



Holding Together
by Consistency

Annual Report 2016





His Royal Highness
Prince Khalifa Bin Salman Al Khalifa
The Prime Minister



His Royal Majesty
King Hamad Bin Isa Al Khalifa
The King of the Kingdom of Bahrain



His Royal Highness
Prince Salman Bin Hamad Al Khalifa
The Crown Prince
Deputy Supreme Commander
First Deputy Prime Minister



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GROUP OVERVIEW

Bahrain National Holding B.S.C. (BNH) is the premier Bahraini insurance group, offering a comprehensive range of insurance and risk management solutions. Established in 1998 through a merger between Bahrain Insurance Company and National Insurance Company, our heritage in the industry dates back to 1969. Over the years, we have earned a formidable reputation for the quality and excellence of our services and are today a household name in the Kingdom of Bahrain.

A widely-held public company listed on Bahrain Bourse, our group operations are organised as four incorporated entities:

- BNH, the parent company, which is the asset management and corporate arm of our Group
 - Our wholly owned subsidiary, Bahrain National Insurance Company B.S.C. (c), which offers Commercial Insurance and Motor & Personal Lines Insurance under bni brand
 - Our 75% owned subsidiary, Bahrain National Life Assurance Company B.S.C. (c), which offers Life & Medical Insurance under the bnl brand
 - iAssist Middle East W.L.L. a wholly-owned subsidiary, offering a full range of technical, body shop & roadside assistance services
-



VISION

Creating prosperity through security

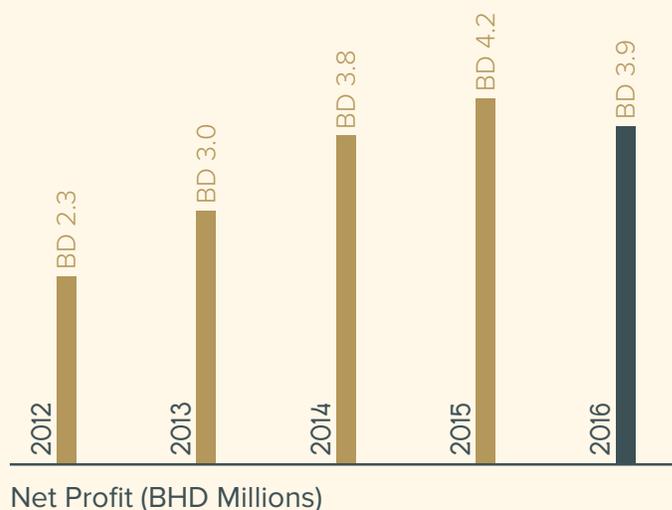
MISSION

Growing from our base of insurance experience and values, to be a leading provider of financial protection and management of risk

VALUES

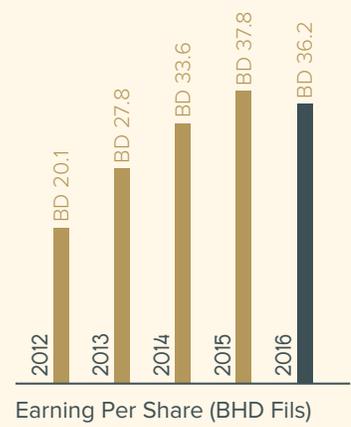
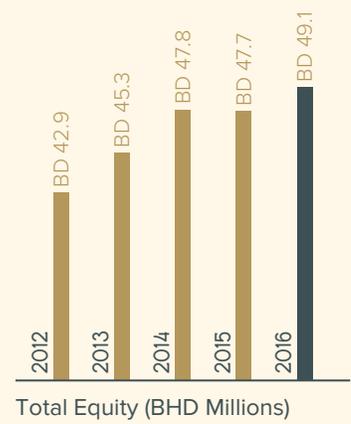
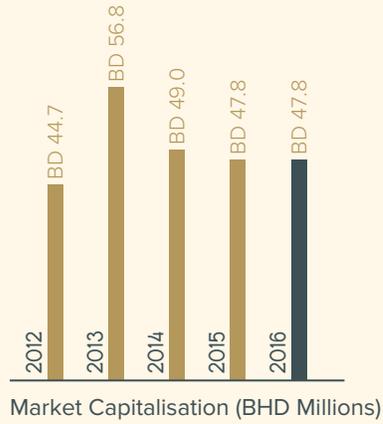
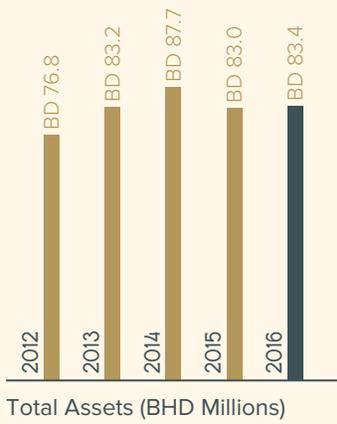
Integrity, Excellence, Pioneering

FINANCIAL HIGHLIGHTS



BNH Financial Highlights from 2008 - 2016

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net Profit	2.0	4.1	3.8	3.3	2.3	3.0	3.8	4.2	3.9
Total Assets	73.1	73.6	74.1	71.6	76.8	83.2	87.7	83.0	83.4
Market Capitalisation	59.0	52.9	46.1	46.3	44.7	56.8	49.0	47.8	47.8
Total Equity	37.2	40.2	42.2	42.2	42.9	45.3	47.8	47.7	49.1
Gross Premiums	28.0	24.7	23.1	21.9	23.3	24.9	25.7	28.4	28.4
Net Earned Premiums	12.9	13.4	13.6	13.4	14.3	14.3	13.7	14.8	15.6
Earning Per Share (BHD Fils)	19.0	36.9	34.7	29.2	20.1	27.8	33.6	37.8	36.2



BOARD OF DIRECTORS



Farooq Yusuf Almoayyed, Chairman

Nationality: Bahraini
Non-Executive Director
Board Member since 2008

Chairman of the Nomination, Remuneration and Corporate Governance Committee

Chairman:

- Y. K. Almoayyed & Sons B.S.C.(c), Bahrain
- Y. K. Almoayyed & Sons Property Co, Bahrain

- Almoayyed International Group, Bahrain
- National Bank of Bahrain B.S.C., Bahrain
- Bahrain Duty Free Shop Complex, Bahrain
- Gulf Hotels Group, Bahrain
- Ahlia University, Bahrain
- National Finance House B.S.C.(c), Bahrain

Director:

- Investcorp Bank BSC., Bahrain



Abdulhusain Khalil Dewani, Vice Chairman

Nationality: Bahraini
Non-Executive Director
Board Member since 1999

Chairman of Bahrain National Insurance Company B.S.C.(c)

Chairman of the Executive & Investment Committee
Vice Chairman of Nomination, Remuneration and Corporate Governance Committee

Chairman:

- Deeko, Bahrain

- Dawanco, Bahrain
- Dawanco Industries, Bahrain
- Tomina Trading, Bahrain
- Bahrain Foundation Construction Company, Bahrain
- Al Jazira Group, Bahrain
- American Cultural & Educational Centre, Bahrain

Vice Chairman

- Delmon Poultry Company W.L.L., Bahrain



Abdulrahman Mohamed Juma

Nationality: Bahraini
Non-Executive Director
Board Member since 1999

Chairman of Bahrain National Life Assurance Company B.S.C.(c)

Member of the Audit, Compliance & Risk Committee

President:

- Abdulrahman Bin Mohamed Juma & Sons, Bahrain.

Chairman & Managing Director:

- UNEECO Group of Companies, Bahrain.
- Qatar Boom Electrical Engineering, Qatar.
- Prudent Solutions, Bahrain.

Chairman:

- Prudent Solutions, Qatar.

Vice Chairman:

- Prudent Solutions, Saudi Arabia.



Redha Abdulla Ali Faraj

Nationality: Bahraini
Independent Non-Executive Director
Board Member since 2014

Chairman of Audit, Compliance and Risk Committee; Member of Nomination, Remuneration and Corporate Governance Committee; Director and Chairman of Audit, Compliance and Risk Committee of Bahrain National Insurance Company B.S.C.(c); Director and Chairman of Audit, Compliance and Risk Committee of Bahrain National Life Assurance Company B.S.C.(c)

Member:

- Shura Council, Bahrain

Director:

- Bahrain Maritime and Mercantile International (BMMI)
- Y.K. Almoayyed and Sons B.S.C.(c)
- Almoayyed International Group
- Almoayyed Contracting Group
- National Concrete Company W.L.L.
- Banader Hotels Company B.S.C.

Founder:

- Al Faraj Consulting Co. W.L.L.
- Al Faraj Horizon Developments Co. W.L.L.



Ali Hasan Mahmood

Nationality: Bahraini
Non-Executive Director
Board Member since 1999

Member of the Audit, Compliance and Risk Committee

Chairman:

- Hasan & Habib s/o Mahmood Group of Companies, Bahrain
- United Marketing International Co. W.L.L.

- Bed Center
- Euro Gulf Co. W.L.L.
- United Décor International
- Amaan International Safety Services Co. W.L.L.

Director:

- Bahrain Specialist Hospital
- Bahrain Businessmen Association

Managing Director:

- Al Jazeera Shipping Company W.L.L., Bahrain

BOARD OF DIRECTORS

continued



Ayad Saad Khalifa Algosaiabi

Nationality: Bahraini
Independent Non-Executive Director
Board Member since 2008

Vice Chairman of the Audit, Compliance & Risk Committee; Director and Vice Chairman of Audit, Compliance and Risk Committee of Bahrain National Insurance Company B.S.C.(c); Director

and Vice Chairman of Audit, Compliance and Risk Committee of Bahrain National Life Assurance Company B.S.C.(c); Director of iAssist Middle East W.L.L.

Director:

- Khalifa A. Algosaiabi Holding, Dammam, Saudi Arabia



Ghassan Qasim Fakhroo

Nationality: Bahraini
Non-Executive Director
Board Member since 2008

Vice Chairman of Bahrain National Insurance Company B.S.C.(c)
Chairman of the Executive and Investment Committee of Bahrain National Insurance;

Chief Executive:

- Mohamed Fakhroo & Bros., Bahrain

Managing Director and Partner:

- Fakhroo Information Technology Services, Bahrain

Director and Partner:

- Qasim Mohamed Fakhroo & Sons, Bahrain

Board Member:

- Alkindi Specialized Hospital, Bahrain
- National Institute for Industrial Training, Bahrain



Jihad Yusuf Amin

Nationality: Bahraini
Non-Executive Director
Board Member since 1999

Member of Executive & investment Committee; Member of Nomination, Remuneration and Corporate Governance Committee; Director and Member of Executive & Investment Committee of Bahrain National Insurance Company B.S.C.(c)

Vice Chairman:

- Banadar Hotels Company, Bahrain

Director and Vice Chairman of the Executive and Investment Committee:

- Bahrain Maritime and Mercantile Company (BMMI), Bahrain

Director and Member of the Audit Committee & the Metro/Market Committee:

- General Company for Trading and Food Industries (TRAFICO), Bahrain

Director and Member of the Executive Committee:

- Bahrain Livestock, Bahrain
- United Insurance, Bahrain
- Bahrain Cinema, Bahrain

Director:

- Bahrain Duty Free Complex, Bahrain



Sami Mohamed Zainal

Nationality: Bahraini
Non-Executive Director
Board Member since 2008

Member of the Executive and Investment Committee; Director and member of Audit, Compliance and Risk Committee; Member of Executive and Investment Committee of Bahrain National Insurance Company B.S.C.(c); Chairman of iAssist Middle East W.L.L.

Chairman:

- Arbitration & Trade Dispute Committee - Bahrain Chamber of Commerce & Industry
- GCC Commercial Arbitration Center

- General Poultry Company – Audit Committee and Steering Committee

Director:

- General Poultry Company, Bahrain
- Zainal Enterprises, Bahrain
- Tony Luke's, Bahrain
- Life Marketing SPC, Bahrain

Marketing Director:

- Mohamed Ali Zainal Abdulla (MAZA), Bahrain

Member:

- Joint Committee with Custom Affairs -Bahrain Chamber of Commerce & Industry



Talal Fuad Kanoo

Nationality: Bahraini
Non-Executive Director
Board Member since 2008

Director:

- E. K. Kanoo B.S.C.(c) Corporate Services, Bahrain

- Motor City, Bahrain
- National Finance House B.S.C.(c), Bahrain

Chairman:

- Executive Committee – National Finance House

Mohammed Kadhim, Board Secretariat





EARNING REWARDS IN THE
FUTURE WILL STILL BE BASED
ON THE PRINCIPLES OF THE
PAST...

HARDWORK AND PATIENCE



CHAIRMAN'S MESSAGE



On behalf of the Board of Directors, I am pleased to present to you the annual report of Bahrain National Holding B.S.C. (BNH) for the year ended 31st December 2016.



2016 was a year of many challenges, but also of significant progress. As anticipated, the insurance market continued to be highly competitive, with the wider economic situation posing additional difficulties. Business was impacted by the Government's decisions to rationalize spending, lift subsidies on select items, and increase its fees on some services as a way of managing the national deficit. BNH's results during the year demonstrated the resilience of the group to these challenges.

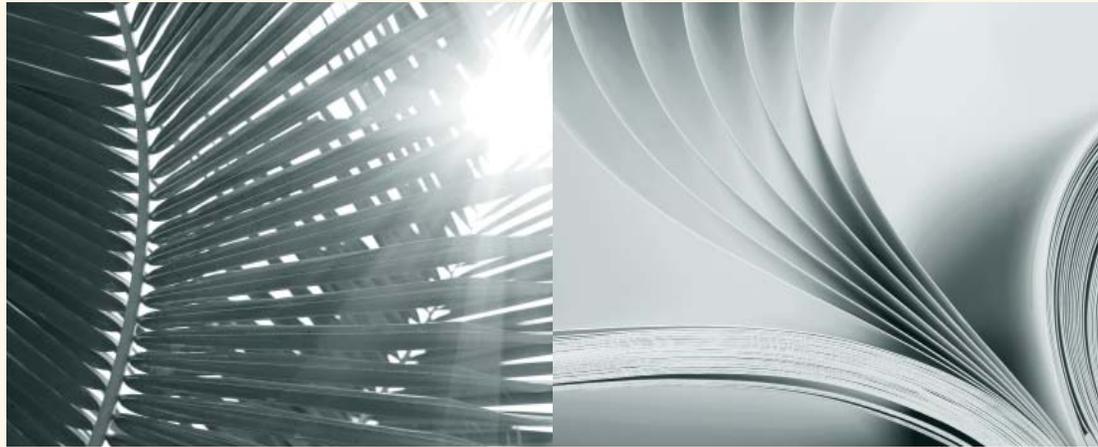
We welcome the Central Bank of Bahrain's (CBB) initiative, in the final quarter of 2016 requiring insurance companies to reconcile their motor subrogation claims with counterparties. This is a positive step, as it reduces the insurance sector's receivables and counterparty risks. As a result, we received additional claims data allowing us and the independent actuary, to better estimate the company's claims reserves. In line with our conservative philosophy, we increased our claims reserves, which marginally impacted our underwriting results. On the positive

side, we witnessed a healthy growth in our motor premiums as well as positive underwriting performance in our general insurance. Our investment portfolio continued its consistent performance in 2016 despite difficult and volatile market conditions.

Gross written premiums remained steady compared to 2015, with the total premiums standing at BD28.4 million, and due to the additional precautionary measures mentioned above, net underwriting profit recorded a slight decrease, from BD2.3 million in 2015 to BD1.9 million in 2016. The net profit for the period was BD3.9 million compared to BD4.2 million, with shareholders' equity experiencing a slight increase. Meanwhile, basic earnings per share fell from 37.8 fils in 2015 to 36.2 fils in 2016.

We expect greater stability in oil prices relative to the previous years to give the government more flexibility in facing the challenge of managing the deficit, without affecting growth and spending on infrastructure. We also expect the Government to further diversify

GROWTH REFLECTING NATURAL EVOLUTION



its sources of income, reducing its dependence on oil revenue and moving forwards towards a more sustainable growth model.

Our focus remains on improving our insurance products and acquiring a larger share of the market, while diversifying revenue and raising profitability. The ultimate aim is to continue to strengthen customers' trust in our services.

On behalf of the Board of Directors, I would like to express my sincere appreciation and gratitude to His Majesty King Hamad bin Isa Al Khalifa, His Royal Highness Prime Minister Prince Khalifa bin Salman Al Khalifa, and His Royal Highness the Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister, Prince Salman bin Hamad Al Khalifa for their wise leadership and support of the Kingdom's financial sector.

I also extend my thanks to all the ministries, institutions, and government agencies, especially the Ministry of Industry, Commerce and Tourism, the Central Bank of Bahrain, the Ministry of Finance, and the Bahrain Stock Exchange, for their guidance and continuous support.

Last, but not least, I would like to take this opportunity to thank all our shareholders, customers and business partners for their continuous trust and loyalty, and also the members of the Board of Directors, the Executive Management and all employees for their efforts and dedication during 2016.

Farooq Yusuf Almoayyed
Chairman of the Board

EXECUTIVE MANAGEMENT



Sameer AlWazzan, Chief Executive

Bahrain National Holding

An internationally recognised veteran of the insurance industry for over three decades, Sameer AlWazzan, has held senior management roles such as CEO of Al Khazna Insurance Company, CEO of Solidarity Group, General Manager of Bahrain Kuwait Insurance Company, General Manager of UNITAG Group and General Manager of National Insurance Company. He also has 10 years (1971–1982) of experience working as an engineer at the Instrument Department at Bahrain Oil Refinery (BAPCO). Mr. AlWazzan is the Vice Chairman of Arabian Shield Insurance (KSA) and iAssist Middle East and a Board Member of

United Insurance Company, National Finance House, Al Kindi Hospital, Doha Bank Assurance Co. (Qatar) and Bahrain Insurance Association (BIA). He is a Member of the CBB Motor Accident Compensation Fund and of the Bahrain Chamber of Commerce and Industry's Banking and Insurance Sectors, Arbitration, and Legal committees. Mr. AlWazzan studied management at renowned institutions including Stanford University, California, USA, Manchester Business School, UK, University of Bahrain, Swansea Polytechnic, UK and Huddersfield Polytechnic, UK. He joined BNH in January 2014.



Anand Subramaniam, Chief Financial Officer

Bahrain National Holding

Anand Subramaniam has over 20 years of experience in the field of investments and asset management. He holds a Chartered Financial Analyst designation from the CFA Institute, USA and an MBA and BBA from Sardar Patel University, Gujarat, India. He also holds a Chartered Alternative Investment Analyst designation from the CAIA Association, USA.

Prior to this, he was the Head of Investments at Bahraini Saudi Bank B.S.C. and a Fund Manager at TAIB Bank B.S.C. His other work experience include working for Fincorp SAOG as VP-Asset Management and Oman Arab Bank as an Investment Officer. He started his career as an equity researcher in India focusing on the IT, banking and cement sectors. He joined BNH in 2010.



Joseph Rizzo, General Manager (till 31st Dec 2016)

Bahrain National Insurance

An Associate of the Chartered Insurance Institute and a Chartered Insurer with more than 30 years of experience in insurance and reinsurance, Mr. Rizzo joined bni in September 2007, initially as a General Manager for corporate insurance accounts. He has now taken over the responsibility for the entire bni operation. He was a member of the Board and the Executive Committee of Arabian Shield Insurance

Company in Saudi Arabia and was on the board of bni in Bahrain. His previous position was that of General Manager at a leading listed insurance company in Malta Middlesea Insurance Company Limited (now Middlesea MAPFRE), serving on many board of subsidiary companies and market associations. Mr. Rizzo has experience in several insurance markets, including London, Malta, Gibraltar and the GCC, mainly leading underwriting teams and developing portfolios.



Sahar Al Ajjawi, General Manager

Bahrain National Life Assurance

Starting her bni career as an Assistant General Manager, Sarah Al Ajjawi holds an MBA from Bahrain University and ACII from the Chartered Insurance Institute. She has worked in medical

and life insurance since 1997. Prior to joining bni, she was Senior Manager, Life & Medical at Al Ahlia Insurance Company and Deputy Manager, Medical at Arab Insurance Group (ARIG). She joined bni in 2013.



Masood Bader, Deputy General Manager (General Manager starting from 1st Jan 2017)

Bahrain National Insurance

Masood Bader joined bni in 2010, bringing 23 years of insurance and reinsurance experience to the company. An accounting major, he started his career as a Claims Assistant with Arab Insurance Group (ARIG), working his way up to Executive Manager in

charge of an international portfolio of Marine and Energy. In the six years prior to joining bni, he worked as an Insurance and Reinsurance Broker, first for Arthur J. Gallagher Middle East as Regional Director, and then for AON Middle East as Vice President.



Eman Salem Mujali, Assistant General Manager

Bahrain National Insurance

Eman Salem Mujali has been a part of bni since 1995, having joined with over 20 years of experience in insurance. Her technical skills and experience together with her talent for customer service placed Eman in a Business

Development position as an Assistant General Manager. She has qualifications in Business Administration and Marketing from the University of Bahrain, a Diploma and Advanced Diploma in Insurance and has also attended a number of technical, personal development and management courses.



Sergio Martinez Fernandez, General Manager

iAssist Middle East

With over 15 years of experience in motor related services and the insurance field in various countries in the Middle East, Sergio Martinez Fernandez joined iAssist as the General Manager in 2015. Prior to joining iAssist, he was a Financial Director at MAPFRE Insurance and CEO Advisor/Strategy and Planning Director at Al-Etihad Insurance, KSA.

He also worked as an advisor in Strategy and Planning for the Ministry of Health in the Kingdom of Bahrain and as an External Expert Consultant with Grant Thornton. Mr. Fernandez holds an MBA in CEF from Financial Economic Centre, Madrid, Spain, a BS in Business Economics from University Complutense of Madrid (UCM), Spain and a CII Award from Bahrain Institute of Banking and Finance (BIBF).

CHIEF EXECUTIVE'S MESSAGE



It gives me great pleasure to present to you the Annual Report of Bahrain National Holding Company B.S.C. (BNH) for the year ended 31st December 2016.



I am happy to report that the past year was a good one for BNH, especially after taking into consideration the economic and geopolitical situation that the world, and our region in particular, found itself in at its outset. At the beginning of the year, we had set pragmatic goals for ourselves, that took into account low oil prices and lower government spend and the knock on effects this slowdown would have on some of our customers and demand in general.

The group was able to maintain its gross premiums at BD28.4 million, while net premiums were up 5% from BD14.8 million in 2015 to BD15.6 million this year. However, claims also went up during the period, by 21%, from BD8.5 million to BD10.3 million impacting the net underwriting profit, which fell by 19%, from BD2.4 million to BD1.9 million. Net investment income also fell by 20%, from BD2 million to BD1.6 million due to difficult market conditions in the region. Strong performances by our associates, pushed up Share of profits from associates by 36%, to BD2.1 million

in 2016, compared to BD1.5 million in the previous year. This resulted in a net profit for the group of BD3.9 million, a 7% change from BD4.2 million in 2015.

Enhancing customers' experience

BNH continued its strategy of enhancing customer service as a means to differentiate itself in a highly competitive Bahrain insurance market. In a first for the Kingdom, all nine of Bahrain National Insurance Company's (bni) branches processed not only motor underwriting, but claims as well, a value added which makes it more convenient for our clients in terms of time and effort.

Customers also responded positively to our continued push for standardization of both our branch services and marketing campaigns. We continued investing in our electronic infrastructure, resulting in stronger renewal business across all electronic channels. We believe – and our results reaffirm this – that this strategy is ideal, both from a customer and shareholder point of view. These

CAPTURING PROSPERITY THROUGH STRONG BONDS



changes allow us to become closer to our clients in a cost-efficient manner, setting the stage for a continued long-term growth in our customer base.

Motor registered a 7% growth in gross written premiums, largely as a result of the aforementioned improvements in our retail services, which allowed customers to conveniently renew their policies online, without having to visit any physical locations. This growth was complemented by the improvement in the road assist and repair services offered by our fully owned subsidiary, iAssist, discussed in further detail below.

BNH's pursues a group-wide policy of focusing on quality in underwriting, rather than on volume. As part of this policy, bni reduced its facultative inward business significantly, resulting in lower premiums, but an increase in the quality of our portfolio. The group also continued its conservative claims reserving policy and is working closely with the independent actuary on making sure that our subsidiaries are adequately reserved.

The outlook for Life and Medical

Meanwhile, Bahrain National Life Assurance Company (bnl) continues to face a challenging market both in life and medical business due to severe price competition and claims inflation. Set up as Bahrain's first specialised life insurance company, bnl was ahead of its time and offers unique savings solutions to individuals and corporates. On the medical side, the government plan to introduce compulsory medical insurance for expatriates is set to transform the sector in 2018.

Underwriting profits were breakeven in Medical, compared to a BD179 thousand profit in 2015, while Life underwriting recorded a loss of BD222 thousand down from a BD130 thousand profit. Claims were also higher, with more surrenders and maturities of individual life policies, while group and credit life claims remaining unchanged. However, the consistent positive performance in its investment portfolios offset this, resulting in a BD118 thousand profit for the company, compared to BD620 thousand in 2015.



Turnaround in iAssist Middle East

Following the acquisition of the remaining 50% stake in Ultra Tune Middle East in 2015 from our joint venture partner, the entity was rebranded as iAssist Middle East. Focusing on high quality vehicle repair and roadside assistance, iAssist represents an important component of the group's value addition to its motor insurance customers. After significant internal restructuring and investment into systems, we are happy to note the turnaround in the subsidiary into a profitable venture.

Associates

All our associates did well, with our share of associate profits rising from BD1.5 million to BD2.1 million, a growth of 36%, which helped to offset some of the aforementioned challenges in underwriting. Our Saudi affiliate, Arabian Shield Insurance, in which we have a 15.29% stake, was the top performer, followed by Al Kindi Specialised Hospital, in which we increased our investment from 25% to 27% during 2016. National Finance House (NFH), in which we have

a 34.93% stake, was steady performer despite the challenges of the market, while United Insurance Company, performed strongly on the underwriting front due to lower claims and increase in visitors across the Saudi Causeway.

Ratings

Despite the lowered sovereign ratings, we managed to maintain our AM Best International Credit Rating at a respectable bbb+, and our Financing Strength Rating at B++, both with a stable outlook. This represents the highest that bni can attain under the current Sovereign rating outlook. This rating is a testament, to our continuing investment and adherence to an enterprise risk management framework and Economic Capital Model that informs risk-related decisions.

Strategic focus on quality underwriting and risk management

The Group is able to leverage the competitive advantages that arise from the fact that bni is the oldest insurance



company in Bahrain, with the largest branch network. bnl also has a unique positioning as the only stand-alone Bahraini Life insurance company. This gives us the ability to choose our risks more carefully and build long term and deep relationships with our customers, both institutional and retail. We have also decided to focus on developing our risk management framework, an initiative that is highly appreciated by major rating agencies and institutional customers who are assessing counterparty risk. This, combined with our high service standards, and strict adherence to corporate governance rules of the Kingdom will, in our opinion, help us to maintain our position of trust in the market.

Outlook

The immediate outlook continues to be challenging, but we see a bright future going forward as the insurance industry continues to mature and consolidate. We welcome competition but expect that the market will eventually resolve the extreme price competition it currently faces.

Legislation is on our side when it comes to medical insurance, with new laws on the horizon requiring all expatriates to be covered, and bnl will be in an excellent position to reap the rewards when the time comes. The group continues to have a strong balance sheet and liquidity position and retains the ability to deploy its resources into investments that allow us to maximize long term shareholder value.

We will continue to focus on raising the standards of our human capital, investing in technology, and maintaining a prudent risk management framework across all our business lines.

Sameer Ebrahim AlWazzan

Chief Executive



ACHIEVEMENT IN CREATING
A MASTERPIECE
IN THE FUTURE
IS BOUND TO MIRROR
THE SAME RULES OF THE CRAFT
FROM THE PAST...

PRECISION AND PASSION



REVIEW OF OPERATIONS

Subsidiary



Bahrain National Insurance Company B.S.C.(c) (bni)

Prudent risk management, continued enhancement of customer experience and a strategic decision to focus on its core market allowed BNH's largest subsidiary to weather the storms of a challenging 2016 insurance market. bni registered BD22.4 million in gross written premiums during the year, similar to its 2015 performance.

Motor premiums rose by more than 7% from BD12.2 million to BD13 million. Loss ratios however increased to 70%, up from 64% in the previous year. This was mainly attributable to inflation in spare parts and labour charges as automotive dealers in the Kingdom raised their prices, which in turn increased claims. As a conservative measure, bni also added to its claims reserves on the advice of the actuary, resulting in higher net claims reported for 2016. The Motor division is reaping the benefits of our early initiatives in online distribution and kiosks, as the year saw substantial growth in the online component of our business.

In the Commercial insurance division, gross premiums reduced by about 9%, from BD10.3 million in 2015 to BD9.3 million in 2016. Although business volume was lower, the division benefited hugely from a strategic decision, taken three years ago and fully implemented during 2016, to gradually reduce facultative inward business in view of depressed regional prices and high claims. This gradual shift allowed bni to retain greater control over its risk exposure, freeing up resources to focus on local risks over which it has a greater understanding. This resulted in less overall revenues, but a much higher quality of business, reflected in higher commission incomes as well. Underwriting profits, including the Property, Engineering, Marine, Fire, Casualty and Financial Lines, and Miscellaneous Accidents classes, stood at BD578 thousand nearly quadrupling from BD154 thousand in the previous year. The retention ratio, which is the net earned premium retained by the company over the gross written premium, jumped significantly in 2016 to 8.9%,

compared to 6.6% in the previous year. bni's business in 2017 is expected to continue to benefit from this successful strategy.

Online premiums as a share of total premiums stood at 14%, reflecting the increasing penetration of bni's online service as a result of more competitive pricing for online services. The company has also invested in its systems and IT, to provide motor online claims notification and intimation services in addition to underwriting facilities. On the same lines, the company implemented a switch from paper renewal reminders to SMS messages, which proved to be not only more effective but also environment friendly. Social media is being increasingly used as a low-cost but effective channel for creating public awareness of issues related to insurance and engaging more closely with our customers.

bni also invested in physical infrastructure to come closer to its customers, including an increase in the number of its kiosks, which are placed at strategic locations in the Kingdom. These kiosks provided additional support to bni's existing retail network of nine full branches and two smaller outlets at National Bank of Bahrain (NBB) and Al Haddad Motors's Mercedes-Benz Showroom. bni plans to move its Muharraq branch to a more spacious and convenient location to better service our customers in this important location. There were improvements in efficiency through an upgrade of the call centre and a standardisation of the look and services of all branches. Claims, which were previously only accepted in Sanad and Sitra, are now processed at all branches, which has resulted in an obvious improvement in convenience for customers. Surveys showed a marked increase in customer satisfaction, and allowed bni to pinpoint areas for further improvement.

bni also enjoyed better premiums as a result of its continuing investment in advanced analytical software, which provides management with business intelligence and actuarial tools that allow us to perform more accurate analysis and simulations, thereby increasing competitiveness and underwriting profits. This, coupled with our Economic Capital Model, allowed the company to take informed decisions concerning economic solvency, liquidity, and investment.

On the corporate side, bni, saw investment income fall from BD2 million in 2015 to BD1.4 million in 2016 due to a fall in regional markets as a result of lower oil prices and the strategic decision to de-risk the overall portfolio in line with our overall economic capital model and risk appetite. Regional losses were offset by strong performance of international investments.

AM Best reaffirmed bni's bbb+ International Credit Rating and its B++ Financial Strength Rating, both of which carry a stable outlook. The agency, in its report, pointed out bni's prudent risk management and controls.

bni, is the leading insurer in Bahrain with over 40 years of experience. It is also a market leader in motor insurance, with a 16% market share, and the largest insurance company in the country offering comprehensive cover.

REVIEW OF OPERATIONS

continued

Subsidiary



Bahrain National Life Assurance Company B.S.C.(c) (bnl)

The fierce competition the life and medical insurance market witnessed during 2015 persisted into 2016 as competitors slashed prices in search of higher market share. Taking a contrarian strategy, bnl continued to maintain its underwriting discipline, focusing on retaining customers through closer engagement and better service standards, and successfully managed to defend its topline.

Medical Gross premiums stood at BD3.4 million in 2016, slightly below the BD3.6 million reported in the previous year, while Life gross premiums were BD2.1 million, up from BD1.9 million. Underwriting profits for this year were impacted by the Life segment, while the Medical segment managed to break even. However, an improvement in investment income compensated for the underwriting losses, resulting net profits of BD118 thousand compared to BD620 thousand in 2015.

Individual Life business, which represents 25% of the total Life portfolio, was down 49% compared to the previous year, largely due to stricter borrowing criteria imposed by banks, unfavourable consumer attitudes, and intense market competition. However this drop was compensated for by a strong increase in Group Life and Credit business, thanks to our winning additional relationships after intensive marketing efforts.

Claims were higher, with more surrenders and maturities of Individual Life policies, while Group and Credit Life claims were unchanged from 2015. Pressure on medical premiums resulted in an increase in Medical claims when compared to the previous year, as inflation pushed up healthcare service costs, and the frequency of treatments undertaken by policyholders increased.

Costs, including staff expenses, were well under control during 2016, and investments reported better results due to the high performance of bnl's international portfolio of bonds and equity and its relatively low regional exposure.

bnl continued its health awareness and education initiatives, including providing corporate customers with advice and guidance on the best way to look after their staff and circulating monthly health tips which helped to stabilise the increase in the medical claims.

New medical plans were introduced during the third quarter to meet different market segments' requirements, and there are plans to continue promoting these during 2017. bnl also expects to further refine its offerings in 2018 when new laws are introduced that will require all expatriate workers in the Kingdom to have medical cover.

Subsidiary



iAssist Middle East W.L.L.

BNH's wholly owned subsidiary iAssist, turned a profit for the first time since its establishment, as a new strategy instituted following BNH's takeover of the company's management in February 2015 began to bear fruit. iAssist offers bodyshop repairing and road assist services and was set up as a joint venture in 2009.

The overall strategy included rebranding, restructuring of operations, a revamp of IT infrastructure and improvements in internal workflows and processes. This was accompanied by additional capital restructuring during the year, in order to place the company on a strong footing. During the year, the company has also successfully repaid its outstanding bank loan.

iAssist's state-of-the-art car bodyshop in Salmabad offers a full range of auto services, ensuring improved quality and an efficient delivery of repaired vehicles to motor insurance customers. Today, the company has 48 employees, with a growing clientele including other insurance companies and private customers.

ASSOCIATES



Al Kindi Specialised Hospital

Established: 2008

Paid-up capital: BD 2.2 million

BNH share: 27%

Al Kindi is a private specialist hospital offering high standards of primary and secondary medical care. Al Kindi Specialised Hospital is equipped with a 24-hour clinic, radiology unit, medical laboratory and pharmacy.
Website: www.alkindihospital.com



Arabian Shield Cooperative Insurance Company

Established: 2006

Paid-up capital: SR200 million

BNH share: 15.29%

The Arabian Shield Cooperative Insurance Company provides general (commercial and industrial) and medical insurance cover in the Kingdom of Saudi Arabia.

Website: www.arabianshield.com



National Finance House

Established: 2005

Paid-up capital: BD 7.5 million

BNH share: 34.93%

National Finance House (NFH) specialises in providing consumer and corporate financing for the purchase of private, commercial and heavy vehicles.

Website: www.nfh.com.bh



United Insurance Company

Established: 1986

Paid-up capital: BD 5 million

BNH share: 20%

The United Insurance Company (UIC) provides insurance cover for passengers and vehicles crossing the King Fahad Causeway linking the Kingdom of Bahrain and Saudi Arabia.

Website: www.uic.bh



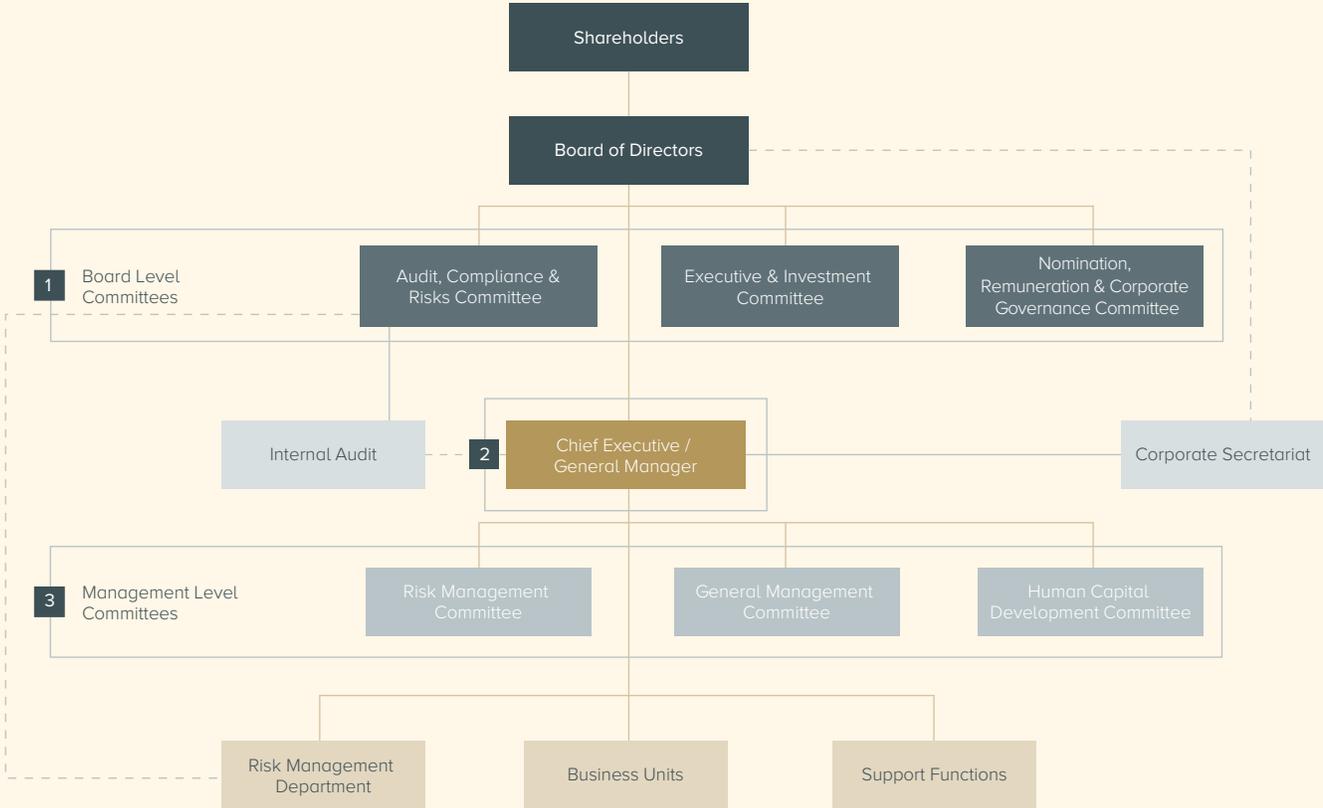
DOING BUSINESS
IN THE FUTURE
WILL MOST LIKELY RESEMBLE
THE UNCOMPROMISING
DISCIPLINE AS IN THE PAST...

SKILL AND DEDICATION



CORPORATE GOVERNANCE

Group Governance and Organization Structure



Notes

- 1. Board Committees of each respective Company; Executive & Investment Committee for BNH and bni only.
- 2. CEO for BNH; GM in the case of the Subsidiaries bni, bnl and iAssist Middle East.
- 3. Management Committees are joint committees and included in the services provided by the holding company BNH. Other units are for each respective company as applicable to the operation of that company.

Corporate Governance Commitment

Since the issuance of corporate governance code by Ministry of Industry, Commerce and Tourism and Central Bank of Bahrain in 2010 Bahrain National Holding Company has been keen to strengthen the existing governance systems not only through commitment to apply governance system requirements, but also by developing that system in order to be in line with the best applications and practices of governance in all aspects of the Group's operations and responsibilities, where the company sees corporate governance as a system whereby the company's business operations financially and commercially directed and controlled.

The governance organizational structure defines distribution of rights and responsibilities of the various parties involved in the company, such as Shareholders, Board of Directors and its Committees, Executive Management, Managers and other Stakeholders. In addition, it explains the rules and procedures for making decisions to the company and its strategy, in order to find a model that determines the company's objectives and the means that should be followed to achieve these objectives and performance monitoring.

The Structure of Corporate Governance

Governance model applied in Bahrain National Holding Company consists of three tracks as follows:

1. Business units apply group's strategies in dealing with the risks, according to risks identification index.

2. Risk Management System, is responsible for the selection and ongoing monitoring of risks faced by the company in various areas of its business and suggests ways to avoid those risks or mitigate the severity of its impact as much as possible. Risk Management Committee is responsible for the verification of full implementation of this system by the concerned parties in the company.
3. Independent oversight to ensure proper application to rules and standards of governance and risk management, where this responsibility is assigned to the Audit, Compliance and Risks Committee of the Board of Directors.

Developments in 2016

Bahrain National Holding B.S.C.(c)

In line with the issued governance rules by the Regulators, and Group's policies and strategies towards the development of corporate governance system, during 2016 BNH restructured the committees emanating from the Board of Directors by establishing independent committees of both the parent company and its subsidiaries separately as evidenced by the organizational structure shown on the page number 30 of this report.

Central Bank of Bahrain

The group maintained its full commitment to all rules and regulations issued by the Central Bank of Bahrain, without reporting any violations during the year 2016.

The Board

BNH's board of director consists of 10 non-executive members, elected with the approval of the Central Bank of Bahrain in March 2014 for a term of 3 years. Following the election of the directors each one signed a Letter of Appointment, setting out the terms of their tenure, duties and responsibilities, remuneration, attendance fees, code of conduct and confidentiality.

The Board is responsible for the stewardship of the Group's business and affairs on behalf of the shareholders, with a view to enhancing long-term shareholders' value while protecting the rights and interests of other stakeholders; and maintaining high standards of transparency and accountability. The names and profiles of Directors are listed at the front of this annual report.

CORPORATE GOVERNANCE

continued

Directors' Attendance at Board Meetings in 2016

Board Members	25 Feb	11 May	13 Aug	8 Nov	7 Dec
Farooq Yusuf Almoayyed	✓	✓	✓	✓	✓
Abdulhusain Khalil Dewani	✓	✓	✓	✓	✓
Abdulrahman Mohamed Juma	✓	✓	✓	✓	✓
Jehad Yusuf Amin	✓	✓	✓	✓	✓
Sami Mohamed Sharif Zainal	✓	✓	✓	✓	✓
Ayad Saad Khalifa Algosaibi	✓	✓	✓	✓	✓
Ghassan Qasim Mohd Fakhroo	✓	✓	✓	✓	✓
Talal Fuad Kanoo	✓	✓	✓	✓	✓
Ali Hasan Mahmood	✓	✓	✓	✓	✓
Redha Abdulla Faraj	✓	✓	✓	✓	✓

- Mr. Farooq Yusuf Almoayyed is the Chairman of the board.
- The induction and orientation process for the Board of Directors is carried out with the assistance of the Chief Executive and the Board Secretary, by way of continuous meetings and discussions with the Senior Management, and external and internal auditors, in order to increase awareness of current issues and market trends.
- The Board of Directors is required to meet at least four times in a financial year, and Board members must attend at least 75 percent of meetings held during any twelve-month period.
- The remuneration for Directors is determined by the shareholders at the Annual General Meeting.

Board of Directors & Executive Management Interests – January to December 2016

Name of Shareholder	Number of Shares as at 01/01/2016	Number of Shares as at 31/12/2016	Changes
Directors			
Farooq Yusuf Almoayyed (Chairman)	1,234,088	1,234,088	-
Abdulhusain Khalil Dewani (Vice Chairman)	1,244,907	1,244,907	-
Abdulrahman Mohamed Juma	635,996	635,996	-
Jehad Yusuf Abdulla Amin	566,157	566,157	-
Ali Hasan Mahmood	505,601	505,601	-
Ayad Saad Algosaibi	100,000	100,000	-
Sami Mohammed Sharif Zainal	139,876	139,876	-
Talal Fuad Kanoo	144,798	144,798	-
Ghassan Qasim Fakhroo	100,000	100,000	-
Executive Management			
Sameer AlWazzan (CEO)	109,278	109,278	-

Board Committees

Audit, Compliance & Risks Committee (ACRC)

Responsibilities

- Select external auditors and ensure their professional standards.
- Select internal auditors, review and approve internal audit plan. The audit plan includes a review of internal control processes and procedures by the internal auditors.
- Review audited annual, quarterly and half-yearly financial statements, and discuss with the Board and obtain its approval.
- Assist in developing the risk management framework.
- Ensure compliance with all relevant regulatory and legal rules.
- Carry out the instructions of the Board for all investigations.

Directors' Attendance at ACRC Meetings in 2016

Members	18 Feb	27 Apr	11 Aug	2 Nov
Redha Abdulla Faraj	✓	✓	✓	✓
Abdulrahman Mohamed Juma	✓	x	✓	✓
Ayad Saad Khalifa Algosaibi	✓	✓	✓	✓
Ali Hasan Mahmood	✓	✓	✓	✓

- Mr. Redha Abdulla Faraj is the Chairman of the ACRC.
- Mr. Redha Abdulla Faraj and Mr. Ayad Saad Khalifa Algosaibi are independent members.
- The ACRC is required to meet at least four times in a financial year.

Executive & Investment Committee (EIC)

Responsibilities

- Monitor the development of Group strategy in accordance with the 3-year business plan.
- Guide, monitor and coordinate the management and performance of the Group in line with approved strategies, business plan and budget.
- Develop and monitor investment policy as part of the overall business plan.
- Review and recommend business and investment opportunities.
- Assist in maintaining oversight of the financial requirements of the Group.
- Mr. Abdulhusain Dewani is the Chairman of the Executive & Investment Committee (EIC)
- The EIC is required to meet when and as required.
- EIC has been reformed in 2016.

CORPORATE GOVERNANCE

continued

Nomination, Remuneration & Corporate Governance Committee (NRCG)

Responsibilities

- Monitor the establishment of an appropriate Corporate Governance framework.
- Make necessary recommendations to the Board as to changes to the Board and its Committees.
- Assist in designing a succession plan for the Board and Senior Executives.
- Recommend to the Board the remuneration policy and individual remuneration packages for all Senior Executives.
- Evaluate the performance of Board members, Committees and Senior Executives.

Directors' Attendance at NRCG Meetings in 2016

Members	24 Feb	07 Nov
Farooq Yusuf Almoayyed	✓	✓
Abdulhusain Khalil Dewani	✓	✓
Jehad Yusuf Amin	✓	✓
Redha Abdulla Faraj	✓	✓

- Mr. Farooq Yusuf Almoayyed is the Chairman of the NRCG.
- The NRCG is required to meet when and as required.

Management

The Board has delegated the responsibility for the day-to-day management of the Group's Business to the Chief Executive (CE), who is supported by an experienced Senior Management team and a number of Operational Committees. The names and profiles of the CE and Senior Management team are listed at the front of this annual report.

OPERATIONAL COMMITTEES

General Management Committee

Objectives

- Provide a forum by which the ideas and opinions of the Senior Management team are considered in issues relating to Group policy and

strategy, and for exchanging inter-departmental information.

- Provide assurance to the Board that the affairs of the Group are overseen by a team of senior managers.
- Achieve standardization of policies and practices across the Group.
- Exercise such financial authorities as the Board may grant, and achieve dispersion of financial authority.
- Provide a forum by which future general management talent within the Group can be exposed to cross-functional / general managerial issues.
- Ensure that all Board decisions are complied with.
- Inculcate a team culture within the Group.

Membership

- Sameer AlWazzan
Chief Executive – Chairman
- Anand Subramaniam
Chief Financial Officer – Member
- Joseph Rizzo
General Manager (bni) – Member
- Masood Bader
Deputy General Manager, bni – Member
- Sahar Al Ajjawi
General Manager, bnl – Member
- Anantha Ramani
Senior Manager, Finance – Committee Secretary
- Amith Valsan
Internal Auditor – Member
- Bashayer Dhafif
Corporate Communications Manager – Member

- Bayan Jaber
Enterprise Risk Management, Assistant Manager – Member
- Mohammed Al Abbasi
Legal, Compliance and AML Manager – Member
- Mahmood Aladraj
Information Technology Manager – Member
- Rolando Macalanda
Property Manager – Member
- Samia Saleh
Human Capital Manager – Member

- Ensure that all corporate exposures are known and that they are maintained with the acceptable risk tolerance decided. This will also include the monitoring of the Business Continuity Plan and Disaster Recovery.
- Appoint and call members of management to perform and/or report on items under their respective departments on issues concerning the above.
- Monitor investment policy within and according to established mandates.

Risk Management Committee

Objectives

- Set minimum standards for, and continuously monitor, the quality of the Group's reinsurers.
- Set minimum standards for insurers as ceding companies under the Group's inward business.
- Evaluate and set standards for all other business partners, including brokers, agents and other intermediaries, by way of creditworthiness, reputation, ratings, solvency and technical competence.
- Monitor dependency and accumulation thereof.
- Ensure compliance with statutory regulations, prudential rules and market agreements.
- Ensure the completion, implementation, monitoring and review of Enterprise Risk Management including the physical, operational and financial risks involved.

Membership

- Sameer AlWazzan
CE, Committee Chairman
- Joseph Rizzo
General Manager (bni) – Member
- Masood Bader
DGM (bni) – Member
- Anand Subramaniam
Chief Financial Officer - Member
- Anantha Ramani
Senior Manager, Finance
- Bayan Jaber
Assistant Manager- Enterprise Risk Management – Member
- Mohamed Al Abbasi
Legal, Compliance and AML Manager – Member
- Mahmood Aladraj
Information Technology Manager – Member

CORPORATE GOVERNANCE

continued

Human Capital Development Committee

Objectives

- Steer and implement all employee development programs and other HR initiatives.
- Structure such programs to meet agreed objectives in respect of development scope, duration and budget.
- Provide guidance and support to all participants and GMs for implementation and ongoing monitoring of such programs and the agreed deliverables.
- Research and develop appropriate channels for such programs content and quality.
- Periodically review and assess the Group's training and development policies and procedures.
- Support the Group's recruitment policy through interviews and assessment of potential employees.

Membership

- Sameer AlWazzan
Chief Executive – Chairman
- Anand Subramaniam
Chief Financial Officer – Member
- Joseph Rizzo
General Manager (bni) – Member
- Masood Bader
Deputy General Manager, (bni) - Member
- Sahar Al Ajjawi
General Manager (bni)
- Samia Saleh
Human Capital Manager – Member

Compliance Responsibility

Responsibility for ensuring the Group's compliance with the rules, regulations and guidelines of the Central Bank of Bahrain resides with the Legal, Compliance and AML Manager, who also acts as the Money Laundering Reporting Officer (MLRO). He is responsible for managing the Group's dedicated Legal and Compliance Unit which is directly responsible for all compliance issues.

Transparency & Efficiency

In developing its Corporate Governance process guiding principles, the Group aims to maximize transparency and efficiency of the whole process for the benefit of all stakeholders, particularly in the areas of insider/ Key person trading, anti-money laundering, information security and the sound management of financial assets.

Policies & Procedures

During 2016, BNH continued to regularly review and update all key policy and procedures manuals, covering critical operational areas in the Group's insurance subsidiaries and across all functions of the organization.

Directors & Officers (D&O) Liability Insurance

The Group is insured under a Directors & Officers Insurance Policy. The adequacy of the cover is measured in terms of size of the assets and future growth expectations of the Group. No claims have been reported during the last 10 years.

Anti-Money Laundering (AML)

The Group has in place policies and procedures to handle all aspects of anti-money laundering activities in line with regulations of the Central Bank of Bahrain. Yearly, the Group conducts a thorough review of its policies, procedures, internal directives in addition to arranging specialized courses to ensure ongoing compliance. The Group has submitted its external auditors report for the year 2015 in accordance with the requirement of the Central Bank of Bahrain.

Whistle Blowing Policy

In its commitment to the highest standard of good governance practice, the Group has in place a whistle blowing policy designed to enable all employees to raise any serious internal behavior with high level of confidentiality. The policy explains procedures that the staff may follow for reporting any misconduct or irregularities to the concerned officials without fear from any adverse consequences. The policy is accessible to all staff members and disclosed on the company's intranet.

Key Persons Trading

The Group's compliance with the latest Key Persons Trading regulations of the Central Bank of Bahrain is supervised by the Audit, Compliance & Risks Committee which reports to the Board of Directors. The Group has submitted its internal audit report for the year 2016 in accordance with the requirement of the Central Bank of Bahrain.

Code of Conduct

The Group has developed a Code of Business Ethics that governs the behavior and working practices of the Directors, Management and Staff. The compliance with the code of Business Ethics by the staff is monitored by the Human Capital Department; while Board members collectively or individually monitor compliance.

Penalties

The Group did not pay any financial penalties to the Central Bank of Bahrain during the year.

Communications

The Group is committed to communicating effectively with all its stakeholders – both internal and external – in a timely, transparent and professional manner. The Group's main communications channels include the annual general meeting, quarterly/annual report, consolidated financial statements, corporate brochure, corporate website, Group intranet, press releases, and announcements in the local and regional media.

Corporate Secretary

In accordance with the Corporate Governance Code, Kingdom of Bahrain principles, the Group has a separate section dealing with The Group corporate secretariat function resides with the Group corporate secretary who is responsible for ensuring the integrity of the governance framework, being responsible for the efficient administration of the company, ensuring compliance with statutory and regulatory requirements and implementing decisions made by the Board of Directors.

The group maintained its support to the Chair in ensuring the smooth functioning of the Management Committees by ensuring that meetings are properly called and organized, and that minutes are accurately recorded.



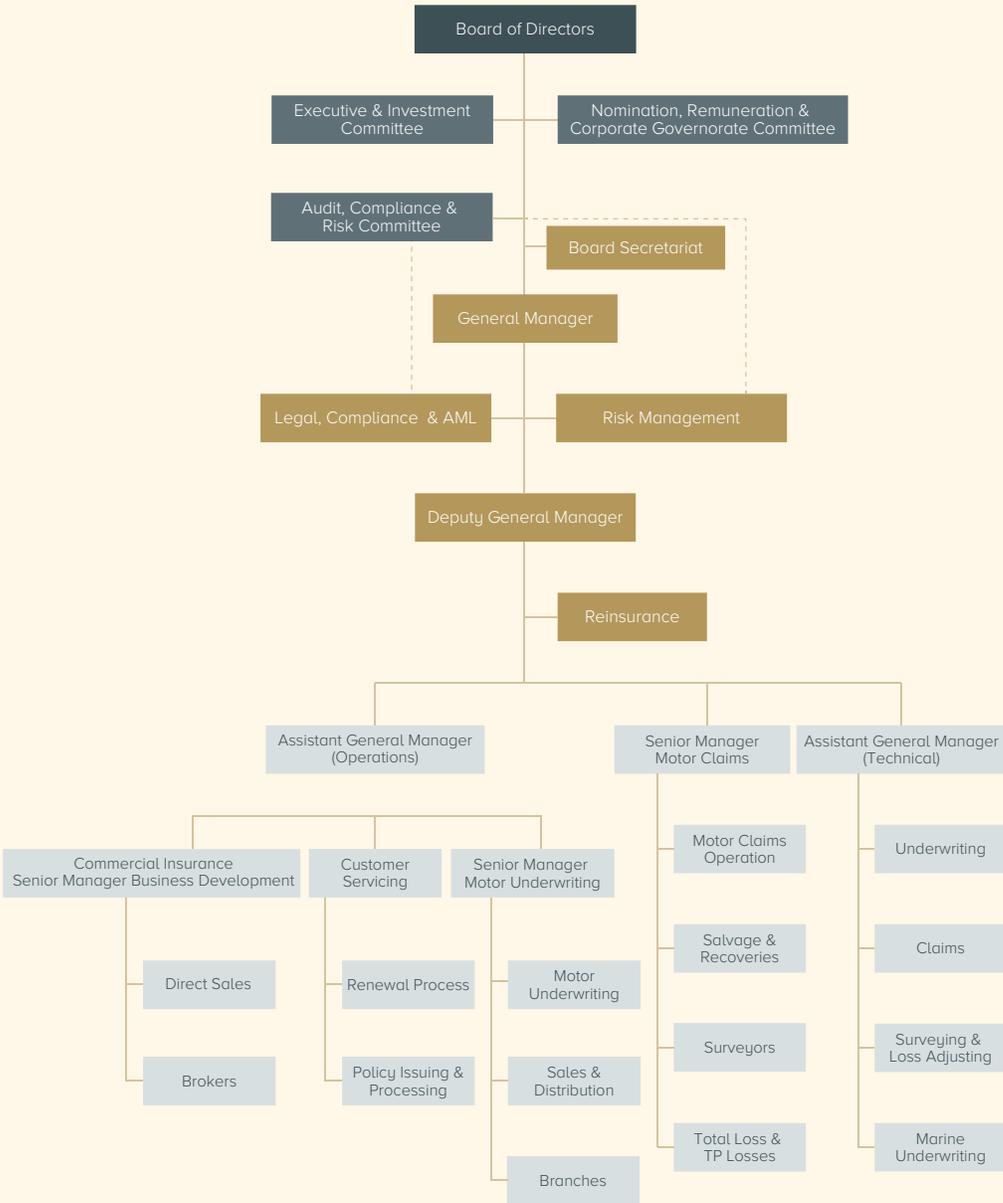
THE VOYAGE OF DISCOVERY IN
THE FUTURE IS IN HAVING KEEN
EYES FOR OBSERVING AND
LEARNING FROM THE PAST...

INSIGHT AND EXPERTISE



ORGANISATIONAL CHART

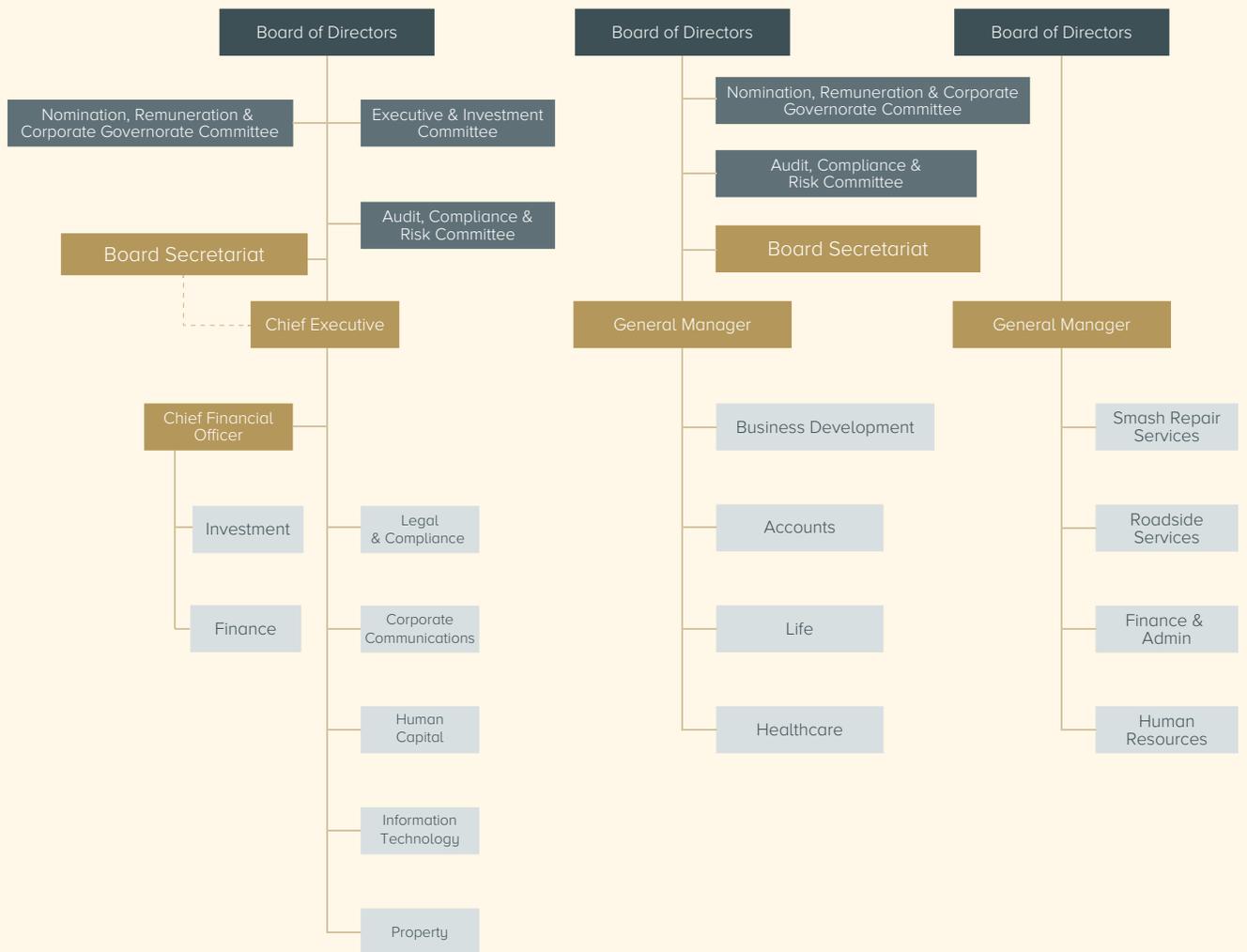
Bahrain National Insurance



Bahrain National Holding

Bahrain National Life Assurance

iAssist Middle East



CORPORATE SOCIAL RESPONSIBILITY

Charities:

- Distributed supermarket Vouchers for needy families in Ramadhan
- Supported Batelco Care Center For Family Violence Cases
- Donation to support Chinmaya Society
- Donation to Sacred Heart Catholic Church towards the expansion of the church
- Donation to Al Amin Charity Society
- Supported Art of Life Society Dar Project, which aims to restore & rebuild ramshackle houses

Awareness Campaigns:

- Supported Bahrain Insurance Association Insurance Awareness campaign which aims to raise awareness on all insurance products and services among the public
- Donated Motorcycle Helmets to the Traffic Directorate as part of their safety on the roads awareness campaign
- Created an awareness video with social media influencer Imran Al Aradi on safety while driving

Health:

- Supported the Bahrain Cancer Society Annual Walkathon
- Supported the breast cancer Think Pink initiative
- Donated Hearing Aids to the Bahrain Deaf Society
- Donated wheelchairs to the Bahrain Association for Parents and Friends of Disabled

Education:

- Gave out school stationery for children with cancer patients as part of a back to school initiative by Future Society for Youth
- Supported Bahrain Arts "MOSAIC" by Dr. Ali Follad

Sports:

- Supported Against the Clock (ATC) fund raising charity event organised by Salmaniya Rotary Club
- Silver sponsors of Rotary Club of Salmaniya 37th Raft Race 2016
- Sponsored the Rotary Club Manama's 6-A-Side Football Tournament

Insurance for societies:

- Covered the insurance of the Children and Mothers Welfare society vehicles
- Covered the insurance of the UCO Parent Care Center vehicles
- Covered the insurance of the Bahrain Down Syndrome Society vehicles

Staff Activities:

- Organised a blood donation drive for staff and customers
- Entered a BNH team in the Bahrain Marathon Relay, a major annual fund raising event that supports charity organisations in the Kingdom
- Registered all staff for the Bahrain Cancer Society Annual Walkathon
- Engaged staff in internal activities to promote health awareness including breast cancer, Movember - prostate cancer, diabetes and more
- Encouraged staff to recycle waste, conserve energy and reduce the use of paper

CONTACTS

BNH Contacts

P.O. Box 843, 9th Floor, BNH Tower
Seef Business District,
Kingdom of Bahrain
Tel: 17 587300
Fax: 17 583099
Website: www.bnhgroup.com

bni Contacts

P.O. Box 843, BNH Tower
Seef Business District,
Kingdom of Bahrain
Call Centre: 8000 8288
Fax: 17 583477, 17 583299
Website: www.bnidirect.com

bni's branches and outlets:

Head office

BNH Tower,
Seef Business District

Sanad branch

bni Complex, 2nd Floor,
Road 4571, Block 745, Sanad

Manama branch

Ground Floor, City Centre 203,
Government Avenue, Manama

bnl Contacts

P.O. Box 843, BNH Tower
Seef Business District,
Kingdom of Bahrain
Tel: 17 587333
Fax: 17 583277
Website: www.bnl4life.com

Muharraq branch

Promoseven Holding Building
Shop. 2, Ground Floor
Road 1531, Block 215, Muharraq

Budaiya branch

Najibi Centre,
Shop No. 3, Building No.3
Saar

Hamad Town branch

Shop No. 255,
Road No. 305, Block 1203,
Hamad Town

iAssit ME Contacts

P.O. Box 80540,
Block 704, Road 426, Building 1402
Salmabad, Bahrain
Road Assist: 8000 1255
Tel: 17 112380
Fax: 17 112398
www.iassist-me.com

Sitra branch

Building No. 946,
Road No. 115, Block 601, Sitra

Isa Town branch

Isa Town Mall, Shop No. 16,
Isa Town

Zinj branch

Manama Plaza
Shop No. 61P, Building No. 63
Manama

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS



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The Bahrain National Holding Company BSC

P.O. Box 843, 9th floor, BNH Tower,
Seef Business District, Kingdom of Bahrain

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Bahrain National Holding Company B.S.C. (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Technical insurance provisions

(refer to the use of estimate and management judgment in note 2(h), accounting policy in note 2(f)(ii) & 2(f)(iii) and Note 13 to the consolidated financial statements.

Description

We focused on this matter because:

- The Group has significant insurance provisions (representing 62.9% of total liabilities) relating to outstanding claims, claims that have been incurred at reporting date but have not yet been reported to the Group, and unearned premiums; and
- The valuation of outstanding claims and other insurance provisions is a key judgment area due to the level of subjectivity inherent in estimating the impact of claims, in particular claims that have been incurred at reporting date but have not yet been reported to the Group.

How the matter was addressed in our audit

Our audit procedures included:

- testing the design and operating effectiveness of the key controls around recording and reserving process for reported claims, unreported claims and unearned premium;
 - testing a sample of outstanding claims and related reinsurance recoveries and subrogation claims, focusing on those with most significant impact on the financial statements to assess whether claims and related recoveries are appropriately estimated;
 - assessing and challenging the key reserving assumptions including loss ratios, frequency and severity of claims, and reasonableness of estimate made by the Group. We also evaluated whether reserving was consistent in approach, with sufficient justification for changes in assumptions. We used our industry knowledge to benchmark the Group's reserving methodologies and estimates of losses. Our audit focused on lines of business with most inherent uncertainty. Furthermore, we were assisted by our own actuarial specialists to understand and evaluate Group's actuarial practice and provisions established. We also considered the work and findings of external independent actuarial experts engaged by the Group to corroborate our own findings; and
 - assessing the adequacy of the Group's disclosures related to technical insurance provisions in the consolidated financial statements by reference to the requirements of the relevant accounting standards.
-

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

continued

Valuation and Impairment of available for sale financial investments

(refer to the use of estimate and management judgement in note 2(h)(iii), accounting policy in note 2(f)(xii) and Note 5 to the consolidated financial statements)

Description	How the matter was addressed in our audit
<p>We focused on this matter because:</p> <ul style="list-style-type: none">▪ Financial investments comprise 31.6% of total assets in the consolidated financial statements and is considered one of the drivers of operations and performance. We don't consider these investments to be at high risk of significant misstatement, or to be subject to a significant risk of judgment because they mainly comprise liquid, quoted investments. However due to their materiality in the context of the financial statements as a whole, they are considered to be one of the areas which we focused on;▪ Of the total financial investment, a significant amount (representing 76.1% of total financial investments) comprise "available-for-sale securities" having carrying value of BD 20.1 million;▪ These available for sale securities comprise of 49% quoted equity securities and quoted managed funds, 31.4% quoted government bonds and corporate bonds (debt securities) and 18.8% unlisted funds, carried at fair value, the measurement of which requires use of estimates and judgments; and▪ The Group makes subjective judgments over both timing of recognition of impairment and the estimation of the amount of such impairment.	<p>We understood and tested key controls and focused on:</p> <ul style="list-style-type: none">▪ documenting and assessing the processes in place to record investment transactions and to value the quoted investment portfolio;▪ agreeing the valuation of the quoted equity and debt securities and managed funds to externally quoted prices; and▪ for unlisted managed funds, the appropriateness of the valuation methodology selected and compared key underlying financial data inputs to external sources. <p>For impairment of available-for-sale equity securities and managed funds, we:</p> <ul style="list-style-type: none">▪ examined whether management has identified all investments that have experienced a decline in fair value below cost; and▪ evaluated the reasonableness and consistency of the application of the criteria to determine that a significant or prolonged decline in fair value below cost has led to recognition of impairment. <p>For impairment of available for sale debt securities, we:</p> <ul style="list-style-type: none">▪ evaluated individual debt security for any signs of significant financial difficulty of the issuer;▪ assessed if there has been a default or past due event; and▪ assessed if there had been a significant drop in fair value. <p>We also assessed the adequacy of the Group's disclosures in relation to valuation and impairment of available-for-sale financial investments by reference to the requirements of the relevant accounting standards.</p>

Impairment of insurance receivables and recoveries

(refer to the use of estimate and management judgement in note 2(h)(iii), accounting policy in note 2(f)(vii) & 2(f)(xii) and Note 4 to the consolidated financial statements.

Description	How the matter was addressed in our audit
<p>We focused on this matter because:</p> <ul style="list-style-type: none">▪ The Group has significant insurance receivables from policy holders and other insurance companies and recoverable amounts from reinsurance companies. The Group faces a risk of non-recoverability of these receivables due to financial difficulties of the counter parties;▪ Estimation of the recoverable amount and determining the level of impairment allowance involves judgment and estimation uncertainty; and▪ The Group makes subjective judgments over both timing of recognition of impairment and the estimation of the amount of such impairment.	<p>Our audit procedures included:</p> <ul style="list-style-type: none">▪ testing the design and operating effectiveness of controls over the process of collection and identification of doubtful balances;▪ focusing on those accounts with the most significant potential impact on the consolidated financial statements, reconciliation of statement of accounts and receipts subsequent to the year-end; and▪ evaluating the adequacy of the Group's disclosures related to insurance receivables and impairment allowance in the consolidated financial statements by reference to the requirements of the relevant accounting standards.

Other information

The board of directors is responsible for the other information. The other information comprises the annual report but does not include the consolidated financial statements and our auditor's report thereon. Prior to the date of this auditors' report, we obtained the Chairman's report and the remaining sections of the annual report are expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

continued

Responsibilities of the board of directors for the consolidated financial statements

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Conclude on the appropriateness of the board of director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended 31 December 2016 and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by the Bahrain Commercial Companies Law, we report that:

- a) the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- b) the financial information contained in the chairman's report is consistent with the consolidated financial statements;
- c) we are not aware of any violations during the year of the Bahrain Commercial Companies Law or the terms of the Company's memorandum and articles of association that would have had a material adverse effect on the business of the Company or on its financial position; and
- d) satisfactory explanations and information have been provided to us by management in response to all our requests.

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

KPMG Fakhro
Partner Registration No. 137
21 February 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

In thousands of Bahraini Dinars

	Note	2016	2015
ASSETS			
Cash and cash equivalents	3	5,048	3,965
Placements with banks	3	8,996	6,973
Insurance and other receivables	4	9,185	7,930
Financial investments	5	26,379	29,865
Equity accounted investees	6	15,670	13,806
Reinsurers' share of insurance technical reserves	7	10,523	12,537
Deferred acquisition cost	24	628	610
Investment properties	9	3,099	3,261
Intangible assets	10	282	319
Property and equipment	11	3,429	3,631
Statutory deposits	12	125	125
Total assets		83,364	83,022
LIABILITIES			
Insurance technical reserves	13	24,522	26,772
Insurance payables	17	3,492	2,792
Borrowings		-	202
Other liabilities	18	6,272	5,536
Total liabilities		34,286	35,302
Total net assets		49,078	47,720
EQUITY			
Share capital	20	11,350	11,350
Treasury shares	20 c	(1,868)	(1,868)
Share premium	20 g	3,990	3,990
Statutory reserve	21 a	5,675	5,675
General reserve	21 b	13,585	13,585
Investment fair value reserve	21 c	2,263	2,543
Retained earnings		11,854	10,169
Equity attributable to shareholders of the parent company		46,849	45,444
Non-controlling interest	8	2,229	2,276
Total equity		49,078	47,720

The Board of Directors approved the consolidated financial statements consisting of pages 50 to 114 on 21 February 2017.

Farooq Yusuf Almoayyed
Chairman

Abdulhusain Khalil Dewani
Vice Chairman

Sameer AlWazzan
Chief Executive

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

In thousands of Bahraini Dinars

	Note	2016	2015
Gross insurance premiums	23	28,401	28,401
Reinsurers' share of gross insurance premiums		(12,449)	(12,958)
Retained premiums		15,952	15,443
Net change in reserve for unearned premiums		(314)	(617)
Net premiums earned		15,638	14,826
Gross claims paid		(21,624)	(22,925)
Claims recoveries		11,608	13,580
Outstanding claims adjustment - gross	14 d	1,992	4,947
Outstanding claims adjustment - reinsurance	14 d	(2,230)	(4,061)
Net claims incurred		(10,254)	(8,459)
Gross underwriting profit		5,384	6,367
Life assurance actuarial reserve (charge)/release	16	(4)	98
Net commission and fee income/(expense)	24	605	(7)
General and administration expenses	26 a	(4,080)	(4,093)
Net underwriting profit		1,905	2,365
Net investment income	25	1,628	2,046
Share of profit of equity accounted investees	6	2,108	1,549
Corporate expenses	26 b	(1,732)	(1,756)
Profit for the year		3,909	4,204
Profit attributable to:			
Parent company		3,880	4,049
Non-controlling interest	8	29	155
		3,909	4,204
Basic earnings per share (100 fils per share)	20 e	36.2 fils	37.8 fils

The Board of Directors approved the consolidated financial statements consisting of pages 50 to 114 on 21 February 2017.

Farooq Yusuf Almoayyed
Chairman

Abdulhusain Khalil Dewani
Vice Chairman

Sameer AlWazzan
Chief Executive

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

As at 31 December 2016

In thousands of Bahraini Dinars

	Note	2016	2015
Profit for the year		3,909	4,204
Other comprehensive income / (loss):			
Items that may be reclassified to profit or loss:			
Available-for-sale securities:			
- Change in fair value during the year		129	(490)
- Transfer to statement of profit or loss on impairment of securities		132	111
- Transfer to statement of profit or loss on disposal of securities		(585)	(1,364)
Share of other comprehensive income of equity accounted investees		65	(269)
Other comprehensive loss for the year		(259)	(2,012)
Total comprehensive income for the year		3,650	2,192
Total comprehensive income attributable to:			
Parent company		3,600	2,080
Non-controlling interest	8	50	112
		3,650	2,192

The consolidated financial statements consist of pages 50 to 114.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

In thousands of Bahraini Dinars

2016	Attributable to the owners of the parent company								Non-controlling Interest	Total Equity
	Share capital	Treasury shares	Statutory reserve	Share premium	General reserve	Fair value reserve	Retained earnings	Total		
Balance at 1 January 2016	11,350	(1,868)	5,675	3,990	13,585	2,543	10,169	45,444	2,276	47,720
Profit for the year	-	-	-	-	-	-	3,880	3,880	29	3,909
Other comprehensive loss for the year	-	-	-	-	-	(280)	-	(280)	21	(259)
Total comprehensive income for the year	-	-	-	-	-	(280)	3,880	3,600	50	3,650
Dividends declared for 2015	-	-	-	-	-	-	(2,145)	(2,145)	(97)	(2,242)
Donations declared for 2015	-	-	-	-	-	-	(50)	(50)	-	(50)
Appropriations approved by shareholders	-	-	-	-	-	-	(2,195)	(2,195)	(97)	(2,292)
Balance at 31 December 2016	11,350	(1,868)	5,675	3,990	13,585	2,263	11,854	46,849	2,229	49,078

2015	Attributable to the owners of the parent company								Non-controlling Interest	Total Equity
	Share capital	Treasury shares	Statutory reserve	Share premium	General reserve	Fair value reserve	Retained earnings	Total		
Balance at 1 January 2015	11,350	(1,868)	5,675	3,990	13,585	4,512	8,315	45,559	2,284	47,843
Profit for the year	-	-	-	-	-	-	4,049	4,049	155	4,204
Other comprehensive loss for the year	-	-	-	-	-	(1,969)	-	(1,969)	(43)	(2,012)
Total comprehensive income for the year	-	-	-	-	-	(1,969)	4,049	2,080	112	2,192
Dividends declared for 2014	-	-	-	-	-	-	(2,145)	(2,145)	(120)	(2,265)
Donations declared for 2014	-	-	-	-	-	-	(50)	(50)	-	(50)
Appropriations approved by shareholders	-	-	-	-	-	-	(2,195)	(2,195)	(120)	(2,315)
Balance at 31 December 2015	11,350	(1,868)	5,675	3,990	13,585	2,543	10,169	45,444	2,276	47,720

The consolidated financial statements consist of pages 50 to 114.

CONSOLIDATED STATEMENT OF CASH FLOWS

As at 31 December 2016

In thousands of Bahraini Dinars

	Note	2016	2015
OPERATING ACTIVITIES			
Insurance operations			
Premiums received net of acquisition costs		28,188	28,712
Payments to insurance and reinsurance companies		(11,717)	(13,368)
Claims paid to policyholders		(21,556)	(23,080)
Claims recovered from reinsurers and salvage recoveries		10,880	13,678
Cash flows from insurance operations		5,795	5,942
Investment operations			
Dividends and interest received		1,176	1,357
Proceeds from sale and redemptions of financial investments		12,960	16,850
Payments for purchases of financial investments		(9,242)	(13,985)
Bank deposits with maturities of more than three months		(9,121)	(6,973)
Redemption proceeds from bank deposits		7,098	3,846
Acquisition of subsidiary, net of cash acquired		-	(479)
Payments for investment in equity accounted investees		(160)	(328)
Proceeds from sale of investment in equity accounted investees		-	126
Dividends received from equity accounted investees		469	685
Rent received		248	172
Cash flows from investment operations		3,428	1,271
Expenses paid		(5,570)	(5,369)
Cash flows from operating activities		3,653	1,844
INVESTMENT ACTIVITIES			
Purchase of property, equipment and intangible assets		(265)	(309)
Cash flows used in investment activities		(265)	(309)
FINANCING ACTIVITIES			
Proceeds from bank borrowings		-	47
Repayment of bank borrowings		(191)	(713)
Finance costs paid		(13)	(27)
Dividends paid to non-controlling interest		(97)	(120)
Dividends paid to shareholders		(1,975)	(2,094)
Donations paid		(29)	(33)
Cash flows used in financing activities		(2,305)	(2,940)
Total net cash flows during the year		1,083	(1,405)
Cash and cash equivalents at 1 January		3,965	5,370
Cash and cash equivalents at 31 December	3	5,048	3,965

The consolidated financial statements consist of pages 50 to 114.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

In thousands of Bahraini Dinars

1 STATUS AND OPERATIONS

The Bahrain National Holding Company BSC (the “Company”) was incorporated in 1998, as a Bahraini public shareholding company, by Charter of His Highness the Amir of the Kingdom of Bahrain to transact various types of investment business. The Company was listed on the Bahrain Bourse on 3 January 1999.

2 SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and Bahrain Commercial Companies Law 2001. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

b) Basis of preparation

The consolidated financial statements have been drawn up from the accounting records of the Company and its subsidiaries under the historical cost convention, except for securities carried at fair value through profit or loss and available-for-sale securities, which are stated at their fair values.

The preparation of financial statements in conformity with IFRS 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. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 2 h.

c) New standards, amendments and interpretations effective from 1 January 2016

The following standards, amendments and interpretations, which became effective as of 1 January 2016, are relevant to the Group:

(i) *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).*

The amendments to IAS 16 prohibits entities from using a revenue based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted if the intangible asset is expressed as a measure of revenue or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Early adoption is permitted.

The adoption of this amendment had no significant impact on the consolidated financial statements.

(ii) *Annual Improvements to IFRSs 2012–2014 Cycle – various standards.*

The annual improvements to IFRSs to 2012-2014 cycles include a number of amendments to various IFRSs. Most amendments will apply prospectively for annual periods beginning on or after 1 January 2016; earlier application is permitted (along with the special transitional requirement in each case), in which case the related consequential amendments to other IFRSs would also apply.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 *continued*

In thousands of Bahraini Dinars

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

The adoption of these amendments had no significant impact on the consolidated financial statements.

The following are the key amendments in brief:

- IFRS 5 – when an asset (or disposal group) is reclassified from ‘held for sale’ to ‘held for distribution’ or vice versa, this does not constitute a change to a plan of sale or distribution and does not have to be accounted for as such
- IFRS 7 – specific guidance for transferred financial assets to help management determine whether the terms of a servicing arrangement constitute ‘continuing involvement’ and, therefore, whether the asset qualifies for derecognition
- IFRS 7 – that the additional disclosures relating to the offsetting of financial assets and financial liabilities only need to be included in interim reports if required by IAS 34
- IAS 19 – that when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important and not the country where they arise
- IAS 34 – what is meant by the reference in the standard to ‘information disclosed elsewhere in the interim financial report’ and adds a requirement to cross-reference from the interim financial statements to the location of that information.

(iii) *Disclosure Initiative (Amendments to IAS 1).*

The amendments to IAS 1 Presentation of Financial Statements are made in the context of the IASB’s Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments provide clarifications on a number of issues, including:

- Materiality – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.
- Disaggregation and subtotals – line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity’s financial position or performance. There is also new guidance on the use of subtotals.
- Notes – confirmation that the notes do not need to be presented in a particular order.
- OCI arising from investments accounted for under the equity method – the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.

According to the transitional provisions, the disclosures in IAS 8 regarding the adoption of new standards/accounting policies are not required for these amendments.

The adoption of this amendment had no significant impact on the consolidated financial statements.

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

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2016 and earlier application is permitted; however, the Group has not early applied the following new or amended standards in preparing these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

In thousands of Bahraini Dinars

2 SIGNIFICANT ACCOUNTING POLICIES continued

(i) *Disclosure Initiative (Amendments to IAS 7)*

The amendments require disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

To satisfy the new disclosure requirements, the Group intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

The Group has not early adopted Disclosure Initiative (Amendments to IAS 7) in its consolidated financial statements for the year ended 31 December 2016.

(ii) *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group is currently performing an initial assessment of the potential impact of the adoption of IFRS 15 on its consolidated financial statements.

(iii) *IFRS 9 Financial Instruments*

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

In September 2016, the IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the upcoming new insurance contracts standard (IFRS 17).

The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2021 at the latest. An entity may apply the temporary exemption from IFRS 9 if: (i) it has not previously applied any version of IFRS 9 before and (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016. The overlay approach allows an entity applying IFRS 9 to reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for the designated financial assets being the same as if an entity had applied IAS 39 to these designated financial assets.

An entity can apply the temporary exemption from IFRS 9 for annual periods beginning on or after 1 January 2018. An entity may start applying the overlay approach when it applies IFRS 9 for the first time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

In thousands of Bahraini Dinars

2 SIGNIFICANT ACCOUNTING POLICIES continued

The Group has performed an assessment of the amendments and as the activities of the Group are predominantly connected with insurance, the Group has opted to apply the temporary exemption in its reporting period starting on 1 January 2018.

(iv) IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard- i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

The Group is currently performing an initial assessment of the potential impact of the adoption of IFRS 15 on its consolidated financial statements.

(v) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

The IASB has made limited scope amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures.

The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations).

Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's investors in the associate or joint venture.

The effective date for these changes has now been postponed until the completion of a broader review – which the IASB hopes will result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

The Group does not expect to have a significant impact on its consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

In thousands of Bahraini Dinars

2 SIGNIFICANT ACCOUNTING POLICIES continued

e) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group 'controls' an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

(ii) Non-controlling interest (NCI)

Non-controlling interest represent their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as an equity transaction.

(iii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in the statement of profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iv) Interest in equity-accounted investee

The Group's interests in equity-accounted investees comprise interests in associates and a joint venture.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint venture are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity accounted investees, until the date on which significant influence or joint control ceases.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

In thousands of Bahraini Dinars

2 SIGNIFICANT ACCOUNTING POLICIES continued

f) Basis of accounting

(i) *Insurance and investment contracts*

The Group issues contracts that transfer insurance risk or financial risk or both. The Group classifies all its contracts individually as either insurance contracts or investment contracts. Contracts which contain both insurance components and investment components, and where the investment component can be measured independently from the insurance component, are “unbundled” i.e. separately classified and accounted for as insurance contracts and investment contracts.

Investment contracts have been accounted for and recognized in accordance with IAS 39 – Financial Instruments: Recognition and Measurement and Insurance Contracts has been accounted for and recognized in accordance with IFRS 4 – Insurance Contracts.

Insurance contracts are those contracts where the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. Such contracts may also transfer financial risk. 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.

(ii) *General insurance business*

Gross insurance premiums

Gross insurance premiums in respect of annual policies are credited at policy inception. In respect of policies with a term of more than one year, the premiums are spread over the tenure of the policies on a straight-line basis, the unexpired portion of such premiums being included under “insurance technical reserves” in the statement of financial position.

Reinsurers’ share of gross insurance premiums

Reinsurance ceded, in respect of proportional reinsurance transactions, is matched with the premiums received. Non-proportional reinsurance cost is accounted for when incurred.

Unearned premiums

Unearned premiums are estimated amounts of premiums under insurance contracts which are to be earned in the following or subsequent financial periods, for the unexpired period of insurance as at the reporting date. Unearned premiums have been calculated on gross premiums 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, in order to spread the contributions earned over the tenure of the insurance contracts.

Claims settled

Claims settled in the year are charged to the statement of profit or loss net of reinsurance, salvage and other recoveries. At the reporting date, provision is made for all outstanding claims including claims incurred but not reported (IBNR).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

In thousands of Bahraini Dinars

2 SIGNIFICANT ACCOUNTING POLICIES continued

Outstanding claims

For general insurance contracts, estimates have to be made for both the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not reported (IBNR) at the reporting date.

Provision for outstanding claims are based on estimates of the loss, which will eventually be payable on each unpaid claim, established by management in the light of current available information and past experience and modified for changes reflected in current conditions, increased exposure, rising claims costs and the severity and frequency of recent claims, as appropriate.

The IBNR provision is based on statistical information related to actual past experience of claims incurred but not reported. The IBNR provision also includes a further amount, subject to annual review by management, to meet certain contingencies such as:

- unexpected and unfavorable court judgments which may require a higher payout than originally estimated; and
- settlement of claims, which may take longer than expected, resulting in actual payouts being higher than estimated.

General insurance provisions are not discounted for time value of money, due to the expected short duration to settlement.

Commission income

Commission income represents commissions received from reinsurers under the terms of ceding and is net of acquisition costs paid. Commission income is matched with premiums earned resulting in an element of unearned commission being carried forward at the reporting date.

Deferred commission and acquisition costs

Commission expense and other acquisition costs incurred during the financial period that vary with and are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relate to subsequent financial periods are deferred to the extent that they are recoverable out of the future revenue margins. Deferred acquisition costs (DAC) are capitalized and amortized on a straight line basis over the life of the contract. All other acquisition costs are recognized as an expense when incurred. Deferred acquisition costs are shown net of deferred commission income in the statement of financial position.

Salvage and subrogation reimbursements

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

General and administration expenses

General and administration expenses include direct operating expenses. All expenses are charged to the statement of profit or loss in the year in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

In thousands of Bahraini Dinars

2 SIGNIFICANT ACCOUNTING POLICIES continued

(iii) Life assurance business

The life assurance operations underwrites two categories of policies:

- Term life assurance including group term assurance which are of short duration, normally for periods of 12 months; and
- Participating (with profits) policies whereby the assured is entitled to a share of the profits from a pool of investments, such share being distributed at the discretion of Bahrain National Life Assurance Company.

Gross insurance premiums

Gross insurance premiums from life assurance business are recognized when due, except for single premiums received on certain long-term policies; such single premiums are spread over the tenures of the policies on a straight-line basis. Single premiums are those relating to policies issued by the Group where there is a contractual obligation for the payment of only one premium.

Reinsurers' share of gross insurance premiums

Reinsurance, in respect of proportional reinsurance transactions, is matched with the premiums received. Non-proportional reinsurance cost is accounted for when incurred.

Claims

Claims arising on maturity are recognized when the claim becomes due for payment under the policy terms. Death claims and surrenders under participating contracts are accounted for on the date of notification. Annuity payments are recorded when due.

Bonuses

Bonuses to policyholders on profit-linked insurance contracts are recognised when declared by the Group.

Outstanding claims

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

Life assurance actuarial reserve

The life assurance actuarial reserve represents the present value of the future benefit obligations in respect of policies in force at the reporting date. The life assurance actuarial reserve is credited by the net investment income arising out of the investments made by the Company on behalf of the life assurance policyholders. At the reporting date, the net value of the life assurance actuarial reserve is adjusted to a minimum of the actuarially estimated current value of future benefit obligations under the Group's policies in force at the reporting date. The shortfall, if any, is charged to the statement of profit or loss.

Surpluses, if any, are released to the statement of profit or loss at the discretion of the Board of Directors. The surplus represents amounts arising out of participating contracts, the allocation of which has not been determined at the reporting date and future allocations of which are at the discretion of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

In thousands of Bahraini Dinars

2 SIGNIFICANT ACCOUNTING POLICIES continued

Fee and commission income

Fee and commission income from insurance and investment contract policyholders are charged for policy administration and investment management services. The fee is recognized as revenue in the period in which it is received unless it relates to services to be provided in future periods where these are deferred and recognised in the statement of profit or loss as the service is provided over the term of the contract.

(iv) Liability adequacy test

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the insurance liabilities, net of related deferred acquisition costs using current estimates of future cash flows under insurance contracts. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used.

Any deficiency is immediately charged to the statement of profit or loss by establishing a provision for losses arising from liability adequacy tests.

(v) Reinsurance contracts

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts in Note 2 (f)(i) are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts. The benefits to which the Group is entitled under its reinsurance contracts held are recognized as reinsurance assets.

These assets consists of balances due from reinsurers on settlement of claims and other receivables such as profit commissions and reinsurers share of outstanding claims that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are recognized consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense when due.

The Group assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in the statement of profit or loss. Objective evidence for impairment is assessed as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not be able to receive all the amounts due under the terms of the contract and that the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

(vi) Financial assets and financial liabilities

Classification

Investments carried at fair value through profit or loss are financial assets that are held for trading.

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

In thousands of Bahraini Dinars

2 SIGNIFICANT ACCOUNTING POLICIES continued

Available-for-sale investments are financial assets that are not investments carried at fair value through profit or loss or held-to-maturity or loans and receivables. These include investments in quoted and unquoted equity securities.

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are stated at amortised cost, adjusted for changes in fair value under any effective hedging arrangement, less provision for impairment.

Recognition and de-recognition

Investment securities are initially recognised at fair value, plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments carried at fair value through profit or loss is initially recognised at fair value, and transaction cost are expensed in the profit or loss. Investments are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

Measurement

Investment securities are measured initially at fair value, which is the value of the consideration given, including transaction costs. Subsequent to initial recognition, investments at fair value through profit or loss and available-for-sale investments are re-measured to fair value. Held-to-maturity investments and loans and advances are measured at amortised cost less any impairment allowances. Available-for-sale investments which do not have a quoted market price or other appropriate methods from which to derive reliable fair values, are stated at cost less impairment allowances.

Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of investments carried at fair value through profit or loss are recognised in the statement of profit or loss in the period in which they arise. Gains and losses arising from a change in the fair value of available-for-sale investments are recognised in a separate fair value reserve in other comprehensive income and when the investments are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the fair value reserve is transferred to the income statement. Gains or losses arising from re-measurement, at amortised cost, of held-to-maturity securities at each reporting date are transferred to investment income.

Fair value basis

In respect of quoted equities and bonds, the fair value is the closing market price of the security at the reporting date. In the absence of active markets or other appropriate methods from which to derive reliable fair values, the unquoted securities are stated at cost, less impairment allowance. In respect of private equity funds, the fair value is provided by the fund manager. The fair value of closed-ended managed funds, which are traded on securities exchanges, is the closing market price of the fund at the reporting date.

Gains or losses on disposal of investments

Gains or losses on disposal of investments are included under investment income. In the event of disposal, collection or impairment of available-for-sale securities, the cumulative gains and losses recognised in other comprehensive income are transferred to the statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

In thousands of Bahraini Dinars

2 SIGNIFICANT ACCOUNTING POLICIES continued

(vii) *Receivables*

Receivables are initially measured at invoiced amount, being the fair value of the policyholder, insurance companies and reinsurance companies receivables and subsequently carried at amortised cost less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

(viii) *Cash and cash equivalent*

For the purpose of statement of cash flows, cash and cash equivalents comprise cash in hand, bank balances and short-term highly liquid assets (placements with financial institutions) with maturities of three months or less when acquired.

(ix) *Intangible assets*

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is three to five years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(x) *Property and equipment*

Property and equipment are stated at cost less accumulated depreciation and provision for impairment losses, if any. The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Subsequent expenditure

Expenditure subsequent to initial recognition is capitalised only when it increases future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the statement of profit or loss as an expense when incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

In thousands of Bahraini Dinars

2 SIGNIFICANT ACCOUNTING POLICIES continued

Depreciation

Depreciation on property and equipment is provided on cost on a straight-line basis at annual rates, which are intended to write-off the cost of the assets, less estimated realizable value at the end of the useful life of the item, over the useful life of the assets. The useful lives of different categories of property and equipment are as under:

Categories	Useful live in years
Building	25 years
Machinery	10 years
Computer and office equipment	4 years
Furniture, fixtures and telephone systems	5 years
Motor vehicles	4 years
Office improvements	3 years

Depreciation is charged to the statement of profit or loss. When an item of property and equipment is sold, transferred or otherwise permanently withdrawn from use, the cost and accumulated depreciation relating thereto are eliminated from the statement of financial position, the resulting gain or loss being recognised in the statement of profit or loss.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(xi) Investment properties

Investment properties are initially measured at cost and subsequently at cost less accumulated depreciation and any accumulated impairment.

Any gain or loss on disposal of investment properties (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(xii) Impairment of assets

The Group assesses at each reporting date whether there is objective evidence that an asset is impaired. Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the company, or economic conditions that correlate with defaults in the company.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, impairment is measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses are recognised in statement of profit or loss and reflected in an allowance account.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

In thousands of Bahraini Dinars

2 SIGNIFICANT ACCOUNTING POLICIES continued

Impairment of available-for-sale investments

The Group assesses at each reporting date whether there is objective evidence that a financial asset is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the market value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale equity securities, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss.

Impairment losses recognised in the statement of profit or loss on AFS equity instruments are subsequently reversed through the statement of comprehensive income. For available-for-sale investments carried at cost, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is assessed to be below the cost of the investment.

Non-financial assets

The carrying amount of the Group's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated or impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets of cash generating units (CGU's). The recoverable amount of an asset or a cash generating unit is the greater of its value in use or fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the assets or CGU.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the statement of profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(xiii) Borrowings

Borrowings are recognised initially as proceeds are received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

(xiv) Employees' benefits

Bahraini employees

Pensions and other social benefits for Bahraini employees are covered by the Social Insurance Organisation, which is a "defined contribution scheme" in nature under IAS 19 'Employee Benefits', and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 *continued*

In thousands of Bahraini Dinars

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

Expatriate employees

Expatriate employees on fixed contracts are entitled to leaving indemnities payable under the Bahraini Labour Law for the Private Sector of 2012, based on length of service and final remuneration. Provision for this unfunded commitment, which is a “defined benefit scheme” in nature under IAS 19, has been made by calculating the notional liability had all employees left at the reporting date.

Employee savings scheme

The Group has a voluntary employees saving scheme. The Group and the employee contribute monthly on a fixed percentage of salaries basis to the scheme.

(xv) *Share Capital*

Equity shares are classified as equity. Incremental costs directly attributable to the issue of the ordinary shares and share options are recognized as a deduction from equity.

(xvi) *Dividends*

Dividends to shareholders are recognised as a liability in the period in which they are declared.

(xvii) *Directors' remunerations*

Directors' remunerations are charged to the statement of profit or loss in the year in which they are incurred.

(xviii) *Segment reporting*

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 from those of other business segments.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Board of Directors and Group's Executive Committee to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Board of Directors and Executive Committee include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

g) Foreign currency translation

(i) *Functional and presentation currency*

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

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

In thousands of Bahraini Dinars

2 SIGNIFICANT ACCOUNTING POLICIES continued

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary items classified as available-for-sale financial assets are included in investments fair value reserve.

(iii) Other group companies

The other Group companies functional currencies are denominated in Bahraini Dinar, and hence, there is no translation of financial statements of the group companies.

h) Critical accounting estimates and judgments in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) 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 the estimate of the liability that the Group will ultimately pay for such claims.

The estimation for claims incurred but not reported (IBNR) using statistical models include an estimation made to meet certain contingencies such as unexpected and unfavorable court judgments which may require a higher payout than originally estimated and settlement of claims, which may take longer than expected, resulting in actual payouts being higher than estimated.

(ii) Life assurance actuarial reserve estimation

Life insurance liabilities are recognised when contracts are entered into and premiums are charged.

For long-term life insurance contracts, liabilities are currently measured by using the 'Net Premium' valuation method. The liability is determined as the discounted value of the expected future benefits, policyholder options and guarantees, less the discounted value of the expected net premiums that would be required to meet the future cash outflows based on the valuation assumptions used.

The liability for life insurance contracts, mainly yearly renewable and group life contracts, comprises the provision for unearned premiums calculated on the basis of 1/365 reserving method, as well as for claims outstanding, which may include an estimate of the incurred claims that have not yet been reported to the Group. Adjustments to the liabilities at each reporting date are recorded in the statement of profit or loss. Profits originated from margins of adverse deviations on run-off contracts are recognised in the statement of profit or loss over the life of the contract, whereas losses are fully recognised in the consolidated statement of profit or loss during the first year of run-off. The liability is recognised when the contract expires, is discharged or is cancelled. The assumptions are reviewed on yearly basis and include assumptions for incidence rates like mortality and morbidity, expenses and discount rates.

Incidence assumptions are based on standard industry mortality rate tables adjusted in order to reflect the historical experience of the country and company in particular. These tables estimates the number of deaths in order to determine the value of the benefit payments and the value of the valuation premiums.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 *continued*

In thousands of Bahraini Dinars

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

The interest rate applied when discounting cash flows is based on prudent expectation of current market returns, expectations about future economic and financial developments as well as the analysis of investment income arising from the assets backing long term insurance contracts. For the long term plans an assumption of 4.5% is currently used.

(iii) *Impairment losses for available-for-sale securities and receivables*

The Group determines that available-for-sale equity securities and managed funds are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgement. In the case of quoted equity securities in active markets, the Group considers a decline in value below cost of 30%, or a decline that persists for more than 270 days as an indicator of impairment. In the case where markets for the investment are assessed to be inactive, the Group determines impairment based on its assessment of the investee companies' financial health, industry and sector performance.

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 among other factors, the normal volatility in share price, evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Impairment losses on held-to-maturity securities carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in statement of profit or loss and reflected in an allowance against the investment.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the statement of profit or loss.

Impairment losses on held-to-maturity securities carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in statement of profit or loss and reflected in an allowance against the investment. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the statement of profit or loss.

(iv) *Classification of investments*

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments designated at fair value through profit or loss, held-to-maturity or available-for-sale investment securities. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification.

(v) *Classification of Arabian Shield Cooperative Insurance Company (ASCIC) as an associate*

The Group classified the Arabian Shield Cooperative Insurance Company as an associate of the Group although the Group only owns a 15% ownership interest in ASCIC. An associate is an entity over which the investor has significant influence. The Group exercises significant influence over ASCIC, as it has a representation on the board of directors and participates in policy-making processes, including participation in decisions about dividends or other distributions and in advise on technical matters via representation on the Executive and Investment Committee of ASCIC. The Group's extent of ownership is also significant relative to other shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

In thousands of Bahraini Dinars

3 CASH AND BALANCES WITH BANKS

	2016	2015
Cash and bank current accounts	5,048	2,396
Short-term deposits with maturities of three months or less	-	1,569
Cash and cash equivalents	5,048	3,965
Placements with banks with maturities of more than three months	8,996	6,973
Total cash and balances with banks	14,044	10,938

Information about the Group's exposure to interest rate and credit risks are included in Note 28.

4 INSURANCE AND OTHER RECEIVABLES

	2016	2015
Insurance receivables		
Policyholders	3,193	2,919
Less: provision for impairment of receivables from policyholders	(333)	(314)
Insurance and reinsurance companies	5,064	4,210
Less: provision for impairment of receivables from insurance and reinsurance companies	(447)	(321)
Total insurance receivables	7,477	6,494
Other receivables		
Recoverable deposits	377	335
Accrued income	824	652
Prepayments and advances	104	170
Others	403	279
Total other receivables	1,708	1,436
Balance as at 31 December	9,185	7,930

Movement in provision for impairment during the year is as follow:

	2016	2015
Balance at beginning of the year	635	501
Additional amounts provided during the year	147	138
Balances recovered during the year	(2)	(4)
Balance at end of the year	780	635

Information about the Group's exposure to credit and market risks, and impairment losses for receivables are included in Note 28.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

In thousands of Bahraini Dinars

5 FINANCIAL INVESTMENTS

	2016	2015
Securities carried at fair value through profit or loss	1,499	2,664
Available-for-sale securities	20,080	22,249
Held-to-maturity securities	4,800	4,952
Balance as at 31 December	26,379	29,865

a) Securities carried at fair value through profit or loss

	2016	2015
Listed securities:		
- Equities	486	794
- Government bonds	209	244
- Corporate bonds	309	444
- Managed funds	390	1,059
Unlisted funds	105	123
Total	1,499	2,664
Movement during the year		
Opening balance as at 1 January	2,664	2,821
Purchases	185	1,055
Sales	(1,335)	(1,059)
Valuation losses	(15)	(153)
Balance as at 31 December	1,499	2,664

Information about the Group's exposure to credit and market risk, and fair value measurement, is included in notes 28, 29, 30, and 32.

b) Available-for-sale securities

	2016	2015
Listed securities:		
- Equities	7,061	9,239
- Government bonds	1,766	2,005
- Corporate bonds	4,548	2,969
- Managed funds	2,772	3,563
Unlisted securities and funds	3,933	4,473
Total	20,080	22,249

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

In thousands of Bahraini Dinars

5 FINANCIAL INVESTMENTS continued

	2016	2015
Movement during the year		
Opening balance as at 1 January	22,249	25,823
Purchases	7,765	11,717
Sales	(9,640)	(13,619)
Fair value movement	(162)	(1,561)
	20,212	22,360
Impairments	(132)	(111)
Balance as at 31 December	20,080	22,249

Investments in unlisted securities and funds include investments of BD 170 thousand (2015: BD 161 thousand) carried at cost less impairment in the absence of a reliable measure of fair value.

Information about the Group's exposure to credit and market risk, and fair value measurement, is included in notes 28, 29, 30, and 32.

c) Held-to-maturity securities

	Fair value		Carrying value	
	2016	2015	2016	2015
Government bonds	3,567	2,878	3,451	2,788
Corporate bonds	1,416	2,249	1,349	2,164
Total	4,983	5,127	4,800	4,952
Movement during the year				
Opening balance as at 1 January			4,952	5,028
Purchases			1,318	1,034
Disposals on maturity			(1,476)	(1,094)
Exchange gains/(losses)			6	(16)
Balance as at 31 December			4,800	4,952

Information about the Group's exposure to credit and market risk is included in notes 28, 29 and 30.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

In thousands of Bahraini Dinars

5 FINANCIAL INVESTMENTS continued

d) Policyholders' investments

The Group identified specific investments as policyholders' investments. These investments represent the funding of the life assurance actuarial reserve. The Group has adopted this step as a measure of protection for policyholders. Surpluses, if any, of these investments over the life assurance actuarial reserve may be dealt with at the discretion of the Group. The carrying value of the policyholders' investments (including investments of the staff retirement scheme) at the reporting date, included under "financial investments" are as follows:

	2016	2015
Financial investments	2,346	3,460
Life assurance actuarial reserve (Note 16)	2,804	3,383

6 EQUITY ACCOUNTED INVESTEEES

a) Interests in associates

Details of each of the Group's associates at the end of the reporting period are as follows:

Name of the entity	Place of business / country of incorporation	Percentage of ownership interest		Nature of relationship	Principal activities
		2016	2015		
National Finance House BSC (c)	Kingdom of Bahrain	34.93 %	34.93 %	Associate	Engaged in consumer and auto finance business
Al Kindi Specialised Hospital W.L.L.	Kingdom of Bahrain	27 %	25 %	Associate	Engaged in providing private medical services
United Insurance Company BSC (c)	Kingdom of Bahrain	20 %	20 %	Associate	Primarily provides insurance coverage for motor vehicles
Arabian Shield Cooperative Insurance Company	Kingdom of Saudi Arabia	15.29 %	15.27 %	Associate	Transact various types of general insurance business

During the year, the Group increased its direct holding in the voting capital of Al Kindi Specialised Hospital W.L.L. from 25% to 27%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

In thousands of Bahraini Dinars

6 EQUITY ACCOUNTED INVESTEEES continued

b) The movements in the investment in associates and joint venture are as follows:

2016	National Finance House	Al Kindi Specialised Hospital	United Insurance Company	Arabian Shield Cooperative Insurance Company **	Total
Balance at beginning of the year	4,578	1,026	2,318	5,884	13,806
Payment for acquisition of shares	-	150	-	10	160
Share of profit	431	325	535	817	2,108
Dividends received	(183)	(36)	(250)	-	(469)
Share of other comprehensive income	-	-	65	-	65
Balance at end of the year	4,826	1,465	2,668	6,711	15,670

2015	iAssist Middle East *	National Finance House	Al Kindi Specialised Hospital	United Insurance Company	Arabian Shield Cooperative Insurance Company **	Total
Balance at beginning of the year	433	4,299	754	2,503	5,426	13,415
Payment for acquisition of shares	-	-	-	-	328	328
Proceeds from sale of shares	-	-	-	-	(126)	(126)
Share of profit/(loss)	(27)	436	293	591	256	1,549
Dividends received	-	(157)	(28)	(500)	-	(685)
Share of other comprehensive income	-	-	7	(276)	-	(269)
Reclassified as a subsidiary	(406)	-	-	-	-	(406)
Balance at end of the year	-	4,578	1,026	2,318	5,884	13,806

* During the year 2015, the Group increased its direct holding in the voting capital of iAssist Middle East WLL from 50% to 100%, obtaining full control of iAssist Middle East WLL.

** The market value of Group's investments in Arabian Shield Cooperative Insurance Company based on the price quoted in Saudi Stock Exchange as at 31 December 2016 was BD 12,430 thousand (31 December 2015: BD 8,116 thousands).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

In thousands of Bahraini Dinars

6 EQUITY ACCOUNTED INVESTEEES continued

c) Latest available interim financial information of the material associates of the Group are as follows:

	National Finance House	United Insurance Company	Arabian Shield Cooperative Insurance Company
2016			
Total assets	51,316	23,652	33,335
Total liabilities	37,501	10,311	2,303
Net assets	13,815	13,341	31,032
Revenue	3,014	7,485	60,111
Profit	1,151	2,915	2,923
Other comprehensive loss	-	(925)	-
2015			
Total assets	47,815	20,954	28,435
Total liabilities	34,707	9,366	2,757
Net assets	13,108	11,588	25,678
Revenue	2,868	7,005	46,266
Profit	1,100	2,803	862
Other comprehensive income	-	11	-

d) Reporting dates of interim financial information of associates

For equity accounting and for disclosing financial information of the material associates, the information is taken from the unaudited interim financial statements for the eleven months ended November 30, 2016 and 2015. While, for Arabian Shield Cooperative Insurance Company the said information is taken from the unaudited interim financial statements for the nine months ended September 30, 2016 and 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

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7 REINSURERS' SHARES OF INSURANCE TECHNICAL RESERVES

	2016	2015
Outstanding claims recoverable from reinsurers (refer note 14)	5,405	7,635
Reinsurers' share of unearned premiums (refer note 15)	5,118	4,902
Balance as at 31 December	10,523	12,537

Amounts due from reinsurers in respect of claims already paid by the Group on the contracts that are reinsured are included in insurance receivables (Refer Note 4).

8 INVESTMENTS IN SUBSIDIARIES

Set out below are the Group's subsidiaries at 31 December 2016. Unless otherwise stated, they have share capital consisting solely of ordinary shares, that are held directly by the Group and the proportion of ownership interests held equals to the voting rights held by the Group. The country of incorporation or registration is also their principal place of business:

Name of the entity	Place of business / country of incorporation	Date of incorporation	Ownership interest				Principal activities
			held by the Group		held by non-controlling interest		
			2016	2015	2016	2015	
Bahrain National Insurance Company BSC (c)	Bahrain	30 December 1998	100%	100%	-	-	Transact various types of general insurance business.
Bahrain National Life Assurance Company BSC (c)	Bahrain	4 October 2000	75%	75%	25%	25%	Transact the business of life assurance, medical insurance, retirement planning and savings.
iAssist Middle East Company WLL	Bahrain	14 January 2010	100%	100%	-	-	Transact the business of automobile smash repairs, roadside assistance and automobile services.

Subsidiaries with material non-controlling interests

The table below shows details of non-wholly owned subsidiary of the Group that have material non-controlling interests (NCI), before any intra-group elimination:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

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8 INVESTMENTS IN SUBSIDIARIES continued

Bahrain National Life Assurance Company BSC (c)

	2016	2015
Cash and cash equivalents	1,521	1,352
Placements with banks	1,533	725
Insurance and other receivables	1,266	1,062
Reinsurers' share of insurance technical reserves	1,913	1,383
Deferred acquisition costs	154	143
Financial investments	10,017	11,379
Intangible assets	40	81
Equipment	12	11
Statutory deposits	50	50
Insurance technical reserves	(5,541)	(5,568)
Insurance payables	(590)	(484)
Other liabilities	(1,479)	(1,039)
Net assets (100 %)	8,896	9,095
Carrying amount of NCI	2,229	2,276
Net premium earned	1,931	2,072
Net claims incurred	(1,189)	(795)
General and administration expenses	(619)	(650)
Net commission expenses	(340)	(370)
(Charge) / release from life assurance actuarial reserve	(4)	98
Net investment income	339	265
Net profit	118	620
Other comprehensive income / (loss)	83	(170)
Total comprehensive income	201	450
NCI's share of profit (25%)	29	155
NCI's share of total comprehensive income (25%)	50	112
Cash flows (used in)/from operating activities	(455)	586
Cash flows from/(used in) investing activities	1,022	(682)
Cash flows used in financing activities, before dividends to NCI	(293)	(360)
Cash flows used in financing activities, cash dividends to NCI	(97)	(120)
Donations paid	(8)	-
Net change in cash and cash equivalents	169	(576)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

In thousands of Bahraini Dinars

9 INVESTMENT PROPERTIES

	BNH Tower in Seef	BNH Building in Sanad	Total
2016			
Cost			
At 1 January	2,793	1,924	4,717
At 31 December	2,793	1,924	4,717
Accumulated depreciation			
At 1 January	1,226	230	1,456
Depreciation	85	77	162
At 31 December	1,311	307	1,618
Net book value at 31 December	1,482	1,617	3,099
Total fair value at 31 December	11,304	3,682	14,986
This comprises:			
Investment properties	1,482	1,617	3,099
Owner occupied	1,360	331	1,691
Total net book value at 31 December	2,842	1,948	4,790
2015			
Cost			
At 1 January	2,087	1,924	4,011
Reclassified from property and equipment	706	-	706
At 31 December	2,793	1,924	4,717
Accumulated depreciation			
At 1 January	889	153	1,042
Depreciation	85	77	162
Reclassified from property and equipment	252	-	252
At 31 December	1,226	230	1,456
Net book value at 31 December	1,567	1,694	3,261
Total fair value at 31 December	11,304	3,662	14,966
This comprises:			
Investment properties	1,567	1,694	3,261
Owner occupied	1,421	347	1,768
Total net book value at 31 December	2,988	2,041	5,029

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

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9 INVESTMENT PROPERTIES continued

The fair value was determined by an external, independent property valuator, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The revaluation methodology depends on market supply/demand and prices traded, considering the main key assumptions (location, area, population and building condition) and the use of the property by using Market Needs Analyses (MNA) evaluation system in addition to the comparative evidences.

10 INTANGIBLE ASSETS

2016	Goodwill	Software	Development cost	Total
Cost				
At 1 January	74	1,802	73	1,949
Additions	-	47	12	59
Transfers	-	75	(75)	-
At 31 December	74	1,924	10	2,008
Accumulated amortisation				
At 1 January	-	1,630	-	1,630
Amortisation	-	96	-	96
At 31 December	-	1,726	-	1,726
Net book value at 31 December	74	198	10	282

2015	Goodwill	Software	Development cost	Total
Cost				
At 1 January	-	1,784	44	1,828
Additions	-	18	29	47
Goodwill arising on acquisition of subsidiary	74	-	-	74
At 31 December	74	1,802	73	1,949
Accumulated amortisation				
At 1 January	-	1,498	-	1,498
Amortisation	-	132	-	132
At 31 December	-	1,630	-	1,630
Net book value at 31 December	74	172	73	319

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

In thousands of Bahraini Dinars

11 PROPERTY AND EQUIPMENT

2016	Land and building	Machinery	Furniture, equipment & other assets	Capital work-in-progress	Total
Cost					
At 1 January	4,130	633	2,081	31	6,875
Additions	61	5	160	18	244
Disposals	-	-	(16)	-	(16)
Transfers	-	-	31	(31)	-
At 31 December	4,191	638	2,256	18	7,103
Accumulated depreciation					
At 1 January	1,200	398	1,646	-	3,244
Depreciation	120	80	246	-	446
Disposals	-	-	(16)	-	(16)
At 31 December	1,320	478	1,876	-	3,674
Net book value at 31 December	2,871	160	380	18	3,429
<hr/>					
2015	Land and building	Machinery	Furniture, equipment & other assets	Capital work-in-progress	Total
Cost					
At 1 January	3,545	424	1,826	-	5,795
Additions from acquisition of a subsidiary	1,230	270	38	-	1,538
Other additions	-	-	231	31	262
Disposals	-	-	(14)	-	(14)
Reclassified to investment properties	(645)	(61)	-	-	(706)
At 31 December	4,130	633	2,081	31	6,875
Accumulated depreciation					
At 1 January	1,252	380	1,442	-	3,074
Depreciation	139	79	211	-	429
Disposals	-	-	(7)	-	(7)
Reclassified from investment properties	(191)	(61)	-	-	(252)
At 31 December	1,200	398	1,646	-	3,244
Net book value at 31 December	2,930	235	435	31	3,631

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

In thousands of Bahraini Dinars

12 STATUTORY DEPOSITS

Statutory deposits are maintained by subsidiaries under the regulations of the Central Bank of Bahrain. Such deposits, which depend on the nature of the insurance business, cannot be withdrawn except with the approval of the Central Bank of Bahrain.

13 INSURANCE TECHNICAL RESERVES

	2016	2015
Outstanding claims - gross (refer Note 14)	9,684	11,676
Unearned gross insurance premiums (refer Note 15)	11,885	11,355
Unearned commissions income (refer Note 24)	149	358
Life assurance actuarial reserve (refer Note 16)	2,804	3,383
Balance as at 31 December	24,522	26,772

14 OUTSTANDING CLAIMS

a) Claims development

The development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims.

The top half of each table below illustrates how the Group's estimate of total claims outstanding for each accident year has changed at successive year-ends, for motor and non-motor excluding life and medical businesses.

Total estimation of the ultimate claim cost comprises estimated amount of claims outstanding and claims incurred but not reported (IBNR).

The bottom half of the table reconciles the cumulative claims to the amount appearing in the statement of financial position, with the exception of life assurance and medical business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14 OUTSTANDING CLAIMS continued

(i) Gross insurance claims for general insurance business

Accident year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Estimate of ultimate claims costs:											
At end of reporting year	10,095	7,693	6,485	5,420	3,883	7,275	5,550	8,850	4,737	4,749	64,737
One year later	7,775	6,240	9,692	5,950	4,632	7,512	7,510	8,928	5,833		64,072
Two year later	9,334	6,598	9,658	6,074	5,140	6,059	7,957	9,433			60,253
Three year later	9,788	6,538	9,399	6,120	4,970	5,972	7,901				50,688
Four year later	9,656	6,311	9,573	6,071	4,948	5,818					42,377
Five year later	9,474	6,382	10,442	5,940	4,789						37,027
Six year later	9,286	5,986	10,399	5,313							30,984
Seven year later	9,563	6,161	10,434								26,158
Eight year later	9,581	6,213									15,794
Nine year later	9,637										9,637
Current estimate of cumulative claims (A)	9,637	6,213	10,434	5,313	4,789	5,818	7,901	9,433	5,833	4,749	70,120
Cumulative payments to date (B)	9,617	6,165	9,694	5,245	4,351	5,618	7,345	8,685	4,761		61,481
Total (A – B)	20	48	740	68	438	200	556	748	1,072	4,749	8,639
Reserve in respect of years prior to 2007											44
Total gross reserve included in the statement of financial position											8,683

(ii) Gross outstanding claims for life and medical insurance business amounting to BD 1,001 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

In thousands of Bahraini Dinars

14 OUTSTANDING CLAIMS continued

(iii) Net insurance claims for general insurance business – Net

Accident year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Estimate of ultimate claims costs:											
At end of reporting year	5,049	4,890	3,908	1,986	1,949	3,409	2,281	2,083	2,166	2,839	30,560
One year later	2,584	2,707	4,046	2,383	2,259	3,356	2,874	2,794	3,122		26,125
Two year later	2,884	3,189	3,949	2,496	2,263	3,279	3,260	3,142			24,462
Three year later	3,394	3,001	3,729	2,590	2,179	3,153	3,320				21,366
Four year later	3,400	2,808	3,735	2,602	2,117	3,132					17,794
Five year later	3,126	2,878	3,802	2,460	2,104						14,370
Six year later	3,107	2,871	3,767	2,437							12,182
Seven year later	3,115	2,963	3,759								9,837
Eight year later	3,160	2,993									6,153
Nine year later	3,161										3,161
Current estimate of cumulative claims (A)	3,161	2,993	3,759	2,437	2,104	3,132	3,320	3,142	3,122	2,839	30,009
Cumulative payments to date (B)	3,208	2,988	3,655	2,433	2,067	3,068	3,134	2,804	2,660		26,017
Total (A – B)	(47)	5	104	4	37	64	186	338	462	2,839	3,992
Reserve in respect of years prior to 2007											20
Total net reserve included in the statement of financial position											4,012

(iv) Net outstanding claims for life and medical insurance business amounting to BD 267 thousand.

b) Changes in insurance assets and liabilities

	2016			2015		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Reported claims	10,826	7,635	3,191	15,873	11,696	4,177
IBNR	850	-	850	750	-	750
Total at beginning of the year	11,676	7,635	4,041	16,623	11,696	4,927
Change in liabilities	19,632	9,378	10,254	17,978	9,519	8,459
Claims settled	(21,624)	(11,608)	(10,016)	(22,925)	(13,580)	(9,345)
Balance as at 31 December	9,684	5,405	4,279	11,676	7,635	4,041
Reported claims	8,439	5,405	3,034	10,826	7,635	3,191
IBNR	1,245	-	1,245	850	-	850
Balance as at 31 December	9,684	5,405	4,279	11,676	7,635	4,041

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

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14 OUTSTANDING CLAIMS continued

c) Sensitivity analysis

The following tables provide an analysis of the sensitivity of profit or loss and total equity to changes in the assumptions used to measure general insurance contract provisions and reinsurance assets at the reporting date. The analysis has been prepared for a change in variable with other assumptions remaining constant. The effect is shown before and after reinsurance.

	Statement of profit or loss & Equity	
	2016	2015
General Insurance		
Expense rate		
1 percent increase	(34)	(33)
1 percent decrease	34	33
Expected loss ratio		
1 percent increase	(97)	(81)
1 percent decrease	97	81
Life Assurance		
Demographic assumptions		
10 percent increase in base mortality and morbidity rates	(24)	(23)
10 percent decrease in base mortality and morbidity rates	24	23
Expense assumptions		
1 percent increase	(3)	(3)
1 percent decrease	3	3
Expected loss ratio		
1 percent increase	(6)	(3)
1 percent decrease	6	3

The Group has certain single insurance contract which it considers as risks of high severity but very low frequency. The Group re-insures substantial part of these risks and its loss on any one single event is limited to a loss of BD 125 thousand in case of property and marine and BD 75 thousand in case of causality whereas in case of motor losses Group's exposure to a single event is limited to BD 100 thousand.

d) Movements in outstanding claims

	Gross outstanding claims		Reinsurers' share		Net outstanding claims	
	2016	2015	2016	2015	2016	2015
At 1 January	11,676	16,623	7,635	11,696	4,041	4,927
(Release)/charge during the year	(1,992)	(4,947)	(2,230)	(4,061)	238	(886)
At 31 December	9,684	11,676	5,405	7,635	4,279	4,041

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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15 NET CHANGE IN RESERVES FOR UNEARNED INSURANCE PREMIUMS

	Unearned gross insurance premiums		Reinsurers' share		Net unearned premiums	
	2016	2015	2016	2015	2016	2015
At 1 January	11,355	11,519	4,902	5,683	6,453	5,836
Charge/(release) during the year	530	(164)	216	(781)	314	617
At 31 December	11,885	11,355	5,118	4,902	6,767	6,453

16 LIFE ASSURANCE ACTUARIAL RESERVE AND ACTUARIAL ASSUMPTIONS

	2016	2015
Life assurance actuarial reserve		
Balance at 1 January	3,383	3,219
Contributions received	244	313
Benefits paid	(897)	(134)
Charge / (release) to statement of profit or loss	4	(98)
Management fee	(62)	(46)
Policyholder's share of net investment income	132	129
Balance at 31 December	2,804	3,383
Life assurance actuarial reserve per statement of financial position	2,804	3,383
Actuarial estimate of the present value of future benefit obligations at 31 December	2,804	3,366

The actuarial estimate has been prepared by independent actuaries, Actuscope Consulting Actuaries, Lebanon. The mortality and interest rate assumptions used were 50% of the 75-80 Ultimate Mortality US Table and 4.5% p.a. Allowances have been made for reinsurance, guaranteed bonuses, renewal expenses unexpired risks and contingencies where appropriate

17 INSURANCE PAYABLES

	2016	2015
Policyholders – Claims	227	258
Insurance and reinsurance companies	3,265	2,534
Balance at 31 December	3,492	2,792

Information about the Group's exposure to credit and market risks for insurance payables are included in Note 28.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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18 OTHER LIABILITIES

	2016	2015
Premiums received in advance	1,157	774
Vehicle repairers and spare parts	1,858	1,744
Medical claims care fund	581	427
Accrued expenses	116	107
Unclaimed dividends - prior years	430	290
Provision for employees' benefits	494	451
Employees' leaving indemnities	391	354
Other	1,245	1,389
Balance at 31 December	6,272	5,536

19 RETIREMENT BENEFITS COST

The Group employed 156 Bahrainis (2015: 156 Bahrainis) and 61 expatriates (2015: 61 expatriates) as at 31 December 2016.

Bahraini employees are covered by the pension scheme of Social Insurance Organisation of the Government of Bahrain. Employees and the Group contribute monthly to this scheme on a fixed-percentage-of-salaries basis. The Group's contributions in respect of Bahraini employees for 2016 amounted to BD 228 thousand (2015: BD 221 thousand), which cover other benefits besides pension entitlements.

The Group also offers, on a voluntary basis, to its Bahraini employees, a defined contribution plan, which is determined by the annual contributions paid by the Group and the employees to a post-employment benefit plan, together with investment returns arising from the contributions. The Group's contributions in 2016 amounted to BD 77 thousand (2015: BD 56 thousand). The scheme is administered by Bahrain National Life Assurance Company on behalf of the Group.

The liability towards the retirement plan as at 31 December 2016 amounted to BD 675 thousand (2015: BD 589 thousand) and is included in the Life assurance actuarial reserve (refer note 16). The liability is funded by way of contributions from the retirement scheme. The contributions received are invested as part of policyholders' investments (refer note 5d).

Expatriate employees on limited-term contracts are entitled to leaving indemnities payable under the Bahrain Labour Law for the Private Sector, 2012, based on length of service and final remuneration. The liability, which is un-funded, is provided for on the basis of the notional cost had all employees left service at the reporting date.

Employees' leaving indemnities

	2016	2015
At beginning of year	354	314
Indemnities and advances paid	(3)	(44)
Charge to statement of profit or loss	40	84
Balance at 31 December	391	354

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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20 SHARE CAPITAL

	Number 2016	Amount 2016	Number 2015	Amount 2015
a) Authorised shares 100 fils each	200,000,000	20,000	200,000,000	20,000
b) Issued and fully paid	113,500,000	11,350	113,500,000	11,350

c) Treasury shares:

The Company's Articles of Association permit the Company to hold up to 10 % (or such other limit as may be prescribed under law) of its own issued shares as treasury shares.

	Number 2016	Amount 2016	Number 2015	Amount 2015
Balance at the beginning of the year	6,253,816	1,868	6,253,816	1,868
Balance at 31 December	6,253,816	1,868	6,253,816	1,868

d) Performance per 100 fils share (excluding treasury shares)

	2016	2015
Basic earnings per share – fils	36.2	37.8
Proposed cash dividend – fils	20.0	20.0
Net asset value – fils	457.6	445.0
Stock exchange price at 31 December – fils	420.0	420.0
Market capitalization at 31 December – in thousands of BD	47,670	47,670
Price/Earnings ratio at 31 December	11.6	11.1

e) Earnings per share

The calculation of earnings per share is based on the net profit attributable to the shareholders for the year of BD 3,880 thousand (2015: BD 4,049 thousand), attributable to 107,246,184 (2015: 107,246,184) ordinary shares for basic earnings, being the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share have not been presented separately because Group has no dilutive potential ordinary shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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20 SHARE CAPITAL continued

f) Major shareholders

Names and nationalities of the major shareholders and the number of shares held in which they have an interest of 5% or more outstanding shares:

	Nationality	No. of shares	Shareholding (%)
Yusuf Abdulla Amin	Bahraini	12,475,180	10.99
National Insurance Company	Iraqi	7,436,890	6.55
Abdulhameed Zainal Mohamed Zainal	Bahraini	6,556,610	5.78
Bahrain National Holding Co. (Treasury shares)	Bahraini	6,253,816	5.51

g) Share premium

During the 2005 financial year, the Company issued 20,000,000 shares @ 300 fils (share premium 200 fils) per share on a rights basis. The share premium also includes BD 29 thousand (2015: BD 29 thousand) being the share of the Group in the share premium account of an associate.

h) Additional information on shareholding pattern

- The Company has only one class of equity shares and the holders of the shares have equal voting rights.
- Distribution schedule of equity shares, setting out the number of holders and percentage in the following categories:

Categories	Number of shareholders	Number of shares	% of total outstanding shares
Less than 1 %	599	50,856,221	44.81
1 % up to less than 5 %	15	29,921,283	26.36
5 % up to less than 10 %	3	20,247,316	17.84
More than 10%	1	12,475,180	10.99
TOTAL	618	113,500,000	100.00

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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21 RESERVES

a) Statutory reserve

The Bahrain Commercial Companies Law 2001, which applies to the parent company, requires appropriation of 10% of the net profit each year, until the reserve equals 50% of the paid-up capital. The Central Bank of Bahrain and Financial Institutions Law, 2006 which applies to Bahrain National Insurance and Bahrain National Life Assurance Company, requires appropriation, in respect of general and life insurance companies, of 10% of the net profit each year, until the reserve equals 50% of the paid-up capital. These limits are applied separately to each company within the Group.

b) General reserves

General reserves are appropriated from retained earnings and are available for distribution.

c) Investment fair value reserve

Gains or losses arising on re-measurement of available-for-sale securities are recognised in the investment fair value reserve. Upon de-recognition or impairment of any security, the corresponding gain or loss, recognised earlier directly in the investment fair value reserve, is transferred to the statement of profit or loss.

22 PROPOSED APPROPRIATIONS AND DIRECTORS REMUNERATION

	2016	2015
Profit as per consolidated statement of profit or loss	3,909	4,204
Net profit attributable to non-controlling interest	(29)	(155)
Profit attributable to shareholders of parent company	3,880	4,049
Proposed appropriations:		
Dividend to shareholders	2,145	2,145
Donations	20	20
Retained earnings	1,715	1,884
	3,880	4,049

Proposed director's remuneration is BD 115 thousand (2015: BD 114 thousand). The appropriation of the 2016 profit is subject to approval by shareholders at the annual general meeting.

23 GROSS INSURANCE PREMIUMS

	2016	2015
Direct Business	27,861	27,406
Inward Business	540	995
Total	28,401	28,401

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

In thousands of Bahraini Dinars

24 NET COMMISSION AND FEE INCOME / (EXPENSE)

	2016	2015
Commission and fee income	1,805	1,599
Adjustment for unearned commission income	209	116
Commission expenses	(1,427)	(1,479)
Adjustment for deferred commission expense	18	(243)
Net commission and fee income / (expense)	605	(7)

Movements in unearned commission income and deferred commission expense:

	Unearned commission income		Deferred commission expense	
	2016	2015	2016	2015
At 1 January	358	474	610	853
(Release)/charge during the year	(209)	(116)	18	(243)
At 31 December	149	358	628	610

25 NET INVESTMENT INCOME

	2016	2015
Net losses on disposal of financial investments	(73)	(188)
Transfer from other comprehensive income on disposal of available-for-sale securities	585	1,364
Valuation losses on trading securities	(14)	(153)
Foreign exchange gains	12	18
Amortisation of premiums on held-to-maturity securities	6	(16)
Interest income	911	684
Dividend income	567	724
Other income	9	-
Provision for impairment on investment	(132)	(111)
Investment administration expenses	(61)	(82)
Policyholders' share of investment income	(132)	(129)
Investment properties' income	235	194
Depreciation charges on investment properties	(162)	(162)
Investment properties' maintenance expenses	(123)	(97)
Net investment income	1,628	2,046

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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26 EXPENSES

a) General and administration expenses:	2016	2015
Employee costs	2,326	2,192
Depreciation and amortisation	406	409
Other costs	1,348	1,492
Total	4,080	4,093
b) Corporate expenses:	2016	2015
Employee costs	1,184	1,194
Depreciation and amortisation	136	152
Other costs	412	410
Total	1,732	1,756

27 SEGMENTAL INFORMATION

For operational and management reporting purposes, the Group is organised into five business segments: "Motor Insurance segment", "Commercial Insurance segment", "Medical Insurance Segment", "Life Assurance segment" and "Corporate segment".

Motor Insurance segment comprises motor comprehensive insurance covers and third party insurance covers and other services related to motor.

Commercial Insurance segment comprises property, general accidents, engineering, marine and aviation.

Medical Insurance segment comprises medical insurance products.

Life Assurance segment comprises group life, group credit life, decrease in term assurance, level term assurance and saving scheme plans.

Corporate segment comprises administrative and financial operations services for the Group's companies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

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27 SEGMENTAL INFORMATION continued

These segments are the basis on which the Group reports its primary segment information.

31 December 2016	Commercial			Life		Total
	Motor	Insurance	Medical	Assurance	Corporate	
Gross insurance premiums	13,597	9,331	3,372	2,101	-	28,401
Net premiums earned	13,053	654	1,264	667	-	15,638
Net claims incurred	(8,803)	(262)	(636)	(553)	-	(10,254)
General and administration expenses	(2,694)	(950)	(186)	(250)	-	(4,080)
Net commission and fee income/(expenses)	(394)	1,339	(335)	(5)	-	605
Life actuarial reserve charge	-	-	-	(4)	-	(4)
Underwriting profits	1,162	781	107	(145)	-	1,905
Net investment income / (loss)	671	671	108	231	(53)	1,628
Share of profit of equity accounted investees	142	142	-	-	1,824	2,108
Corporate expenses	-	-	-	-	(1,732)	(1,732)
Segment results	1,975	1,594	215	86	39	3,909

31 December 2015	Commercial			Life		Total
	Motor	Insurance	Medical	Assurance	Corporate	
Gross insurance premiums	12,669	10,287	3,590	1,855	-	28,401
Net premiums earned	11,962	792	1,345	727	-	14,826
Net claims incurred	(7,428)	(236)	(496)	(299)	-	(8,459)
General and administration expenses	(2,691)	(932)	(221)	(249)	-	(4,093)
Net commission and fee income/(expenses)	(372)	734	(344)	(25)	-	(7)
Life actuarial reserve release	-	-	-	98	-	98
Underwriting profits	1,471	358	284	252	-	2,365
Net investment income / (loss)	928	927	91	174	(74)	2,046
Share of profit of equity accounted investees	148	148	-	-	1,253	1,549
Corporate expenses	-	-	-	-	(1,756)	(1,756)
Segment results	2,547	1,433	375	426	(577)	4,204

Assets and liabilities are not reported on segment basis as these are managed on an aggregate basis.

Cash flows relating to segments are not disclosed separately as these are managed on an aggregate basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

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27 SEGMENTAL INFORMATION continued

Geographical information

31 December 2016	Bahrain	GCC	Other Countries	Total
Gross insurance premiums	27,925	453	23	28,401
Non-current assets	26,122	10,593	10,005	46,720
31 December 2015	Bahrain	GCC	Other Countries	Total
Gross insurance premiums	27,535	842	24	28,401
Non-current assets	25,816	11,292	9,969	47,077

The gross insurance premiums information is based on the locations of the customers.

Non-current assets for this purpose consist of financial investments which are intended to be held for more than one year, equity accounted invitees, investment properties, property and equipment and statutory deposits.

28 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Insurance Risk Management

The activity of the Group is to issue contracts of insurance to its personal and corporate clients. The risk under an insurance contract is the possibility that the insured event occurs and the uncertainty of the amount payable under the insurance contract resulting from such occurrence referred to as the claim. By the very nature of an insurance contract, this risk is fortuitous, random and therefore unpredictable. The principal risks that the Group faces in writing a portfolio of insurance contracts are the frequency of occurrence of the insured events and the severity of resulting claims. The Group's risk profile is improved by having sufficient large numbers, diversification by nature of risk and geographical spread of these risks. This reduces the vulnerability of the Group's financial position and profits to large losses or a high frequency as there will be a larger income to sustain such impacts. The exposure of high frequency and severe large losses are also protected by a comprehensive reinsurance program placed with highly reputable international reinsurers.

(i) Underwriting Policy

The Group principally issues insurance contracts covering marine (cargo and hull), motor (own damage and third party liability), property (material damage and business interruption), liability and general accident. These policies usually cover twelve months duration. For the above general insurance contracts the most significant risks arise from accidents including motor or other incidents causing fire and accidental damage, negligence resulting in accidents or liabilities against third parties, natural disasters and other activities causing damage by riots, civil commotion and terrorist acts. The level of risks vary in relation to the location of the risk insured and type of risk insured and by industry.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

In thousands of Bahraini Dinars

28 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

The Group has also a subsidiary issuing life and medical contracts of insurance. The medical and group life insurance contracts are of an annual nature and therefore similar in treatment and exposures as to the insurance contracts above. There are however long term life insurance contracts which require a different treatment as to the expected claims arising out of these contracts. For the latter the subsidiary reviews actuarial the technical funds required to meet any of the future liabilities that can arise out of these contracts.

The subsidiary has in place detailed underwriting guidelines and retention policies and procedures which regulate the acceptance of these risks and limits who is authorized and accountable for concluding insurance and reinsurance contracts and at what terms and conditions. Compliance with these guidelines is regularly monitored and developments in the global, regional and local markets are closely observed, reacting where necessary with appropriate measures that are translated without delay into underwriting guidelines if and when required.

(ii) *Reinsurance Policy*

As part of the underwriting process the next risk control measure in respect of the insurance risk is the transfer of the risks to third parties through a reinsurance contract or facility. The Group has in place proportional facilities, referred to as treaties, which are used to transfer a proportion of the risks automatically subject to pre-agreed conditions with the reinsurers. The portion of the risk retained by the Group is also guided by a strict retention policy adopted by the Group. Any claim will be recovered in the same proportion. Furthermore the Group also has in place non-proportional treaties which pay a proportion of losses above a pre-agreed priority level for each loss or an aggregation of losses arising out of one event. The placements of reinsurance contracts are diversified with a panel of internationally reputed reinsurers so that the Group is not dependent on a single reinsurer or a reinsurance contract. The Group also transfers risk on a case by case basis referred to as facultative reinsurance. This is used in cases when the risk under consideration is either too large for the treaty capacities or else has risks which are excluded from the treaties. In this case the Group seeks internationally rated reinsurers but also places some small shares in the local markets as exchange of business.

Reinsurance is used to manage insurance risk. Although the Group has reinsurance arrangements, it does not, however, discharge the Group's liability as primary insurer and thus a credit risk exposure remains with respect to reinsurance ceded to the extent that any reinsurer may be unable to meet its obligations under such reinsurance arrangements. The Group minimizes such credit risk by entering into reinsurance arrangements with reinsurers having good credit ratings, which are reviewed on a regular basis. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract. This review is performed by the Risk Management Committee which also monitors extent of single exposures.

Reserve risks are controlled by constantly monitoring the provisions for insurance claims that have been submitted but not yet settled and by amending the provisions, if deemed necessary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

In thousands of Bahraini Dinars

28 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

(iii) Terms and conditions of insurance contracts

An overview of the terms and conditions of various contracts written by the Group, the territories in which these contracts are written and the key factors upon which the timing and uncertainty of future cash flows of these contracts are depend are detailed in the table below:

Type of contract	Terms and conditions	Key factors affecting future cash flows
Property and Engineering	This contract indemnifies the insured against material damage to the property of the insured being buildings, contents, machinery and equipment, caused by specified perils, or against all risks subject to specific exclusion and limitations. The insured can extend the policy as the loss can also affect the potential income of the insured and therefore covers loss of income based on this business interruption.	The risk on any policy varies according to many factors such as location, age, occupancy, weather conditions and safety measures in place. The events insured against are fortuitous, sudden and unforeseen. Claims have to be notified within a specified period and a surveyor and/or loss adjustor is appointed in most cases. The loss would be the cost to repair, reinstate or replace the assets damaged bringing the insured to the same position before the loss. In cases of business interruption losses time for completion are key factors influencing the level of claims under these policies.
Casualty (General Accident and Liability)	Under these contracts, compensation is paid for injury suffered by individuals, including employees or members of public. And to indemnify the insured against legal liability as a result of an act or omission inured against causing either bodily injury or third party property damage.	For claims under the accident policies these are generally agreed benefits or amounts easily quantified. In the case of liability claims these are very much dependent on factors beyond the control of the parties involved such as court proceedings and identification of medical conditions in the case of bodily injury. Estimating claims provisions for these claims involves uncertainties such as the reporting lag, the number of parties involved in the claim, whether the insured event is over multiple time periods and the potential amounts of the claim. The majority of bodily injury claims are decided based on the laws in force and court judgment, and are settled within two – three years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

In thousands of Bahraini Dinars

28 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

Type of contract	Terms and conditions	Key factors affecting future cash flows
Marine Hull and Cargo	These are very standard contracts within the international spectrum and indemnify the insured against loss of cargo and in the case of hull against material damage to the hull or liability arising out of the use of the hull.	The nature of marine business especially cargo is cross border movement of goods and therefore tend to take longer to quantify or to establish the cause of loss. Underwriters use various loss adjustors to protect their interest The main risk is the establishing the correct cause of loss. Most of these losses will initiate rights of recovery from third parties and even this presents some uncertainty as to quantum and time.
Motor	Motor insurance contracts provide cover in respect of policyholder's private cars and their liability to third parties in respect of damage to property and injury. The exposure on motor insurance contracts is normally limited to the replacement value of the vehicle and a policy limit in respect of third party damage. Exposure to third party bodily injury is unlimited in accordance with statutory requirements	In general, claims lags are minor and claim complexity is relatively low. The frequency of claims is affected by adverse weather conditions, and the volume of claims is higher in adverse weather conditions. The number of claims is also connected with the economic activity, which affects the amount of traffic activity. The majority of bodily injury claims are decided based on the laws in force and court judgment, and are settled within two – three years.
Term life	These contracts indemnify the life of the policyholder over a defined period.	Claims reporting lags are minor and claim complexity is relatively low. The exposure of the Company and amount of claim is limited to the policy value.
Unit-linked	These are issued unit-linked savings contracts that are classified as investment contracts.	All financial risk is borne by the policyholder as investment performance directly affects the value of the unit fund and hence the benefits payable. Other key factors affecting future net cash flows to the shareholders are the level of charges levied on these unit-linked funds.
Health	These contracts pay benefits for medical treatment and hospital expenses. The policyholder is indemnified for only part of the cost of medical treatment or benefits are fixed.	Claims under these contracts depend on both the incidence of policyholders becoming ill and the duration over which they remain ill. Claims are generally notified promptly and can be settled without delay. Premium revisions are responded reasonably quickly to adverse claims experience.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 *continued*

In thousands of Bahraini Dinars

28 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *continued*

(iv) *Risk exposure and concentration of insurance risk*

The following table shows the Group's exposure to general and life insurance risk (based on the carrying value of insurance provisions at the reporting date) per category of business. The table also shows the geographical concentration of these risks and the extent to which the Group has covered these risks by reinsurance.

31 December 2016	General	Life	
Geographical area	Insurance	Assurance	Total
Bahrain			
Gross insurance premiums	25,824	2,101	27,925
Retained premiums	15,236	666	15,902
Other countries			
Gross insurance premiums	476	-	476
Retained premiums	50	-	50
Total			
Gross insurance premiums	26,300	2,101	28,401
Retained premiums	15,286	666	15,952
<hr/>			
31 December 2015	General	Life	
Geographical area	Insurance	Assurance	Total
<hr/>			
Bahrain			
Gross insurance premiums	25,680	1,855	27,535
Retained premiums	14,626	726	15,352
Other countries			
Gross insurance premiums	866	-	866
Retained premiums	91	-	91
Total			
Gross insurance premiums	26,546	1,855	28,401
Retained premiums	14,717	726	15,443

b) Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity, excluding non-controlling interests.

The Group's objectives for managing capital are:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

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28 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

All of the regulated companies in the Group are supervised by regulatory bodies that set out certain minimum capital requirements. It is the Group's policy to hold capital as an aggregate of the capital requirement of the relevant supervisory body and a specified margin, to absorb changes in both capital and capital requirements.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares, or sell assets. There were no significant changes in the Group's approach to capital management during the year.

The Group has a system of allocating risk based capital to its high level business units and operations. This Economic Capital Model is used to create benchmarks for the management to gauge and guide their performance and also ensure a good foundation for decision making and added comfort to the Board.

c) Financial Risk Management

The Group has exposure to the following risks:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Risk Management Department reporting to a Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies, update the Group's and individual subsidiaries' risk registers and ensuring that there are risk mitigation controls in place. The committee reports regularly to the Group's Audit, Compliance and Risk Committee on its activities.

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

The Group's Audit, Compliance and Risk Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit, Compliance and Risk Committee is assisted in its oversight role by Internal Audit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 *continued*

In thousands of Bahraini Dinars

28 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *continued*

(i) *Credit risk*

Credit risk is the risk that one party will fail to discharge its obligations causing the other party to incur a financial loss. Key areas where the Group is exposed to credit risk are:

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries;
- statutory deposits;
- cash and placements with banks and financial institutions; and
- financial investments - debt instruments.

The Group's cash is largely placed with national and international banks. Credit risk on receivables is limited to local policyholders, which are carried, net of provision for bad and doubtful receivables, and to insurance and reinsurance companies, local and foreign. To control the credit risk, the Group compiles company-wide data on receivables. The Group monitors its credit risk with respect to receivables from policyholders in accordance with defined policies and procedures. Credit risk in respect of dues from insurance and reinsurance companies is sought to be minimised by ceding business only to companies with good credit rating in the London, European and Middle Eastern markets. Credit risk in respect of financial investments (debt instruments) is managed by the Group by monitoring credit exposures and continually assessing the creditworthiness of counterparties.

Management of credit risk

The Group structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty, and to geographical and industry segments. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk by category and territory are set and monitored by the management.

The Group's exposure to individual policyholders and groups of policyholders is monitored by the individual business units as part of its credit control process. Financial analyses are conducted for significant exposures to individual policyholders or homogenous groups of policyholders.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

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28 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

Overall exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Financial assets	2016	2015
Receivables:		
- Policyholders	2,860	2,605
- Insurance and reinsurance companies	4,617	3,889
- Others	1,604	1,266
Financial investment securities:		
- Fair value through profit or loss - debt instruments	518	688
- Available-for-sale debt instruments	6,314	4,974
- Held to maturity securities	4,800	4,952
Cash and cash equivalents	5,041	3,959
Placements with banks	8,996	6,973
Statutory deposits	125	125
	34,875	29,431

The carrying amounts of financial assets do not include any assets that either are past due or impaired. The Group has no financial assets or reinsurance assets that would be past due or impaired whose terms have been renegotiated. The Group does not hold any collateral as security or any credit enhancements (such as guarantees, credit derivatives and netting arrangements that do not qualify for offset).

Concentrations of credit risk

The Group monitors concentrations of exposures by industry sector and geographic location of the counterparty as well as by individual counterparties. Counterparty concentration occurs mainly because of the investment management accounts maintained with the various investment bankers. Geographical concentrations at the reporting date have been presented in Note 30.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 *continued*

In thousands of Bahraini Dinars

28 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *continued*

The specific concentration of risk from the top counterparties where receivables for any one counterparty or group of connected counterparties is BD 1 million or more at the year-end is as follows:

	2016	2015
Debt instruments:		
Government of Bahrain	5,084	4,390
Placements and bank accounts:		
National Bank of Kuwait	3,952	-
United Bank Limited	2,459	1,931
Arab Bank	1,794	-
Ahli United Bank	1,496	3,301
National Bank of Bahrain	1,122	797
Habib Bank Limited	717	2,001

Assets that are past due

The Group has insurance and other receivables that are past due but not impaired at the reporting date. The Group believes that impairment of these receivables is not appropriate on the basis of stage of collection of amounts owed to the Group. An age analysis of the carrying amounts of these insurance and other receivables is presented below:

Financial assets	Neither past	Past due		Individually impaired		Total
	due nor impaired	but not impaired		Gross	Provision for	
31 December 2016	Less than 90 days	91– 180 days	More than 180 days	Amount	impairment	
Receivables:						
- Policyholders	1,418	682	760	333	(333)	2,860
- Insurance and Reinsurance companies	1,587	1,159	1,871	447	(447)	4,617
- Others	1,604	-	-	-	-	1,604
Total	4,609	1,841	2,631	780	(780)	9,081

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

In thousands of Bahraini Dinars

28 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

Financial assets	Neither past due nor impaired		Past due but not impaired		Individually impaired		Total
	Less than 90 days	91– 180 days	More than 180 days	Gross Amount	Provision for impairment		
31 December 2015							
Receivables:							
- Policyholders	1,633	450	522	314	(314)		2,605
- Insurance and Reinsurance companies	1,027	491	2,371	321	(321)		3,889
- Others	1,266	-	-	-	-		1,266
Total	3,926	941	2,893	635	(635)		7,760

(ii) Liquidity risk

Liquidity risk is the risk that an enterprise will encounter financial difficulty in raising funds to meet commitments associated with financial instruments and insurance obligations. Liquidity risk may arise from inability to sell a financial asset at a price close to its fair value.

Liquidity requirements are monitored on a regular basis and the management ensures that sufficient funds are available to meet any future commitments. In the normal course of business, the Group does not normally resort to borrowings but, given its gearing, has the ability to raise funds from banks at short notice. The maturity profile of the Group's investments is set out in note 29.

Management of liquidity risk

The Group limits liquidity risks by continually reconciling the cash flows and assets of the Group with payment liabilities. Methodologies adopted for Group assets and liabilities valuation have been discussed and disclosed earlier in significant accounting policies. The Group is exposed to daily calls on its available cash resources mainly from claims arising from short-term insurance contracts.

The Board sets limits on the liquidity of investment in the portfolio apart from a minimum liquidity reserve that is updated every quarter by the risk management department based on rolling cash flows trends.

The Group's approach to managing its liquidity risk is as follows:

- Budgets are prepared, to forecast monthly inflows and cash outflows from insurance and investment contracts.
- Assets purchased by the Group are required to satisfy specified liquidity requirements and limits.
- The Group maintains adequate cash and liquid assets to meet daily calls on its insurance and investment contracts.
- The Group has a board approved Liquidity Contingency Plan, that will be activated in the event of a liquidity event.
- The Group also maintain a minimum liquidity reserve that is updated every quarter based on cash flows trends.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 *continued*

In thousands of Bahraini Dinars

28 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *continued*

Exposure to liquidity risk

An analysis of the contractual maturities of the Group's financial liabilities (including contractual undiscounted interest payments) is presented below:

31 December 2016	Contractual undiscounted cash flows				
	Carrying amount	Less than 1 year	1 – 2 years	2 – 5 years	More than 5 years
Financial liabilities					
Policyholders' liabilities	227	227	-	-	-
Insurance/reinsurance companies	3,265	3,265	-	-	-
Other payables	6,272	6,272	-	-	-
<hr/>					
31 December 2015	Contractual undiscounted cash flows				
	Carrying amount	Less than 1 year	1 – 2 years	2 – 5 years	More than 5 years
Financial liabilities					
Policyholders' liabilities	258	258	-	-	-
Insurance/reinsurance companies	2,534	2,534	-	-	-
Borrowings	202	202	-	-	-
Other payables	5,536	5,536	-	-	-

(iii) *Market risk*

Market risk is the risk that the value of financial instrument will fluctuate as a result of changes in market prices on account of factors specific to the individual security or to its issuer or factors affecting the securities market. The Group is exposed to market risk with respect to its investments in securities. The Group manages market risk by maintaining a well-diversified portfolio and by continuous monitoring of pertinent developments in international securities markets. In addition, the Group actively monitors the key factors that are likely to affect the prices of securities, including operational and financial performance of investees. The geographical concentration of the Group's investments is set out in note 30.

Management of market risks

All entities in the Group manage market risks locally in accordance with their asset/liability management framework. The boards of each entity approve the allocation limits and investment strategy. At Group level, the Board monitors the asset allocation and investment performance on a quarterly basis.

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

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market rates of interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

In thousands of Bahraini Dinars

28 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

The Group's short-term deposits are at fixed interest rates and mature within one year. Investments in Government bonds are at fixed interest rates. Investment in corporate bonds consists of both fixed and floating rate instruments.

The effective interest rate is the historical annual yield on fixed rate instruments carried at amortised cost and the current market yield for a floating rate instrument or a short-term deposit. The following table presents the effective rates of the financial instruments:

	2016 Aggregate principal	2016 Effective rate	2015 Aggregate principal	2015 Effective rate
Cash and short-term deposits	14,162	1.52 %	11,057	0.90 %
Bonds	11,632	6.18 %	10,614	5.58 %

Derivatives:

The Group does not normally use derivative financial instruments, other than forward currency contracts from time to time, to hedge its currency exposures.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

As protection against exchange rate fluctuations, the Group backs its insurance commitments to a very large extent by funds in the same currency.

The Group has deposits and investments in currencies other than Bahraini dinars and United States dollars. The dinar is effectively pegged to the United States dollar; thus, currency risk is expected to occur only in respect of other currencies.

The Group's exposure to currency risk, other than United States dollars and Bahraini Dinars, as well as the currency-wise concentration of investments, expressed in the equivalent of Bahraini dinars is summarised below:

Net currency-wise concentration in thousands of Bahraini dinar equivalents

Financial Assets	2016	2015
Euros	386	573
Pounds sterling	93	271
Other currencies	111	233
Total open foreign exchange position at 31 December	590	1,077
United States dollars	23,944	21,353
GCC Currencies	8,798	9,685
Bahraini dinars	31,967	30,379
Balance at 31 December	65,299	62,494

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28 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

Financial Assets	2016	2015
This comprises:		
Financial investments	26,379	29,865
Equity accounted investees	15,670	13,806
Cash and cash equivalents	5,048	3,965
Placements with banks	8,996	6,973
Statutory deposits	125	125
Receivables:		
Policyholders	2,860	2,605
Insurance and reinsurance companies	4,617	3,889
Others	1,604	1,266
Balance at 31 December	65,299	62,494
Financial Liabilities	2016	2015
Bahraini dinars	8,582	8,033
United States dollars	954	291
GCC Currencies	210	151
Pounds sterling	4	43
Euros	5	3
Other currencies	9	9
Balance at 31 December	9,764	8,530
This comprises:		
Policyholders liabilities	227	258
Insurance/reinsurance companies payables	3,265	2,534
Other payables	6,272	5,536
Borrowings	-	202
Balance at 31 December	9,764	8,530

The assets and liabilities above were translated at exchange rates at the reporting date.

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

Sensitivity analysis – currency risk

A 1% weakening/strengthening of the Bahrain Dinars against the following currencies would have increased/ (decreased) equity and profit and loss by the amounts shown below.

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28 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

This analysis assumes that all other variables, in particular interest rates, remain constant.

	2016		2015	
	Statement of profit or loss	Equity	Statement of profit or loss	Equity
Financial assets and liabilities				
US Dollars	86	230	67	210
GCC currencies	69	86	66	95
Euro	-	4	1	3
Pounds Sterling	-	1	1	6
Other currencies	-	1	1	2

Sensitivity analysis to market risks

The table below shows the results of sensitivity testing on the Group's statement of profit or loss and equity by type of business. The sensitivity analysis indicates the effect of changes in market risk factors arising from the impact of the changes in these factors on the Group's financial assets and liabilities and its insurance assets and liabilities.

	2016		2015	
	Statement of profit or loss	Equity	Statement of profit or loss	Equity
31 December				
Interest rate risk				
+ 1 percent shift in yield curves	120	720	130	667
- 1 percent shift in yield curves	(120)	(720)	(130)	(667)
Equity price risk				
+1 percent increases in equity prices	5	80	8	103
-1 percent decrease in equity prices	(5)	(80)	(8)	(103)

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29 MATURITY PROFILE OF INVESTMENTS

2016	Less than 1 year	1 - 5 years	5 - 10 years	Over 10 years / no maturity	Total
Equities	-	-	-	7,061	7,061
Government bonds	-	2,882	2,117	218	5,217
Corporate bonds	765	2,657	1,590	885	5,897
Managed funds	-	-	-	2,772	2,772
Unquoted equities & funds	-	-	-	3,933	3,933
Equity accounted investees	-	-	-	15,670	15,670
Total	765	5,539	3,707	30,539	40,550

This balance comprises:

	2016
Available-for-sale securities	20,080
Held-to-maturity securities	4,800
Equity accounted investees	15,670
Total	40,550

2015	Less than 1 year	1 - 5 years	5 - 10 years	Over 10 years / no maturity	Total
Equities	-	-	-	9,239	9,239
Government bonds	200	2,673	1,474	446	4,793
Corporate bonds	1,066	2,759	668	640	5,133
Managed funds	-	-	-	3,563	3,563
Unquoted equities & funds	-	-	-	4,473	4,473
Equity accounted investees	-	-	-	13,806	13,806
Total	1,266	5,432	2,142	32,167	41,007

This balance comprises:

	2015
Available-for-sale securities	22,249
Held-to-maturity securities	4,952
Equity accounted investees	13,806
Total	41,007

Managed funds not having a fixed maturity date are classified as maturing after ten years.

Securities carried at fair value through profit or loss are readily realisable and intended to be held for short term purposes. These are not included in the above maturity profile of investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

In thousands of Bahraini Dinars

30 GEOGRAPHICAL CONCENTRATION OF INVESTMENTS

	2016	2015
Bahrain	20,143	20,194
Other GCC countries	11,211	12,431
North America	5,380	4,421
Europe	2,477	2,825
Japan and Korea	45	158
Other Asia/Oceania	996	1,169
Global/multi-regional	1,797	2,473
Total	42,049	43,671

This comprises:

	2016	2015
Securities carried at fair value through profit or loss	1,499	2,664
Available-for-sale securities	20,080	22,249
Held-to-maturity securities	4,800	4,952
Equity accounted investees	15,670	13,806
Total	42,049	43,671

Investment income by segment

	2016	2015
Bahraini listed equities	365	1,128
Other equities	213	512
Government and corporate bonds	738	489
Managed funds	472	194
Cash and short-term deposits	206	110
Investment properties	235	194
Others	9	-
Gross investment income	2,238	2,627
Provision for impairments on investments	(132)	(111)
Investment administration expenses	(61)	(82)
Policyholders' share of net investment income	(132)	(129)
Depreciation charges on investment properties	(162)	(162)
Investment properties' maintenance expenses	(123)	(97)
Net investment income	1,628	2,046

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For the year ended 31 December 2016 *continued*

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31 RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Related parties include transactions with associate companies, key management personnel including Directors of the company and companies in which the Directors are interested.

Transactions with associates and joint-venture companies, companies owned and controlled by the Directors are conducted on a normal commercial basis.

The related party transactions and balances included in these financial statements are as follows:

	2016	2015
a) Assets		
Receivables from companies in which directors held an interest	187	273
Receivables from associates	386	317
b) Liabilities - payables		
Payables to companies in which directors held an interest	881	1,011
Payables to associates and joint-venture	-	3
c) Income and expenses		
Gross insurance premiums	1,735	1,772
Claims	626	1,150

d) Transactions with key management personnel

Key management personnel of the Group comprise of the Chief Executive, Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group.

The key management personnel compensation is as follows:

	2016	2015
Salaries and allowances	553	549
Terminal benefits	40	30
Other benefits	28	28
Board remuneration	115	114

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For the year ended 31 December 2016 continued

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32 FAIR VALUE MEASUREMENT

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

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

2016	Fair value through the statement of profit or loss	Available-for-sale	Held-to-maturity	Loans and receivables	Total carrying value	Fair value
Cash and cash equivalents	-	-	-	5,048	5,048	5,048
Placements with banks	-	-	-	8,996	8,996	8,996
Insurance and other receivables	-	-	-	9,081	9,081	9,081
Financial investments	1,499	20,080	4,800	-	26,379	26,562
Total financial assets	1,499	20,080	4,800	23,125	49,504	49,687
Insurance payables	-	-	-	3,492	3,492	3,492
Other liabilities	-	-	-	6,272	6,272	6,272
Total financial liabilities	-	-	-	9,764	9,764	9,764

2015	Fair value through the statement of profit or loss	Available-for-sale	Held-to-maturity	Loans and receivables	Total carrying value	Fair value
Cash and cash equivalents	-	-	-	3,965	3,965	3,965
Placements with banks	-	-	-	6,973	6,973	6,973
Insurance and other receivables	-	-	-	7,760	7,760	7,760
Financial investments	2,664	22,249	4,952	-	29,865	30,040
Total financial assets	2,664	22,249	4,952	18,698	48,563	48,738
Borrowings	-	-	-	202	202	202
Insurance payables	-	-	-	2,792	2,792	2,792
Other liabilities	-	-	-	5,536	5,536	5,536
Total financial liabilities	-	-	-	8,530	8,530	8,530

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 *continued*

In thousands of Bahraini Dinars

32 FAIR VALUE MEASUREMENT *continued*

Fair value hierarchy

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

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

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

- **Level 1**
quoted prices (unadjusted) in active markets for identical assets and liabilities.
- **Level 2**
inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- **Level 3**
inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 continued

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32 FAIR VALUE MEASUREMENT continued

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

2016	Level 1	Level 2	Level 3	Total	Carrying Value
Available-for-sale investments	16,787	3,123	-	19,910	19,910
Securities carried at fair value through profit or loss	1,461	38	-	1,499	1,499
	18,248	3,161		21,409	21,409

2015	Level 1	Level 2	Level 3	Total	Carrying Value
Available-for-sale investments	19,317	2,771	-	22,088	22,088
Securities carried at fair value through profit or loss	2,626	38	-	2,664	2,664
	21,943	2,809	-	24,752	24,752

During the year, there were no transfers between level 1 and 2, also there were no transfers out of, or into, the level 3 measurement classification.

Fair value represents 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. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to curtail materially the scale of its operation or to undertake a transaction on adverse terms.

The carrying amount of the Group's held-to-maturity investments equals BD 4,800 thousand (2015: BD 4,952 thousand) whereas the fair value of the investments is BD 4,983 thousand (2015: BD 5,127 thousand). The investments in available-for-sale securities include investment in unlisted equity securities and managed funds carried at cost and having carrying value of BD 165 thousand (2015: BD 156 thousand) and BD 5 thousand (2015: BD 5 thousand) respectively.

The carrying amount of the Group's other financial assets and liabilities approximate their fair values due to their short term nature.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016 *continued*

In thousands of Bahraini Dinars

33 COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2016, the Group has commitments to make investments amounting to BD 463 thousand (2015: BD 57 thousand).

The Group is a defendant in a number of cases brought by third parties in respect of insurance liabilities which the company disputes. While it is not possible to predict the eventual outcome of such legal actions, the Group has made provision which, in their opinion, is adequate.

34 COMPARATIVE

Certain corresponding figures of 2015 have been regrouped where necessary to conform to the current year's presentation. Such regrouping did not affect previously reported total assets, total liabilities, equity, profit or comprehensive income.