to 73 form an integral part of the financial statements.

STATEMENT OF PARTICIPANTS' SURPLUS AND DEFICIT
For the year ended 31 December 2019

In thousands of Bahraini Dinars

2019

At 1 January
 Surplus for the year

At 31 December

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

2018

At 1 January
 Surplus for the year

At 31 December

Accumulated (deficit)/surplus	
General Takaful	Family Takaful
(2,213)	20
85	185
(2,128)	205

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**For the year ended 31 December 2019**

In thousands of Bahraini Dinars

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 17)	-	-	262	-	-	-	(262)	-
Change in fair value of equity investments	-	-	-	-	-	243	-	243
At 31 December	12,000	(4)	2,913	4,182	747	1,889	5,540	27,267

2018

	Share capital	Treasury shares	Statutory reserve	Share premium	Property revaluation reserve	Investment fair value reserve	Retained earnings	Total
At 1 January	11,189	(4)	2,420	4,993	747	1,553	2,610	23,508
Bonus shares issued during the year (Note 16.2)	811	-	-	(811)	-	-	-	-
Net profit for the year	-	-	-	-	-	-	2,306	2,306
Transfer to statutory reserve (Note 17)	-	-	231	-	-	-	(231)	-
Change in fair value of investments	-	-	-	-	-	93	-	93
At 31 December	12,000	(4)	2,651	4,182	747	1,646	4,685	25,907

The notes 1 to 35 on pages 28 to 73 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS**For the year ended 31 December 2019**

In thousands of Bahraini Dinars

	Note	2019	2018
OPERATING ACTIVITIES			
Combined profit & surplus for the year		2,903	2,576
<i>Adjustments for non-cash items:</i>			
Depreciation	12	154	95
Provision for employees end of service benefits	15 (b)	32	30
Investment income, net	20	(1,836)	(1,729)
Provision for impairment in investment securities	20	-	55
Amortisation during the year, net	20	31	47
Provision for doubtful receivables, net	7.1	358	36
Operating cash flows before working capital changes		1,642	1,110
<i>Changes in working capital:</i>			
Increase in takaful and insurance receivables		(110)	(277)
Decrease in retakaful and reinsurance share of technical liabilities		799	1,163
Increase/(decrease) in deferred acquisition costs		(26)	31
Increase in prepayments and other assets		(251)	(815)
Decrease in takaful and insurance technical liabilities		(2,530)	(1,084)
Increase/(decrease) in unearned commission reserves		55	(143)
Decrease in family takaful technical reserves		(309)	(11)
Increase in takaful and insurance liabilities		1,714	726
Increase in other liabilities		334	907
Working capital changes		(324)	497
Payment towards employees end of service benefits	15 (b)	(31)	(65)
Net cash generated from operating activities		1,287	1,542
INVESTING ACTIVITIES			
Purchase of equipment	12	(282)	(282)
Purchase of investments		(5,782)	(5,335)
Placements with financial institutions, net		398	(2,974)
Proceeds from disposal of investments carried at amortised cost		6,265	2,343
Investment income received		1,562	1,303
Net cash generated from/(used in) investing activities		2,161	(4,945)
FINANCING ACTIVITY			
Dividends paid during the year		(1,430)	(13)
Net cash used in financing activity		(1,430)	(13)
Net increase/(decrease) in cash and cash equivalents		2,018	(3,416)
Cash and cash equivalents at the beginning of the year	4	1,895	5,311
Cash and cash equivalents at the end of the year	4	3,913	1,895
Shareholders' fund		1,139	586
Participants' fund		2,177	1,026
Conventional (run-off) fund		597	283
Cash and cash equivalents at the end of the year	4	3,913	1,895

The notes 1 to 35 on pages 28 to 73 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 Parent Company acquired 71.46% of the total issued and paid up ordinary shares of the Company on 27 December 2016, via a voluntary conditional offer. During 2017, the shareholders of the Company and Solidarity General Takaful B.S.C. (c) ("SGT"), a wholly owned subsidiary of the Parent Company resolved to approve the transfer of business, assets and liabilities from SGT to the Company through a share swap transaction. The Shareholders of the Company held an Extraordinary General Meeting on 3 August 2017 and approved the conversion of the Company's business from conventional insurance to Takaful insurance. The Board of Directors appointed a Shari'a Supervisory Board for overseeing the compliance with Shari'a. The pre-existing conventional portfolio was accordingly put under run-off.

On 3 December 2017, Solidarity General Takaful B.S.C. (c) ("SGT") transferred its business, assets and liabilities to Al Ahlia Insurance Company B.S.C. ("AAIC"). Subsequently, on 27 December 2017, AAIC changed its name to Solidarity Bahrain B.S.C.

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.

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 2019 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 2019 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.

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 December 2019**

In thousands of Bahraini Dinars

2 BASIS OF PREPARATION (CONTINUED)**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.

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 2019 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 2019

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**

The following new AAOIFI accounting standards, amendments to standards and interpretations, which became effective for annual periods beginning on or after 1 January 2019, have been adopted in these financial statements.

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.

(a) FAS 28 "Murabaha and other deferred payment sales" (effective 1 January 2019)

FAS 28 prescribes the accounting and reporting principles and requirements for Murabaha and deferred payment sales transaction and different elements of such transaction. The adoption of this standard has no material impact on the financial statements.

(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 2019 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 2020)

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). The Company has implemented the Central Bank's instructions in this regard and has been implemented on the financial statements, as the mandatory application of the Islamic Financial Accounting Standard No. Date (30) is the first in January 2020 with earlier application permitted.

(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, 2020.

(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 2020)

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 Shari'a 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 2020)

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.

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

2 BASIS OF PREPARATION (CONTINUED)**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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

In thousands of Bahraini Dinars

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

(e) 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.

(f) 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 2019

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 2019**

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.

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 principlesAmortised 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 2019

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) 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.

(vi) 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.

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 December 2019**

In thousands of Bahraini Dinars

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

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.

(vii) 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.

(viii) 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

In thousands of Bahraini Dinars

2 BASIS OF PREPARATION (CONTINUED)

2.7 Summary of significant accounting policies (continued)

(ix) 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.

(x) 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.

(xi) 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.

(xii) 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.

(xiii) 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.

2 BASIS OF PREPARATION (CONTINUED)**2.7 Summary of significant accounting policies (continued)****(xiii) 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.

(xiv) 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. Wakala fee rates are approved by the Shari'a Supervisory Board. Wakala fee from takaful funds are recognised in accordance with the takaful contracts and as per the wakala fee structure approved by the Shari'a Supervisory Board.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

In thousands of Bahraini Dinars

2 BASIS OF PREPARATION (CONTINUED)

2.7 Summary of significant accounting policies (continued)

(xv) 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.

(xvi) 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.

(xvii) 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.

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.

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 2019**

In thousands of Bahraini Dinars

4 CASH AND CASH EQUIVALENTS

	2019	2018
Cash and bank balances	3,376	1,712
Placements with maturities less than three months	537	183
	3,913	1,895

Bank balances are held in non-profit bearing current accounts.

Placements are held with financial institutions in Bahrain with an original maturity of three months or less with average profit rate of 1.76% (2018: 3.25%).

5 PLACEMENTS WITH FINANCIAL INSTITUTIONS

	2019	2018
Placements held with a related party (Note 24.2)	1,282	1,502
Placements held with other financial institutions	14,512	14,690
	15,794	16,192

Placements are held with financial institutions in Bahrain with an original maturity of more than three months with average profit rate of 3.83% (2018: 3.70%).

6 INVESTMENTS

	2019	2018
Debt type instruments		
Amortised cost:		
Quoted instruments	15,238	15,865
Equity type instruments		
Fair value through equity:		
Quoted instruments	3,371	2,943
Unquoted instruments	1,650	1,650
	20,259	20,458

Included in investments are BD Nil (2018: BD 1.195 Million) held under conventional insurance run-off fund.

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 December 2019**

In thousands of Bahraini Dinars

6 INVESTMENTS (CONTINUED)

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

	2019	2018
At the beginning of the year	15,865	13,139
Additions during the year	5,597	5,167
Disposals during the year	(6,193)	(2,343)
Amortisation during the year, net	(31)	(47)
Provision for impairment during the year	-	(51)
At the end of the year	15,238	15,865

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

	2019	2018
At the beginning of the year	4,593	4,336
Additions during the year	185	168
Provision for impairment during the year	-	(4)
Change in fair value, net	243	93
At the end of the year	5,021	4,593

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

	2019	2018
Quoted equity instruments	3,371	2,943
Unquoted equity instruments	1,650	1,650
	5,021	4,593

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

In thousands of Bahraini Dinars

7 TAKAFUL AND INSURANCE RECEIVABLES

	2019	2018
Due from:		
Participants and policyholders	5,793	4,502
Brokers	2,397	1,986
Takaful and insurance companies in relation to subrogation	2,818	4,151
Takaful/retakaful and insurance/reinsurance companies	562	821
	11,570	11,460
Less: provision for doubtful takaful and insurance receivables	(1,389)	(1,031)
	10,181	10,429

Included in the above insurance receivables are BD 0.374 Million (2018: BD 1.948 Million) 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.

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

	2019	2018
At the beginning of the year	1,031	995
Charge for the year	358	36
At the end of the year	1,389	1,031

7.2 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	
2019	5,982	3,117	1,082	10,181
2018	6,041	2,433	1,955	10,429

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

In thousands of Bahraini Dinars

8 TAKAFUL AND INSURANCE TECHNICAL LIABILITIES AND RETAKAFUL AND REINSURANCE SHARE OF TECHNICAL LIABILITIES

	2019		2018	
	Takaful funds	Conventional fund – run off	Takaful funds	Conventional fund – run off
Gross				
Unearned contributions/premiums	15,184	33	14,612	50
Outstanding claims	11,197	1,736	10,137	5,881
	26,381	1,769	24,749	5,931
Retakaful/reinsurance				
Retakaful unearned contributions /reinsurance unearned premiums	(7,949)	(27)	(7,065)	(40)
Retakaful/reinsurance share of outstanding claims	(4,661)	(392)	(4,142)	(2,581)
	(12,610)	(419)	(11,207)	(2,621)
Net				
Unearned contributions/premiums	7,235	6	7,547	10
Outstanding claims	6,536	1,344	5,995	3,300
	13,771	1,350	13,542	3,310

8.1 Unearned contributions/premiums and their retakaful/reinsurance share

	2019		2018	
	Takaful funds	Conventional fund – run off	Takaful funds	Conventional fund – run off
Unearned contributions/premiums				
Beginning of the year	14,612	50	8,774	5,548
Gross contributions/premiums written during the year	30,531	65	29,433	77
Gross contributions/premiums earned	(29,959)	(82)	(23,595)	(5,575)
Movement in unearned contributions/premiums	572	(17)	5,838	(5,498)
End of the year	15,184	33	14,612	50
Retakaful/reinsurance unearned contributions/premiums				
Beginning of the year	7,065	40	4,116	2,989
Retakaful/reinsurance contributions/ premiums ceded during the year	15,605	84	14,126	84
Retakaful/reinsurance contributions/premiums incurred	(14,721)	(97)	(11,177)	(3,033)
Movement in retakaful/reinsurance unearned contributions/premiums	884	(13)	2,949	(2,949)
End of the year	7,949	27	7,065	40
Net unearned contributions/premiums	7,235	6	7,547	10

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

In thousands of Bahraini Dinars

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

8.2 Outstanding claims and their retakaful share

	2019		2018	
	Takaful funds	Conventional fund – run off	Takaful funds	Conventional fund – run off
Outstanding claims				
At the beginning of the year				
- Claims incurred and reported	8,620	5,602	7,137	7,893
- Claims incurred but not reported (IBNR)	1,517	279	960	1,452
	10,137	5,881	8,097	9,345
Claims paid during the year	(11,330)	(2,554)	(9,363)	(5,180)
Claims incurred during the year	12,390	(1,591)	11,403	1,716
Movement in outstanding claims	1,060	(4,145)	2,040	(3,464)
At the end of the year	11,197	1,736	10,137	5,881
Represented by:				
- Claims incurred and reported	9,991	1,659	8,620	5,602
- Claims incurred but not reported (IBNR)	1,206	77	1,517	279
Retakaful/reinsurance share of outstanding claims				
At the beginning of the year				
- Retakaful/reinsurance share of claims incurred and reported	(3,923)	(2,563)	(3,374)	(3,674)
- Retakaful/reinsurance share of claims incurred but not reported (IBNR)	(219)	(18)	(162)	(676)
	(4,142)	(2,581)	(3,536)	(4,350)
Claims recovered during the year	1,781	982	2,407	1,326
Retakaful/reinsurance share of claims incurred during the year	(2,300)	1,207	(3,013)	443
Movement in retakaful/reinsurance share outstanding claims	(519)	2,189	(606)	1,769
At the end of the year	(4,661)	(392)	(4,142)	(2,581)
Represented by:				
- 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)
Net outstanding claims				
At the end of the year	6,536	1,344	5,995	3,300
Represented by				
- Net claims incurred and reported	5,505	1,263	4,697	3,039
- Net claims incurred but not reported (IBNR)	1,031	81	1,298	261

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 December 2019**

In thousands of Bahraini Dinars

9 DEFERRED ACQUISITION COSTS AND UNEARNED COMMISSION RESERVES**9.1 Deferred acquisition costs**

	2019		2018	
	Shareholders' fund	Conventional fund – run off	Shareholders' fund	Conventional fund – run off
At the beginning of the year	575	5	402	209
Commissions paid during the year	1,431	8	1,284	6
Commissions incurred during the year	(1,404)	(9)	(1,111)	(210)
At the end of the year	602	4	575	5

9.2 Unearned commission reserves

	2019		2018	
	Takaful funds	Conventional fund – run off	Takaful funds	Conventional fund – run off
At the beginning of the year	363	24	324	206
Commissions received during the year	913	20	776	27
Commissions earned during the year	(844)	(34)	(737)	(209)
At the end of the year	432	10	363	24

The commissions incurred and commissions earned under the conventional insurance (run-off) fund for the year ended 31 December 2019 is BD 9 thousand (2018: 210 thousand) and BD 34 thousand (2018: 209 thousand) respectively. Accordingly, net commissions earned is BD 25 thousand (2018: net commission incurred BD 1 thousand) for the year ended 31 December 2019.

10 PREPAYMENTS AND OTHER ASSETS

	2019	2018
Deposit with Third Party Administrator (TPA)	40	41
Statutory deposit	129	125
Accrued income	506	426
Prepaid expenses and other assets	1,917	669
Receivable from takaful/conventional funds (Note 15)	1,756	2,634
	4,348	3,895

Included in the above other assets are BD 171 thousand (2018: BD 817 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

For the year ended 31 December 2019

In thousands of Bahraini Dinars

11 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.

	2019	2018
Cash and bank balances	57	78
Other investments	62	148
Total assets under run-off management	119	226

	2019	2018
Unearned contribution and mortality reserves	33	33
Takaful and other payables	39	114
Unit linked reserve	9	41
	81	188
Participants' surplus assets over liabilities	38	38
Total liabilities under run-off management	119	226

12 PROPERTY AND EQUIPMENT

2019	Land and building	Furniture, fixtures office and computer equipment	Motor vehicles	Total
Cost				
At 1 January	853	1,495	17	2,365
Additions	-	282	-	282
At 31 December	853	1,777	17	2,647
Accumulated depreciation				
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
Net book amount				
At 31 December	800	437	2	1,239

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 December 2019**

In thousands of Bahraini Dinars

12 PROPERTY AND EQUIPMENT (CONTINUED)

2018	Land and building	Furniture, fixtures office and computer equipment	Motor vehicles	Total
Cost				
At 1 January	853	1,213	17	2,083
Additions	-	282	-	282
At 31 December	853	1,495	17	2,365
Accumulated depreciation				
At 1 January	53	1,099	7	1,159
Charge for the year	-	91	4	95
At 31 December	53	1,190	11	1,254
Net book amount				
At 31 December	800	305	6	1,111

13 FAMILY TAKAFUL TECHNICAL RESERVE

	2019	2018
At the beginning of the year	3,567	3,578
Refund during the year	(160)	(114)
Net (decrease)/increase during the year	(149)	103
At the end of the year	3,258	3,567

14 TAKAFUL AND INSURANCE PAYABLES

	2019	2018
Due to participants and policyholders	514	732
Due to Takaful and insurance companies	6,039	3,782
Due to garages	624	949
	7,177	5,463

Included in the above takaful and insurance payables are BD 139 thousand (2018: BD 506 thousand) that are held under conventional run-off fund.

15 OTHER LIABILITIES

	2019	2018
Unclaimed dividends	461	392
Employees' end of service benefits (Note 15.b)	171	170
Accrued expenses and other payables	2,323	1,111
Payable to takaful/conventional funds (Note 10)	1,756	2,634
	4,711	4,307

Included in the above other liabilities are BD 266 thousand (2018: BD 722 thousand) that are held under conventional run-off fund.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

In thousands of Bahraini Dinars

15 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 2019 amounted to BD 145 thousand (2018: BD 116 thousand).

(b) Expatriate employees

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

	2019	2018
At the beginning of the year	170	205
Charge for the year	32	30
Payments during the year	(31)	(65)
At the end of the year	171	170
Total number of staff employed by the Company	131	129

16 SHARE CAPITAL**16.1 Authorised**

Authorised shares of 150,000,000 at BD 0.100 each
 (2018: 150,000,000 shares of BD 0.100 each)

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

16.2 Issued and fully paid

	Number of shares (thousands)	Share capital
At 1 January 2018	111,886	11,189
Bonus shares issued during the year	8,114	811
At 31 December 2018	120,000	12,000
At 1 January 2019 and At 31 December 2019	120,000	12,000

The Company's total issued and fully paid share capital at 31 December 2019 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.

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 December 2019**

In thousands of Bahraini Dinars

16 SHARE CAPITAL (CONTINUED)**16.3 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 2019 and 2018 are as follows:

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%

31 December 2018		
	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 2019 and 2018 is set out below:

31 December 2019		
	Number of shareholders	Percentage of total Outstanding Shares
Less than 1%	2,195	12.01%
More than 1% up to less than 5%	2	3.82%
More than 5%	1	84.17%
	2,198	100%

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 December 2019**

In thousands of Bahraini Dinars

16 SHARE CAPITAL (CONTINUED)**16.3 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 2019 and 2018 is set out below (continued):

31 December 2018		
	Number of shareholders	Number of shares
Less than 1%	2,195	14,562,173
More than 1% up to less than 5%	2	4,432,366
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	
	2019	2018
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).

16.4 Treasury shares

The Company owned its own shares amounting to BD 4 thousand at 31 December 2019 (2018: BD 4 thousand). The shares are held as treasury shares and the Company has the right to reissue these shares at a later date.

17 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 262 thousand to the statutory reserve for the year ended 31 December 2019 (2018: BD 231 thousand).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

In thousands of Bahraini Dinars

18 BASIC AND DILUTED EARNINGS PER SHARE

	2019	2018
Net profit for the year	2,616	2,306
Weighted average number of shares outstanding	119,950,219	119,950,219
Basic and diluted earnings per 100 fils share	21.81 fils	19.22 fils

The earnings per share has 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.

19 WAKALA FEE

The Company receives Wakala fee for administration of the takaful funds on behalf of the participants in accordance with the contracts of the respective takaful funds. 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 2019 is 25% (2018: 22%) for the general takaful fund and 25% (2018: 25%) for family takaful fund of the overall gross contributions.

20 INVESTMENT INCOME, NET

	2019	2018
Income from placements with financial institutions	613	548
Income from debt instruments	831	702
Income from equity instruments	553	623
Amortisation during the year, net	(31)	(47)
Provision for impairment on equity instruments	-	(51)
Provision for impairment on debt instruments	-	(4)
Investment management expenses	(28)	(20)
Net investment income	1,938	1,751
Mudarib share*	(102)	(77)
	1,836	1,674
Shareholders' fund investment income	1,530	1,444
General takaful fund investment income	182	122
Family takaful fund investment income	124	108
	1,836	1,674

**Mudarib share*

The shareholders manage the participants' investments and charge 25% for the year ended 31 December 2019 (2018: 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.

21 TAKAFUL RISK MANAGEMENT

21.1 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**For the year ended 31 December 2019**

In thousands of Bahraini Dinars

21 TAKAFUL RISK MANAGEMENT (CONTINUED)**21.1 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.

21.2 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.

21.3 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.

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 loss ratio				
1 percent increase	163	186	410	398
1 percent decrease	411	388	378	390

2018	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	104	134	428	423
1 percent decrease	436	406	462	467
Expected loss ratio				
1 percent increase	156	186	428	423
1 percent decrease	384	354	462	467

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 December 2019**

In thousands of Bahraini Dinars

21 TAKAFUL RISK MANAGEMENT (CONTINUED)**21.4 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 in 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.

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 December 2019**

In thousands of Bahraini Dinars

21 TAKAFUL RISK MANAGEMENT (CONTINUED)**21.4 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.

21.5 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.

21.6 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.

2019	Non-Motor	Motor	Medical	Group Life	Family takaful	Total
Geographical area						
Bahrain & GCC:						
Gross	7,872	9,953	11,101	1,670	256	30,852
Net of retakaful	598	9,673	4,091	545	(249)	14,658
2018						
Geographical area						
Bahrain & GCC:						
Gross	6,617	10,492	10,842	1,559	562	30,072
Net of retakaful	586	10,129	4,075	510	31	15,331

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

In thousands of Bahraini Dinars

21 TAKAFUL RISK MANAGEMENT (CONTINUED)

21.7 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

Accident year	2015 and Prior	2016	2017	2018	2019	Total
Estimate of ultimate claims costs:						
At end of reporting year	155,510	27,954	28,077	31,901	14,168	14,168
One year later	154,421	27,815	24,507	19,714		19,714
Two years later	154,501	30,749	21,925			21,925
Three years later	153,485	29,786				29,786
Four years later	150,683					150,683
Current estimate of cumulative claims	150,683	29,786	21,925	19,714	14,168	236,276
Cumulative payments to date	(149,551)	(29,354)	(21,021)	(17,568)	(7,585)	(225,079)
Total reserves included in the statement of financial position	1,132	432	904	2,146	6,583	11,197

(b) Takaful claims – Net

Accident year	2015 and Prior	2016	2017	2018	2019	Total
Estimate of ultimate claims costs:						
At end of reporting year	86,845	16,743	17,098	23,762	10,542	10,542
One year later	84,478	15,645	16,245	16,379		16,379
Two years later	84,608	15,247	15,103			15,103
Three years later	84,358	14,713				14,713
Four years later	83,052					83,052
Current estimate of net cumulative claims	83,052	14,713	15,103	16,379	10,542	139,789
Cumulative net payments to date	(82,442)	(14,472)	(14,671)	(15,160)	(6,508)	(133,253)
Total net reserves included in the statement of financial position	610	241	432	1,219	4,034	6,536

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

In thousands of Bahraini Dinars

21 TAKAFUL RISK MANAGEMENT (CONTINUED)

21.7 Claims development (continued)

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

Accident year	2015 and Prior	2016	2017	2018	2019	Total
Estimate of ultimate claims costs:						
At end of reporting year	22,760	10,698	10,690	3,285	224	224
One year later	20,952	10,360	9,657	3,012		3,012
Two years later	21,029	10,137	8,953			8,953
Three years later	20,866	10,105				10,105
Four years later	19,798					19,798
Current estimate of cumulative claims	19,798	10,105	8,953	3,012	224	42,092
Cumulative payments to date	(19,450)	(9,844)	(8,259)	(2,687)	(116)	(40,356)
Total reserves included in the statement of financial position	348	261	694	325	108	1,736

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

Accident year	2015 and Prior	2016	2017	2018	2019	Total
Estimate of ultimate claims costs:						
At end of reporting year	14,891	7,737	6,521	2,727	180	180
One year later	13,836	7,601	6,139	2,546		2,546
Two years later	13,877	7,370	6,168			6,168
Three years later	13,668	7,412				7,412
Four years later	13,174					13,174
Current estimate of net cumulative claims	13,174	7,412	6,168	2,546	180	29,480
Cumulative net payments to date	(12,990)	(7,265)	(5,545)	(2,251)	(85)	(28,136)
Total net reserves included in the statement of financial position	184	147	623	295	95	1,344

22 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.

23 FINANCIAL RISK MANAGEMENT

23.1 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**For the year ended 31 December 2019**

In thousands of Bahraini Dinars

23 FINANCIAL RISK MANAGEMENT (CONTINUED)**23.2 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:

	2019	2018
Cash and cash equivalents	3,913	1,895
Placements with financial institutions	15,794	16,192
Investments	15,238	15,865
Takaful and insurance receivables	10,181	10,429
Retakaful/reinsurance share of outstanding claims (excluding IBNR)	4,882	6,486
Other assets	2,592	1,261
	52,600	52,128

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

In thousands of Bahraini Dinars

23 FINANCIAL RISK MANAGEMENT (CONTINUED)

23.2 Credit risk (continued)

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

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
	10,864	4,199	1,389	(1,389)	15,063

2018	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	6,041	4,388	1,031	(1,031)	10,429
Retakaful/reinsurance share of outstanding claims (excluding IBNR)	6,486	-	-	-	6,486
	12,527	4,388	1,031	(1,031)	16,915

(iv) Age analysis (Takaful and insurance receivables)

	2019		2018	
	Gross	Provisions	Gross	Provisions
0 to 6 months	5,982	-	6,041	-
6 to 12 months	3,787	335	2,433	-
More than 12 months	1,801	1,054	2,986	1,031
	11,570	1,389	11,460	1,031

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

In thousands of Bahraini Dinars

23 FINANCIAL RISK MANAGEMENT (CONTINUED)

23.3 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:

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
38,282	38,282

2018

Takaful and insurance technical liabilities
Takaful and insurance payables
Other liabilities

Contractual undiscounted cash flows	
Carrying amount	Total cash outflows
30,680	30,680
5,463	5,463
1,673	1,673
37,816	37,816

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

In thousands of Bahraini Dinars

23 FINANCIAL RISK MANAGEMENT (CONTINUED)

23.4 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 2019**

In thousands of Bahraini Dinars

23 FINANCIAL RISK MANAGEMENT (CONTINUED)**23.4 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.

2019	Combined profit and surplus	Equity
<i>Profit rate risk</i>		
+ 100 basis points shift in yield curves	3,223	3,223
- 100 basis points shift in yield curves	2,583	2,583
2018	Combined profit and surplus	Equity
<i>Profit rate risk</i>		
+ 100 basis points shift in yield curves	2,880	2,880
- 100 basis points shift in yield curves	2,272	2,272

24 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.

24.1 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 52 thousand is paid to the Board of Directors of the Company during the year (2018: nil). Sitting fees paid to the members of the Committees of the Board of Directors amounting BD 32 thousand (2018: BD 37 thousand) and salaries and benefits paid to key members of management amounting to BD 333 thousand (2018: BD 391 thousand). End of service benefits due to key management personnel as at 31 December 2019 amounting to BD 132 thousand (2018: BD 114 thousand).

24 RELATED PARTIES (CONTINUED)**24.2 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

2019	2018
22	15
1,065	1,844
13	20
50	105
522	209

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

2019	2018
96	77
1,282	1,502
48	226
21	-
685	466
1,191	544

25 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.

26 EARNINGS PROHIBITED BY SHARI'A

There were no earnings (2018: BD nil) realised during the year from transactions which are not permitted by Sharia Supervisory Board.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

In thousands of Bahraini Dinars

27 ZAKAH

Zakah of BD 107 thousand (2018: BD 62 thousand) at the rate of 1 fils (2018: 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.

28 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 2019

In thousands of Bahraini Dinars

28 SEGMENTAL INFORMATION (CONTINUED)

	2019					2018						
	Non-Motor (*)	Motor	Medical	Group Life	Family Takaful	Total	Non-Motor (*)	Motor	Medical	Group Life	Family Takaful	Total
Takaful/conventional revenues												
Gross contributions/premiums	7,872	9,953	11,101	1,670	256	30,852	6,617	10,492	10,842	1,559	562	30,072
Retakaful/reinsurance contributions/premiums	(7,274)	(280)	(7,010)	(1,125)	(505)	(16,194)	(6,031)	(363)	(6,767)	(1,049)	(531)	(14,741)
Retained contributions/premiums	598	9,673	4,091	545	(249)	14,658	586	10,129	4,075	510	31	15,331
Movement in unearned contributions/premiums, net	(13)	296	34	(1)	-	316	(98)	(71)	(153)	(18)	-	(340)
Net contributions/premiums earned	585	9,969	4,125	544	(249)	14,974	488	10,058	3,922	492	31	14,991
Commission income/(expense)	850	26	49	-	-	925	768	27	2	-	-	797
Movement in unearned commission, net	(46)	8	(18)	-	-	(56)	22	(51)	(62)	30	-	(61)
Profit commission and other income	49	44	17	-	249	359	80	84	82	24	364	634
Net commission earned/(incurred)	853	78	48	-	249	1,228	870	60	22	54	364	1,370
Total takaful/conventional revenues	1,438	10,047	4,173	544	-	16,202	1,358	10,118	3,944	546	395	16,361

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

In thousands of Bahraini Dinars

28 SEGMENTAL INFORMATION (CONTINUED)

	2019						2018					
	Non-Motor (*)	Motor	Medical	Group Life	Family Takaful	Total	Non-Motor (*)	Motor	Medical	Group Life	Family Takaful	Total
Takaful/conventional expenses												
Gross claims paid	1,334	7,450	3,620	989	491	13,884	2,741	8,172	2,913	684	33	14,543
Claims recovered from retakaful/reinsurance and others	(1,104)	(270)	(202)	(827)	(360)	(2,763)	(2,535)	(313)	(364)	(507)	(14)	(3,733)
Net claims paid	230	7,180	3,418	162	131	11,121	206	7,859	2,549	177	19	10,810
Movement in outstanding claims – gross	(2,367)	(425)	(344)	170	(119)	(3,085)	(1,054)	(821)	340	(252)	363	(1,424)
Movement in outstanding claims – retakaful/reinsurance	2,193	(559)	21	(104)	119	1,670	1,186	129	60	95	(307)	1,163
Net claims incurred/(recovered)	56	6,196	3,095	228	131	9,706	338	7,167	2,949	20	75	10,549
Transfer to family takaful technical reserve	-	-	-	-	(149)	(149)	-	-	-	-	103	103
Technical surplus	1,382	3,851	1,078	316	18	6,645	1,020	2,951	995	526	217	5,709
Identifiable assets	5,698	6,054	7,017	1,033	4,252	24,054	6,858	6,782	3,527	956	590	18,713
Identifiable liabilities	6,896	14,749	5,540	1,244	3,968	32,397	8,264	15,504	6,025	1,089	4,390	35,272

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

Assets amounting to BD 45.434 million (2018: BD 49.90 million) and liabilities amounting to 11.460 million (2018: BD 9.36 million) are not specifically identifiable.

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 December 2019**

In thousands of Bahraini Dinars

29 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
31 December 2019				
Investments at fair value	3,371	-	1,650	5,021
	3,371	-	1,650	5,021
 31 December 2018				
Investments at fair value	2,943	-	1,650	4,593
	2,943	-	1,650	4,593

No transfers out of, or into, the level 3 measurement classification occurred during the year ended 31 December 2019 (31 December 2018: 3).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

In thousands of Bahraini Dinars

29 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:

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
Total financial assets	5,021	15,238	45,338	65,597	66,020
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
Total financial liabilities	-	-	36,999	36,999	36,999

2018	Fair value through equity	Held-to-maturity	Loans and receivables	Total carrying value	Fair value
Cash and cash equivalents	-	-	1,895	1,895	1,895
Placements with financial institutions	-	-	16,192	16,192	16,192
Investments	4,593	15,865	-	20,458	19,738
Takaful and insurance receivables	-	-	10,429	10,429	10,429
Retakaful and reinsurance share of technical liabilities	-	-	13,591	13,591	13,591
Other assets	-	-	1,261	1,261	1,261
Total financial assets	4,593	15,865	43,368	63,826	63,106
Takaful and insurance technical liabilities	-	-	28,883	28,883	28,883
Takaful and insurance payables	-	-	5,463	5,463	5,463
Other liabilities	-	-	1,673	1,673	1,673
Total financial liabilities	-	-	36,019	36,019	36,019

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 2019**

In thousands of Bahraini Dinars

30 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:

	2019	2018
Margin required for Conventional Insurance run-off fund	657	1,228
Margin required for Family Takaful fund	551	590
Margin required for General Takaful fund	2,951	2,967
Total margin required	4,159	4,785
Capital available to cover solvency margin	15,501	15,069
Excess capital	11,342	10,284

31 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 2019 (2018: nil).

32 SUBSEQUENT EVENTS

There were no significant events subsequent to 31 December 2019 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

For the year ended 31 December 2019

In thousands of Bahraini Dinars

33 TOTAL COMPREHENSIVE INCOME

	2019					2018				
	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	208	79	-	2,616	2,903	85	185	-	2,306	2,576
Other comprehensive income to be reclassified to statement of income and participants' revenues and expenses in subsequent year: Fair value changes arising during the year	-	-	-	243	243	-	-	-	93	93
Other comprehensive income for the year to be reclassified to statement of income and participants' revenues and expenses in subsequent years	-	-	-	243	243	-	-	-	93	93
Total comprehensive income for the year	208	79	-	2,859	3,146	85	185	-	2,399	2,669

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

In thousands of Bahraini Dinars

34 DIRECTORS' REMUNERATION AND DIVIDENDS

Directors' remuneration

Proposed by the Board of Directors

The Board of Directors of the Company propose to pay BD 63,000 towards directors' remuneration apart from the regular sitting fees for the year ended 31 December 2019 (2018: BD 52 thousand for the year ended 31 December 2018 paid in 2019). This is subject to the approval of shareholders in the Annual General Meeting.

Dividends

Declared and paid

Cash dividend amounted to BD 1.499 million (12.5% of the paid up capital) was declared and paid in 2019 for the year ended 31 December 2018 (2018: stock dividend of BD 811 thousand).

Proposed by the Board of Directors

The Board of Directors of the Company proposes to pay cash dividend of 15% of the paid up capital for the year ended 31 December 2019 (2018: Cash dividend of 12.5% 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.

35 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.