

Takaful International Company B.S.C.
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2019

CONTENTS

	Page
General information	2
Directors and management	3
Independent auditors' report to the shareholders	4 to 5
Consolidated financial statements	
Consolidated statement of financial position	6
Consolidated statement of income	7
Consolidated statement of changes in owners' equity	8
Consolidated statement of changes in participants' fund	9
Consolidated statement of cash flows	10 to 11
Notes to the consolidated financial statements	12 to 55

Takaful International Company B.S.C.

General information

HEAD OFFICE

Building 680, Road 2811,
Seef District 428,
Kingdom of Bahrain

P.O. Box : 3230
Telephone : +973 17565656
Telefax : +973 17582688
E-mail : takaful@gigtakaful.bh
Website : www.gigtakaful.bh

Commercial registration : 21100 obtained on 11 April 1989

SALMABAD BRANCH

Building 2164 Road 437
Salmabad 704
Kingdom of Bahrain

P.O. Box : 3230
Telephone : +973 17565414
Telefax : +973 17877287

SEEF MALL MUHARRAQ BRANCH

Shop 5, Building 154
Road 29, Arad 240
Kingdom of Bahrain

P.O. Box : 3230
Telephone : +973 17565451

JERDAB BRANCH

Building 771G Road 77
Jerdab 729
Kingdom of Bahrain

P.O. Box : 3230
Telephone : +973 17565444
Telefax : +973 17484390

SAAR MALL BRANCH

Kiosk - 24 Building 133
Road 25 Saar 525
Kingdom of Bahrain

P.O. Box : 3230
Telephone : +973 17565447

REEM CENTER BRANCH

Shop A0013 Abu Shaheen Avenue
Riffa/ BU Kuwarah
Southern Governorate
Kingdom of Bahrain

P.O. Box : 3230
Telephone : +973 17565448
Telefax :

PRINCIPAL BANKERS

Bahrain Islamic Bank B.S.C.
Al Salam Bank

SHARE REGISTRAR

Bahrain Bourse
Manama,
Kingdom of Bahrain

P.O. Box : 3203
Telephone : +973 17108781
Telefax : +973 17256362

AUDITORS

Ernst & Young
Manama, Kingdom of Bahrain
Kingdom of Bahrain

P.O. Box : 140
Telephone : +973 17535455
Telefax : +973 17535405

Actuary

Actuarial Consultants

Abdul Rahim Abdul Wahab
A-62 KDA Officers Society
Karachi, Pakistan

P.O. Box : -
Telephone : +92 21 3499 3000
Telefax : -

Takaful International Company B.S.C.

Directors and management

BOARD OF DIRECTORS

Jamal Ali Al Hazeem	- Chairman
AbdulRahman Abdulla Mohammed	- Vice-Chairman
Khaled Saud Al Hasan	- Director
Ebrahim Mohamed Sharif Alrayes	- Director
Ahmed AbdulRahman Bucheeri	- Director
Osama Kamel Kishk	- Director
Dr. Osama T. Albaharna	- Director
Rashed Ali Abdulrahim	- Director
Khalid Jamal Al Muzaire	- Director
Abdulla Rabea Mohamed Rabea	- Director

EXECUTIVE COMMITTEE

Khaled Saud Al Hasan	- Chairman
AbdulRahman Abdulla Mohammed	- Vice Chairman
Abdulla Rabea Mohamed Rabea	- Member
Ebrahim Mohamed Sharif Alrayes	- Director
Ahmed AbdulRahman Bucheeri	- Member

AUDIT & CORPORATE GOVERNANCE COMMITTEE

Khalid Jamal Al Muzaire	- Chairman
Rashed Ali Abdulrahim	- Vice Chairman
Osama Kamel Kishk	- Member
Dr. Osama T. Albaharna	- Member

NOMINATION & REMUNERATION COMMITTEE

Jamal Ali Al Hazeem	- Chairman
Khaled Saud Al Hasan	- Vice Chairman
Khalid Jamal Al Muzaire	- Member
Rashed Ali Abdulrahim	- Member

Sharia'a Supervisory Board

Dr. Shaikh Abdul Latif Mahmood Al Mahmood	- Chairman
Dr. Shaikh Abdul Sattar Abdul Karim Abuguddah	- Vice Chairman
Shaikh Mohsin Abdul Hussain Asfoor	- Member

EXECUTIVE MANAGEMENT

Essam M. Al Ansari	- Chief Executive Officer
Abdulaziz A. Al Othman	- Deputy Chief Executive Officer
Santosh Shreenivas Prabhu	- Chief Financial Officer
Jijan Abraham Stephen	- Chief Underwriting Officer - General Takaful
Reema Nowrooz	- Chief Underwriting Officer - Family Takaful & Healthcare
Lamia E. Hassan	- Chief Compliance Officer
Sayed Jaffer K. Hussain	- Manager - Information Systems

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated statement of financial position of Takaful International B.S.C. (the "Company") and its subsidiary (together the "Group") as of 31 December 2019, and the related consolidated statements of income, changes in owners' equity, changes in participants' fund and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information. These consolidated financial statements and the Company's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2019, the results of its operations, its cash flows, changes in participants' fund and changes in owners' equity for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI.

Report on Other Regulatory Requirements

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

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

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

Report on Other Regulatory Requirements (continued)

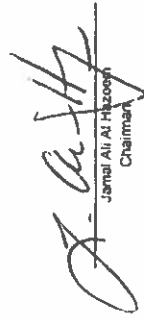
We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 3 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Company's memorandum and articles of association during the year ended 31 December 2019 that might have had a material adverse effect on the business of the Company or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Company has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Company.

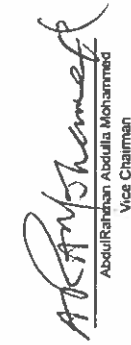


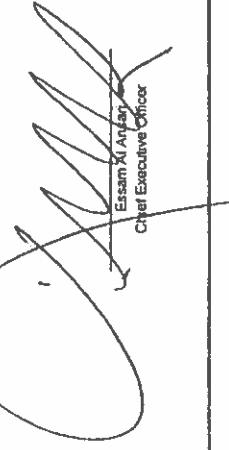
Partner's registration no. 117
18 February 2020
Manama, Kingdom of Bahrain

Takaful International Company B.S.C.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
 At 31 December 2019 (Audited)

	Shareholders			General takaful			Family takaful			Total		
	Audited			Audited			Audited			Audited		
	31 December	2019	2018	31 December	2019	2018	31 December	2019	2018	31 December	2019	2018
Note	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD
ASSETS												
Cash and investments:												
Statutory deposits	125,000	125,000	125,000	-	-	-	-	-	-	125,000	125,000	125,000
Cash and balances with banks	5,340,231	3,958,097	4,604,318	4,864,318	4,604,035	4,604,035	1,348,964	1,348,964	698,152	11,553,313	9,260,284	9,260,284
Investments at fair value through equity	2,715,089	3,411,562	1,699,240	1,699,240	934,535	934,535	1,645,939	1,645,939	1,936,497	6,060,268	6,282,594	6,282,594
Investment in an associate	206,640	-	-	-	-	-	-	-	-	206,640	-	-
	8,386,960	7,494,659	6,563,558	6,563,558	5,538,570	5,538,570	2,994,903	2,994,903	2,634,649	17,945,421	15,667,878	15,667,878
Takaful and re-takaful receivables	-	-	-	9,382,099	9,398,813	9,398,813	691,213	691,213	598,612	10,073,312	9,997,425	9,997,425
Retakaful providers' share of takaful liabilities	-	-	-	6,061,201	8,523,919	8,523,919	306,743	306,743	445,359	6,367,944	8,969,278	8,969,278
Deferred acquisition costs	573,803	600,206	-	-	-	-	-	-	-	573,803	600,206	600,206
Property and equipment	1,160,550	1,949,641	-	-	-	-	-	-	-	1,160,550	1,949,641	1,949,641
Other receivables, accrued income and prepayments	1,105,160	1,941,203	474,520	474,520	333,741	333,741	16,772	16,772	21,718	1,596,452	2,298,662	2,298,662
Retakaful providers' share of family takaful technical reserves	-	-	-	-	-	-	570,251	570,251	311,250	570,251	311,250	311,250
TOTAL ASSETS	11,226,473	11,965,709	22,481,378	22,481,378	23,795,043	23,795,043	4,579,882	4,579,882	4,011,588	38,287,733	38,792,340	38,792,340
LIABILITIES, PARTICIPANTS' FUNDS AND OWNERS' EQUITY												
Liabilities												
Takaful liabilities	-	-	17,466,331	17,466,331	19,249,875	19,249,875	437,273	437,273	628,874	17,903,604	19,876,749	19,876,749
Unearned commissions	-	-	337,810	337,810	313,639	313,639	-	-	-	337,810	313,639	313,639
Family takaful technical reserves	-	-	-	-	-	-	2,739,985	2,739,985	2,421,489	2,739,985	2,421,489	2,421,489
Payables and accrued liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Takaful and re-takaful companies	-	-	2,438,960	2,438,960	2,644,765	2,644,765	979,345	979,345	629,105	3,418,305	3,279,870	3,279,870
Participants'	420,943	496,206	1,032,723	1,032,723	1,021,775	1,021,775	27,957	27,957	27,062	1,481,623	1,545,043	1,545,043
Others	736,559	2,210,235	1,667,106	1,667,106	1,449,032	1,449,032	224,466	224,466	227,746	2,618,131	3,887,013	3,887,013
Total liabilities	1,147,502	2,706,441	22,942,930	22,942,930	24,679,066	24,679,066	4,409,026	4,409,026	3,932,276	28,499,458	31,317,803	31,317,803
Participants' fund												
(Deficit) / surplus in participants' fund	-	-	(591,591)	(591,591)	(907,710)	(907,710)	163,939	163,939	139,898	(427,652)	(767,812)	(767,812)
Investments fair value reserve	-	-	130,039	130,039	23,667	23,667	6,917	6,917	(60,566)	136,956	(36,919)	(36,919)
	-	-	(461,552)	(461,552)	(884,043)	(884,043)	170,856	170,856	79,312	(290,696)	(804,731)	(804,731)
Owners' equity												
Share capital	8,500,000	8,500,000	-	-	-	-	-	-	-	8,500,000	8,500,000	8,500,000
Statutory reserve	656,159	587,115	-	-	-	-	-	-	-	656,159	587,115	587,115
General reserve	200,000	200,000	-	-	-	-	-	-	-	200,000	200,000	200,000
Retained earnings / (accumulated losses)	548,670	(72,730)	-	-	-	-	-	-	-	548,670	(72,730)	(72,730)
Investments fair value reserve	174,142	(36,397)	-	-	-	-	-	-	-	174,142	(36,397)	(36,397)
Equity attributable to parent's shareholders	10,078,971	9,177,988	-	-	-	-	-	-	-	10,078,971	9,177,988	9,177,988
Non-controlling interests	-	101,280	-	-	-	-	-	-	-	-	101,280	101,280
Total owners' equity	10,078,971	9,279,268	-	-	-	-	-	-	-	10,078,971	9,279,268	9,279,268
TOTAL LIABILITIES, PARTICIPANTS' FUNDS AND OWNERS' EQUITY	11,226,473	11,965,709	22,481,378	22,481,378	23,795,043	23,795,043	4,579,882	4,579,882	4,011,588	38,287,733	38,792,340	38,792,340


 Jamal Ali Al-Hazoon
 Chairman


 Abdulrahman Abdullah Mohammed
 Vice Chairman


 Essam Al-Ansary
 Chief Executive Officer

Takaful International Company B.S.C.
CONSOLIDATED STATEMENT OF INCOME
Year ended 31 December 2019 (Audited)

	Note	Shareholders			General takaful			Family takaful			Total		
		31 December	31 December	31 December	31 December	31 December	31 December	31 December	31 December	31 December	31 December	31 December	31 December
		2019	2018	2019	2019	2018	2019	2019	2018	2019	2019	2018	2018
		BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD	BD
Gross contributions		-	-	20,337,132	20,589,852	1,444,551	1,343,454	1,444,551	1,444,551	21,720,586	22,034,403		
Retakaful provider's share of gross contributions		-	-	(5,440,177)	(5,359,346)	(848,114)	535,340	506,112	(938,439)	(6,288,291)	(6,297,784)		
Retained contributions	22	-	-	14,896,955	15,230,507	-	26,998	28,470	-	15,432,295	15,736,619		
Unearned contributions adjustment - gross	13	-	-	1,472	(1,150,952)	(9,126)	16,400	188,038	-	28,470	(1,160,078)		
Unearned contributions adjustment - retakaful	13	-	-	204,233	(182,770)	(16,195)	-	-	-	188,038	(186,370)		
Net earned contributions		-	-	15,102,660	13,896,785	546,143	513,386	15,648,803	-	14,410,171			
Gross claims paid		-	-	(15,364,725)	(14,127,714)	(306,571)	(1,054,957)	(15,671,256)	-	(15,192,671)			
Retakaful provider's and others share of claims paid		-	-	4,375,708	4,041,935	595,856	595,856	5,098,694	-	4,637,791			
Outstanding claims adjustment - gross		-	-	1,782,072	(164,757)	162,602	430,759	1,944,674	-	266,002			
Outstanding claims adjustment - retakaful and others		-	-	(2,666,951)	78,112	(122,420)	(394,041)	(2,789,371)	-	(315,929)			
Net incurred claims		-	-	(11,273,896)	(10,172,424)	(143,403)	(432,383)	(11,417,298)	-	(10,604,807)			
Fee and commission income		-	-	877,065	1,061,367	11	35	877,076	-	1,061,402			
Other takaful expenses		-	-	(726,110)	(547,715)	(12,774)	(3,762)	(738,884)	-	(551,477)			
Transfer to family takaful technical reserve		-	-	-	-	(269,763)	(430,427)	(430,427)	-	(86,961)			
Provision for impaired takaful receivables		-	-	(113,045)	(92,759)	(2,101)	5,808	(115,146)	-	(86,961)			
Surplus from takaful operations before wakala fees		-	-	3,866,674	4,145,254	118,113	(347,343)	3,984,787	-	3,797,911			
Wakala fees expense		-	-	(3,685,444)	(3,543,764)	(146,768)	(245,574)	(3,832,212)	-	(3,789,338)			
Surplus / (deficit) from takaful operations after wakala fees		-	-	181,230	601,490	(28,655)	(592,917)	152,575	-	8,573			
Wakala fees income		3,832,212	3,789,338	-	-	-	-	3,832,212	-	3,789,338			
Investment income - net	25	159,296	(51,505)	179,852	141,562	70,261	107,845	197,902	-	197,902			
Mudharib share		62,528	62,352	(44,963)	(35,391)	(17,565)	(26,961)	-	-	-			
Income from an associate		51,116	-	-	-	-	-	51,116	-	-			
Other income	27	319,129	406,286	-	-	-	-	319,129	-	406,286			
General administration expenses		4,424,281	4,206,471	134,889	106,171	52,696	80,884	4,611,866	-	4,393,526			
Corporate expenses	23	(2,290,863)	(2,329,876)	-	-	-	-	(2,290,863)	-	(2,329,876)			
Amortisation of acquisition costs	23	(230,922)	(177,782)	-	-	-	-	(230,922)	-	(177,782)			
Net profit and surplus / (deficit) for the year		(3,733,516)	(3,555,277)	-	-	-	-	(3,733,516)	-	(3,555,277)			
Attributable to:		690,765	651,194	316,119	707,661	24,041	(512,033)	1,030,925	-	846,822			
Parent's shareholder		690,444	650,731	-	-	-	-	-	-	-			
Non-controlling interests		321	463	-	-	-	-	-	-	-			
Earnings per share	28	8.12 fils	8.54 Fils	-	-	-	-	-	-	-			


Jamal Ali Al-Hadadi
Chairman


Abdulrahman Abdulla Mohammed
Vice Chairman


Hassan Ali Alqasbi
Chief Executive Officer

Takaful International Company B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

Year ended 31 December 2019 (Audited)

	Share capital	Statutory reserve	General reserve	Retained earnings / (accumulated losses)	Investments fair value reserve	Equity attributable to parent's shareholders	Non-controlling interests	Total equity
	BD	BD	BD	BD	BD	BD	BD	BD
Balance at 1 January 2019	8,500,000	587,115	200,000	(72,730)	(36,397)	9,177,988	101,280	9,279,268
Profit for the year	-	-	-	690,444	-	690,444	321	690,765
Other comprehensive income	-	-	-	-	210,539	210,539	-	210,539
Total comprehensive income / (loss) for the year	-	-	-	690,444	210,539	900,983	321	901,304
Deconsolidation of subsidiary (Note 3.1)	-	-	-	-	-	-	(101,601)	(101,601)
Transfer to statutory reserve (Note 20)	-	69,044	-	(69,044)	-	-	-	-
Balance as at 31 December 2019	8,500,000	656,159	200,000	548,670	174,142	10,078,971	-	10,078,971
Balance at 1 January 2018	6,250,000	522,041	200,000	(658,387)	63,219	6,376,873	100,817	6,477,690
Additional paid-in capital	2,250,000	-	-	-	-	2,250,000	-	2,250,000
Profit for the year	-	-	-	650,731	-	650,731	463	651,194
Other comprehensive loss	-	-	-	-	(99,616)	(99,616)	-	(99,616)
Total comprehensive income / (loss) for the year	-	-	-	650,731	(99,616)	551,115	463	551,578
Transfer to statutory reserve (Note 20)	-	65,074	-	(65,074)	-	-	-	-
Balance as at 31 December 2018	8,500,000	587,115	200,000	(72,730)	(36,397)	9,177,988	101,280	9,279,268

The attached explanatory notes 1 to 40 form part of these consolidated financial statements.

Takaful International Company B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN PARTICIPANTS' FUND

Year ended 31 December 2019 (Audited)

	Investments fair value reserve				
	General takaful BD	Family takaful BD	General takaful BD	Family takaful BD	Total BD
Balance at 1 January 2019	(907,710)	139,898	23,667	(60,586)	(804,731)
Realised fair value gains on investment securities	-	-	52,020	22,425	74,445
Unrealised fair value gains on investment securities	-	-	54,352	45,078	99,430
Surplus for the year	316,119	24,041	-	-	340,160
Balance as at 31 December 2019	(591,591)	163,939	130,039	6,917	(290,696)
Balance at 1 January 2018	(1,615,371)	651,931	21,338	(22,286)	(964,388)
Realised fair value gains on investment securities	-	-	18,338	17,510	35,848
Unrealised fair value loss on investment securities	-	-	(16,009)	(55,810)	(71,819)
Surplus / (deficit) for the year	707,661	(512,033)	-	-	195,628
Balance as at 31 December 2018	(907,710)	139,898	23,667	(60,586)	(804,731)

The attached explanatory notes 1 to 40 form part of these consolidated financial statements.

Takaful International Company B.S.C.
CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2019 (Audited)

	<i>For the year ended 31 December</i>	
	<i>2019</i>	<i>2018</i>
	<i>BD</i>	<i>BD</i>
OPERATING ACTIVITIES		
Net profit for the year	690,765	651,194
Surplus from participants' operations	340,160	195,628
<i>Adjustments for:</i>		
Income from an associate	(51,116)	-
Gain on deconsolidation of a subsidiary (note 3.1 c)	(3,120)	-
Investment income	(539,243)	(371,173)
Gains on sale of investments at fair value through equity	(89,903)	(165,884)
Impairment on property and equipment	78,478	-
Impairment loss on investments at fair value through equity	115,058	175,968
Depreciation	138,262	178,020
Provision for impairment of takaful and retakaful receivables	115,146	86,951
Movement in unearned contributions	(216,508)	1,326,447
Movement in unearned commissions	50,574	(154,733)
Movement in transfer to family takaful technical reserve	59,495	430,427
Operating profit before changes in operating assets and liabilities	688,048	2,352,845
Changes in operating assets and liabilities:		
Takaful and retakaful receivables	(191,033)	(195,309)
Other receivables and prepayments (note a)	(913,712)	(873,898)
Retakaful share of outstanding claims	2,789,372	315,928
Gross outstanding claims	(1,944,674)	(266,002)
Takaful and retakaful payables	81,015	(608,497)
Other liabilities and provisions (note a)	1,184,318	1,321,293
Employees' terminal benefits (note a)	26,355	(73,712)
Net cash from operating activities	1,719,689	1,972,648
INVESTING ACTIVITIES		
Investment income received	539,243	537,057
Purchase of property and equipment	(58,499)	(54,832)
Proceeds from sale of property and equipment	600,758	10,184
Purchase of investments at fair value through equity	(1,175,386)	(2,021,676)
Proceeds from the sale of investments at fair value through equity (note a)	1,708,718	1,031,921
Bank deposits with maturities of more than three months (note a)	(4,249,486)	(2,595,229)
Net cash flow from deconsolidation of a subsidiary (note 3.1 c) [note a]	(941,296)	-
Net cash used in investing activities	(3,575,948)	(3,092,575)
FINANCING ACTIVITY		
Additional paid-in capital and net cash from financing activity	-	2,250,000
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(1,856,259)	1,130,073
Cash and cash equivalents at the beginning of the year	4,446,984	3,316,911
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	2,590,725	4,446,984
COMPRISING:		
CASH AND BALANCES WITH BANKS		
Cash and balance in current accounts	2,590,725	2,550,232
Bank deposits with maturity of three months or less	-	1,896,752
CASH AND CASH EQUIVALENTS	2,590,725	4,446,984
Bank deposits with maturity of more than three months	8,962,788	4,813,300
Cash and balances with banks as per statement of consolidated financial position	11,553,513	9,260,284

The attached explanatory notes 1 to 40 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2019 (Audited)

Note a - Non cash transactions

During the year ended 31 December 2019, the Company lost control in it's subsidiary Health 360 Ancillary Services Co W.L.L ("H-360" or "the subsidiary"). The following non-cash adjustments took place in the consolidated statement of cashflows:

	<i>For the year ended</i>	
	<i>31 December</i>	
	<i>2019</i>	<i>2018</i>
	<i>BD</i>	<i>BD</i>
Deposits	100,000	-
Property and equipment	30,092	-
Investment in an associate	48,253	-
Other receivables	1,507,030	-
Employee terminal benefits	(19,615)	-
Other payables	(2,353,051)	-
	(687,291)	-

1 ORGANISATION AND ACTIVITIES

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

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

The registered office of the Group is in the Kingdom of Bahrain. The full address is stated on page 2.

The consolidated financial statements of the Group were authorised for issue in accordance with a resolution of the Board of Directors dated 18 February 2020.

2 BASIS OF PRESENTATION

Statement of compliance

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

Accounting convention

The consolidated financial statements have been prepared under the historical cost convention modified to include the measurement at fair value of investments at fair value through equity.

The preparation of consolidated financial statements in conformity with FAS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

Functional currency

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

3 BASIS OF CONSOLIDATION

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

3 BASIS OF CONSOLIDATION (continued)

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

Income and each component of other comprehensive income (OCI) (detailed in Note 38) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

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

The following was the subsidiary of the Group:

<i>Name of the subsidiary</i>	<i>Country of incorporation</i>	<i>Effective ownership</i>		<i>Principal activity</i>
		<i>31 December 2019</i>	<i>31 December 2018</i>	
Health 360 Ancillary Services	Bahrain	40.5%	60%	Third party administration

*The subsidiary was deconsolidated on 16 July 2019 (note 3.1).

3.1 Loss of control in a subsidiary

As at 31 December 2018, the Company owned 60% of Health 360 Ancillary Services Co W.L.L ("H-360" or "the subsidiary"). During the period, H-360 offered a rights issue to which the Company did not subscribe. As a result, of not subscribing to this rights issue, the Company's effective ownership in H-360 has decreased to 40.5% and the Company has also lost the power to govern the operating and financial policies of H-360.

H-360 has thus been deconsolidated with effect from 16 July 2019 ("the date of loss of control"). The remaining investment in H-360 has been classified as investment in an associate as the Company still exercises significant influence over the investee.

The disposal has the following impact on the consolidated financial information for the year ended 31 December 2019:

3.1 a. Consideration received

The Company did not receive any consideration upon deconsolidation of the subsidiary since the loss of control was as a result of rights issue.

3 BASIS OF CONSOLIDATION (continued)**3.1 b. Details of assets and liabilities over which the Company lost control**

	<i>16 July 2019 BD</i>
Cash and bank balances	941,296
Fixed deposit	100,000
Plant and equipment	30,092
Investment in an associate	48,253
Other receivables	1,507,030
Total Assets	2,626,671
Employee terminal benefits	19,615
Other payables	2,353,051
Total Liabilities	2,372,666
Net Assets	254,005

3.1 c. Gain on deconsolidation of subsidiary

	<i>16 July 2019 BD</i>
Net assets derecognised	254,005
Non-controlling interest derecognised	(101,601)
	152,404
Investment in an associate recognised	155,524
Gain on deconsolidation of subsidiary	3,120

4 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the annual audited financial statements of the Group prepared as at, and for the year ended 31 December 2018, except for the new policies in relation to the Company's investment in an associate.

New standards, interpretations and amendments issued but not yet effective

Standards, interpretations and amendments to existing standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group reasonably expects these issued standards, interpretations and amendments to existing standards to be applicable at a future date. The Group intends to adopt these standards, interpretations and amendments to existing standards, if applicable, when they become effective:

- FAS 30 "Impairment and credit losses" (effective 1 January 2020);
- FAS 30 intends to define the accounting principles for impairment and credit losses (including expected credit losses) to be in line with ever-changing global best practices;

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- FAS 31 "Investment Agency (Al-Wakala Bi Al-Istithmar)" (effective 1 January 2020);
- FAS 31 standard intends to define the accounting principles and reporting requirements for investment agency (Al-Wakala Bi Al-Istithmar) transactions and instruments, in the hands of both the principal and the agent;
- FAS 32 "Ijarah" (effective 1 January 2021), which 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;
- 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 (IFIs / 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.
- 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;
- FAS 35 "Risk reserves" (effective 1 January 2021); and
- FAS 35 intends to establish the principles of accounting and financial reporting for risk reserves established to mitigate various risks faced by stakeholders, mainly the profit and loss taking investors, of Islamic financial institutions.

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

Investment in an associate

The Company's investment in its associate is accounted for using the equity method. An associate is an entity in which the Company has significant influence.

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Company's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of income reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the other comprehensive income of the associate, the Company recognises its share of any changes and discloses this, when applicable, in consolidated statement of other comprehensive income (note 38). Unrealised gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The share of profits or losses from associates is shown on the face of the consolidated statement of income. This is the profit or loss attributable to equity holders of the associate and therefore is profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in an associate (continued)

The financial statements of the associates are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognise an additional impairment loss on the Company's investment in its associate. The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of income.

Upon loss of significant influence over the associate, the Company measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognised in the consolidated statement of income.

Takaful

As an Islamic insurance provider, the Group issues contracts that are based on co-operative activity by risk sharing or financial risk, or both. The Group classifies all its contracts individually as either takaful contracts or investment contracts. The participant (policyholder) contributes towards the policy / service for a particular takaful product. In case the policyholder terminates / surrenders the policy the refund or forfeiture of the contribution paid by him or any other similar transaction is made for each type of product / service based on the terms and conditions of the policy agreed by the participant with the company as per the policy document.

Takaful contracts are those contracts where the insurer accepts significant insurance risk from the participants by agreeing to compensate the participants if a specified uncertain future event adversely affects the participants. As a general guideline, the Group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event. Investment contracts are contracts where there is insignificant transfer of insurance risk from the participants to the Group.

General takaful

Gross contributions

Gross contributions comprise the total contributions receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy incepts. Contributions include any adjustments arising in the accounting period for contributions receivable in respect of business written in prior accounting periods.

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

- By the 1/365th method' for all annual takaful contracts, except for marine and aviation business; and
- at 25% of gross contributions and reinsurance cessions for marine and aviation business. This approximation method is used because marine and aviation policies cover variable periods shorter than one year, in order to spread the contributions earned over the tenure of the insurance policies.

Retakaful share

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

Net commission

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

General takaful (continued)

Net commission (continued)

- By the 1/365th method for all annual insurance contracts, except for marine and aviation business; and
- By the 25% method for marine and aviation business.

Retakaful commission income and commission paid are deferred on the same basis used in the calculation of unearned contributions.

Gross claims settled

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

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

General takaful reserves

i) Gross outstanding claims

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

ii) Unearned contributions

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

iii) Liability adequacy test

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

Family takaful

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

The protection takaful and savings takaful reserve is determined annually by the Group's appointed actuary. Reserves for individual family takaful contracts are calculated on a prospective method. The liabilities are valued using discounted cash flow (DCF) with a discount rate of 4% per annum (2018: 5% per annum).

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Family takaful (continued)

Gross contributions

Gross contributions are recognised in the consolidated statement of income on the due date of the contributions.

Retakaful share

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

Net commission

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

Gross claims settled

Claims settled are charged to the consolidated statement of income, in the year in which claims arise.

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

Family takaful reserves

i) Gross outstanding claims

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

ii) Unearned contributions

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

iii) Liability adequacy test

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

Qard Hassan

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

Surplus/deficit in participants' fund

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Surplus/deficit in participants' fund (continued)

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

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

Cash and cash equivalents

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

Trade and settlement date accounting

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

Investment at fair value through equity

a. Equity-type instruments at fair value through equity

Financial assets are recognised initially at fair value, including directly attributable transaction costs. The entity equity-type instruments at fair value included investment in quoted and unquoted shares and managed funds.

After initial measurement these are remeasured at fair value. Fair value gains and losses are reported as a separate component in the consolidated statement of other comprehensive income (note 38) until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative fair value gains and losses previously reported in consolidated statement of other comprehensive income (note 38) are transferred to the consolidated statement of income. Dividend income on equity-type instruments at fair value through equity are included under investment income in the consolidated statement of income.

b. Debt-type instruments at fair value through equity

These are financial investments in the debt-type instruments which are recognised initially at fair value, including directly attributable transaction costs. The entity debt-type investments at fair value included investment in quoted and unquoted sukuks.

After initial measurement these are remeasured at fair value. Fair value gains and losses are reported as a separate component in the consolidated statement of other comprehensive income (note 38) until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative fair value gains and losses previously reported in the consolidated statement of other comprehensive income (note 38) are transferred to the consolidated statement of income. Coupon income on debt-type instruments at fair value through equity are included under investment income in the consolidated statement of income.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Takaful and retakaful receivables

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

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

Policy acquisition costs

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

Property and equipment

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

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

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

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

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

Buildings on freehold lands	25 years
Furniture, fixtures and equipment's	3-10 years
Vehicles	4 years

Receivables from takaful funds

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency transactions

The consolidated financial statements are presented in Bahraini Dinars which is the functional currency of the Group.

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

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

Dividends on share capital

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

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

Share capital

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

Non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Group and are presented separately in the consolidated statements of income and other comprehensive income (note 38) and within equity, separately from the parent's shareholders' equity.

Revenue recognition

Investment income

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

Rental income

Rental income is recognised on an accruals basis.

Dividends

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

Wakala fee

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

Mudarib share

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Retakaful commissions

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

Offsetting

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

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

Fair value of financial instruments

The Group measures financial instruments such as investments at fair value through equity at fair value at each balance sheet date.

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

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

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

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

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

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

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

Impairment of financial assets

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

Fair value through equity financial assets (debt and equity)

If a fair value through equity financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in consolidated statement of other comprehensive income (note 38) is transferred from consolidated statement of other comprehensive income (note 38) to the consolidated statement of income. Reversals in respect of equity instruments classified as fair value through equity are not recognised in the consolidated statement of income. Reversals of impairment losses on debt instruments classified as fair value through equity are reversed through the consolidated statement of income if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in the consolidated statement of income.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets and financial liabilities

Financial assets

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

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

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

Financial liabilities

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

Employees' terminal benefits

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

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

Provisions

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

Financial liabilities

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

Retakaful and takaful payables

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

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

Payables and accruals

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Earnings prohibited by Shari'a

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

5 SIGNIFICANT JUDGEMENTS, ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Group's most critical accounting estimate. There are several sources of uncertainty that need to be considered in estimating the liability that the Group will ultimately pay for such claims. The provision for claims incurred but not reported is an estimation of claims which are expected to be reported subsequent to the consolidated statement of financial position date, for which the insured event has occurred prior to the consolidated statement of financial position date.

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

Impairment losses on investments at fair value through equity

The Group determines that investment at fair value through equity unquoted equity securities and managed funds are impaired when there has been a significant or prolonged decline in the fair value below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' is evaluated against the period in which the fair value has been below its original cost. The Group treats 'significant' as 30% and 'prolonged' as one year. Where fair values are not available, the recoverable amount of such investment is estimated to test for impairment. In making this judgement, the Group evaluates, amongst other factors, the normal volatility in share price, evidence of deterioration in the financial health of the investee, industry and sector performance and operating and financing cash flows.

Impairment losses on takaful and retakaful receivables

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

Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. The Group is also complied with Capital Adequacy & Solvency margin requirements established by the Central Bank of Bahrain, refer note 31. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Takaful International Company B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019 (Audited)

5 SIGNIFICANT JUDGEMENTS, ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

Family takaful reserves

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

6 STATUTORY DEPOSITS

Statutory deposits are maintained under the regulations of the Central Bank of Bahrain and Financial Institutions Law, 2006. Such deposits, which depend on the nature of the takaful business and the number of branches, cannot be withdrawn except with the approval of the Central Bank of Bahrain. A sum of BD 125,000 (2018: BD 125,000) has been deposited with Bahrain Islamic Bank B.S.C. in the name of the Group and for the order of Central Bank of Bahrain.

7 CASH AND BALANCES WITH BANKS

	31 December 2019			
	Shareholders BD	General takaful BD	Family takaful BD	Total BD
Cash in hand	600	1,262	-	1,862
Balances with banks and current accounts	239,829	1,680,682	668,352	2,588,863
	240,429	1,681,944	668,352	2,590,725
Bank deposits with maturity of more than three months	5,099,802	3,182,374	680,612	8,962,788
Cash and balances with banks	5,340,231	4,864,318	1,348,964	11,553,513
	31 December 2018			
	Shareholders BD	General takaful BD	Family takaful BD	Total BD
Cash in hand	600	4,518	-	5,118
Balances with banks and current accounts	1,394,682	947,620	202,812	2,545,114
Bank deposits with maturity of three months or less	1,708,075	-	188,675	1,896,750
	3,103,357	952,138	391,487	4,446,982
Bank deposits with maturity of more than three months	854,740	3,651,897	306,665	4,813,302
Cash and balances with banks	3,958,097	4,604,035	698,152	9,260,284

Call account balance earn effective profit rates ranging between 1.16% per annum (2018: 2% and 6% per annum).

The savings account balances with banks earn effective profit rates ranging between 0.20% and 0.35% per annum per annum (2018: between 0.20% and 0.35% per annum).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019 (Audited)

8 INVESTMENTS AT FAIR VALUE THROUGH EQUITY

	31 December 2019			31 December 2018		
	General	Family		General	Family	
Shareholders	takaful	takaful	Total	takaful	takaful	Total
BD	BD	BD	BD	BD	BD	BD
Opening balance	3,411,562	1,936,497	6,282,594	2,907,441	1,626,512	5,604,387
Additions during the year	369,565	-	1,175,386	1,447,274	525,465	2,021,682
Disposals during the year	(1,136,490)	(327,053)	(1,547,068)	(707,691)	(159,857)	(1,031,920)
Realised fair value gains/(losses) on sale of investments at fair value through equity	8,117	(8,583)	(12,409)	(5,810)	187	(10,084)
Impairment loss for the year	(20,087)	(31,008)	(115,058)	(135,846)	(17,323)	(175,968)
Unrealised fair value gains/(losses) recognised in investment						
fair value reserve	202,422	76,086	396,823	(93,806)	(38,487)	(125,503)
Deconsolidation of a subsidiary	(120,000)	-	(120,000)	-	-	-
Closing balance	2,715,089	1,645,939	6,060,268	3,411,562	1,936,497	6,282,594

Analysis of investments at fair value through equity

	31 December 2019			31 December 2018		
	General	Family		General	Family	
Shareholders	takaful	takaful	Total	takaful	takaful	Total
BD	BD	BD	BD	BD	BD	BD
Shares listed on stock exchanges	1,110,500	503,069	1,709,478	94,589	486,662	2,155,828
Quoted managed funds	149,461	29,920	206,594	22,632	29,920	421,649
Unquoted managed funds	206,719	169,968	572,358	216,902	200,300	639,179
Unquoted equity investments	80,267	-	80,267	-	-	200,268
Quoted Sukuks	1,168,142	942,982	3,491,571	600,412	1,219,615	2,865,670
Closing balance	2,715,089	1,645,939	6,060,268	934,535	1,936,497	6,282,594

During the year, the Group has performed an impairment test of its investments at fair value through equity and concluded that certain of those investments are impaired. Accordingly, the impairment loss of BD 115,058 (2018: BD 175,968) has been charged to the consolidated statement of income.

Takaful International Company B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019 (Audited)

9 INVESTMENT IN AN ASSOCIATE

As at 31 December 2018, the Company owned 60% of Health 360 Ancillary Services Co W.L.L ("H-360" or "the subsidiary"). During the year ended 31 December 2019, H-360 offered a rights issue to which the Company did not subscribe. As a result, of not subscribing to this rights issue, the Company's effective ownership in H-360 has decreased to 40.5% and the Company has also lost the power to govern the operating and financial policies of H-360.

H-360 has thus been deconsolidated with effect from 16 July 2019 ("the date of loss of control"). The remaining investment in H-360 has been classified as investment in an associate as the Company still exercises significant influence over the investee.

The movements in the carrying amount of the associate is as follows:

	2019 BD
At 1 January	-
Recognised at deconsolidation (note 3.1)	155,524
Share of results	51,116
At 31 December	<u>206,640</u>

The associate is a limited liability Company and is not listed on any public exchange. Summarised financial information of the associate, based on its financial statements, and reconciliation with the carrying amount of the investment in the financial statements are set out below:

	(un-audited) 2019 BD
<i>Summarised financial position of the associate:</i>	
Current assets	2,692,672
Non-current assets	70,542
Current liabilities	(2,229,067)
Non-current liabilities	(23,928)
Equity (100%)	<u>510,219</u>
Proportion of the Company's Ownership	40.50%
Company's ownership	<u>206,640</u>
Carrying amount of investments in an associate	<u>206,640</u>
<i>Summarised financial performance of the associate:</i>	
Total Income	758,794
Staff cost	(340,227)
Administration expenses	(203,234)
Loss from an associate company	(42,868)
Net profit for the year (100%)	<u>172,465</u>
Adjustments	(46,251)
Company's share of an associate's results	<u>51,116</u>
Other comprehensive (loss) / income	-
Company's share of an associates' other comprehensive (loss) / income	-
Total comprehensive income	<u>172,465</u>
Company's share of an associates' total comprehensive income	<u>51,116</u>

Takaful International Company B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019 (Audited)

10 TAKAFUL AND RETAKAFUL RECEIVABLES

	31 December 2019			31 December 2018		
	General takaful	Family takaful	Total	General Takaful	Family takaful	Total
Due from takaful companies	3,618,336	-	3,618,336	3,046,326	-	3,046,326
Due from retakaful companies	659,538	41,971	701,509	749,094	207,742	956,836
Due from takaful participants	2,992,743	60,567	3,053,310	2,891,371	68,761	2,960,132
Due from brokers	2,802,826	594,419	3,397,245	3,468,578	336,571	3,805,149
Allowance for impairment of takaful and retakaful receivables	(691,344)	(5,744)	(697,088)	(756,556)	(14,462)	(771,018)
Closing balance	9,382,099	691,213	10,073,312	9,398,813	598,612	9,997,425

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

At 31 December 2019, in the opinion of the Company's management, a provision of BD 697,088 is required towards impairment of takaful and retakaful receivables (2018: BD 771,018). The movement in the provision for impaired takaful and retakaful receivables is as follows:

	31 December 2019	31 December 2018
At 1 January	771,018	684,067
Charge during the year	115,146	86,951
Written-off during the year	(189,076)	-
	697,088	771,018

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

2019	Total BD	Neither past due nor impaired	Less than 120 days	Past due but not impaired 121-180 days	181-365 days	More than 365 days
General takaful	9,382,099	2,205,177	1,973,426	718,977	1,832,248	2,652,271
Family takaful	691,213	209,469	167,532	43,538	228,583	42,091
	10,073,312	2,414,646	2,140,958	762,515	2,060,831	2,694,362
2018	Total BD	Neither past due nor impaired	Less than 120 days	Past due but not impaired 121-180 days	181-365 days	More than 365 days
General takaful	9,398,813	2,223,014	2,032,390	1,613,354	939,320	2,590,735
Family takaful	598,612	303,563	150,259	108,805	4,169	31,816
	9,997,425	2,526,577	2,182,649	1,722,159	943,489	2,622,551

Over average, the Group has 60 days credit term with its debtors.

Takaful International Company B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019 (Audited)

11 OUTSTANDING CLAIMS

	2019			2018		
	Gross BD	Retakaful share BD	Net BD	Gross BD	Retakaful share BD	Net BD
<i>At 1 January</i>						
Reported claims	8,413,931	(6,017,164)	2,396,767	9,246,606	(6,693,266)	2,553,340
IBNR and IBNER claims	2,106,996	(961,407)	1,145,589	1,540,323	(601,233)	939,090
	10,520,927	(6,978,571)	3,542,356	10,786,929	(7,294,499)	3,492,430
Claims incurred during the year	13,726,622	(2,309,322)	11,417,300	14,926,669	(4,321,863)	10,604,806
Claims paid during the year	(15,671,296)	5,098,694	(10,572,602)	(15,192,671)	4,637,791	(10,554,880)
At 31 December	8,576,253	(4,189,199)	4,387,054	10,520,927	(6,978,571)	3,542,356
<i>At 31 December</i>						
Reported claims	5,961,257	(3,227,793)	2,733,464	8,413,931	(6,017,164)	2,396,767
IBNR and IBNER claims	2,614,996	(961,406)	1,653,590	2,106,996	(961,407)	1,145,589
	8,576,253	(4,189,199)	4,387,054	10,520,927	(6,978,571)	3,542,356

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

Takaful International Company B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019 (Audited)

12 CLAIMS DEVELOPMENT

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

Gross claims

Accident year	2011 BD	2012 BD	2013 BD	2014 BD	2015 BD	2016 BD	2017 BD	2018 BD	2019 BD	Total BD
At the end of										
Accident year	10,890,069	13,505,069	16,566,910	15,944,216	14,114,518	19,543,039	14,857,761	14,435,647	13,570,513	
One year later	11,247,499	14,836,499	18,467,530	17,929,940	15,616,005	21,003,651	16,694,848	15,580,562	-	
Two years later	13,103,090	14,844,483	19,107,107	18,473,773	16,067,346	21,583,396	15,616,761	-	-	
Three years later	13,129,554	15,079,279	19,199,346	18,684,098	15,716,811	21,775,999	-	-	-	
Four years later	13,185,275	15,125,422	19,252,601	18,606,886	15,787,158	-	-	-	-	
Five years later	13,187,708	15,165,432	19,183,033	18,784,111	-	-	-	-	-	
Six years later	13,207,685	15,179,870	19,171,941	-	-	-	-	-	-	
Seven years later	13,208,874	15,211,280	-	-	-	-	-	-	-	
Eight years later	13,203,427	-	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred	13,203,427	15,211,280	19,171,941	18,784,111	15,787,158	21,775,999	15,616,761	15,580,562	13,570,513	148,701,752
Cumulative payments to date	(13,140,329)	(15,187,784)	(19,078,985)	(18,701,342)	(15,631,108)	(21,363,688)	(14,176,682)	(13,491,528)	(9,393,470)	(140,164,916)
Liability recognised in the statement of financial position	63,098	23,496	92,956	82,769	156,050	412,311	1,440,079	2,089,034	4,177,043	8,536,836

Liability in respect of years prior to 2010

39,417

Total reserve included in the consolidated statement of financial position

8,576,253

Takaful International Company B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019 (Audited)

12 CLAIMS DEVELOPMENT (continued)

Net outstanding claims

Accident year	2011 BD	2012 BD	2013 BD	2014 BD	2015 BD	2016 BD	2017 BD	2018 BD	2019 BD	Total BD
At the end of										
Accident year	4,443,399	5,754,752	6,818,786	7,969,734	7,693,376	9,953,127	8,439,795	9,193,914	10,303,419	
One year later	4,683,185	6,473,256	7,724,461	8,680,302	8,550,662	10,465,456	9,871,667	10,045,603	-	
Two years later	4,963,481	6,528,240	8,149,743	9,042,943	8,754,427	10,744,175	9,549,773	-	-	
Three years later	4,991,449	6,715,210	8,178,844	9,164,204	8,765,793	10,943,724	-	-	-	
Four years later	5,020,737	6,710,736	8,284,188	9,228,359	8,857,700	-	-	-	-	
Five years later	5,013,136	6,828,502	8,361,783	9,341,886	-	-	-	-	-	
Six years later	5,066,907	6,892,184	8,380,391	-	-	-	-	-	-	
Seven years later	5,083,076	6,925,849	-	-	-	-	-	-	-	
Eight years later	5,073,894	-	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred	5,073,894	6,925,849	8,380,391	9,341,886	8,857,700	10,943,724	9,549,773	10,045,603	10,303,419	79,422,239
Cumulative payments to date	(5,063,280)	(6,922,717)	(8,366,343)	(9,331,978)	(8,835,196)	(10,909,191)	(9,138,109)	(8,990,312)	(7,483,305)	(75,040,431)
Liability recognised in the statement of financial position	10,614	3,132	14,048	9,908	22,504	34,533	411,664	1,055,291	2,820,114	4,381,808

Liability in respect of years prior to 2010

5,246

Total reserve included in the consolidated statement of financial position

4,387,054

Takaful International Company B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019 (Audited)

13 UNEARNED CONTRIBUTIONS AND DEFERRED RETAKAFUL CONTRIBUTIONS

	2019		
	Gross BD	Retakaful share BD	Net BD
At 1 January	9,355,822	(1,990,708)	7,365,114
Contributions written	21,720,586	(6,288,291)	15,432,295
Contributions earned	(21,749,057)	6,100,254	(15,648,803)
At 31 December	<u>9,327,351</u>	<u>(2,178,745)</u>	<u>7,148,606</u>
	2018		
	Gross BD	Retakaful share BD	Net BD
At 1 January	8,195,745	(2,157,078)	6,038,667
Contributions written	22,034,403	(6,297,784)	15,736,619
Contributions earned	(20,874,326)	6,464,155	(14,410,171)
At 31 December	<u>9,355,822</u>	<u>(1,990,708)</u>	<u>7,365,115</u>

14 DEFERRED POLICY ACQUISITION COSTS

	2019 BD	2018 BD
At 1 January	600,206	464,402
Acquisition costs during the year	1,185,328	1,183,423
Amortisation for the year	(1,211,731)	(1,047,619)
At 31 December	<u>573,803</u>	<u>600,206</u>

15 UNEARNED RETAKAFUL COMMISSIONS

	2019 BD	2018 BD
At 1 January	313,639	332,568
Retakaful commissions received	869,647	826,800
Retakaful commissions earned	(845,476)	(845,729)
At 31 December	<u>337,810</u>	<u>313,639</u>

Takaful International Company B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019 (Audited)

16 OTHER RECEIVABLES AND PREPAYMENTS

31 December 2019				
	Shareholders	General	Family	
	BD	takaful	takaful	Total
		BD	BD	BD
Staff related receivables	1,454	-	-	1,454
Accrued Income	59,261	94,610	16,772	170,643
Prepaid Expenses	7,995	81,733	-	89,728
Tender Deposits	-	59,925	-	59,925
Other Receivables	60,478	109,329	-	169,807
VAT receivable	21,787	128,923	-	150,710
At 31 December	150,975	474,520	16,772	642,267
31 December 2018				
	Shareholders	General	Family	
	BD	takaful	takaful	Total
		BD	BD	BD
Staff related receivables	504	-	-	504
Accrued Income	44,837	61,632	21,718	128,187
Prepaid Expenses	28,504	113,614	-	142,118
Tender Deposits	-	46,494	-	46,494
Other Receivables	806,285	111,997	-	918,282
At 31 December	880,130	333,737	21,718	1,235,585

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

Takaful International Company B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019 (Audited)

17 PROPERTY AND EQUIPMENT

	<i>Freehold land BD</i>	<i>Buildings on freehold land BD</i>	<i>Furniture and fixtures BD</i>	<i>Office equipment BD</i>	<i>Motor vehicles BD</i>	<i>Total BD</i>
Cost						
At 31 December 2017	1,071,868	1,255,201	880,625	1,531,031	112,568	4,851,293
Additions	-	-	3,083	51,749	-	54,832
Transfers	-	-	-	-	-	-
Disposals	-	-	-	-	(37,059)	(37,059)
At 31 December 2018	1,071,868	1,255,201	883,708	1,582,780	75,509	4,869,066
Additions	-	-	12,989	45,510	-	58,499
Impairment *	(67,015)	(11,463)	-	-	-	(78,478)
Disposals	(512,705)	(108,817)	-	-	(18,000)	(639,522)
Deconsolidation of a subsidiary (note 3.1)	-	(10,581)	(11,191)	(38,640)	-	(60,412)
At 31 December 2019	492,148	1,124,340	885,506	1,589,650	57,509	4,149,153
Accumulated depreciation						
At 31 December 2017	-	479,726	841,185	1,359,612	87,757	2,768,280
Charge for the year	-	50,167	14,728	103,461	9,664	178,020
Disposals for the year	-	-	-	-	(26,875)	(26,875)
At 31 December 2018	-	529,893	855,913	1,463,073	70,546	2,919,425
Charge for the year	-	49,600	10,895	73,574	4,193	138,262
Disposals for the year	-	(21,122)	-	-	(17,642)	(38,764)
Deconsolidation of a subsidiary (note 3.1)	-	(1,058)	(4,921)	(24,341)	-	(30,320)
At 31 December 2019	-	557,313	861,887	1,512,306	57,097	2,988,603
Net book amount						
At 31 December 2019	492,148	567,027	23,619	77,344	412	1,160,550
At 31 December 2018	1,071,868	725,308	27,795	119,707	4,963	1,949,641

* This represents impairment of the Company's 2 storey building measuring 750 square meters located in Salmabad. The impairment was determined based on the valuation of third party valuers.

Properties owned by the Company

<i>Name of the property</i>	<i>Address</i>	<i>Description</i>	<i>Existing Use</i>	<i>Nature</i>	<i>Age of the property</i>
Takaful International Co. BSC - Head office	Building No.680, Road No.2811, Seef District, 428, Kingdom of Bahrain	6 storey commercial tower measuring 688 square meters	Operational purpose	Freehold	14 Years

18 RECEIVABLE FROM TAKAFUL FUNDS

Receivable from takaful funds includes amounts due from General takaful and Family takaful policyholders on account of wakala fees, mudarib fees and inter-entity balances amounting to BD 954,185 (2018: BD 1,061,076)

Takaful International Company B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019 (Audited)

19 RELATED PARTIES

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

Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including the executive management of the Group.

A summary of the balances with related parties, included in these consolidated financial statements is:

The following are the transactions entered into with the related parties during the period ended 31 December 2019 and 31 December 2018.

	31 December 2019			31 December 2018		
	<i>Key Management</i>			<i>Key Management</i>		
	<i>Personnel</i>	<i>Shareholders</i>	<i>Others</i>	<i>Personnel</i>	<i>Shareholders</i>	<i>Others</i>
	<i>BD</i>	<i>BD</i>	<i>BD</i>	<i>BD</i>	<i>BD</i>	<i>BD</i>
Gross contributions	693	149,531	-	1,222	165,957	-
Retakaful provider's share of gross contribution	-	54,376	-	-	39,574	-
Gross claims paid	-	303,474	-	-	106,011	-
Reinsurers' share of claims paid	-	4,443	-	-	3,309	-
Fee and commission income	-	8,209	-	-	5,594	-
Acquisition costs	-	31,097	-	-	27,173	-
Sale of Salmabad Land and Building	-	600,400	-	-	-	-
Corporate expenses	-	-	14,305	-	-	36,550

	<i>Shareholders</i>	
	<i>31 December 2019</i>	<i>31 December 2018</i>
	<i>BD</i>	<i>BD</i>
Investments at fair value through equity	163,968	154,708
Takaful and retakaful balances receivable	286,798	197,940
Takaful and retakaful balances payable	31,919	9,144

Compensation of key management personnel

The remuneration of key management personnel paid during the year was as follows:

	<i>31 December 2019</i>	<i>31 December 2018</i>
	<i>BD</i>	<i>BD</i>
Salaries and benefits	180,283	201,805
Directors' fee	76,281	69,616
Employees' end of service benefits	18,123	92,033
	274,687	363,454

Takaful International Company B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019 (Audited)

20 EQUITY AND RESERVES

	31 December 2019 BD	31 December 2018 BD
Authorised share capital:		
Ordinary shares		
200,000,000 ordinary shares of 100 fils each		
(2018: 200,000,000 ordinary shares of 100 fils each)	20,000,000	20,000,000
Issued and fully paid-up capital:		
Ordinary shares		
85,000,000 ordinary shares of 100 fils each		
(2018: 85,000,000 ordinary shares of 100 fils each)	8,500,000	8,500,000

In the previous year, there was capital raise of BD 2,250,000. The paid up capital of the company was increased from BHD 6,250,000 to BHD 8,500,000.

Additional information on shareholding pattern

i) The names and nationalities and number of shares held by the major shareholders individually holding 5% and more of the issued and fully paid-up share capital as at 31 December 2019 and 2018 respectively is as follows:

		31 December 2019	
Name of the shareholders	Nationality	Number of shares	Percentage of shareholding interest
Bahrain Kuwait Insurance Company	Bahraini	69,651,974	81.94%
Al Amana Alama State of Kuwait	Kuwaiti	5,250,000	6.18%
		31 December 2018	
Name of the shareholders	Nationality	Number of shares	Percentage of shareholding interest
Bahrain Kuwait Insurance Company	Bahraini	69,651,974	81.94%
Al Amana Alama State of Kuwait	Kuwaiti	5,250,000	6.18%

Takaful International Company B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019 (Audited)

20 EQUITY AND RESERVES (continued)

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

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

31 December 2019			
	Number of shareholders	Number of shares	Percentage of total outstanding shares
Less than 1%	195	6,195,820	7.29%
1% up to less than 5%	2	3,902,206	4.59%
5% up to less than 10%	1	5,250,000	6.18%
10% and above	1	69,651,974	81.94%
	199	85,000,000	100.00%

31 December 2018			
	Number of shareholders	Number of shares	Percentage of total outstanding shares
Less than 1%	197	6,195,820	7.29%
1% up to less than 5%	2	3,902,206	4.59%
5% up to less than 10%	1	5,250,000	6.18%
10% and above	1	69,651,974	81.94%
	201	85,000,000	100.00%

Statutory reserve

As required by the Bahrain Commercial Companies Law and the Insurance Regulations contained in Volume 3 of the Central Bank of Bahrain Rulebook, 10% of the profit for the year is to be transferred to a statutory reserve until such time as the reserve equals 50% of the paid up share capital. The reserve is not available for distribution except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following approval of the Central Bank of Bahrain. During the year ended 31 December 2019, the Group transferred an amount of BD 69,044 (2018: BD 65,074) to the statutory reserve.

General reserve

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

Dividends

There is no dividend payable to shareholders for the year ended 31 December 2019 [2018: Nil].

Takaful International Company B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019 (Audited)

21 OTHER LIABILITIES AND PROVISIONS

31 December 2019				
	Share- holders BD	General takaful BD	Family takaful BD	Total BD
Due to garages, spare part suppliers and others	-	476,903	-	476,903
Provision for employees' leaving indemnity	238,213	-	-	238,213
Accrued expenses	288,984	84,316	-	373,300
Unclaimed dividends	102,950	-	-	102,950
VAT payables	778	245,004	-	245,782
Provision for leave pay	27,297	-	-	27,297
Payable To Shareholders fund	-	731,786	222,399	954,185
Other liabilities	68,337	129,097	2,067	199,501
	726,559	1,667,106	224,466	2,618,131
31 December 2018				
	Share- holders BD	General takaful BD	Family takaful BD	Total BD
Due to garages, spare part suppliers and others	-	413,654	-	413,654
Provision for employees' leaving indemnity	231,473	-	-	231,473
Accrued expenses	241,016	85,448	-	326,464
Unclaimed dividends	104,570	-	-	104,570
Unearned service fee	259,069	-	-	259,069
Provision for leave pay	40,883	-	-	40,883
Payable To Shareholders fund	-	835,360	225,716	1,061,076
Other liabilities	1,333,224	114,570	2,030	1,449,824
	2,210,235	1,449,032	227,746	3,887,013

22 GROSS CONTRIBUTIONS

	31 December 2019		
	General takaful	Family takaful	Total
Led by the company - net of refunds	19,826,855	1,383,454	21,210,309
Led by other insurance companies - Company's share	510,277	-	510,277
	<u>20,337,132</u>	<u>1,383,454</u>	<u>21,720,586</u>
	31 December 2018		
	General takaful	Family takaful	Total
Led by the company - net of refunds	19,973,524	1,444,551	21,418,075
Led by other insurance companies - Company's share	616,328	-	616,328
	<u>20,589,852</u>	<u>1,444,551</u>	<u>22,034,403</u>

Takaful International Company B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019 (Audited)

23 General administration and corporate expenses

	31 December 2019 BD	31 December 2018 BD
Employee related costs	1,509,198	1,596,884
General administration expenses	797,551	738,854
Depreciation	136,558	171,920
Impairment on building	78,478	-
	<u>2,521,785</u>	<u>2,507,658</u>

24 EMPLOYEES' TERMINAL BENEFITS

The contributions made by the Group towards the pension scheme for Bahraini nationals administered by the Social Insurance Organization in the Kingdom of Bahrain for the year ended 31 December 2019 amounted to BD 95,792 (2018: BD 103,740).

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

	31 December 2019 BD	31 December 2018 BD
Opening balance	231,473	305,185
Accruals for the year	33,229	132,027
Payments during the year	(26,489)	(205,739)
Closing balance	<u>238,213</u>	<u>231,473</u>
Total number of staff employed by the Group	<u>87</u>	<u>86</u>

25 WAKALA FEE AND MUDARIB SHARE

The shareholders manage the general and family takaful operations for the participants' and charge 18% (2018: 17%) and 11% (2018: 17%) respectively of gross contributions as a wakala fee. The shareholders also manage the participants' investment funds as a mudarib and charge 25% (2018: 25%) of the general takaful and family takaful investment income earned by the participants' investment funds, respectively. The maximum chargeable wakala fee and mudarib share, as approved by the Shari'a Supervisory Board, are 35% (2018: 35%) and 25% (2018: 25%) respectively.

26 INVESTMENT INCOME

	Year ended 31 December 2019			
	Share- holders BD	General takaful BD	Family takaful BD	Total BD
Deposit income	84,737	180,470	7,970	273,177
Profit on investment securities	54,216	60,959	64,857	180,032
Dividend income	54,908	2,684	28,442	86,034
Gain / (Loss) on sale of investment securities	90,201	(298)	-	89,903
Investment expenses	(104,679)	-	-	(104,679)
Impairment on investments	(20,087)	(63,963)	(31,008)	(115,058)
	159,296	179,852	70,261	409,409

Takaful International Company B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019 (Audited)

26 INVESTMENT INCOME (continued)

	Year ended 31 December 2018			
	Share- holders BD	General takaful BD	Family takaful BD	Total BD
Deposit income	54,937	101,414	13,503	169,854
Profit on investment securities	56,474	35,346	73,639	165,459
Dividend income	79,074	11,216	30,348	120,638
Gain on sale of investment securities	57,043	16,385	7,678	81,106
Investment expenses	(163,187)	-	-	(163,187)
Impairment on investments	(135,846)	(22,799)	(17,323)	(175,968)
	<u>(51,505)</u>	<u>141,562</u>	<u>107,845</u>	<u>197,902</u>

27 OTHER INCOME - NET

	Year ended 31 December 2019 BD	Year ended 31 December 2018 BD
Other income		
TPA fees and other income (subsidiary)	288,844	356,356
Rental income	23,100	27,500
Profit on sale of asset	6,161	14,163
Other income	1,024	8,267
	<u>319,129</u>	<u>406,286</u>

28 EARNINGS PER SHARE

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

	Year ended 31 December 2019 BD	Year ended 31 December 2018 BD
Net profit	690,444	650,731
Weighted average number of ordinary shares issued	85,000,000	76,184,932
Earnings per share	8.12 fils	8.54 Fils

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019 (Audited)

28 EARNINGS PER SHARE (continued)

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

	31 December	31 December
Other information	2019	2018
Proposed cash dividend per share	-	-
Net asset value per share	119 Fils	108 Fils
Share price per Bahrain Bourse at 31 December	90 Fils	85 Fils
Price to earning ratio at 31 December	11 Times	10 Times
Total market capitalisation at 31 December (BD - thousand)	7,650	7,225

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

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

Fire and general takaful offers insurance policies to cover various risks of fire, sabotage and terrorism, engineering and general accident;

Motor takaful offers insurance policies to cover risks of motor third party, motor comprehensive and extended warranty;

Marine and aviation takaful offers insurance policies to cover risks of marine cargo, marine hull and aviation;

Medical takaful offers insurance policies to cover risks of medical contingencies and expenses; and

Family takaful offers insurance policies to cover risks of group takaful and group credit, protection (decreasing term assurance/ level term assurance) and also for group savings, individual savings, education and cash back.

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

Takaful International Company B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019 (Audited)

29 SEGMENTAL UNDERWRITING RESULTS (continued)

Business segments – primary reporting segment

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

	For the year ended 31 December 2019 (Audited)					Total	
	Fire & General BD	Medical BD	Motor BD	Marine & Aviation BD	General Takaful BD	Family Takaful BD	Total BD
Gross contributions							
Retakaful provider's share of gross contributions	5,213,165 (4,515,815)	6,302,102 (174,082)	8,432,320 (428,084)	389,545 (322,196)	20,337,132 (5,440,177)	1,383,454 (848,114)	21,720,586 (6,288,291)
Retained contributions							
Unearned contributions adjustment - net	697,350 (41,204)	6,128,020 231,415	8,004,236 15,470	67,349 24	14,896,955 205,705	535,340 10,803	15,432,295 216,508
Net earned contributions							
Fee and Commission Income	656,146 790,270	6,359,435 342	8,019,706 -	67,373 86,453	15,102,660 877,065	546,143 11	15,648,803 877,076
Segment Revenue							
Net incurred claims	1,446,416	6,359,777	8,019,706	153,826	15,979,725	546,154	16,525,879
Other Takaful Expenses	(198,221)	(4,988,938)	(6,079,276)	(7,461)	(11,273,896)	(143,403)	(11,417,299)
Transfer to family takaful technical reserve	(13,142)	(369,253)	(342,539)	(1,176)	(726,110)	(12,774)	(738,884)
Provision for impaired takaful receivables	-	-	-	-	-	(269,763)	(269,763)
	(19,316)	(12,129)	(73,451)	(8,149)	(113,045)	(2,101)	(115,146)
Underwriting surplus before wakala fees							
Wakala fees expense	1,215,737 (1,165,874)	989,457 (931,447)	1,524,440 (1,482,855)	137,040 (105,268)	3,866,674 (3,685,444)	118,113 (146,768)	3,984,787 (3,832,212)
Surplus / (deficit) from takaful operations after wakala fees							
Investment Income - net	49,863	58,010	41,585	31,772	181,230	(28,655)	152,575
Mudarib fees expense					179,852 (44,963)	70,261 (17,565)	250,113 (62,528)
Net surplus							
					316,119	24,041	340,160

Takaful International Company B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019 (Audited)

29 SEGMENTAL UNDERWRITING RESULTS (continued)

Business segments – primary reporting segment (continued)

	for the year ended 31 December 2018 (Audited)						
	Fire & General BD	Medical BD	Motor BD	Marine & Aviation BD	Total General Takaful BD	Family Takaful BD	Total BD
Gross contributions	4,871,273	6,789,644	8,544,828	384,107	20,589,852	1,444,551	22,034,403
Retakaful provider's share of gross contributions	(4,244,490)	(270,538)	(527,654)	(316,663)	(5,359,345)	(938,439)	(6,297,784)
Retained contributions	626,783	6,519,106	8,017,174	67,444	15,230,507	506,112	15,736,619
Unearned contributions adjustment - net	24,594	(539,510)	(822,235)	3,429	(1,333,722)	7,274	(1,326,448)
Net earned contributions	651,377	5,979,596	7,194,939	70,873	13,896,785	513,386	14,410,171
Fee and Commission Income	990,236	-	-	71,131	1,061,367	35	1,061,402
Segment Revenue	1,641,613	5,979,596	7,194,939	142,004	14,958,152	513,421	15,471,573
Net incurred claims	(172,228)	(4,536,217)	(5,458,925)	(5,054)	(10,172,424)	(432,383)	(10,604,807)
Other Takaful Expenses	(8,439)	(259,488)	(279,788)	-	(547,715)	(3,762)	(551,477)
Transfer to family takaful technical reserve	-	-	-	-	-	(430,427)	(430,427)
(Provision for) / reversal of impaired takaful receivables	(16,915)	(27,994)	(47,850)	-	(92,759)	5,808	(86,951)
Underwriting surplus before wakala fees	1,444,031	1,155,897	1,408,376	136,950	4,145,254	(347,343)	3,797,911
Wakala fees expense	(1,188,237)	(950,550)	(1,311,631)	(93,346)	(3,543,764)	(245,574)	(3,789,338)
Surplus / (deficit) from takaful operations after wakala fees	255,794	205,347	96,745	43,604	601,490	(592,917)	8,573
Investment income - net					141,562	107,845	249,407
Mudarib fees expense					(35,391)	(26,961)	(62,352)
Net surplus / (deficit)					707,661	(512,033)	195,628

Takaful International Company B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019 (Audited)

29 SEGMENTAL UNDERWRITING RESULTS (continued)

The following table presents disclosure of segment assets and liabilities:

	Fire & General BD	Medical BD	Motor BD	Marine & Aviation BD	Family Takaful BD	Total BD	Unallocated assets / Liabilities BD	Total BD
<i>Identifiable assets and liabilities as on 31 December 2019 (Reviewed)</i>								
Identifiable assets	4,464,649	299,357	1,703,515	113,398	931,080	7,511,999	30,775,734	38,287,733
Identifiable liabilities	5,315,694	3,591,577	8,736,586	160,284	3,177,258	20,981,399	7,518,059	28,499,458
<i>Identifiable assets and liabilities as on 31 December 2018 - (Audited)</i>								
Identifiable assets	7,200,436	402,195	1,382,251	100,322	795,531	9,880,735	29,911,605	39,792,340
Identifiable liabilities	8,196,359	3,752,575	7,475,831	138,747	3,048,363	22,611,875	8,705,928	31,317,803

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

29 SEGMENTAL UNDERWRITING RESULTS (continued)**Geographical segments – secondary reporting segment**

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

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

The geographical segment reporting of the Group as at 31 December 2019 and 2018 is as follows:

	<i>Gross contributions by location</i>		<i>Non-current assets by location of assets</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
	<i>BD</i>	<i>BD</i>	<i>BD</i>	<i>BD</i>
Kingdom of Bahrain	21,720,586	22,034,403	1,160,550	1,949,641

30 RISK MANAGEMENT

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

Financial assets and liabilities carried on the consolidated statement of financial position include statutory deposits, cash and bank balances, investments at fair value through equity, takaful and retakaful balances receivable, retakaful share of takaful liabilities, other receivables, takaful liabilities, takaful and retakaful payables, other liabilities and provisions and employees' terminal benefits. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Risk management

The Board of Directors has overall responsibility for the determination of the Group's risk management objectives and policies. Whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Risk Committee. The risk committee closely monitors the risk and related aspects and gives periodical updates to the Board about the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The Group's internal auditors also review the risk management policies and processes and report their findings to the Audit Committee.

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

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

Takaful risk

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

30 RISK MANAGEMENT (continued)

Takaful risk (continued)

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

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

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

The Group does not have any single takaful contract or a small number of related contracts that cover low frequency, high-severity risks such as earthquakes, or takaful contracts covering risks for single incidents that expose the Group to multiple takaful risks. The Group has adequately reinsured for takaful risks that may involve significant litigation. A 5% change in the average claims ratio will have no material impact on the statement of income (2018: same). The geographical and segmental concentration of takaful risk is set out in note 29.

Retakaful risk

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

Profit rate risk

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

Takaful International Company B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019 (Audited)

30 RISK MANAGEMENT (continued)

Currency risk

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

31 December 2019					
	Bahraini Dinar BD	US Dollars BD	Qatari Riyals BD	Others BD	Total BD
ASSETS					
Cash and bank balances	11,103,071	442,779	7,483	180	11,553,513
Statutory deposit	125,000	-	-	-	125,000
Takaful and retakaful balances receivable	8,180,537	1,892,775	-	-	10,073,312
Retakaful share of outstanding claims - Reported claims	2,196,074	1,031,719	-	-	3,227,793
Investments at fair value through equity	1,597,010	3,516,946	-	946,312	6,060,268
	23,201,692	6,884,219	7,483	946,492	31,039,886
LIABILITIES					
Takaful liabilities - outstanding claims - Reported claims	5,844,809	-	116,448	-	5,961,257
Unearned commissions	218,627	119,183	-	-	337,810
Payables and accrued liabilities :					-
Takaful and retakaful companies	2,409,221	1,009,084	-	-	3,418,305
Participants'	1,481,623	-	-	-	1,481,623
Others	2,593,777	24,354	-	-	2,618,131
	12,548,057	1,152,621	116,448	-	13,817,126
Net Exposure	10,653,635	5,731,598	(108,965)	946,492	17,222,760
31 December 2018					
	Bahraini Dinar BD	US Dollars BD	Riyals BD	Others BD	Total BD
ASSETS					
Cash and bank balances	6,759,009	2,470,749	30,336	190	9,260,284
Statutory deposit	125,000	-	-	-	125,000
Takaful and retakaful balances receivable	8,118,909	1,878,516	-	-	9,997,425
Retakaful share of outstanding claims - Reported claims	3,947,258	2,069,906	-	-	6,017,164
Investments at fair value through equity	1,554,974	3,147,791	-	1,579,829	6,282,594
	20,505,150	9,566,962	30,336	1,580,019	31,682,467
LIABILITIES					
Takaful liabilities - outstanding claims - Reported claims	8,243,017	-	170,914	-	8,413,931
Unearned commissions	194,456	119,183	-	-	313,639
Payables and accrued liabilities :					
Takaful and retakaful companies	2,307,424	966,446	-	-	3,273,870
Participants'	1,545,043	-	-	-	1,545,043
Others	3,862,929	24,084	-	-	3,887,013
	16,152,869	1,109,713	170,914	-	17,433,496
Net Exposure	4,352,281	8,457,249	(140,578)	1,580,019	14,248,971

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019 (Audited)

30 RISK MANAGEMENT (continued)**Price risk**

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

The Group is exposed to market risk with respect to its investments at fair value through equity in equities, managed funds and sukuks. The impact on investment fair value reserve and equity of a 1% increase/decrease in prices would be +/- of BD 60,603/- (2018: +/- of BD 62,826).

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

A geographical analysis of the Group's investments at fair value through equity is:

	31 December 2019 BD	31 December 2018 BD
Kingdom of Bahrain	3,429,739	2,258,084
Other GCC countries	2,211,429	3,449,087
Asia	212,872	403,877
Other countries	206,228	171,546
	<u>6,060,268</u>	<u>6,282,594</u>

Credit risk

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

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

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

	At 31 December 2019	
Financial assets	Carrying value BD	Maximum exposure BD
Cash and bank balances	11,553,513	11,553,513
Takaful and retakaful balances receivable	10,073,312	10,073,312
Retakaful share of outstanding claims	4,189,199	4,189,199
Other receivables and prepayments	642,267	642,267
Statutory deposit	125,000	125,000
Total financial assets	<u>26,583,291</u>	<u>26,583,291</u>

Takaful International Company B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019 (Audited)

30 RISK MANAGEMENT (continued)

Credit risk (continued)

	At 31 December 2018	
	Carrying	Maximum
	value	exposure
	BD	BD
Financial assets		
Cash and bank balances	9,260,284	9,260,284
Takaful and retakaful balances receivable	9,997,425	9,997,425
Retakaful share of outstanding claims	6,978,571	6,978,571
Other receivables and prepayments	1,235,585	1,235,585
Statutory deposit	125,000	125,000
Total financial assets	27,596,865	27,596,865

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

Liquidity risk

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

	31 December 2019			
	One year or less	More than one year	No term	Total
	BD	BD	BD	BD
ASSETS				
Cash and bank balances	11,553,513	-	125,000	11,678,513
Investments at fair value through equity	1,789,746	4,270,522	-	6,060,268
Takaful and retakaful balances receivable	7,378,949	2,694,363	-	10,073,312
Retakaful share of outstanding claims	4,189,199	-	-	4,189,199
Deferred retakaful contribution	2,178,745	-	-	2,178,745
Deferred acquisition costs	573,803	-	-	573,803
Retakaful share of family takaful technical reserves	570,251	-	-	570,251
Property and equipment	-	-	1,160,550	1,160,550
Other receivables and prepayments	642,267	-	-	642,267
Receivable from takaful funds	954,185	-	-	954,185
Investment in an associate	-	-	206,640	206,640
	29,830,658	6,964,885	1,492,190	38,287,733
LIABILITIES				
Gross outstanding claims	8,576,253	-	-	8,576,253
Unearned contributions	9,327,351	-	-	9,327,351
Unearned retakaful commissions	337,810	-	-	337,810
Family takaful technical reserves	2,739,985	-	-	2,739,985
Payables and accrued liabilities	4,899,928	-	-	4,899,928
Other liabilities and provisions	1,425,733	-	-	1,425,733
Employees' terminal benefits	-	238,213	-	238,213
Payable to shareholders	954,185	-	-	954,185
	28,261,245	238,213	-	28,499,458

Takaful International Company B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019 (Audited)

30 RISK MANAGEMENT (continued)

Liquidity risk (continued)

	31 December 2018			
	One year or less	More than one year	No term	Total
	BD	BD	BD	BD
ASSETS				
Cash and bank balances	9,260,284	-	125,000	9,385,284
Investments at fair value through equity	2,356,096	3,926,498	-	6,282,594
Takaful and retakaful balances receivable	7,374,873	2,622,552	-	9,997,425
Retakaful share of outstanding claims	6,978,571	-	-	6,978,571
Deferred retakaful contribution	1,990,708	-	-	1,990,708
Deferred policy acquisition costs	600,206	-	-	600,206
Retakaful share of family takaful technical reserves	311,250	-	-	311,250
Property and equipment	-	-	1,949,641	1,949,641
Other receivables and prepayments	1,235,585	-	-	1,235,585
Receivable from takaful funds	1,061,076	-	-	1,061,076
	31,168,649	6,549,050	2,074,641	39,792,340
Gross outstanding claims	10,520,927	-	-	10,520,927
Unearned contributions	9,355,822	-	-	9,355,822
Unearned retakaful commissions	313,639	-	-	313,639
Family takaful technical reserves	2,421,489	-	-	2,421,489
Payables and accrued liabilities	4,818,913	-	-	4,818,913
Other liabilities and provisions	2,594,464	-	-	2,594,464
Employees' terminal benefits	-	231,473	-	231,473
Payable to shareholders	1,061,076	-	-	1,061,076
	31,086,330	231,473	-	31,317,803

31 CAPITAL ADEQUACY AND SOLVENCY MARGIN

Capital Adequacy & Solvency margin requirements are determined in accordance with the regulatory requirements established by the Central Bank of Bahrain and are calculated with reference to a prescribed contributions and claims basis. The Central Bank of Bahrain (CBB) rulebook stipulates that solvency margin requirements on a combined basis of both participants' and shareholder's funds together. The capital available to cover solvency margin required are as follows:

	2019	2018
Total available shareholders' capital to cover required solvency margin	4,879,000	4,439,000
Total Margin required for General & Family Takaful funds'	4,014,000	3,986,000
Excess Capital	865,000	453,000

32 SHARI'A SUPERVISORY BOARD

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019 (Audited)

33 ZAKAH

Zakah of BD 225,401 at 2.65 fils per share (2018: BD 187,249 at 2.20 fils per share) is to be directly borne by the shareholders and, accordingly, the consolidated financial statements includes no provision for Zakah. Zakah base is calculated using the 'Net Invested Funds' method of calculating Zakah base. The components used in the computation of Zakah are share capital, statutory reserve, general reserve and retained earnings, participants' equity and property and equipment. The basis of computation is approved by the Shari'a Supervisory Board and the amounts payable are notified to the shareholders.

34 EARNINGS PROHIBITED UNDER SHARI'A

There were no earnings retained during the year (2018: nil) from transactions which are not permitted under Shari'a.

35 CONTINGENT LIABILITIES

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

36 COMMITMENTS*a) Operating lease commitments*

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

	31 December 2019 BD	31 December 2018 BD
Not later than 1 year	18,000	36,032

b) Other commitments

The are no other commitments as at 31 December 2019.

37 QARD AL HASSAN

In accordance with the capital adequacy requirements of the Central Bank of Bahrain' Insurance Rulebook, there is no Qard apportionment made through the Insurance Firm Return for the year ended 31 December 2019.

Takaful International Company B.S.C.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019 (Audited)

38 TOTAL COMPREHENSIVE INCOME

	For the year ended 31 December 2019 (Audited)				For the year ended 31 December 2018(Audited)			
	Shareholders BD	General Takaful BD	Family Takaful BD	Total BD	Shareholders BD	General Takaful BD	Family Takaful BD	Total BD
Net profit and surplus / (deficit) for the year	690,765	316,119	24,041	1,030,925	651,194	707,661	(512,033)	846,822
Other comprehensive income / (loss) to be reclassified to statement of profit or loss in subsequent periods:								
Investments at fair value through equity:								
Fair value changes arising during the year	182,335	54,352	45,078	281,765	(229,652)	(16,009)	(55,810)	(301,471)
Recycled to consolidated statement of profit or loss on disposal / impairment	28,204	52,020	22,425	102,649	130,036	18,338	17,510	165,884
Other comprehensive income / (loss) for the year to be reclassified to consolidated statement of profit or loss in subsequent periods	210,539	106,372	67,503	384,414	(99,616)	2,329	(38,300)	(135,587)
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR	901,304	422,491	91,544	1,415,339	551,578	709,990	(550,333)	711,235
Attributable to:								
Parent's shareholder	900,983	422,491	91,544	1,415,018	551,115	709,990	(550,333)	710,772
Non-controlling interests	321	-	-	321	463	-	-	463
	901,304	422,491	91,544	1,415,339	551,578	709,990	(550,333)	711,235

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

Year ended 31 December 2019 (Audited)

39 FINANCIAL INSTRUMENTS

Set out below is an overview of the financial instruments held by the Company as at 31 December 2019 and 31 December 2018:

31 December 2019		
<i>Investments at fair value through equity BD</i>	<i>Financial assets at amortised cost BD</i>	<i>Total BD</i>
Statutory deposit	-	125,000
Cash and bank balances	-	11,553,513
Investments at fair value through equity	6,060,268	-
Takaful and retakaful balances receivable	-	10,073,312
Retakaful share of Takaful Liabilities		
- Outstanding claims - Reported claims	3,227,793	3,227,793
Other receivables	-	492,614
6,060,268	25,472,232	31,532,500
		<i>Financial Liabilities BD</i>
Takaful Liabilities		
- Outstanding Claims - Reported claims		5,961,257
Takaful and retakaful payables		4,899,928
Other liabilities and provisions		1,733,539
		12,594,724
31 December 2018		
<i>Investments at fair value through equity BD</i>	<i>Financial assets at amortised cost BD</i>	<i>Total BD</i>
Statutory deposit	-	125,000
Cash and bank balances	-	9,260,284
Investments at fair value through equity	6,282,594	-
Takaful and retakaful balances receivable	-	9,997,425
Retakaful share of Takaful Liabilities		
- Outstanding claims - Reported claims	6,017,164	6,017,164
Other receivables	-	1,046,973
6,282,594	26,446,846	32,729,440
		<i>Financial Liabilities BD</i>
Takaful Liabilities		
- Outstanding Claims - Reported claims		8,413,931
Takaful and retakaful payables		4,818,913
Other liabilities and provisions		3,029,124
		16,261,968

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

Year ended 31 December 2019 (Audited)

39 FINANCIAL INSTRUMENTS (continued)

Valuation methods and assumptions

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair values of quoted securities are derived from quoted market prices in active markets, if available. For unquoted securities, fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; or other valuation models.

The fair values of the funds that are listed on active markets are determined by reference to their quoted bid prices. The fair values of unlisted funds are based on net asset values which are determined by the fund manager using the quoted market prices of the underlying assets, if available, or other acceptable methods such as a recent price paid by another investor or the market value of a comparable company.

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

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

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

	31-December-2019			
	Level 1 BD	Level 2 BD	Level 3 BD	Total BD
Investments at fair value through equity				
<i>Quoted investments</i>				
Banking	1,341,691	-	-	1,341,691
Government	1,752,124	-	-	1,752,124
Infrastructure	925,146	-	-	925,146
Consumer Service	232,445	-	-	232,445
Others	530,582	-	-	530,582
<i>Unquoted investments</i>				
Infrastructure	-	-	377,500	377,500
Consumer Service	-	331,857	-	331,857
Insurance	-	-	80,268	80,268
<i>Other managed funds</i>				
Consumer Service	-	187,353	-	187,353
Infrastructure	-	162,811	11,326	174,137
Others	-	54,270	72,895	127,165
	4,781,988	736,291	541,989	6,060,268

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

Year ended 31 December 2019 (Audited)

39 FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

	31 December 2018			
	Level 1 BD	Level 2 BD	Level 3 BD	Total BD
Investments at fair value through equity				
<i>Quoted investments</i>				
Banking	1,952,129	-	-	1,952,129
Infrastructure	1,172,894	-	-	1,172,894
Government	854,246	-	-	854,246
Consumer Service	210,826	-	-	210,826
Others	650,976	-	-	650,976
<i>Unquoted investments</i>				
Infrastructure	-	-	377,500	377,500
Consumer Service	-	299,017	-	299,017
Insurance	-	-	200,268	200,268
<i>Other managed funds</i>				
Consumer Service	-	195,370	-	195,370
Infrastructure	-	156,035	11,326	167,361
Others	-	122,347	79,660	202,007
	4,841,071	772,769	668,754	6,282,594

Date of valuation was 31 December 2019 for the current period and 31 December 2018 for the comparative period respectively.

In case of investments at fair value through equity, the impairment charge in the consolidated statement of income would depend on whether the decline is significant or prolonged. An increase in the fair value would only impact equity (through consolidated statement of other comprehensive income - note 38) and, would not have an impact on the consolidated statement of income.

Transfers between Level 1, Level 2 and Level 3

During the year ended 31 December 2019, there were no transfers between Level 1 and Level 2 fair value hierarchies, and no transfers into or out of Level 3 fair value hierarchy (2018 : No transfer)

Carrying amount and fair values of financial instruments not carried at fair value

The management assessed that the fair values of cash and bank balances, insurance receivables, reinsurers' share of insurance liabilities - reported claims, insurance liabilities - reported claims, payables to insurance and reinsurance companies, policyholders and other payables, approximate their carrying amounts largely due to short-term maturities of these instruments. These financial instruments are classified under level 2 of the fair value hierarchy.

40 COMPARATIVES

Certain prior period amounts have been regrouped to conform to the current period's presentation. Such regrouping did not effect previously reported profit for the period or equity.