

| Takaful International Co.B.S.C. | | Takaful Centers | | Qatar Branch |
|---------------------------------|--|----------------------|---|--|
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| Postal address | PO Box 3230 Manama Kingdom of Bahrain | Muharraq | Tel.: +973 17 565 400 Fax.: +973 17 677 321 | Tel.: +974 4491 6444 Fax.: +974 4491 6445 |
| | Telephone number 17565656 Fax number 17582688 E-mail address takaful@takafulweb.com Web site www.takaful.bh | Salmabad | Tel.: +973 17 565 414 Fax.: +973 17 877 287 | |
| | | Hamala | Tel.: +973 17 565 447 Fax.: +973 17 005 428 | |
| | | Jerdab | Tel.: +973 17 565 444 Fax.: +973 17 484 390 | |
| Primary Bankers | Bahrain Islamic Bank Al Salam Bank Kuwait Finance House Bank of Bahrain and Kuwait Ahli United Bank | Listing | Bahrain Bourse | |
| | | Actuary | Family Takaful ΣICG Actuaries & Management Consultants Ltd. 70, Omirou, Nea Smyrni, 17121, Athens, Greece | |
| Auditors | Ernst & Young 10th Floor East Tower, Bahrain World Trade Center PO Box 140 Manama Kingdom of Bahrain | | General Takaful Abdul Rahim Abdul Wahab, Pakistan | |
| | | Registrars | Bahrain Bourse, PO Box 3203, Manama Kingdom of Bahrain | |



**His Royal Highness
Prince Khalifa bin Salman
Al Khalifa**
Prime Minister



**His Majesty
King Hamad bin Isa
Al Khalifa**
King of the Kingdom of Bahrain



**His Royal Highness
Prince Salman bin Hamad
Al Khalifa**
Crown Prince, Deputy Supreme
Commander and First Deputy
Prime Minister

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Leading the way with excellence

One of the pioneering **Islamic insurance** companies in the Middle East and the first of its kind in **Bahrain**, Takaful International Company was **established in 1989**, offering **quality Sharia'a compliant insurance solutions**.

In 1998, Takaful was relaunched, reflecting the **ambition to expand its business operations within and beyond Bahrain**.

Takaful provides a wide range of **insurance solutions** for personal and corporate clients under Motor Takaful (Sayartak), Family Takaful & Healthcare and General Takaful.

Takaful fulfils its commitment to reaching out to more customers with a **wide network** of branches all over Bahrain. In order to make transactions easier and

faster, Takaful introduced **eTakaful** to offer insurance services online and **Takaful Hotline**. The Company is on a continuous endeavour to attain excellence in customer

satisfaction and the latest innovation towards it is **Smart Takaful**, the mobile application that offers **comprehensive** insurance services for its **valued**

customers. With these quality products and services, Takaful is always leading the way fuelled by unparalleled excellence.

The land of infinite opportunities

The Kingdom of Bahrain embodies the great and renowned Arabian culture. The nation absorbs the riches of this tradition to evolve into a distinctive identity and grow as the financial hub of the region that opens up opportunities like never before.

Takaful's core vision reflects the long-established values of this land. The path towards responsible leadership is lit up by these guiding principles and it inspires Takaful to emerge as the foremost Sharia'a compliant insurance solutions provider. This nurturing relationship with the tradition drives Takaful forward in delivering comprehensive security to its valued customers.

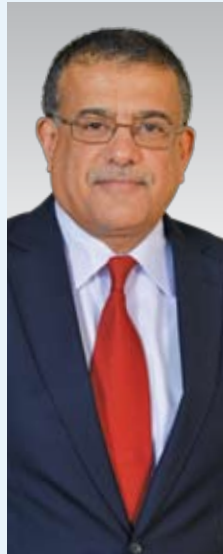
In Bahrain, Takaful International Company was established in 1989, offering quality Sharia'a compliant insurance solutions. In 1998, Takaful was relaunched, reflecting the ambition to expand its business products of Takaful International as Sharia'a compliant. The products also follow the rulings of other Islamic Fiqh Councils that approve Islamic mutual and co-operative insurance products. Takaful provides branches all over Bahrain. Takaful introduced e-Takaful to offer insurance services online and Takaful Hotline. The Company is on a continuous endeavour to all Middle East and the first Islamic insurance company in the region. Takaful International Company was established in 1989, offering quality Sharia'a compliant insurance solutions. In 1998, Takaful was relaunched, reflecting that Takaful International has approved the products of Takaful International as Sharia'a compliant. The products also follow the rulings of other Islamic Fiqh Councils that approve Islamic mutual and co-operative

Board of Directors



①

1. Jamal Ali Al Hazeem
Chairman



②

2. Khalil Ebrahim Nooruddin
Vice Chairman



③

3. Khaled Soud Al Hasan
Board Member



④

4. AbdulRahman Abdulla Mohammed
Board Member



⑤

5. Ebrahim Mohamed Sharif Al Rayes
Board Member

operations within and beyond Bahrain. Takaful got listed in the Bahrain Stock Exchange and became a member of the Bahrain Chamber of Commerce and Industry. The Sharia'a Supervisory Committee of Takaful provides a wide range of insurance solutions for personal and corporate clients under Motor Takaful (Sayartak), Family Takaful & Healthcare and General Takaful. Takaful fulfils its commitment to reaching out to more clients through its excellence in customer satisfaction and the latest innovation towards it is Smart Takaful, the mobile application that offers comprehensive insurance services for its valued customers. One of the pioneering initiatives is the ambition to expand its business operations within and beyond Bahrain. Takaful got listed in the Bahrain Stock Exchange and became a member of the Bahrain Chamber of Commerce and Industry. The Sharia'a Supervisory Committee of Takaful provides a wide range of insurance solutions for personal and corporate clients under Motor Takaful (Sayartak), Family Takaful & Healthcare and General Takaful. Takaful fulfils its commitment to reaching out to more clients through its excellence in customer satisfaction and the latest innovation towards it is Smart Takaful, the mobile application that offers comprehensive insurance services for its valued customers.



6

6. Ebrahim Hussain Al Jassmi
Board Member



7

7. Othman Ebrahim Al Askar
Board Member



8

8. Ahmed AbdulRahman Buceeri
Board Member



9

9. Khalid Jamal Al Muzaire
Board Member



10

10. Abdulla Rabea Mohamed Rabea
Board Member

Executive Management



①

1. Younis J. Al Sayed
Chief Executive



②

2. Essam M. Al Ansari
General Manager



③

3. Abdulaziz A. Al Othman
Deputy General Manager



④

4. Ali E. Noor
Deputy General Manager,
Business Development,
IT and Family Investment



⑤

5. Ahmed E. Swailem
Assistant General Manager,
General Takaful

the ambition to expand its business operations within and beyond Bahrain. Takaful got listed in the Bahrain Stock Exchange and became a member of the Bahrain Chamber of Commerce and Industry. The insurance products. Takaful provides a wide range of insurance solutions for personal and corporate clients under Motor Takaful (Sayartak), Family Takaful & Healthcare and General Takaful. Takaful fulfils its mission on a continuous endeavour to attain excellence in customer satisfaction and the latest innovation towards it is Smart Takaful, the mobile application that offers comprehensive insurance services for its clients. In 2018, Takaful was relaunched, reflecting the ambition to expand its business operations within and beyond Bahrain. Takaful got listed in the Bahrain Stock Exchange and became a member of the Bahrain Chamber of Commerce and Industry to provide Islamic mutual and co-operative insurance products. Takaful provides a wide range of insurance solutions for personal and corporate clients under Motor Takaful (Sayartak), Family Takaful & Healthcare and General Takaful.

Sharia'a Supervisory Board

Dr. Shaikh Abdul Latif Mahmood Al Mahmood
Chairman

Dr. Shaikh Abdul Sattar Abdul Karim Abuguddah
Deputy Chairman

Shaikh Mohsin Abdul Hussain Al Asfoor
Member

Management Team

Santosh Shreenivas Prabhu
Financial Controller

Haider G. Shehabi
Senior Manager, Motor Takaful and Centres

Jijan Abraham Stephen
Senior Manager – General Takaful

Reema Nowrooz
Senior Manager – Family Takaful and Healthcare

Lamia E. Hassan
Senior Manager – Corporate Control

Sayed Jaffer K. Hussain
Manager – Information Systems

Waleed El Bendary
Investment Manager

Pathbreaking developments for higher standards

Bahrain, the wonderful archipelago, enjoys a strong, vision-backed foundation laid for development that propels the nation to the future. The growth of Bahrain and the living standards of its citizens depend on these innovative developments.

Takaful always strives to bridge the gap between customer expectations and the standards of its service. The promise of superior standards is realised through providing innovative solutions, maintaining a network of branches for easy access and listening to its customers to understand their changing needs.

Middle East and the first of its kind in Bahrain. Takaful International Company was established in 1989, offering quality Sharia'a compliant insurance solutions. In 1998, Takaful was relaunched, reflecting Takaful International has approved the products of Takaful International as Sharia'a compliant. The products also follow the rulings of other Islamic Fiqh Councils that approve Islamic mutual and co-operative insurance companies in the Middle East and the first of its kind in Bahrain. Takaful introduced eTakaful to offer insurance services online and Takaful Hotline. The Company has a Supervisory Committee of Takaful International has approved the products of Takaful International as Sharia'a compliant. The products also follow the rulings of other Islamic Fiqh Councils that

Vision

To be recognized as the pioneering innovative leader of quality Sharia'a compliant insurance solutions.

Mission

To be the insurance company of choice by spreading awareness of Islamic insurance solutions and becoming the leading provider of a full range of Takaful products that combines superior quality based on Sharia'a principles and values.

Values

The essence of our values is our ability to succeed in providing excellent services based on commitment and quality. The principles are:

- Adhere to the highest levels of professionalism.
- Contribute effectively to the local economy.
- Maintaining the company growth, profitability and development.
- Believe that there is potential for development and commitment to achieve success.
- Strengthen leadership by providing integrated services and innovative products.

Products and Services

Takaful is the first Islamic insurance company in the region which provides services that specifically suit the Islamic values and caters to the requirements of the modern era.

The following products and services are tailor made for our customers so that they sufficiently cater to their requirements:

1. General Takaful

A. Commercial & Major Accounts

- Property All Risks Takaful
- Marine & Aviation Takaful
- Engineering Takaful
- Bankers Blanket Bond Takaful
- Directors & Officers Takaful
- Professional Indemnity Takaful
- Medical Malpractice Takaful
- Surety Bonds Takaful
- Office Comprehensive Takaful
- General Accident Takaful

B. Personal Lines

- Travel Takaful
- Home Takaful
- Property Takaful
- Personal Accident Takaful
- Domestic Servant Takaful

2. Family Takaful and Healthcare

- A. Family Takaful (Osratak)
- B. Group Family Takaful
- C. Education Takaful (Taleemi)
- D. Saving Takaful (Edikhari)
- E. Group Health Takaful (Sehatak)
- F. Annuity Certain Takaful Plan (Damani)
- G. Regular Pay-back Takaful (Sandooki)

3. Motor Takaful (Sayaratak)

- A. Motor Comprehensive Takaful with various a la carte options for coverage enhancement
- B. Motor Third Party

4. Smart Takaful

5. E-Takaful (Online Takaful)

6. Takaful Hotline (80008050)

Board of Director's Report



Takaful International underwrote total gross contributions of BD 20.9 M, a growth of 7% in its business compared to previous year. The overall net profit of the Company is BD 631 K.

Dear Shareholders,

On behalf of the members of the Board of Directors, I am pleased to present the 27th Annual report of your Company for the financial year ended 31 December 2016.

At the outset, I thank you for your continued support. The year 2016 was marked by events with significant implications for both developed and emerging economies. Falling oil prices have thrown various challenges in the economy and in the business especially in the region. The year witnessed continued recession in global crude oil and commodity prices, compounded by slowing global economic growth and geopolitical instability given the fact that the oil sector is the major driver of the economy. On the global front, three key trends dominated which included slowdown in economic growth in China, divergence in monetary policy action across developed and emerging economies

and a sharp decline in commodity prices. A noteworthy revival in global growth continued to remain a challenge. The region also saw some signs of improvements in several key economic indicators like inflation, foreign investments and current account deficit. Government's policy initiatives were focused on creating a favourable environment for growth, social inclusion and investments.

Your trust in your company irrespective of the prevalent mood of the markets has provided us a lot of encouragement and reassurance. We have been committed and shall remain so for managing the risks of the business and planning future growth of your Company to ensure maximum value creation for all our stakeholders.

In the midst of above uncertainties, your company managed to deliver improved results for FY16 in terms

of its operational and financial performance. During FY16 Takaful International underwrote total gross contributions of BD 20.9 M, a growth of 7% in its business compared to previous year. The overall net profit of the Company for the year is BD 631 K compared to loss in the previous year. The Board of Directors' total expenses for 2016 was BD 65,343.

Our philosophy of customer centricity has earned us the trust of our customers. We have taken the lead in leveraging digital platforms for improving the customer services and expanding the tools available to our distribution channels. Although it was a challenging year for Takaful, it was also a year of change and opportunity for our Company.

Going forward, Bahrain presents immense opportunities to expand especially in the life insurance (Family Takaful) business given the vast untapped potential on the Savings & Investment plans. We will continue to focus on meeting the diverse needs of our customers and create sustainable value for all our stakeholders.

I would like to extend our sincere appreciation and gratitude to His Majesty King Hamad Bin Isa Al Khalifa, the King of the Kingdom of Bahrain and his Government for their continued support to the economy of Bahrain and to the Financial Sector in particular. I would also like to thank the Government Ministers and the Central Bank of Bahrain for their valuable assistance and guidance.

Finally, on behalf of all members of the Board of Directors, I wish to express my sincere thanks and appreciation to the shareholders for their understanding and support. My thanks

are also to our esteemed customers for their confidence and trust in the Company and its services and to the management and staff for their continued diligence, dedications and determination. I would also like to thank the intermediaries and retakaful companies for their beneficial mutual relationships. I also would like to thank our Sharia'a Supervisory Board for their guidance and direction.

Thank You,

Jamal Ali Al Hazeem
Chairman
Bahrain, 20th February 2017

Delivering excellence to everyone

Bahrain is evolving from the oil economy dependence to a more sustainable development model where private sector plays a major role. This all-encompassing model outlined in the Vision 2030 takes the nation to greater heights of glory and empowers it to face the challenges of the future.

Reflecting the nation's vision, Takaful also revives its commitment to adopting a holistic approach towards growth. It nurtures the relationships with its shareholders, employees and customers by setting global standards in delivering the best every time. Moving forward as a well-connected family gains momentum when excellence is achieved in everything we do.

Chief Executive's Report



In The Name of Allah,
The Most Compassionate, The Most Merciful

The year 2016 was another year of challenges and opportunities for Takaful International. Despite the upstream the Insurance sector has been under economic stress in the last couple of years in line with other businesses on account of several global, regional and economic situations. There were challenges in terms of slowdown in nominal growth, impact of muted global commodity prices on some important sectors and subdued private investments.

Takaful International wrote overall Contributions of BD 20.9M, a growth of around 7% compared to previous year. The company was cautious in its underwriting policy and restructured further its business portfolio in line with its strategy to maintain a balanced portfolio, adopting better underwriting policies to protect the interest of its stakeholders.

The overall net claims ratio, improved from 77% for the year 2015 to 71% for the year ended 2016. The

improvement was mainly in the Healthcare and Motor lines of business. The Company had taken prudent steps in collection of its overdue receivables which improved its receivables ageing. The company was also able to further improve its liquidity and investment portfolio.

Lower oil prices have affected the region and its economy and business. Bahrain's economy has experienced great challenges in recent years due to both global and domestic headwinds. However, the intrinsic strengths of the economy as well as policy measures taken to stabilize the fiscal and current account deficits have helped to sustain optimism and confidence regarding long-term growth potential.

Takaful International was successful in delivering improved results despite a changing business environment. This has been the result of ensuring that all initiatives implemented pivoted around customers and their requirements in an efficient manner.

Our strategy has been that of offering convenience to customers. To render this strategy in action we developed an array of products relevant to customers' needs to provide a delightful on-boarding experience and to deliver superior service to customers.

Bahrain's insurance sector has evolved over the last decade. A competitive market and regulatory initiatives focused on high quality products that meet the needs of the customers have laid the foundation for future growth. In this scenario, Takaful International's business continues to make excellent progress. We have built a business model based on a competitive product proposition, quality customer service and a good distribution network. With the use of technology and a committed team of employees, we strive to be the preferred choice of customers for their protection and savings needs. We accord the highest importance to honoring the trust that our customers have reposed in us, not only for themselves but also for their families. We are therefore committed to ensuring that we are responsive to customer needs.

Takaful International's focus remains on supporting delivery of elements of value to customers. The Company's array of products continues to fulfil customer specific protection and financial goals, in a cost effective manner.

Our strategy has been that of offering convenience to customers. To render this strategy in action we developed an array of products relevant to customers' needs to provide a delightful on-boarding experience and to deliver superior service to customers.

Our strengths in growing and managing high quality, multi-distribution channel, together with our expertise in providing innovative solutions to our customers' savings and protection needs and delivering service excellence.

What differentiates us is our passion for this business that is driven by our understanding of the unique role we have in our communities. Our Family Takaful (Life) products gives families the ability to protect themselves against the financial impacts of a personal tragedy; in their darkest hours we can take at least one worry away from them. All these helped your company continued to leverage these opportunities and maintained its leadership position in Bahrain's Takaful business. We are thankful to all our stakeholders for their support extended in making us their preferred insurance provider.

Chief Executive's Report

I would like to highlight some of important results of the company which are reflected in the following graphs and are self-explanatory:

Financial performance:

Contributions:

The total contributions for the year ended 31 December 2016 amounted to BD 20.9, a growth of 7% from the total contributions underwritten during year 2015. The Net Earned Contribution amounted to BD 14.1M for the year ended 31 December 2016, a 13% increase as compared to the Net Earned Contribution for 2015. The Company registered underwriting revenue of BD 15.5M in 2016 as against BD 14.1M during 2015.

Overall management, general and administrative expenses for year 2016 which amounted to BD 3.1M was lower than previous year BD 3.5M.

The Company achieved improved performance in fiscal 2016 due to its consistent customer centric strategy,

strong leadership and dedication & hard work of its employees.

Takaful has consistently endeavoured to fulfil the growing expectations of its shareholders, policyholders and other stakeholders. Nurturing long-term relationships and best services have always been the highest priority of Takaful. Since inception, Takaful has believed in building a culture of integrity and transparency and endeavored to revolve all its business activities based on its founding principles of fairness, kindness, efficiency and effectiveness.

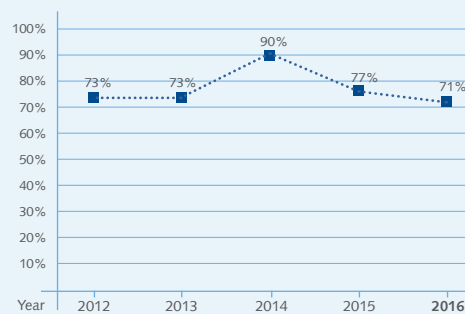
Our Board of Directors believe in upholding the highest standards of governance and accountability. The Board has taken cognizance of various regulatory changes in the overall governance framework and remains committed to imbibing the spirit of the law and regulations.

Although standing in the midst of the lower oil prices and other regional issues. We expect a positive outlook for the year 2017 and expect a moderate growth in business. Our main focus will be on quality services,

Total Contributions



Incurred Claims Ratio



Claims: The overall net claims incurred ratio improved from 77% during 2015 to 71% for year ended 2016.

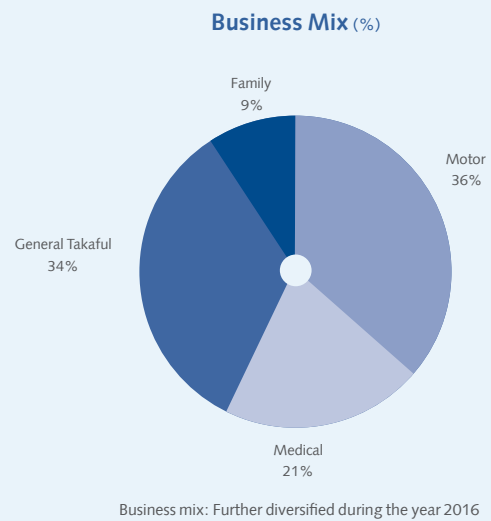
The ambition to expand its business operations within and beyond Bahrain. Takaful got listed in the Bahrain Stock Exchange and became a member of the Bahrain Chamber of Commerce and Industry. The insurance products. Takaful provides a wide range of insurance solutions for personal and corporate clients under Motor, Takaful (Sayartak), Family Takaful & Healthcare and General Takaful. Takaful fulfils any is on a continuous endeavour to attain excellence in customer satisfaction and the latest innovation towards it is Smart Takaful, the mobile application that offers comprehensive insurance services for its 18. Takaful was relaunched, reflecting the ambition to expand its business operations within and beyond Bahrain. Takaful got listed in the Bahrain Stock Exchange and became a member of the Bahrain Chamber of Commerce and Industry. Takaful provides a wide range of insurance solutions for personal and corporate clients under Motor, Takaful (Sayartak), Family Takaful & Healthcare and General Takaful.

prudent claims management and expenses which will help the company to generate better results.

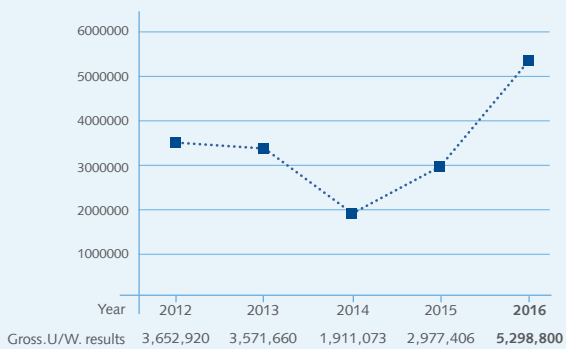
I would like to take this opportunity to thank our Board of Directors for their support and guidance. I would also like to express my appreciation to the employees of Takaful International for their dedicated efforts towards achieving the goals of the company. Also thank our valued clients, reinsurance companies, Sharia'a Board Members, intermediaries and all our business partners for their support which has contributed in the growth of the company.

Thank you,

Younis J. Al Sayed
 Chief Executive
 Bahrain, 20th February 2017

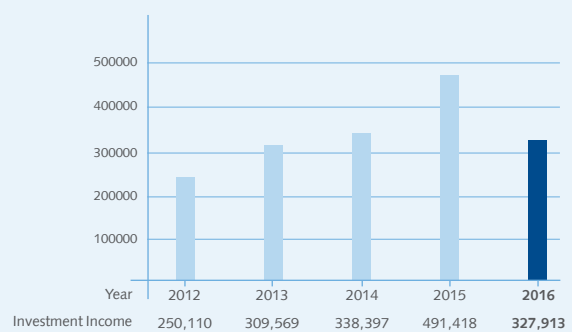


Gross Underwriting Results



Gross Underwriting results: The gross underwriting results before Wakala charge improved compared to previous year.

Investment Income



Embracing innovation for the future

The nation has welcomed 21st century outlook and practices in every domain of development and public service. The skyline of the Kingdom is dotted with proud landmarks of growth and its people enjoy a prosperous life realised by foresighted planning with a blend of global perspective and local knowledge.

Takaful remains focused on innovations that make insurance solutions and services smarter and easier. It is on a continuous endeavour to reach out to every customer with more convenient interface that ensures long-term satisfaction. And it confidently voyages to a better, more prosperous future.

Corporate Governance Report

for the year ended 31 December 2016

Financial Highlights (figures in BD '000)

The financial highlights of the Company are as follows:

| Particulars | Growth rate 2016/15 | 2016 | 2015 | 2014 | 2013 | 2012 |
|---------------------------|---------------------|--------|---------|---------|--------|--------|
| Gross Contributions | 7% | 20,925 | 19,646 | 20,796 | 20,256 | 18,139 |
| Underwriting Profits | 78% | 5,299 | 2,977 | 1,911 | 3,572 | 3,653 |
| Participants' Net Surplus | 124% | 228 | (943) | (859) | 69 | 170 |
| Shareholders' Net Profit | 154% | 403 | (753) | (843) | 231 | 204 |
| Total Profit | 138% | 631 | (1,698) | (1,702) | 300 | 374 |
| Shareholders' Equity | 9% | 6,338 | 5,835 | 6,408 | 7,539 | 7,310 |
| Investment Income | (33%) | 328 | 491 | 338 | 310 | 250 |
| Claims Ratio | (8%) | 71% | 77% | 90% | 73% | 73% |

Corporate Governance

Good Corporate Governance is an integral part of the Company's management and business philosophy. The Company subscribes fully to the principles and spirit of good Corporate Governance and embeds the principles of independence, integrity, accountability and transparency into the value system driving the Company.

The Board of Directors exercises their fiduciary responsibilities towards all stakeholders by ensuring transparency and independence in the decision making process. The Board has adopted high standards and values which set out the discipline expected of staff in their dealings with the participants, customers, shareholders, colleagues, brokers and other stakeholders of the Company. One of the core values communicated within the Company is a belief that the highest standard of integrity is essential in business. The governance of the Company remains under continuous review, in order to enhance compliance levels according to international standards and best practice.

Board of Directors

The Company is governed through its Board of Directors. The Board's main role is to create value addition to its participants and shareholders, to provide entrepreneurial leadership, to approve Company's strategic objectives and to ensure that the necessary financial and other resources are made available to enable them to meet those objectives. The Board, which meets regularly, has a schedule of matters reserved for its approval.

Corporate Governance Report

for the year ended 31 December 2016

Code of Conduct

The Company's Code of Conduct covers the conduct of the Company's directors and executive management. The Code binds the signatories to the highest standards of professionalism and due diligence in performance of their duties. It also covers conflicts of interest, disclosure and the confidentiality of insider information.

Capital adequacy & solvency margin

Solvency margin requirements are determined in accordance with the regulatory requirements established by the Central Bank of Bahrain and are calculated with reference to a prescribed contributions and claims basis. Where these calculations resulting solvency margin requirements falling below the minimum fund size prescribed by regulations, such minimum fund size is considered as the required margin of solvency. The shareholders' available capital for the Company is BD 6,427,000. After considering the Net admissible assets of General Participants & Family Takaful Funds to cover Solvency Margin BD (4,711,000) and the required Solvency Margin of BD 2,922,000, the Net Capital is BD (1,206,000).

Key persons trading policy

The Company has established a "Key Persons Trading Policy" to ensure that insiders are aware of the legal and administrative requirements regarding holding and trading of Takaful shares, with the primary objective of preventing abuse of inside information. "Key Persons" are defined to include the members of the Board of Directors, Senior Management, designated employees and any person or firm connected to the identified key persons. Responsibility for ensuring compliance with the Key Persons Trading Policy is entrusted to the Secretary to the Board. The policy covers the regulation of Bahrain Bourse relating to key persons.

Key persons and related parties' interests

The following key persons and related parties held shares in the Company as of 31 December 2016:

| Name | Position | No of shares |
|---------------------------------------|-------------------------------------|--------------|
| Dr. Shaikh Abdullatif M. Al Mahmood | Sharia'a Supervisory Board Chairman | 39,087 |
| Amena Al Sheikh Abdul Aziz Al Mahmood | Related party | 20,693 |

The key persons did not trade in the shares of the Company during the financial year ended 31 December 2016.

The Chief Executive Officer, General Manager and other members holding positions of approved status within the Company do not hold any shares of the Company in their names or in the names of their families.

Corporate Governance Report (continued)

for the year ended 31 December 2016

Board of Directors:

Board Meetings during the financial year ended 31st December 2016

| Board Member | Position | No. of Board meetings during the year 2016 | No. of meetings attended during the year 2016 |
|---|---------------|--|---|
| Murad Ali Murad (From 7th April 2015 to 23rd March 2016) | Chairman | 5 meetings | 2 |
| Jamal Ali Al Hazeem (From 23rd March 2016) | New Chairman | | 4 |
| Khalil Ebrahim Nooruddin | Vice Chairman | | 5 |
| Ebrahim Mohamed Sharif Al Rayes | Member | | 5 |
| Ebrahim Hussain Al Jassmi | Member | | 5 |
| Khaled Saud Alhasan | Member | | 5 |
| Othman Al Askar | Member | | 4 |
| AbdulRahman Abdulla Mohammed | Member | | 5 |
| Ahmed AbdulRahman Bucheeri | Member | | 5 |
| Khalid J. Al Muzaire | Member | | 4 |
| Abdulla Rabea Mohamed Rabea (From 27th June 2016) | Member | | 2 |

Audit Committee Meetings during the financial year ended 31st December 2016

| Committee Member | Position | No. of Board meetings during the year 2016 | No. of meetings attended during the year 2016 |
|---|----------|--|---|
| Jamal Ali Al Hazeem (From 7th April 2015 to 23rd March 2016) | Chairman | 4 meetings | 1 |
| Ebrahim Mohamed Sharif Al Rayes | Member | | 4 |
| Khalid J. Al Muzaire (From 23rd March 2016) | Chairman | | 3 |
| Khalil Ebrahim Nooruddin (From 23rd March 2016) | Member | | 3 |

Corporate Governance Report (continued)

for the year ended 31 December 2016

Executive Committee Meetings during the financial year ended 31st December 2016

| Committee Member | Position | No. of Board meetings during the year 2016 | No. of meetings attended during the year 2016 |
|------------------------------|---------------|--|---|
| Khaled Saud Alhasan | Chairman | 4 meetings | 4 |
| Ebrahim Hussain Al Jassmi | Vice Chairman | | 4 |
| Othman Al Askar | Member | | 3 |
| AbdulRahman Abdulla Mohammed | Member | | 4 |
| Ahmed AbdulRahman Bucheeri | Member | | 4 |

Nomination and Remuneration Committee during the financial year ended 31st December 2016

| Committee Member | Position | No. of committee meetings held during the year 2016 | No. of meetings attended during the year 2016 |
|--|----------|---|---|
| Khalid J. Al Muzaire | Chairman | 2 meetings | 1 |
| Jamal Al Hazeem (From 7th April 2015 to 23rd March 2016) | Member | | 1 |
| Khalil Ebrahim Nooruddin (From 7th April 2015 to 3rd August 2016) | Member | | 1 |
| Ebrahim Hussain Al Jassmi (From 3rd August 2016) | Member | | 1 |
| Abdulla Rabea Mohamed Rabea (From 3rd August 2016) | Member | | 1 |

Corporate Governance Report (continued)

for the year ended 31 December 2016

Directors' external appointments

| Name | Other companies in which directorship is held |
|---------------------------------|--|
| Murad Ali Murad | <ul style="list-style-type: none"> • Chairman of BBK BSC, Bahrain • Chairman of Bahrain Kuwait Insurance Company, Bahrain • Chairman of the Board of Trustees for Human Resources Development Fund in Banking Sector, Bahrain • Chairman of Al Janabya Company WLL (Family Company), Bahrain • Member of Council of Vocational Training in Banking Sector, Bahrain |
| Jamal Ali Al Hazeem | <ul style="list-style-type: none"> • Chairman, Gulf African Bank – Kenya • Board Member and Chairman of Audit Committee, Nass Corporation – Bahrain • Board Member, KCPC – Kuwait • Vice Chairman, GBCorp – Bahrain • Chairman, Eazy Financial Services – Bahrain • Chairman, Oma Bahrain – Bahrain • Chairman, Jeem Holding SPC- Bahrain • Chairman, Jeem Food Trading WLL - Bahrain • Chairman, Jeem Properties WLL - Bahrain |
| Khalil Ebrahim Nooruddin | <ul style="list-style-type: none"> • Managing Partner, Capital Knowledge, Bahrain • Board Member, Bahrain Islamic Bank, Bahrain • Director, RA Holding Corporation & 22 subsidiaries and associate companies, Cayman • Managing Partner, MESK, Bahrain |
| Ebrahim Mohamed Sharif Al Rayes | <ul style="list-style-type: none"> • Vice Chairman of the Board & The Chairman of the Executive Committee of United Insurance Co., Bahrain • Board Member & Audit Committee Member of Arab Orient Insurance Co., Jordan • Member of Technical Committee & The Chairman of Audit Committee of AWRIS, Bahrain • Board Member & The Chairman of Audit Committee of Egyptian Life Takaful, Egypt • Board Member of Bahrain Insurance Association, Bahrain |

Corporate Governance Report (continued)

for the year ended 31 December 2016

Directors' external appointments (continued)

| Name | Other companies in which directorship is held |
|------------------------------|--|
| Ebrahim Hussain Al Jassmi | <ul style="list-style-type: none"> • Board Member, Bahrain Islamic Bank BSC, Bahrain • Board Member, Ibdar Bank BSC, Bahrain • Chairman, E H E Consulting WLL, Bahrain |
| Khaled Saud Alhasan | <ul style="list-style-type: none"> • Chairman, Syrian Kuwait Insurance Co., Syria • Vice Chairman, Board Member, Kuwait Reinsurance Co., Kuwait • Chairman/General Mgr., Fajr Gulf Insurance and Reinsurance Co., Lebanon • Vice Chairman, Arab Orient Insurance Co., Jordan • Vice Chairman, Bahrain Kuwait Insurance Co., Bahrain • Vice Chairman, Arab Misr Insurance Group, Egypt • Vice Chairman, Gulf Sigorta, Turkey • Managing Director, Buruj Coop Insurance Co., Saudi Arabia • Board Member, Algerian Gulf Life Insurance Co, Algeria • Director, Egyptian Takaful (Property), Egypt • Director, Arab Reinsurance Co., Lebanon |
| Othman Al Askar | <ul style="list-style-type: none"> • Board Member, Afaq Educational Co., Kuwait • Board Member, Bahrain Islamic Bank, Bahrain |
| AbdulRahman Abdulla Mohammed | <ul style="list-style-type: none"> • Director, TAIB Bank B.S.C - Bahrain • Board Member, Al Baraka Islamic Bank B.S.C - Bahrain |
| Ahmed AbdulRahman Bucheeri | <ul style="list-style-type: none"> • Nil |
| Khalid J. Al Muzaire | <ul style="list-style-type: none"> • Board Member in Ajwan Real Estate Co. (Public), Kuwait (Resigned 2nd June 2016) |
| Abdulla Rabea Mohamed Rabea | <ul style="list-style-type: none"> • Nil |

Corporate Governance Report (continued)

for the year ended 31 December 2016

Audit Committee

The Board has set up an Audit Committee with approved terms of reference and mandates to carry out the assigned functions.

The Board has delegated the following responsibilities to the Audit Committee:

- Reviewing the Company's draft financial statements and interim results statement prior to the Board approval and reviewing the external auditors detailed reports thereon;
- Reviewing the appropriateness of the Company's accounting policies and other operational procedures;
- Reviewing regularly the potential impact in the Company's financial statements of certain matter such as impairment of fixed assets, investments, receivables and other assets values and proposed changes in AAI OFI and International Financial Reporting Standards applicable to the Company;
- Reviewing and approving the terms of engagement for the audit;
- Reviewing the annual report of the Company and reporting to the Board on the results of the review and receiving regular updates on key risk areas of financial control; and
- Reviewing the internal audit functions terms of reference, its work programme and quarterly reports on its work during the year.

The Committee meets with Directors and management, and as and when considered necessary with both the external and internal auditors. The Company has an in-house internal audit department which continuously monitors and performs and conducted their procedures on all transactions of the company as per the International Audit Standards and has adequate control and monitoring and provides periodic reports directly to the Audit Committee.

Internal control

The Directors have continued to review the effectiveness of the Company's system of financial and non-financial controls, including operational and compliance controls, risk management and the Company's high level internal control arrangements. These reviews have included an assessment of internal controls, and in particular internal financial controls, by the internal audit function, management assurance of the maintenance of control and reports from the external auditor on matter identified in the course of its audit work.

Fines and penalties

The Company did not pay any fines or penalties to regulatory or governmental agencies during the year under review.

Corporate Governance Report (continued)

for the year ended 31 December 2016

Organizational structure

Chief Executive: Mr. Younis J. Al Sayed is a leading pioneer in the insurance and reinsurance sector with a rich experience that exceeds thirty years during which he held various positions. A graduate of Kuwait University, he began his illustrious career with the Arab Insurance Group (ARIG) in 1982 and was responsible for underwriting operations of all aspects of aviation insurance regionally as well as in international markets. In 2001, he joined Dubai International Financial Centre (DIFC) as Managing Director and played a prominent role in establishing the infrastructure of insurance and reinsurance sector for DIFC. Being specialized in Islamic Insurance (Takaful), Mr. Younis joined Takaful International Company in 2003 as General Manager and was promoted to the position of Chief Executive in 2008. Mr. Younis served as Chairman and Board member in various insurance organizations. He was the Chairman of the Bahrain Insurance Association (BIA) for two consecutive terms from 2011 till 2014, and the Chairman of the International Federation of Takaful and Islamic Insurance Companies (IFTI) from 2014 till 2016. He was also a Board member at the Egyptian Saudi Insurance Company, Egypt from 2005 till 2008.

General Manager: Mr. Essam Al Ansari is a top professional in the insurance field. He is an ACII degree holder (Associate of the Chartered Insurance Institute) from the Chartered Insurance Institute-London and now pursuing towards FCII. He possesses more than twenty years of extensive experience in insurance and reinsurance business, through his long association in the insurance and reinsurance industry in Bahrain and the region. He has been in the Executive Management Cadre of Bahrain National Insurance Company (BNI), National Company for Cooperative Insurance (Tawuniya) Saudi Arabia and Bahrain Kuwait Insurance Company (BKIC), before joining Takaful International Company in 2006.

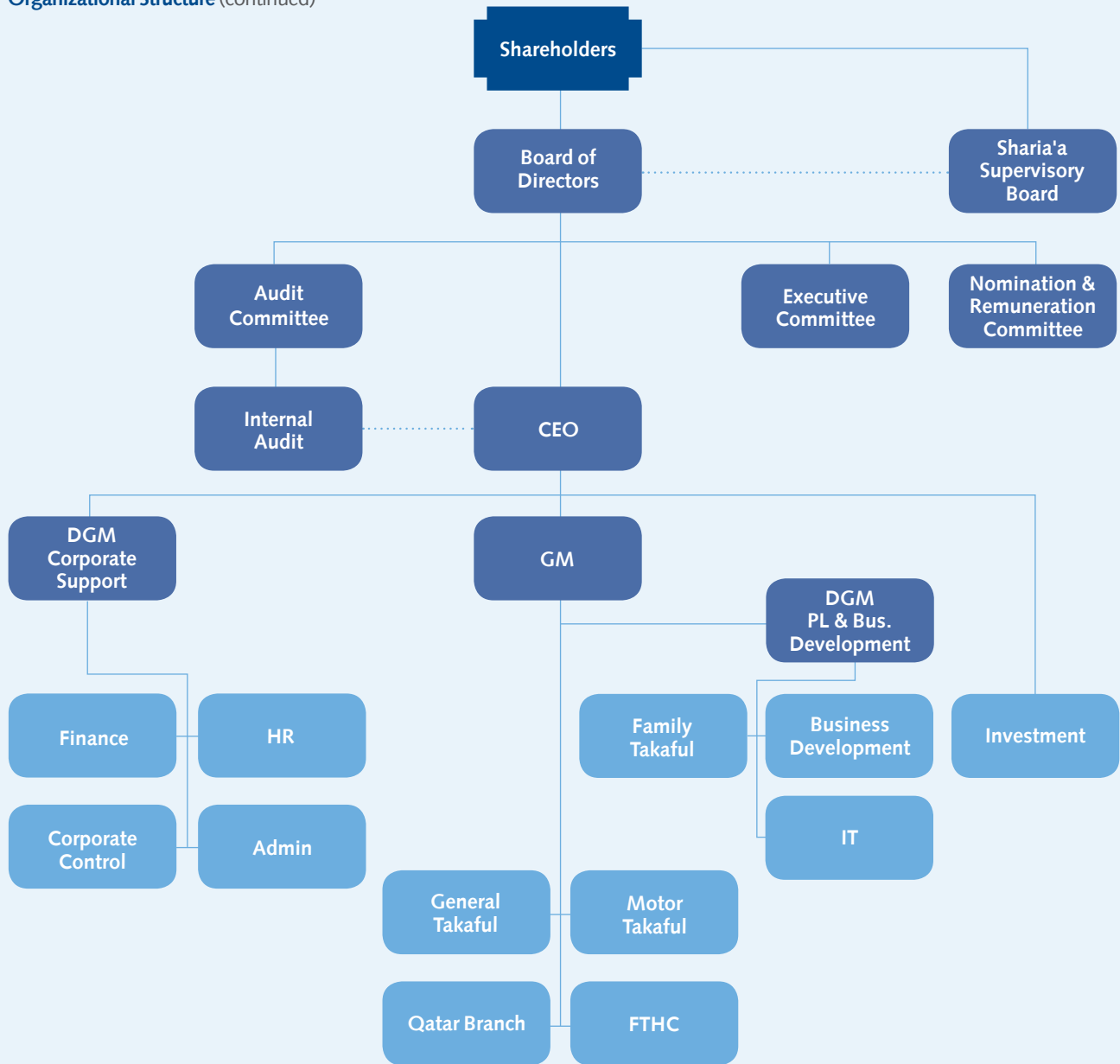
Deputy General Manager: Mr. A. Aziz Al Othman is a certified Accountant since 2002 and holds a Masters degree in Business Administration from the University of Hull, UK. A true professional in the Islamic Insurance field, He has extensive experience in the Islamic Insurance business acquired by his long association of over twenty years in the insurance industry with in-depth understanding of Takaful Markets. Al Othman began his distinguished career with Takaful International Company in 1989. After handling various administrative positions in 2008 he was designated as Deputy General Manager. He is also the Chairman of Health 360 Ancillary Services. His outstanding contributions have helped in enhancing the performance of the Company for the past few years. He is also well experienced in developing, evaluating and analysing strategies and business planning, insurance statistical and financial statement, and has attended a number of seminars and workshops related to accounting and insurance.

Deputy General Manager – Business development, IT and Family Investment: Mr. Ali Noor has over twenty years of extensive experience dealing with Life & Medical underwriting, Banassurance offerings & product development in the insurance field. He holds an insurance Diploma from (CII) Chartered Insurance Institute – UK and is presently pursuing his ACII. Highly versatile and efficient in project management, marketing, reinsurance & product documentation as acquired during his tenure with Bahrain National Insurance. He joined Takaful International Co. in 2006 and is a member of the Executive Management. Currently chairing the BIA Medical Committee and is closely associated with promoting compulsory medical coverage in Bahrain in coordination with the Ministry of Health.

Corporate Governance Report (continued)

for the year ended 31 December 2016

Organizational Structure (continued)



Sharia'a Supervisory Board's Report

for the year ended 31 December 2016

In the name of Allah, The Merciful, The Compassionate

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

To the shareholders and participants of Takaful International

Assalam Alaikum Wa Rahmat Allah Wa Barakatuh

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

The Sharia'a Supervisory Board reviewed the procedures relating to the Takaful transactions and the applications introduced by the Company for the year ended on 31 December 2016. The Board has reviewed and confirmed the implementation of the principles and guidelines governing the relationship between the participants and shareholders in order to identify the rights of each side. Discussions took place with the Company's officers with regard to its items and the attached Notes. The Board gave its Sharia'a directives for Takaful transactions and answered the queries made by the management.

It is the managements' responsibility to ensure that the company conducts its business in accordance with Islamic Sharia'a principles; our responsibility is to express an opinion on the company's operations and that the financials are prepared on the basis of and in accordance with the principle of Islamic Sharia'a.

In our opinion

1. The computation of surplus and deficit, charging of losses and expenses to the participants and shareholders fully conform with the principles established by ourselves in compliance with Sharia'a rules and principles.
2. There are no gains realized from prohibited sources or from methods that are forbidden.
3. The calculations of Zakah is in compliance with Islamic Sharia'a rules and principles and as directed by the Sharia'a supervisory Board. It should be noted that responsibility for payment of Zakah is undertaken by the shareholders.

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

Assalam Alaikum Wa Rahmat Allah Wa Barakatuh
22 Jumada 1, 1438 corresponding to 19th February 2017.

Member of the Sharia'a Supervisory Board

Dr. Shaikh Abdul Latif Mahmood Al Mahmood, Chairman

Dr. Shaikh Abdul Sattar Abdul Karim Abuguddah, Deputy Chairman

Shaikh Mohsin Abdul Hussain Al Asfoor, Member

Report on the financial statements

We have audited the accompanying financial statements of Takaful International Company B.S.C. ("the Company"), which comprise the statement of financial position as at 31 December 2016, the statement of income, the statement of other comprehensive income, the statement of changes in shareholders' equity, the statement of changes in participant's funds, the statement of cash flows for year then ended, and a summary of significant accounting policies and other explanatory information.

Independent Auditor's Report to the shareholders

for the year ended 31 December 2016

Report on the consolidated financial statements

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

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

Opinion

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

Other matters

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

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

Report on other regulatory requirements

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

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

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

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

Consolidated Financial Statements for the Year 2016

Consolidated statement of financial position

at 31 December 2016

(Expressed in Bahraini Dinars)

| | Notes | Shareholders | | | General Takaful |
|---|-------|------------------|---------------------------|-------------------------|-------------------|
| | | 31 December 2016 | Restated 31 December 2015 | Restated 1 January 2015 | 31 December 2016 |
| ASSETS | | | | | |
| Cash and investments: | | | | | |
| Statutory deposit | 6 | 125,000 | 125,000 | 125,000 | - |
| Cash and cash equivalents | 7 | 1,114,232 | 1,274,697 | 974,239 | 5,331,443 |
| Available-for-sale investments | 8 | 2,428,308 | 2,420,460 | 3,116,834 | 773,056 |
| | | 3,667,540 | 3,820,157 | 4,216,073 | 6,104,499 |
| Takaful and retakaful balances receivable | 9 | - | - | - | 8,578,362 |
| Due from retakaful companies in connection with outstanding claims | 10 | - | - | - | 8,285,559 |
| Deferred retakaful contribution | 12 | - | - | - | 2,702,966 |
| Deferred policy acquisition costs | 13 | 706,739 | 769,705 | - | - |
| Due from retakaful companies in connection with family takaful technical reserves | | - | - | - | - |
| Property and equipment | 16 | 2,272,525 | 2,351,551 | 1,977,987 | - |
| Receivable from takaful funds | 17 | 983,532 | 33,439 | 707,076 | - |
| Other receivables and prepayments | 15 | 332,488 | 86,999 | 127,598 | 104,982 |
| Amounts due from related parties | 18 | 654 | 585 | 962 | - |
| TOTAL ASSETS | | 7,963,478 | 7,062,436 | 7,029,696 | 25,776,368 |
| SHAREHOLDERS' EQUITY, PARTICIPANTS' FUND AND LIABILITIES | | | | | |
| Shareholders' equity | | | | | |
| Share capital | 19 | 6,250,000 | 6,250,000 | 6,250,000 | - |
| Statutory reserve | 19 | 519,727 | 480,066 | 480,066 | - |
| General reserve | 19 | 200,000 | 200,000 | 200,000 | - |
| Accumulated losses | | (679,213) | (1,036,159) | (280,787) | - |
| Investments fair value reserve | | (23,543) | (74,368) | (241,217) | 12,833 |
| Equity attributable to shareholders of the parent | | 6,266,971 | 5,819,539 | 6,408,062 | 12,833 |
| Non-controlling interests | | 70,586 | 15,902 | 14,058 | - |
| Total equity | | 6,337,557 | 5,835,441 | 6,422,120 | 12,833 |
| (Deficit)/surplus in participants' fund | | - | - | - | (1,346,619) |
| Liabilities | | | | | |
| Gross outstanding claims | 10 | - | - | - | 11,004,805 |
| Unearned contributions reserve | 12 | - | - | - | 8,226,306 |
| Unearned retakaful commissions | 14 | - | - | - | 480,289 |
| Family takaful technical reserves | | - | - | - | - |
| Retakaful/ takaful and other payables | | 567,550 | 535,361 | - | 5,675,492 |
| Other liabilities and provisions | 20 | 812,703 | 478,317 | 423,389 | 748,294 |
| Employees' terminal benefits | 21 | 245,668 | 213,317 | 184,187 | - |
| Payable to shareholders | | - | - | - | 974,968 |
| Total liabilities | | 1,625,921 | 1,226,995 | 607,576 | 27,110,154 |
| TOTAL SHAREHOLDERS' EQUITY, PARTICIPANTS' FUND AND LIABILITIES | | 7,963,478 | 7,062,436 | 7,029,696 | 25,776,368 |

Khalil Ebrahim Nooruddin
Vice-Chairman

Khalid Jamal Al-Muzaire
Director

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

Consolidated statement of financial position

at 31 December 2016

(Expressed in Bahraini Dinars)

| General Takaful | | Family Takaful | | | Total | | |
|-----------------|------------|----------------|-------------|-----------|-------------|-------------|------------|
| 31 December | 1 January | 31 December | 31 December | 1 January | 31 December | Restated | Restated |
| 2015 | 2015 | 2016 | 2015 | 2015 | 2016 | 31 December | 1 January |
| | | | | | | 2015 | 2015 |
| - | - | - | - | - | 125,000 | 125,000 | 125,000 |
| 3,114,638 | 1,033,981 | 1,162,428 | 847,819 | 1,371,043 | 7,608,103 | 5,237,154 | 3,379,263 |
| 958,361 | 910,079 | 1,485,205 | 1,735,654 | 1,103,519 | 4,686,569 | 5,114,475 | 5,130,432 |
| 4,072,999 | 1,944,060 | 2,647,633 | 2,583,473 | 2,474,562 | 12,419,672 | 10,476,629 | 8,634,695 |
| 7,812,919 | 10,294,067 | 440,464 | 378,373 | 552,448 | 9,018,826 | 8,191,292 | 10,846,515 |
| 8,105,700 | 8,587,011 | 616,433 | 586,192 | 339,713 | 8,901,992 | 8,691,892 | 8,926,724 |
| 2,075,252 | 3,741,314 | 327,386 | 84,912 | - | 3,030,352 | 2,160,164 | 3,741,314 |
| - | 713,967 | - | - | 81,638 | 706,739 | 769,705 | 795,605 |
| - | - | 1,707,505 | 1,625,398 | 1,454,661 | 1,707,505 | 1,625,398 | 1,454,661 |
| - | - | - | - | - | 2,272,525 | 2,351,551 | 1,977,987 |
| - | - | - | - | - | 983,532 | 33,439 | 707,076 |
| 67,230 | 54,762 | 10,936 | 9,632 | 6,526 | 448,406 | 163,861 | 188,886 |
| - | - | - | - | - | 654 | 585 | 962 |
| 22,134,100 | 25,335,181 | 5,750,357 | 5,267,980 | 4,909,548 | 39,490,203 | 34,464,516 | 37,274,425 |
| - | - | - | - | - | 6,250,000 | 6,250,000 | 6,250,000 |
| - | - | - | - | - | 519,727 | 480,066 | 480,066 |
| - | - | - | - | - | 200,000 | 200,000 | 200,000 |
| - | - | - | - | - | (679,213) | (1,036,159) | (280,787) |
| (35,792) | (192,271) | (33,041) | (37,293) | 6,442 | (43,751) | (147,453) | (427,046) |
| (35,792) | (192,271) | (33,041) | (37,293) | 6,442 | 6,246,763 | 5,746,454 | 6,222,233 |
| - | - | - | - | - | 70,586 | 15,902 | 14,058 |
| (35,792) | (192,271) | (33,041) | (37,293) | 6,442 | 6,317,349 | 5,762,356 | 6,236,291 |
| (1,425,425) | (340,141) | 1,209,357 | 1,060,272 | 918,338 | (137,262) | (365,153) | 578,197 |
| 12,116,302 | 11,923,718 | 733,691 | 732,458 | 388,223 | 11,738,496 | 12,848,760 | 12,311,941 |
| 7,794,482 | 8,222,100 | 462,157 | 134,716 | - | 8,688,463 | 7,929,198 | 8,222,100 |
| 340,597 | 739,641 | 5,027 | 2,880 | 315 | 485,316 | 343,477 | 739,956 |
| - | - | 2,780,866 | 2,527,505 | 2,270,828 | 2,780,866 | 2,527,505 | 2,270,828 |
| 2,750,330 | 3,658,042 | 581,770 | 817,740 | 1,176,676 | 6,824,812 | 4,103,431 | 4,834,718 |
| 588,767 | 762,228 | 1,966 | 1,102 | 3,514 | 1,562,963 | 1,068,186 | 1,189,131 |
| - | - | - | - | - | 245,668 | 213,317 | 184,187 |
| 4,839 | 561,864 | 8,564 | 28,600 | 145,212 | 983,532 | 33,439 | 707,076 |
| 23,595,317 | 25,867,593 | 4,574,041 | 4,245,001 | 3,984,768 | 33,310,116 | 29,067,313 | 30,459,937 |
| 22,134,100 | 25,335,181 | 5,750,357 | 5,267,980 | 4,909,548 | 39,490,203 | 34,464,516 | 37,274,425 |

Younis J. Al Sayed
Chief Executive

Consolidated statement of profit or loss

for the year ended 31 December 2016

(Expressed in Bahraini Dinars)

| | Notes | Shareholders | | General takaful | | Family takaful | | Total | |
|--|-------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | | 31 December 2016 | 31 December 2015 | 31 December 2016 | 31 December 2015 | 31 December 2016 | 31 December 2015 | 31 December 2016 | 31 December 2015 |
| Revenues | | | | | | | | | |
| Gross contributions | 26 | - | - | 19,057,866 | 18,120,156 | 1,867,284 | 1,525,957 | 20,925,150 | 19,646,113 |
| Retakaful share | 26 | - | - | (6,239,023) | (5,309,514) | (633,336) | (469,269) | (6,872,359) | (5,778,783) |
| Retained contributions | | - | - | 12,818,843 | 12,810,642 | 1,233,948 | 1,056,688 | 14,052,791 | 13,867,330 |
| Movement in unearned contributions | 12 | - | - | 195,890 | (1,248,449) | (84,967) | (49,804) | 110,923 | (1,298,253) |
| Net earned contributions | | - | - | 13,014,733 | 11,562,193 | 1,148,981 | 1,006,884 | 14,163,714 | 12,569,077 |
| Net commission and other takaful income/(expenses) | | - | - | 1,373,142 | 1,671,061 | 150 | (86,248) | 1,373,292 | 1,584,813 |
| Total takaful revenue | | - | - | 14,387,875 | 13,233,254 | 1,149,131 | 920,636 | 15,537,006 | 14,153,890 |
| Expenses | | | | | | | | | |
| Gross claims settled | 10 | - | - | (19,113,915) | (16,606,370) | (931,962) | (533,624) | (20,045,877) | (17,139,994) |
| Claims recovered from retakaful and other parties | 10 | - | - | 7,899,708 | 7,802,230 | 807,003 | 437,685 | 8,706,711 | 8,239,915 |
| Net movement in outstanding claims | 10 | - | - | 1,291,356 | (673,894) | 29,008 | (97,755) | 1,320,364 | (771,649) |
| Net claims incurred | | - | - | (9,922,851) | (9,478,034) | (95,951) | (193,694) | (10,018,802) | (9,671,728) |
| Transfer to family takaful technical reserve | | - | - | - | - | (171,254) | (85,940) | (171,254) | (85,940) |
| (Charge) due to surrender of policies | | - | - | - | - | (126,193) | (26,059) | (126,193) | (26,059) |
| Provision for impaired takaful receivables | 9 | - | - | 79,131 | (1,289,520) | (1,088) | (103,236) | 78,043 | (1,392,756) |
| Total takaful expenses | | - | - | (9,843,720) | (10,767,554) | (394,486) | (408,929) | (10,238,206) | (11,176,483) |
| Surplus from takaful operations before Wakala fees | | - | - | 4,544,155 | 2,465,700 | 754,645 | 511,707 | 5,298,800 | 2,977,407 |
| Wakala fees | | - | - | (4,323,971) | (3,365,052) | (653,549) | (389,119) | (4,977,520) | (3,754,171) |
| Surplus (Deficit)/from takaful operations after Wakala fees | | - | - | 220,184 | (899,352) | 101,096 | 122,588 | 321,280 | (776,764) |
| Wakala fees | 22 | 4,977,520 | 3,754,171 | - | - | - | - | 4,977,520 | 3,754,171 |
| Investment income | 23 | 133,676 | 341,828 | 53,276 | 28,582 | 140,961 | 118,093 | 327,913 | 488,503 |
| Mudarib share | 22 | 48,559 | 26,096 | (13,319) | (8,382) | (35,240) | (17,714) | - | - |
| | | 5,159,755 | 4,122,095 | 39,957 | 20,200 | 105,721 | 100,379 | 5,305,433 | 4,242,674 |
| Management, general and administrative expenses and depreciation | | (3,180,092) | (3,595,860) | - | - | - | - | (3,180,092) | (3,595,860) |
| Net acquisition costs | 13 | (1,637,016) | (929,710) | - | - | - | - | (1,637,016) | (929,710) |
| Impairment loss on Available on sale investment | 8 | (231,801) | (1,135,781) | (181,335) | (206,132) | (57,732) | (81,033) | (470,868) | (1,422,946) |
| Other income net | 24 | 292,445 | 785,728 | - | - | - | - | 292,445 | 785,728 |
| Net management, general and administrative expenses | | (4,756,464) | (4,875,623) | (181,335) | (206,132) | (57,732) | (81,033) | (4,995,531) | (5,162,788) |
| Net profit (loss) and surplus (deficit) for the year | | 403,291 | (753,528) | 78,806 | (1,085,284) | 149,085 | 141,934 | 631,182 | (1,696,878) |
| Attributable to: | | | | | | | | | |
| Shareholders of the parent | | 396,607 | (755,372) | | | | | | |
| Non-controlling interests | | 6,684 | 1,844 | | | | | | |
| | | 403,291 | (753,528) | | | | | | |
| Earnings per share | 7 | 6.35 Fils | (12.09) Fils | | | | | | |

Khalil Ebrahim Nooruddin
Vice-Chairman

Khalid Jamal Al-Muzaire
Director

Younis J. Al Sayed
Chief Executive

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

Consolidated statement of changes in shareholders' equity

for the year ended 31 December 2016

(Expressed in Bahraini Dinars)

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

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

Consolidated statement of changes in participants' fund

for the year ended 31 December 2016

(Expressed in Bahraini Dinars)

| | General takaful | Family takaful | Investment fair value reserve | | Total |
|---|--------------------|------------------|-------------------------------|-----------------|------------------|
| | | | General takaful | Family takaful | |
| At 1 January 2016 | (1,425,425) | 1,060,272 | (35,792) | (37,293) | (438,238) |
| Realised fair value losses on available-for-sale investments | - | - | 15,271 | 13,632 | 28,903 |
| Unrealised fair value gains on available-for-sale investments | - | - | 33,354 | (9,380) | 23,974 |
| (Deficit)/surplus for the year | 78,806 | 149,085 | - | - | 227,891 |
| At 31 December 2016 | (1,346,619) | 1,209,357 | 12,833 | (33,041) | (157,470) |
| At 1 January 2015 | (340,141) | 918,338 | (192,271) | 6,442 | 392,368 |
| Realised fair value losses on available-for-sale investments | - | - | 19,006 | (4,300) | 14,706 |
| Unrealised fair value gains on available-for-sale investments | - | - | 137,473 | (39,435) | 98,038 |
| (Deficit)/surplus for the year | (1,085,284) | 141,934 | - | - | (943,350) |
| At 31 December 2015 | (1,425,425) | 1,060,272 | (35,792) | (37,293) | (438,238) |

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

Consolidated statement of cash flows

for the year ended 31 December 2016

(Expressed in Bahraini Dinars)

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

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

Notes to the consolidated financial statements

for the year ended 31 December 2016

(Expressed in Bahraini Dinars)

1 ORGANISATION AND ACTIVITIES

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

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

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

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

2 BASIS OF PRESENTATION

Statement of compliance

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

Accounting convention

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

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

Functional currency

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

3 BASIS OF CONSOLIDATION

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

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

Notes to the consolidated financial statements

for the year ended 31 December 2016

(Expressed in Bahraini Dinars)

3 BASIS OF CONSOLIDATION (continued)

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

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

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

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

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

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

The following is the subsidiary of the Group:

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

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

4 SIGNIFICANT ACCOUNTING POLICIES

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

Takaful

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

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

Notes to the consolidated financial statements

for the year ended 31 December 2016

(Expressed in Bahraini Dinars)

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

General takaful

Gross contributions

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

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

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

Retakaful share

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

Net commission

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

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

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

Gross claims settled

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

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

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.

Notes to the consolidated financial statements

for the year ended 31 December 2016

(Expressed in Bahraini Dinars)

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

General takaful (continued)

General takaful reserves (continued)

iii) Liability adequacy test

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

Family takaful

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

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

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

Gross contributions

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

Retakaful share

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

Net commission

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

Gross claims settled

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

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

Family takaful reserves

i) Gross outstanding claims

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

ii) Unearned contributions

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

Notes to the consolidated financial statements

for the year ended 31 December 2016

(Expressed in Bahraini Dinars)

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Family takaful (continued)

Family takaful reserves (continued)

iii) Liability adequacy test

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

Qard Hassan

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

Surplus/deficit in participants' fund

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

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

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

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.

Notes to the consolidated financial statements

for the year ended 31 December 2016

(Expressed in Bahraini Dinars)

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Available for sale investments

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

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

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

Takaful and retakaful receivables

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

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

Policy acquisition costs

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

Property and equipment

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

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

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

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

Notes to the consolidated financial statements

for the year ended 31 December 2016

(Expressed in Bahraini Dinars)

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

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

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

Receivables from takaful funds

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

Foreign currency transactions

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

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

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

Dividends on share capital

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

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

Share capital

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

Non-controlling interests

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

Notes to the consolidated financial statements

for the year ended 31 December 2016

(Expressed in Bahraini Dinars)

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Investment income

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

Rental income

Rental income is recognised on an accrual basis.

Dividends

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

Wakala fee

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

Mudarib share

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

Retakaful commissions

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

Offsetting

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

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

Fair value of financial instruments

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

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

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

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

Notes to the consolidated financial statements

for the year ended 31 December 2016

(Expressed in Bahraini Dinars)

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value of financial instruments (continued)

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

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

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

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

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

Impairment of financial assets

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

Available-for-sale financial assets

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

Derecognition of financial assets and financial liabilities

Financial assets

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

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

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

Notes to the consolidated financial statements

for the year ended 31 December 2016

(Expressed in Bahraini Dinars)

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets and financial liabilities (continued)

Financial liabilities

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

Employees' terminal benefits

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

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

Provisions

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

Financial liabilities

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

Retakaful and takaful payables

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

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

Payables and accruals

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

Earnings prohibited by Shari'a

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

Notes to the consolidated financial statements

for the year ended 31 December 2016

(Expressed in Bahraini Dinars)

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, 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 available-for-sale securities

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

Impairment losses on takaful and retakaful receivables

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

Going concern

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

Family takaful reserves

Family 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 BD125,000 (2015: BD125,000) has been deposited with Bahrain Islamic Bank B.S.C. in the name of the Group and for the order of Central Bank of Bahrain.

Notes to the consolidated financial statements

for the year ended 31 December 2016

(Expressed in Bahraini Dinars)

7 CASH AND CASH EQUIVALENTS

| | 31 December 2016 | | | | 31 December 2015 | | | |
|---|------------------|------------------|------------------|------------------|------------------|------------------|----------------|------------------|
| | Shareholders | General takaful | Family takaful | Total | Shareholders | General takaful | Family takaful | Total |
| Call account and Islamic deposit balances | 519,983 | 2,838,701 | 644,963 | 4,003,647 | 233,486 | 2,069,784 | 734,715 | 3,037,985 |
| Balances with banks | 593,320 | 2,490,378 | 517,465 | 3,601,163 | 1,039,986 | 1,042,383 | 113,104 | 2,195,473 |
| Cash on hand | 929 | 2,364 | - | 3,293 | 1,225 | 2,471 | - | 3,696 |
| Closing balance | 1,114,232 | 5,331,443 | 1,162,428 | 7,608,103 | 1,274,697 | 3,114,638 | 847,819 | 5,237,154 |

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

The savings account balances with banks earn effective profit rates ranging between 0.10% and 0.15% per annum (2015: between 0.15% and 0.25% per annum).

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

Notes to the consolidated financial statements

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(Expressed in Bahraini Dinars)

8 AVAILABLE-FOR-SALE INVESTMENTS

| | 31 December 2016 | | | | 31 December 2015 | | | |
|--|------------------|-----------------|----------------|-------------|------------------|-----------------|----------------|-------------|
| | Shareholders | General takaful | Family takaful | Total | Shareholders | General Takaful | Family takaful | Total |
| Opening balance | 2,420,460 | 958,361 | 1,735,654 | 5,114,475 | 3,116,834 | 910,079 | 1,103,519 | 5,130,432 |
| Additions during the year | 1,060,934 | - | 75,500 | 1,136,434 | 1,437,626 | 158,726 | 1,446,909 | 3,043,261 |
| Disposals during the year | (872,110) | (52,595) | (272,469) | (1,197,174) | (1,165,068) | (60,791) | (690,006) | (1,915,865) |
| Realised fair value gains/ (losses) on sale of available-for-sale investment (Note 23) | 36,266 | 15,271 | 13,632 | 65,169 | (108,313) | 19,006 | (4,300) | (93,607) |
| Impairment loss for the year | (231,801) | (181,335) | (57,732) | (470,868) | (1,135,781) | (206,132) | (81,033) | (1,422,946) |
| Unrealised fair value gains/ (losses) recognised in investment fair value reserve | 14,559 | 33,354 | (9,380) | 38,533 | 275,162 | 137,473 | (39,435) | 373,200 |
| Closing balance | 2,428,308 | 773,056 | 1,485,205 | 4,686,569 | 2,420,460 | 958,361 | 1,735,654 | 5,114,475 |

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

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

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

Analysis of available-for-sale investments

| | 31 December 2016 | | | | 31 December 2015 | | | |
|----------------------------------|------------------|-----------------|----------------|-----------|------------------|-----------------|----------------|-----------|
| | Shareholders | General takaful | Family takaful | Total | Shareholders | General Takaful | Family takaful | Total |
| Shares listed on stock exchanges | 313,296 | 56,063 | - | 369,359 | 635,154 | 57,032 | 103,314 | 795,500 |
| Quoted managed funds | 329,845 | 18,643 | 73,920 | 422,408 | 345,727 | 18,638 | 47,881 | 412,246 |
| Unquoted managed funds | 390,460 | 470,348 | 230,872 | 1,091,680 | 369,235 | 655,219 | 259,445 | 1,283,899 |
| Unquoted equity investments | 204,556 | - | - | 204,556 | 189,907 | - | - | 189,907 |
| Quoted sukuks | 1,190,151 | 228,002 | 1,180,413 | 2,598,566 | 880,437 | 227,472 | 1,325,014 | 2,432,923 |
| Closing balance | 2,428,308 | 773,056 | 1,485,205 | 4,686,569 | 2,420,460 | 958,361 | 1,735,654 | 5,114,475 |

Notes to the consolidated financial statements

for the year ended 31 December 2016

(Expressed in Bahraini Dinars)

9 RETAKAFUL AND TAKAFUL RECEIVABLES

| | 31 December 2016 | | | 31 December 2015 | | |
|-------------------------------|------------------|----------------|-----------|------------------|----------------|-----------|
| | General takaful | Family takaful | Total | General Takaful | Family takaful | Total |
| Due from takaful companies | 2,702,120 | - | 2,702,120 | 3,293,060 | - | 3,293,060 |
| Due from retakaful companies | 868,202 | 124,178 | 992,380 | 889,509 | 226,153 | 1,115,662 |
| Due from takaful participants | 3,311,132 | 184,729 | 3,495,861 | 2,690,172 | 79,828 | 2,770,000 |
| Other receivables | 2,185,011 | 146,460 | 2,331,471 | 1,549,173 | 86,208 | 1,635,381 |
| Allowance for impairment | (488,103) | (14,903) | (503,006) | (608,995) | (13,816) | (622,811) |
| Closing balance | 8,578,362 | 440,464 | 9,018,826 | 7,812,919 | 378,373 | 8,191,292 |

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

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

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

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

| Age in days | General takaful | | | | Family takaful | | | |
|-------------------------------|-----------------|-----------|--------------------------|-----------|----------------|---------|---------------------------|---------|
| | Current | | Overdue and not impaired | | Current | | Over due and not impaired | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Neither past due nor impaired | 3,279,746 | 2,325,082 | - | - | 295,364 | 148,127 | - | - |
| 91 to 180 days | - | - | 2,299,762 | 1,173,971 | - | - | 80,188 | 101,453 |
| 181 to 365 days | - | - | 2,070,809 | 1,483,952 | - | - | 52,353 | 22,957 |
| More than 365 days | - | - | 928,045 | 2,829,914 | - | - | 12,559 | 105,836 |
| | 3,279,746 | 2,325,082 | 5,298,616 | 5,487,837 | 295,364 | 148,127 | 145,100 | 230,246 |

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

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(Expressed in Bahraini Dinars)

10 OUTSTANDING CLAIMS

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

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.

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(Expressed in Bahraini Dinars)

11 CLAIMS DEVELOPMENT

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

Gross claims

| Accident year | 2012 | 2013 | 2014 | 2015 | 2016 | Total |
|--|----------------|----------------|----------------|------------------|---------------------|-------------------|
| Estimate of ultimate claims costs: | | | | | | |
| At end of reporting year | 13,646,905 | 16,567,011 | 15,946,367 | 14,514,832 | 19,313,479 | |
| One year later | 14,978,334 | 18,467,631 | 17,932,091 | 16,017,019 | - | |
| Two years later | 14,986,319 | 19,107,158 | 18,475,922 | - | - | |
| Three years later | 15,221,115 | 19,198,026 | - | - | - | |
| Four years later | 15,267,257 | - | - | - | - | |
| Current estimate of cumulative claims | 15,267,257 | 19,198,026 | 18,475,922 | 16,017,019 | 19,313,479 | 88,271,703 |
| Cumulative payments to date | (15,003,304) | (18,756,542) | (17,596,728) | (14,585,898) | (13,330,577) | 79,273,049 |
| Sub-total | 263,953 | 441,484 | 879,194 | 1,431,121 | 5,982,902 | 8,998,654 |
| Reserve in respect of prior years | | | | | | 394,964 |
| Incurred but not yet reported | | | | | | 2,344,878 |
| Total reserve included in the consolidated statement of financial position | | | | | | 11,738,496 |

12 UNEARNED CONTRIBUTIONS AND DEFERRED RETAKAFUL CONTRUBUTIONS

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

Notes to the consolidated financial statements

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13 DEFERRED POLICY ACQUISITION COSTS

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

14 UNEARNED RETAKAFUL COMMISSIONS

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

15 OTHER RECEIVABLES AND PREPAYMENTS

| | 31 December 2016 | | | | 31 December 2015 | | | |
|---------------------------|------------------|-----------------|----------------|----------------|------------------|-----------------|----------------|---------|
| | Share-holders | General takaful | Family takaful | Total | Share-holders | General takaful | Family takaful | Total |
| Staff related receivables | 16,355 | - | - | 16,355 | 12,130 | - | - | 12,130 |
| Accrued Incomes | 23,690 | 33,591 | 10,936 | 68,217 | 1,726 | 8,480 | 9,632 | 19,838 |
| Prepaid Expenses | 64,306 | - | - | 64,306 | 50,679 | - | - | 50,679 |
| Tender Deposits | - | 50,788 | - | 50,788 | - | 51,288 | - | 51,288 |
| Other Receivables | 228,137 | 20,603 | - | 248,740 | 22,464 | 7,462 | - | 29,926 |
| At 31 December | 332,488 | 104,982 | 10,936 | 448,406 | 86,999 | 67,230 | 9,632 | 163,861 |

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.

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16 PROPERTY AND EQUIPMENT

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

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

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17 RECEIVABLE FROM TAKAFUL FUNDS

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

18 RELATED PARTIES

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

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

| | 31 December 2016 | |
|---------------------|--------------------------|--------------|
| | Key management personnel | Shareholders |
| Gross contributions | 8,246 | 1,084,793 |

| | 31 December 2015 | |
|---------------------|--------------------------------|--------------------|
| | Key management personnel BD | Shareholders BD |
| Gross contributions | 3,011 | 1,075,486 |

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

| | 31 December 2015 | |
|---|--------------------------|--------------|
| | Key management personnel | Shareholders |
| Statutory deposit | - | 125,000 |
| Cash and cash equivalents | - | 150,000 |
| Available-for-sale investments | - | 140,304 |
| Takaful and retakaful balances receivable | 262 | 65,548 |
| Amounts due from related parties | - | 585 |

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18 RELATED PARTIES (continued)

Compensation of key management personnel

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

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

19 EQUITY AND RESERVES

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

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

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

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

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19 EQUITY AND RESERVES (continued)

Additional information on shareholding pattern (continued)

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

| | 31 December 2016 | | |
|-------------------------|------------------------|-------------------|--|
| | Number of shareholders | Number of shares | Percentage of total outstanding shares |
| Less than 1% | 224 | 8,440,776 | 13.51% |
| 1% up to less than 5% | 3 | 5,014,706 | 8.02% |
| 5% up to less than 10% | 2 | 9,241,187 | 14.79% |
| 10% up to less than 50% | 2 | 39,803,331 | 63.69% |
| | 231 | 62,500,000 | 100.00% |

| | 31 December 2015 | | |
|-------------------------|------------------------|-------------------|--|
| | Number of shareholders | Number of shares | Percentage of total outstanding shares |
| Less than 1% | 225 | 8,815,776 | 14.11% |
| 1% up to less than 5% | 3 | 4,764,706 | 7.62% |
| 5% up to less than 10% | 2 | 9,116,187 | 14.59% |
| 10% up to less than 20% | 2 | 39,803,331 | 63.68% |
| | 232 | 62,500,000 | 100.00% |

Statutory reserve

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

General reserve

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

Dividends

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

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20 OTHER LIABILITIES AND PROVISIONS

| | 31 December 2016 | | | | 31 December 2015 | | | |
|-----------------------------|------------------|-----------------|----------------|------------------|------------------|-----------------|----------------|-----------|
| | Share-holders | General takaful | Family takaful | Total | Share-holders | General takaful | Family takaful | Total |
| Staff related accruals | 229,971 | - | - | 229,971 | 128,750 | - | - | 128,750 |
| Unclaimed share of profit | 110,125 | 7,590 | - | 117,715 | 144,130 | 7,588 | - | 151,718 |
| Accruals and other payables | 472,607 | 740,704 | 1,966 | 1,215,277 | 205,437 | 581,179 | 1,102 | 787,718 |
| | 812,703 | 748,294 | 1,966 | 1,562,963 | 478,317 | 588,767 | 1,102 | 1,068,186 |

21 EMPLOYEES' TERMINAL BENEFITS

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

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

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

22 WAKALA FEE AND MUDARIB SHARE

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

Notes to the consolidated financial statements

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(Expressed in Bahraini Dinars)

23 INVESTMENT INCOME

| | Year ended 31 December 2016 | | | |
|--|-----------------------------|-----------------|----------------|----------------|
| | Share-holders | General takaful | Family takaful | Total |
| Deposit income | 11,532 | 49,752 | 28,611 | 89,895 |
| Profit/(loss) on investment securities | 75,269 | (13,265) | 97,115 | 159,119 |
| Dividend income | 10,609 | 1,518 | 1,603 | 13,730 |
| Realised fair value (losses)/gains on sale of investment securities (Note 8) | 36,266 | 15,271 | 13,632 | 65,169 |
| | 133,676 | 53,276 | 140,961 | 327,913 |

| | Year ended 31 December 2015 | | | |
|--|-----------------------------|-----------------|----------------|----------------|
| | Share-holders | General takaful | Family takaful | Total |
| Deposit income | 12,215 | 7,672 | 23,491 | 43,378 |
| Profit/(loss) on investment securities | 425,906 | 1,347 | 94,600 | 521,853 |
| Dividend income | 12,020 | 557 | 4,302 | 16,879 |
| Realised fair value (losses)/gains on sale of investment securities (Note 8) | (108,313) | 19,006 | (4,300) | (93,607) |
| | 341,828 | 28,582 | 118,093 | 488,503 |

24 OTHER INCOME - NET

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

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(Expressed in Bahraini Dinars)

25 EARNINGS PER SHARE

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

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

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

26 SEGMENTAL UNDERWRITING RESULTS

Business segments – primary reporting segment

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

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

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

Notes to the consolidated financial statements

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26 SEGMENTAL UNDERWRITING RESULTS (continued)

Business segments – primary reporting segment

The Group's primary segment reporting format is business segments. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. The Group's primary business segments are divided into General Takaful (with further line of business) and Family Takaful.

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

| | General Takaful | | | | | Family Takaful | |
|--|---|----------------|----------------|------------------|-------------------|--------------------------------------|-------------------|
| | Motor, general, accident, engineering, and aviation | Fire | Marine | Medical | Total | Twelve months ended 31 December 2016 | |
| For the twelve months ended 31 December 2016 | | | | | | | |
| | | | | | | | Total |
| Gross contributions | 11,234,870 | 2,940,408 | 505,953 | 4,376,635 | 19,057,866 | 1,867,284 | 20,925,150 |
| Retakaful share | (3,306,226) | (2,459,519) | (428,198) | (45,080) | (6,239,023) | (633,336) | (6,872,359) |
| Retained contributions | 7,928,644 | 480,889 | 77,755 | 4,331,555 | 12,818,843 | 1,233,948 | 14,052,791 |
| Movement in unearned contributions | 145,031 | (66,594) | (4,288) | 121,741 | 195,890 | (84,967) | 110,923 |
| Net earned contributions | 8,073,675 | 414,295 | 73,467 | 4,453,296 | 13,014,733 | 1,148,981 | 14,163,714 |
| Net commissions and other takaful income | 748,387 | 510,313 | 85,748 | 28,694 | 1,373,142 | 150 | 1,373,292 |
| Net claims incurred | (5,931,375) | (114,060) | 6,906 | (3,884,322) | (9,922,851) | (95,951) | (10,018,802) |
| Transfer to family takaful technical reserve | - | - | - | - | - | (171,254) | (171,254) |
| (Charge) due to surrender of policies | - | - | - | - | - | (126,193) | (126,193) |
| Reversal of / (provision for) impaired takaful receivables | 54,628 | - | - | 24,503 | 79,131 | (1,088) | 78,043 |
| | 2,945,315 | 810,548 | 166,121 | 622,171 | 4,544,155 | 754,645 | 5,298,800 |
| Wakala fees | (2,669,069) | (748,476) | (118,632) | (787,794) | (4,323,971) | (653,549) | (4,977,520) |
| Surplus/ (Deficit) from takaful operations | 276,246 | 62,072 | 47,489 | (165,623) | 220,184 | 101,096 | 321,280 |

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26 SEGMENTAL UNDERWRITING RESULTS (continued)

| | General Takaful | | | | | Family Takaful | | |
|---|---|-------------|-----------|-------------|-------------|----------------|--------------------------------------|--|
| | Motor, general, accident, engineering, and aviation | Fire | Marine | Medical | Total | | Total | |
| | For the twelve months ended 31 December 2015 | | | | | | Twelve months ended 31 December 2015 | |
| Gross contributions | 10,413,727 | 2,901,512 | 488,076 | 4,316,841 | 18,120,156 | 1,525,957 | 19,646,113 | |
| Retakaful share | (2,291,083) | (2,521,862) | (410,662) | (85,907) | (5,309,514) | (469,269) | (5,778,783) | |
| Retained contributions | 8,122,644 | 379,650 | 77,414 | 4,230,934 | 12,810,642 | 1,056,688 | 13,867,330 | |
| Movement in unearned contributions | (221,775) | 21,477 | (1,082) | (1,047,069) | (1,248,449) | (49,804) | (1,298,253) | |
| Net earned contributions | 7,900,869 | 401,127 | 76,332 | 3,183,865 | 11,562,193 | 1,006,884 | 12,569,077 | |
| Net commissions and other takaful income | 354,997 | 442,494 | 129,617 | 743,953 | 1,671,061 | (86,248) | 1,584,813 | |
| Net claims incurred | (6,305,027) | (34,964) | (65,123) | (3,072,920) | (9,478,034) | (193,694) | (9,671,728) | |
| Transfer to family takaful technical reserve | - | - | - | - | - | (85,940) | (85,940) | |
| (Charge) due to surrender of policies | - | - | - | - | - | (26,059) | (26,059) | |
| (provision for) /reversal of impaired takaful receivables | (632,633) | (121,590) | (28,330) | (506,967) | (1,289,520) | (103,236) | (1,392,756) | |
| Wakala fees | 1,318,206 | 687,067 | 112,496 | 347,931 | 2,465,700 | 511,707 | 2,977,407 | |
| | (2,020,844) | (580,302) | (73,211) | (690,695) | (3,365,052) | (389,119) | (3,754,171) | |
| (Deficit) / Surplus from takaful operations | (702,638) | 106,765 | 39,285 | (342,764) | (899,352) | 122,588 | (776,764) | |

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(Expressed in Bahraini Dinars)

26 SEGMENTAL UNDERWRITING RESULTS (continued)

| | General Takaful | | | | | Total | Family Takaful | Total |
|---|---|-----------|---------|-----------|--------------------------------|------------|----------------|------------|
| | Motor, general, accident, engineering, and aviation | Fire | Marine | Medical | Unallocated assets/liabilities | | | |
| Identifiable assets and liabilities as on 31 December 2016 | | | | | | | | |
| Identifiable assets | 11,389,196 | 1,996,738 | 339,386 | 1,206,283 | 10,844,765 | 25,776,368 | 5,750,357 | 31,526,725 |
| Identifiable liabilities | 15,473,342 | 2,845,487 | 397,073 | 77,183 | 8,317,069 | 27,110,154 | 4,574,041 | 31,684,195 |
| Identifiable assets and liabilities as on 31 December 2015 - Restated | | | | | | | | |
| Identifiable assets | 7,501,515 | 3,153,260 | 724,723 | 6,296,129 | 4,458,473 | 22,134,100 | 5,267,980 | 27,402,080 |
| Identifiable liabilities | 9,885,287 | 3,793,326 | 434,492 | 3,823,411 | 4,197,584 | 22,134,100 | 4,245,001 | 26,379,101 |
| Identifiable assets and liabilities as on 1 January 2015 - Restated | | | | | | | | |
| Identifiable assets | 8,436,332 | 3,501,995 | 858,287 | 7,476,445 | 5,062,122 | 25,335,181 | 4,909,548 | 30,244,729 |
| Identifiable liabilities | 10,987,831 | 4,100,257 | 575,488 | 4,743,123 | 5,460,894 | 25,867,593 | 3,984,768 | 29,852,361 |

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

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(Expressed in Bahraini Dinars)

26 SEGMENTAL UNDERWRITING RESULTS (continued)

Geographical segments – secondary reporting segment

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

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

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

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

27 RISK MANAGEMENT

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

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

Risk management

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

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

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

Takaful risk

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

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27 RISK MANAGEMENT (continued)

Takaful risk (continued)

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

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

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

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

Retakaful risk

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

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

Currency risk

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

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

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27 RISK MANAGEMENT (continued)

Currency risk (continued)

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

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

Price risk

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

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

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

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

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

Notes to the consolidated financial statements

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27 RISK MANAGEMENT (continued)

Credit risk

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

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

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

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

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

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

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27 RISK MANAGEMENT (continued)

Liquidity risk

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

| | 31 December 2016 | | | |
|--|---------------------|-----------------------|------------------|-------------------|
| | One year or less | More than one year | No term | Total |
| ASSETS | | | | |
| Cash and cash equivalents | 7,608,103 | - | 125,000 | 7,733,103 |
| Available-for-sale investments | 449,626 | 4,236,943 | - | 4,686,569 |
| Takaful and retakaful balances receivable | 8,068,760 | 950,066 | - | 9,018,826 |
| Due from retakaful companies | | | | |
| in connection with outstanding claims | 8,901,992 | - | - | 8,901,992 |
| Deferred retakaful contribution | 3,030,352 | - | - | 3,030,352 |
| Deferred policy acquisition costs | 706,739 | - | - | 706,739 |
| Due from retakaful companies in connection | | | | |
| with family takaful technical reserves | 1,707,505 | - | - | 1,707,505 |
| Property and equipment | - | - | 2,272,525 | 2,272,525 |
| Receivable from takaful funds | 983,532 | - | - | 983,532 |
| Other receivables and prepayments | 448,406 | - | - | 448,406 |
| Amounts due from related parties | 654 | - | - | 654 |
| | 31,905,669 | 5,187,009 | 2,397,525 | 39,490,203 |
| LIABILITIES | | | | |
| Gross outstanding claims | 11,738,496 | - | - | 11,738,496 |
| Unearned contributions reserve | 8,688,463 | - | - | 8,688,463 |
| Unearned retakaful commissions | 485,316 | - | - | 485,316 |
| Family takaful technical reserves | 2,780,866 | - | - | 2,780,866 |
| Retakaful/ takaful and other payables | 6,824,812 | - | - | 6,824,812 |
| Other liabilities and provisions | 1,562,963 | - | - | 1,562,963 |
| Employees' terminal benefits | - | 245,668 | - | 245,668 |
| Payable to shareholders | 983,532 | - | - | 983,532 |
| | 33,064,448 | 245,668 | - | 33,310,116 |

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27 RISK MANAGEMENT (continued)

Liquidity risk (continued)

| | 31 December 2015 | | | Total |
|---|------------------|--------------------|-----------|------------|
| | One year or less | More than one year | No term | |
| ASSETS | | | | |
| Cash and cash equivalents | 5,237,154 | - | 125,000 | 5,362,154 |
| Available-for-sale investments | 985,440 | 4,129,035 | - | 5,114,475 |
| Takaful and retakaful balances receivable | 4,632,731 | 3,558,561 | - | 8,191,292 |
| Due from retakaful companies | | | | |
| in connection with outstanding claims | 8,691,892 | - | - | 8,691,892 |
| Deferred retakaful contribution | 2,160,164 | - | - | 2,160,164 |
| Deferred policy acquisition costs | 769,705 | - | - | 769,705 |
| Due from retakaful companies in connection with family takaful technical reserves | 1,625,398 | - | - | 1,625,398 |
| Property and equipment | - | - | 2,351,551 | 2,351,551 |
| Receivable from takaful funds | 33,439 | - | - | 33,439 |
| Other receivables and prepayments | 163,861 | - | - | 163,861 |
| Amounts due from related parties | 585 | - | - | 585 |
| | 24,300,369 | 7,687,596 | 2,476,551 | 34,464,516 |
| LIABILITIES | | | | |
| Gross outstanding claims | 12,848,760 | - | - | 12,848,760 |
| Unearned contributions reserve | 7,929,198 | - | - | 7,929,198 |
| Unearned retakaful commissions | 343,477 | - | - | 343,477 |
| Family takaful technical reserves | 2,527,505 | - | - | 2,527,505 |
| Retakaful/ takaful and other payables | 4,103,431 | - | - | 4,103,431 |
| Other liabilities and provisions | 1,068,186 | - | - | 1,068,186 |
| Employees' terminal benefits | - | 213,317 | - | 213,317 |
| Payable to shareholders | 33,439 | - | - | 33,439 |
| | 28,853,996 | 213,317 | - | 29,067,313 |

Notes to the consolidated financial statements

for the year ended 31 December 2016

(Expressed in Bahraini Dinars)

28 CAPITAL ADEQUACY AND SOLVENCY MARGIN REQUIREMENTS

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

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

29 SHARI'A SUPERVISORY BOARD

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

30 ZAKAH

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

31 EARNINGS PROHIBITED UNDER SHARI'A

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

32 CONTINGENT LIABILITIES

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

Notes to the consolidated financial statements

for the year ended 31 December 2016

(Expressed in Bahraini Dinars)

33 COMMITMENTS

a) Operating lease commitments

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

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

b) Other commitments

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

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

34 QARD AL HASSAN

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

35 COMPARATIVE INFORMATION

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

Notes to the consolidated financial statements

for the year ended 31 December 2016

(Expressed in Bahraini Dinars)

35 COMPARATIVE INFORMATION (continued)

The summarised effects of the above change are as follows:

| | 31 December 2015 | | 1 January 2015 | |
|--|------------------|-----------------------|------------------|-----------------------|
| | (Restated) | (Previously reported) | (Restated) | (Previously reported) |
| Consolidated statement of financial position | | | | |
| - shareholders | | | | |
| Cash and investments: | | | | |
| Statutory deposit | 125,000 | 125,000 | 125,000 | 125,000 |
| Cash and cash equivalents | 1,274,697 | 1,208,440 | 974,239 | 938,583 |
| Available-for-sale investments | 2,420,460 | 2,420,460 | 3,116,834 | 3,116,834 |
| Investment in equity-accounted joint venture | - | 24,003 | - | 21,088 |
| Deferred policy acquisition costs | 769,705 | 769,705 | - | - |
| Property and equipment | 2,351,551 | 2,331,839 | 1,977,967 | 1,953,711 |
| Receivable From Takaful Funds | 33,439 | 33,439 | 707,076 | 707,076 |
| Other receivables and prepayments | 86,999 | 85,403 | 127,598 | 113,254 |
| Due from a related party | 585 | 585 | 982 | 962 |
| Total assets | 7,062,436 | 6,998,874 | 7,029,696 | 6,976,508 |
| Retakaful/ takaful and other payables | | | | |
| Other liabilities and provisions | 478,317 | 437,683 | 423,389 | 385,760 |
| Employees' terminal benefits | 213,317 | 209,226 | 184,187 | 182,686 |
| Total liabilities | 1,226,995 | 1,179,335 | 607,576 | 568,446 |
| Equity: | | | | |
| - Equity attributable to shareholders of the parent | 5,819,539 | 5,819,539 | 6,408,062 | 6,408,062 |
| - Minority interests | 15,902 | - | 14,058 | - |
| Total equities and liabilities | 7,062,436 | 6,998,874 | 7,029,696 | 6,976,508 |
| Net impact on net assets | 63,562 | | 53,188 | |
| Wakala Fees | 3,754,171 | 3,754,171 | | |
| Investment income | 341,828 | 344,743 | | |
| Mudarib Share | 26,096 | 26,096 | | |
| Management, general and administrative expenses and depreciation | (3,595,860) | (3,390,543) | | |
| Net Acquisition Cost | (929,710) | (929,710) | | |
| Impairment loss on available-for-sale investments | (1,135,781) | (1,135,781) | | |
| Other income / (loss) | 785,728 | 575,652 | | |
| | (753,528) | (755,372) | | |
| Net profit attributable to: | | | | |
| - Shareholders of the parent | (755,372) | (755,372) | | |
| - Non-controlling interests | 1,844 | - | | |
| | (753,528) | (755,372) | | |

Notes to the consolidated financial statements

for the year ended 31 December 2016

(Expressed in Bahraini Dinars)

36 TOTAL COMPREHENSIVE INCOME

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