

OFFEREE BOARD CIRCULAR DATED 30 May 2017

THIS OFFEREE BOARD CIRCULAR ("CIRCULAR") IS IMPORTANT AS IT CONTAINS THE RECOMMENDATION OF THE BOARD OF DIRECTORS OF TAKAFUL INTERNATIONAL COMPANY B.S.C. ("TAKAFUL" OR THE "OFFEREE") AND THE ADVICE OF THE PROFESSIONAL INDEPENDENT ADVISER. THIS CIRCULAR REQUIRES YOUR IMMEDIATE ATTENTION. PLEASE READ IT CAREFULLY.

Prior to making a decision, each recipient of this Circular is responsible for obtaining independent advice for considering the appropriateness of the Offer with regard to their respective objectives, financial situation and investment needs.

If you have sold or transferred all your shares in Takaful, you should immediately forward this Circular together with the Offer Document and Acceptance and Transfer Form to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.



Takaful International Company B.S.C.

(Incorporated in the Kingdom of Bahrain under Commercial Registration No.: 21100)

**CIRCULAR TO SHAREHOLDERS OF TAKAFUL INTERNATIONAL COMPANY B.S.C.
in relation to**

THE UNCONDITIONAL MANDATORY CASH OFFER TO ACQUIRE UPTO 36.31% OF THE ISSUED AND PAID UP ORDINARY SHARES OF TAKAFUL INTERNATIONAL COMPANY B.S.C. ("TAKAFUL"), REPRESENTING ALL THE OUTSTANDING SHARES OF TAKAFUL NOT CURRENTLY HELD BY BKIC, AT AN OFFER PRICE OF 95 FILS (NINETY-FIVE FILS) FOR EVERY SHARE IN TAKAFUL

BY

BAHRAIN KUWAIT INSURANCE COMPANY B.S.C. ("BKIC")

PROFESSIONAL INDEPENDENT ADVISER



KPMG Fakhro, Bahrain
(Commercial Registration No.: 6220)

DISCLAIMER STATEMENT

THE CENTRAL BANK OF BAHRAIN, THE BAHRAIN BOURSE AND THE MINISTRY OF INDUSTRY, COMMERCE AND TOURISM, IN THE KINGDOM OF BAHRAIN, ASSUME NO RESPONSIBILITY FOR THE ACCURACY AND COMPLETENESS OF THE STATEMENTS AND INFORMATION CONTAINED IN THIS OFFEREE BOARD CIRCULAR AND EXPRESSLY DISCLAIM ANY LIABILITY WHATSOEVER FOR ANY LOSS HOWEVER ARISING FROM THE RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENTS OF THIS OFFEREE BOARD CIRCULAR.



DIRECTORS' DECLARATION

THE DIRECTORS OF TAKAFUL INTERNATIONAL COMPANY B.S.C. ISSUING THIS OFFEREE BOARD CIRCULAR, WHOSE NAMES APPEAR IN THIS DOCUMENT, JOINTLY AND SEVERALLY ACCEPT FULL RESPONSIBILITY FOR THE ACCURACY OF INFORMATION CONTAINED IN THIS CIRCULAR INCLUDING THE APPENDICES. TO THE BEST OF THE KNOWLEDGE AND BELIEF OF THE DIRECTORS, WHO HAVE TAKEN ALL REASONABLE CARE TO ENSURE THAT SUCH IS THE CASE, THE INFORMATION CONTAINED IN THIS CIRCULAR IS IN ACCORDANCE WITH THE FACTS AND CONTAINS NO OMISSIONS LIKELY TO AFFECT THE IMPORTANCE AND COMPLETENESS OF THIS CIRCULAR.

STATEMENT FROM BOARD OF DIRECTORS OF TAKAFUL INTERNATIONAL COMPANY B.S.C.

This Offeree Board Circular has been prepared by Takaful International Company B.S.C. to provide information to its shareholders in connection with the Offer made by Bahrain Kuwait Insurance Company B.S.C. to acquire up to 36.31% of the issued and paid up ordinary shares of Takaful through cash in exchange for Shares of Takaful.

This Circular has been filed with the Central Bank of Bahrain in the Kingdom of Bahrain, in accordance with the requirements of Central Bank of Bahrain Rulebook Volume 6, Takeovers, Mergers and Acquisitions Module.

The Board of Directors of Takaful International Company B.S.C. hereby declare that, having taken all reasonable care to ensure that such is the case, the information contained in this Circular is, to the best of its knowledge, in accordance with the facts and contains no material omissions.

Board of Directors:

Name of Director	Title
Jamal Ali Al Hazeem	Chairman
Abdul Rahman Abdulla Mohammed	Vice Chairman
Khaled Soud Al Hassan	Director
Ebrahim Mohamed Sharif Al Rayes	Director
Othman Ebrahim Al Askar	Director
Ahmed Abdul Rahman Bucheeri	Director
Khalid Jamal Al Muzaire	Director
Abdulla Rabea Mohamed Rabea	Director

On behalf of the Board of Directors



Jamal Ali Al Hazeem
Chairman
30 May 2017

SHAREHOLDERS SHOULD NOTE THAT THE CIRCULAR STATES THAT THE OFFER WILL CLOSE AT CLOSE OF BUSINESS ON 20 JUNE 2017 OR SUCH LATER DATE(S) AS MAY BE ANNOUNCED FROM TIME TO TIME BY THE OFFEROR, SUBJECT TO APPROVAL OF THE CENTRAL BANK OF BAHRAIN.

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I. Corporate information

Board of Directors of Takaful	: Jamal Ali Al Hazeem (Chairman) Abdul Rahman Abdulla Mohammed (Vice Chairman) Khaled Soud Al Hassan (Director) Ebrahim Mohamed Sharif Al Rayes (Director) Othman Ebrahim Al Askar (Director) Ahmed Abdul Rahman Bucheeri (Director) Khalid Jamal Al Muzaire (Director) Abdulla Rabea Mohamed Rabea (Director)
CEO	: Younis J. Al Sayed
Registered Office	: Building No. 680, Road No. 2811, Seef District 428, P.O. Box 3230, Manama, Kingdom of Bahrain
Share Registrar	: Bahrain Bourse
Receiving Agent	: Bahrain Bourse
Professional Independent Adviser to the Board of Directors in relation to the Offer	: KPMG Fakhro, Kingdom of Bahrain
Legal Adviser to Takaful in relation to the Offer	: Rashid A.R Ebrahim – Attorneys & Legal Consultants

II. Definitions

For the purpose of this Circular, the following definitions apply throughout unless the context otherwise requires or is otherwise stated:

Acceptance	The acceptance of the BKIC Offer by a Takaful Shareholder by signing the Acceptance and Transfer Form and submitting the same to the Receiving Agent within the Offer Period as per the procedures prescribed in the Acceptance and Transfer Form
Acceptance and Transfer Form	The form to be distributed by Takaful and/or the Receiving Agent to Takaful Shareholders to accept the Offer
Adviser's Report or Professional Independent Adviser's Report	The report dated 30 May 2017 issued by the Professional Independent Adviser to the independent Shareholders of Takaful containing their advice on the Offer, set out in section VI of this Circular
Bahrain	Kingdom of Bahrain
BHB	The Bahrain Bourse
BHD or BD	Bahraini Dinar, the legal currency of the Kingdom of Bahrain
BKIC or Offeror	Bahrain Kuwait Insurance Company B.S.C.
BKIC Firm Intention Announcement Date	The date on which the firm intention to make the BKIC Offer was sent by BKIC to the Board of Takaful, being 20 April 2017 and announced subsequently
BKIC Offer or Offer	Bahrain Kuwait Insurance Company B.S.C.'s unconditional mandatory cash offer to acquire up to 36.31% of the issued and paid up ordinary shares of Takaful International Company B.S.C. representing all the outstanding shares of Takaful not currently held by BKIC, as described in BKIC Offer Document
BKIC Offer Document or Offer Document	Document dated 10 May 2017, containing the formal terms of the BKIC Offer and any other document which may be issued by BKIC
Block Purchase	The block purchase of 14,220,486 Takaful Shares (22.75%) from Bahrain Islamic Bank B.S.C. effected by BKIC on Bahrain Bourse on 2 April 2017.
Business day	A day on which banks, financial institutions and the BHB are open for general business in the Kingdom of Bahrain
CBB	Central Bank of Bahrain, Kingdom of Bahrain
Circular	This Circular to Shareholders dated 30 May 2017 in relation to the BKIC Offer enclosing, inter alia, the recommendation of the Takaful Board and Independent Adviser's Report
Companies Law	The Commercial Companies Law, Bahrain promulgated by Decree no 21 of 2001 and any subsequent amendments to it
CSD	Clearing, Settlement and Depository System of the BHB (computer system used by exchanges and brokerage houses to facilitate the transfer of securities certificates)
Director	A person holding office as a director of the Takaful on the Latest Practicable Date
EGM	Extra-ordinary General Meeting
GCC	The Gulf Co-operation Council comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates
Latest Practicable Date	29 May 2017, being the latest practicable date prior to the printing of this Circular
MoIC	Ministry of Industry, Commerce and Tourism, Kingdom of Bahrain

II. Definitions

Offer Closing Date	20 June 2017 being the last date for receiving the completed Acceptance and Transfer Form
Offer Opening Date	6 June 2017 being the date from which the Acceptance and Transfer Form will be available to the Takaful Shareholders
Offer Period	The 15 calendar days period beginning on the Offer Opening Date (6 June 2017) and ending on the Offer Closing Date (20 June 2017)
Offer Price	The offer price of 95 fils per share offered by BKIC to Takaful Shareholders to acquire the remaining 36.31 % stake not currently held by BKIC
Offeree or Takaful or Company	Takaful International Company B.S.C.
Offeror	BKIC
Offer Result Announcement Date	21 June 2017 being the date by which the acceptance or rejection of the applications will be communicated to the Takaful Shareholders
Professional Independent Adviser or Adviser	KPMG Fakhro, Kingdom of Bahrain, the professional independent adviser appointed by the Board of Takaful in respect of the Offer
Receiving Agent	Bahrain Bourse, in the Kingdom of Bahrain authorized to receive Acceptance and Transfer Form in accordance with the Offer Document
Record Date	4 June 2017 being the date established for the purpose of identifying the Takaful Shareholders' entitlement to receive the BKIC Offer. Takaful Shareholders whose names appear in the Takaful Share register on the Record Date will be eligible to receive the BKIC Offer. This being also the date on which the trading in the Takaful Shares will be suspended on the Bahrain Bourse at the end of the trading hours.
Restricted Jurisdiction	Any jurisdiction where the making of or the acceptance of the Offer would violate the laws of the jurisdiction
Share Registrar	Bahrain Bourse
Settlement Date	29 June 2017 the date on which those Takaful Shareholders accepting the BKIC Offer will receive payment
Takaful Board or Board of Takaful	The Board of Directors of Takaful as on the Latest Practicable Date
Takaful Shareholders	Registered holders of Takaful Shares as at the Record Date
Takaful Shares or Shares of Takaful	Ordinary issued and fully paid-up shares in the share capital of Takaful
TMA	The Takeovers, Mergers and Acquisitions Module of the CBB Rulebook, Volume 6.

III. Summary timetable

OFFER TIMETABLE	
Record Date	4 June 2017
Date of dispatch of Offer Document and this Circular to Takaful Shareholders	Latest by 5 June 2017 or such other date as may be approved in accordance with the TMA
Offer Opening Date	6 June 2017
Offer Closing Date	20 June 2017 subject to the announcement of an extended closing date in accordance with the TMA
Offers Result Announcement Date	21 June 2017
Offer Settlement Date	29 June 2017
Resumption of trading in Takaful Shares	2 July 2017

IV. Letter to shareholders from Board of Directors

Takaful International Company B.S.C.

(Incorporated in the Kingdom of Bahrain)
(Commercial Registration No. : 21100)



Registered Office:

Building No. 680,
Road No. 2811,
Seef District 428,
P.O. Box 3230,
Manama,
Kingdom of Bahrain

30 May 2017

To,
The Shareholders of the Takaful International Company B.S.C.

Dear Sir/Madam,

Bahrain Kuwait Insurance Company B.S.C.'s unconditional mandatory cash offer to acquire up to 36.31% of the issued and paid up ordinary shares of Takaful International Company B.S.C. representing all the outstanding shares of the Company not currently held by Bahrain Kuwait Insurance Company B.S.C., at an Offer Price of 95 fils (ninety-five fils) for every Share in Takaful

1. INTRODUCTION

1.1. Circular

The Board of Directors of BKIC resolved to authorize the acquisition of up to 22,696,669 of the issued and paid up ordinary shares of Takaful in cash at an Offer Price of 95 fils (ninety five fils) for every share in Takaful. Such resolution was implemented by BKIC, in a first phase, through the acquisition on 2 April 2017 from Bahrain Islamic Bank B.S.C. of 14,220,486 shares of the issued and paid up ordinary shares of Takaful. This Block Purchase transaction triggered the obligation for BKIC to launch a mandatory offer under the TMA, and, in a second phase, is being implement through the BKIC Offer. On 3 April 2017, BKIC communicated to Takaful's Board of Directors its requirement to undertake the mandatory Offer.

The purpose of this Circular is to provide relevant information to the Shareholders in compliance with the TMA and pertaining to the Offer and to set out the recommendation of the Takaful Board and the advice of the Professional Independent Adviser to the Takaful Board in relation to the Offer.

1.2. Background

1.2.1. On 2 April 2017, BKIC purchased, from Bahrain Islamic Bank B.S.C., 14,220,486 Takaful Shares (22.75%) thereby triggering an obligation on BKIC to launch a mandatory offer in relation to remaining shares of Takaful (not currently held by BKIC) pursuant to Rule TMA-3.1.1.

IV. Letter to shareholders from Board of Directors

- 1.2.2. On 3 April 2017, BKIC communicated to Takaful's Board of Directors its requirement to undertake the mandatory Offer.
- 1.2.3. On the BKIC Firm Intention Announcement Date being 20 April 2017, BKIC announced its firm intention to make BKIC Offer to acquire up to 36.31% of the issued and paid up ordinary shares of Takaful through an unconditional mandatory cash offer.
- 1.2.4. Further, on 10 May 2017, the Takaful Board received the BKIC Offer Document from BKIC detailing the terms of the BKIC Offer. The BKIC Offer Document is enclosed with this Circular.
- 1.2.5. The Acceptance and Transfer Form in relation to BKIC Offer is also enclosed with this Circular.
- 1.2.6. Takaful Board has appointed KPMG Fakhro as their Professional Independent Adviser for the purpose of reviewing the financial terms of the Offer and making a recommendation to the independent Shareholders of Takaful on whether or not the Offer is fair and reasonable.
- 1.2.7. In accordance with the TMA rule 2.2.7 the Takaful Board has appointed an independent committee (the "Independent Committee") to discharge the Takaful Board's responsibilities in relation to the BKIC Offer. Refer section V for further details.
- 1.2.8. Shareholders should, at a minimum, carefully and diligently consider the following before deciding on whether or not to accept the BKIC Offer:
- (i) the recommendation of the Takaful Board as contained in this Circular;
 - (ii) the recommendation of the Independent Committee of the Takaful Board as contained in this Circular (section V of this Circular);
 - (iii) the advice of the Professional Independent Adviser as contained in the Adviser's Report (section VI of this Circular);
 - (iv) the terms and conditions as mentioned in the enclosed BKIC Offer Document and;
 - (v) the terms and conditions as mentioned in the Acceptance and Transfer Form

2. THE BKIC OFFER

Information on the BKIC Offer is available in the section 3 of the BKIC Offer Document.

3. EFFECT OF THE BKIC OFFER, PROPOSED FINANCING OF BKIC OFFER AND POST ACQUISITION STRATEGY OF BKIC FOR TAKAFUL

The effect of the BKIC Offer, proposed financing of BKIC Offer and BKIC post acquisition strategy in relation to Takaful are available in the sections 14, 11 and 9, respectively of the enclosed BKIC Offer Document

4. TAKAFUL BOARD'S OPINION ON IMPACT ON OFFEREE'S EMPLOYEES

Following successful acquisition of Takaful, BKIC has stated that the successful completion of the BKIC Offer will not result in any immediate effect on Takaful's employees and there is no current intention to implement changes in management or organizational structure except for any changes which may be implemented as part of Takaful's existing strategy.

It is the opinion of the Takaful Board that following the acceptance of the BKIC Offer and successful acquisition of Takaful by BKIC there will be no material change in the terms or nature of employment of the employees of Takaful.

IV. Letter to shareholders from Board of Directors

5. INFORMATION ABOUT THE OFFEREE

Relevant information about the Offeree is covered in Appendix I of this Circular.

6. INFORMATION ABOUT THE BKIC

Relevant information about the BKIC has been set out in section 5 of the BKIC Offer Document.

7. THE PROFESSIONAL INDEPENDENT ADVISER'S REPORT

Unless otherwise defined in the section titled "Definitions" of this Circular, all capitalized terms in the summary below shall have the same meaning as defined in the Adviser's Report.

A copy of the Adviser's Report dated 30 May 2017 from the Professional Independent Adviser to the independent Shareholders of Takaful is set out in section V of this Circular. Shareholders should read the following extracts in conjunction with and in the context of the full text of the Adviser's Report.

Advice of the Adviser

After carefully considering the information available to us as at the Latest Practicable Date and based upon the industry, market, economic and other relevant conditions subsisting as at the Latest Practicable Date and based on our considerations above, we are of the following opinion in respect of the BKIC Offer.

Based upon the preceding analysis as presented in this report, and after the careful consideration of the Offer, we are of the opinion that the financial terms as presented by the BKIC Offer are fair and reasonable. Accordingly, our recommendation to the Board of Directors of Takaful is that they should recommend the Shareholders to ACCEPT the BKIC Offer.

These opinions are provided solely for the benefit of the independent Shareholders of Takaful and the Takaful Board in their evaluation of the Offer and may not be used / or relied on for any other purposes, or distributed to any other person, without the prior written consent of KPMG. These opinions do not constitute, and should not be relied on, as a recommendation to, or confer any rights upon, any Shareholder as to how such Shareholder should deal with his Shares of Takaful in relation to the Offer or any matter related thereto. The recommendation to be made by the Takaful Board to the Shareholders shall remain the responsibility of the Takaful Board.

This opinion is governed by, and construed in accordance with, the laws of Kingdom of Bahrain, and is strictly limited to the matters stated herein and does not apply by implication to any other matter.

IV. Letter to shareholders from Board of Directors

8. RECOMMENDATION OF INDEPENDENT COMMITTEE OF BOARD

A copy of the letter of Independent Committee of Board to Shareholders of Takaful dated 25 May 2017 is set out in section V of this Circular. Shareholders should read the following extracts in conjunction with and in the context of the full text of such letter.

Based upon the analysis as presented in section V of this Circular, and after the careful consideration of the BKIC Offer, two members out of three members of Independent Committee of Board are of the opinion that the financial terms as presented by the BKIC Offer are fair and reasonable. Accordingly, these two members of the Independent Committee of Board recommends to the Shareholders of Takaful to ACCEPT the BKIC Offer.

Based upon the analysis as presented in section V of this Circular, and after the careful consideration of the BKIC Offer, one member out of three members of Independent Committee of Board is of the opinion that the financial terms as presented by the BKIC Offer are NOT fair and reasonable. Accordingly, this member of the Independent Committee of Board recommends to the Shareholders of Takaful to REJECT the BKIC Offer.

9. RECOMMENDATIONS OF THE BOARD OF DIRECTORS

9.1. Takaful's Boards Recommendations

Shareholders are advised to read the letter from Independent Committee of Board and Adviser's Report as set out in section V and VI to this Circular, respectively, the Offer Documents and the terms of the BKIC Offer as set out therein carefully and in its entirety before accepting or rejecting the BKIC Offer.

It is to be noted that the closing market price of the Takaful share on 28 May 2017 (last trading date before the Latest Practicable Date) was BHD 0.100 per share. Last trade on Takaful Shares is pertaining to the Block Purchase on 2 April 2017 by BKIC at a price of 95 fils per share. (Block Purchase price not reflected on the Bahrain Bourse as a Special Order Market transaction) which is the first trade since 22 April 2015 (closing price on 22 April 2015 was 100 fils per share). The block purchase refers to purchase from Bahrain Islamic Bank B.S.C. of 14,220,486 Takaful Shares (22.75%) effected by BKIC on Bahrain Bourse on 2 April 2017.

9.2. Limitations

In rendering their recommendations, the Takaful Board has not had regard to general or specific investment objectives, financial situation, tax status or position, risk profiles or particular needs and constraints and circumstances of any individual Shareholder or group of Shareholders. As each Shareholder or group of Shareholders would have different investment objectives and profiles, the Takaful Board recommend that any individual Shareholder or group of Shareholders seek independent advice in the context of his specific investment portfolio, including his investment in Takaful, consult his stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

10. SHAREHOLDERS' RESPONSIBILITIES

10.1 Compliance with Applicable Laws

The availability of the Offer to Shareholders might be affected by the laws of their respective jurisdiction in which they are based. Accordingly, any Shareholder should inform himself about and observe any applicable legal requirements in their respective jurisdiction.

IV. Letter to shareholders from Board of Directors

For the avoidance of doubt, the Offer is made to all Shareholders including those to whom the Offer Document, Acceptance and Transfer Form, the Circular and any other related documents have not been, or will not be, sent.

Where there are potential restrictions on sending the Offer Document, the Acceptance and Transfer Form, the Circular and any other related documents to any jurisdiction, the Takaful Board reserves the right not to send the documents to Shareholders in such jurisdictions. However, the Takaful Board, may at its sole discretion, take such action as it may deem necessary to extend the Offer to Shareholders in any jurisdiction.

The Offer may be made, directly or indirectly, in or into, or by the use of mails of, or by any means or instrumentality (including, without limitation, telephonically or electronically) of interstate or foreign commerce of, or any facility of a national, state or other securities exchange of, any Restricted Jurisdiction, and any Shareholder should inform himself about and observe any applicable legal requirements in their respective jurisdiction.

It is the responsibility of any Shareholder who wishes to (i) request for the Offer Document, the Acceptance and Transfer Form, the Circular and any other related documents, or (ii) accept the BKIC Offer, to satisfy himself as to the full observance of the laws of the relevant jurisdiction in that connection, including the obtaining of any governmental or other consent which may be required, and compliance with all necessary formalities or legal requirements and the payment of any taxes, imposts, duties or other requisite payments due in such jurisdiction. Such Shareholders shall be liable for any such taxes, imposts, duties or other requisite payments payable and the Takaful Board and any person acting on its behalf shall be fully indemnified and held harmless by such Shareholder for any such taxes, imposts, duties or other requisite payments as the Takaful Board and/or any person acting on its behalf may be required to pay. In (i) requesting for the Offer Document, the Acceptance and Transfer Form, the Circular and any other related documents and/or (ii) accepting the BKIC Offer, the Shareholder represents and warrants to the Takaful Board that he is in full observance of the laws of the relevant jurisdiction in that connection, and that he is in full compliance with all necessary formalities or legal requirements. Any Shareholder who is in any doubt about his position should consult his professional adviser in the relevant jurisdiction.

10.2 Copies of Offer Documents

Shareholders may, obtain copies of the Offer Document, the Acceptance and Transfer Form, the Circular and any other related documents, during normal business hours during the Offer Period from Bahrain Bourse, Bahrain Financial Harbour, Harbour Gate (The Mall), Level 4, P.O. Box 3203, Manama, Kingdom of Bahrain.

Alternatively, any Shareholder who wish to receive the copies of the Offer Document, the Acceptance and Transfer Form, the Circular and any other related documents to an address in Bahrain may write to Mr. Kamal Al Shihaby, Board Secretary, Takaful at the registered office of Takaful at Building No. 680, Road No. 2811, Seef District 428, P.O. Box 3230, Manama, Kingdom of Bahrain. Such Shareholders will be sent the documents by ordinary post at the Shareholder's own risk, up to three (3) days prior to the Offer Closing Date.

10.3 Notice

The Takaful Board and / or the Offeror has reserved the right to notify any matter, including the fact that the Offer has been made, to any or all Shareholders by announcement to the Bahrain Bourse and / or paid advertisement in two daily newspaper published and circulated in Bahrain, in which case such notice shall be deemed to have been sufficiently given notwithstanding any failure by any Shareholder to receive or see such announcement or advertisement.

IV. Letter to shareholders from Board of Directors

11. ACTION TO BE TAKEN BY SHAREHOLDERS

Shareholders who wish to accept the BKIC Offer must do so no later than the close of business on 20 June 2017 or such later date(s) as may be announced from time to time by or on behalf of the BKIC.

Shareholders who do not wish to accept the Offer could reject the Offer as outlined in the Acceptance and Transfer Form, which have been sent to them along with this Circular.

There are different procedures for acceptance for Shareholders holding shares in physical or dematerialized (electronic) form. Shareholders who wish to accept the BKIC Offer, possessing shares in physical or dematerialized form should take note of the "Important instructions for completion of this Acceptance and Transfer Form" as set out in Section 3 of the Acceptance and Transfer Form. The Shareholders can also refer to section 4 of the BKIC Offer Document.

Takaful Shareholders who wish to accept the Offer must submit the completed Acceptance and Transfer Form together with all the required documents to the Receiving Agent's address given below either visiting to their offices or sending them by Registered mail / courier, during the Offer Period from 6 June 2017 to 20 June 2017.

Receiving Agent Address

Bahrain Bourse
Bahrain Financial Harbour
Harbour Mall (4th Floor)
P.O. Box: 3203
Manama - Kingdom of Bahrain
Tel: +973 17108781
Fax: +973 17256362
E-mail: csd.info@bahrainbourse.com

Working Hours

Sunday to Thursday
8:30AM–2:00PM

The Acceptance and Transfer Form should reach the Receiving Agent no later than the close of business on the Offer Closing Date 20 June 2017.

Yours faithfully



Jamal Ali Al Hazeem

Chairman
30 May 2017

**On behalf of Board of Directors of
TAKAFUL INTERNATIONAL COMPANY B.S.C.**

V. Letter to shareholders from independent committee of Board

Takaful International Company B.S.C.

(Incorporated in the Kingdom of Bahrain)
(Commercial Registration No. : 21100)



Registered Office:

Building No. 680,
Road No. 2811,
Seef District 428,
P.O. Box 3230,
Manama,
Kingdom of Bahrain

25 May 2017

To,
The Shareholders of the Takaful International Company B.S.C.

Dear Sir/Madam,

Bahrain Kuwait Insurance Company B.S.C.'s unconditional mandatory cash offer to acquire up to 36.31% of the issued and paid up ordinary shares of Takaful International Company B.S.C. representing all the outstanding shares of the Company not currently held by Bahrain Kuwait Insurance Company B.S.C., at an Offer Price of 95 fils (ninety-five fils) for every Share in Takaful

1. INDEPENDENT COMMITTEE OF BOARD

In accordance with the TMA rule 2.2.7 the Takaful Board has appointed an independent committee (the "Independent Committee") to discharge the Takaful Board's responsibilities in relation to the BKIC Offer. The Independent Committee consists of the following members:

- Mr. Jamal Ali Al Hazeem
- Mr. Abdulrahman Abdulla Mohammed
- Mr. Khalid Jamal Al Muzaire

All three members of the Independent Committee have disclosed any interest they have in the BKIC Offer and it has been concluded that no such interest exists that would be contrary to the requirements of the TMA.



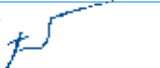
2. BACKGROUND AND BKIC OFFER

Please refer Letter to Shareholders from the Board of Directors in section IV for the background and details of the BKIC Offer. Further, refer section VI for professional Independent Advisor's report.

V. Letter to shareholders from independent committee of board

3. INDEPENDENT COMMITTEE OF BOARD'S RECOMMENDATION

Taking into consideration BKIC's Offer, the views of the Takaful's management team and the contents of the Professional Independent Advisor's Report, the assessment of each of the member of the Independent Committee of Board that the BKIC Offer is FAIR and REASONABLE is provided below:

Name	Agree	Do not agree	Signature
Mr. Jamal Ali Al Hazeem		✓	
Mr. Abdulrahman Abdulla Mohamed	✓		
Mr. Khalid Jamal Al Muzaire	✓		

As detailed above, two members out of three members of the Independent Committee of Board assess that the BKIC Offer is Fair and Reasonable and these two members recommend that the shareholders of Takaful ACCEPT the BKIC Offer.

One member of the Independent Committee of Board assess that the BKIC Offer is NOT Fair and Reasonable and therefore he recommends that the shareholders of Takaful to "REJECT" the BKIC Offer. The key factors for rejecting the BKIC Offer by this member were as following:

- The improved current financial position of the Company and progress it made in the past two years;
- The business plans and strategy of the Company projecting better results in future;
- Discussions with the management of the Company about the operational results and the reflection of market conditions on the Company's goals and objectives

Shareholders are advised to read the Letter to Shareholders from Board of Directors and Adviser's Report as set out in section IV and VI to this Circular, respectively, the Offer Documents and the terms of the BKIC Offer as set out therein carefully and in its entirety before accepting or rejecting the BKIC Offer.

4. LIMITATIONS

In rendering their recommendations, the Independent Committee of Board has not had regard to general or specific investment objectives, financial situation, tax status or position, risk profiles or particular needs and constraints and circumstances of any individual Shareholder or group of Shareholders. As each Shareholder or group of Shareholders would have different investment objectives and profiles, the Independent Committee of Board recommend that any individual Shareholder or group of Shareholders seek independent advice in the context of his specific investment portfolio, including his investment in Takaful, consult his stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

VI. Adviser's report from the professional independent adviser to the independent shareholders of Takaful International Company B.S.C. in respect of the offer

PROFESSIONAL INDEPENDENT ADVISER'S REPORT

The Independent Shareholders,
Takaful International Company B.S.C.
30 May 2017

Dear Sirs,

PROFESSIONAL INDEPENDENT ADVISER'S REPORT TO THE INDEPENDENT SHAREHOLDERS OF TAKAFUL INTERNATIONAL COMPANY B.S.C. (OFFEREE) IN RESPECT OF THE OFFER FROM BAHRAIN KUWAIT INSURANCE COMPANY B.S.C.

For the purpose of this report, all capitalized terms not otherwise defined herein, shall have the same meaning given to them in the Offeree Board Circular (the "**Circular**") dated 30 May 2017 to be sent by the Board of Directors (the "**Takaful Board**" or "**Board of Takaful**") to the registered holders of shares (the "**Shareholders**") of Takaful International Company B.S.C. ("**Takaful**" or the "**Offeree**" or the "**Company**") as on the Record Date.

1. INTRODUCTION

On 11 May 2017, Bahrain Kuwait Insurance Company B.S.C. ("**BKIC**") announced an unconditional mandatory cash offer (the "**BKIC Offer**") to acquire up to 36.31% of the issued and paid up ordinary shares of Takaful (the "**Takaful Shares**" or "**Shares of Takaful**"), representing all the outstanding shares of Takaful not currently held by BKIC, at an offer price of 95 fils (ninety-five fils) ("**Offer Price**") for every share in Takaful.

BKIC Board of Directors in their meeting held on 23 February 2017 resolved to authorize the acquisition of up to 22,696,669 of the issued and paid up ordinary shares of Takaful in cash at an Offer Price of 95 fils (ninety five fils) for every share in Takaful. BKIC implemented this resolution, in a first phase, through the acquisition on 2 April 2017 from Bahrain Islamic Bank B.S.C. of 14,220,486 shares of the issued and paid up ordinary shares of Takaful ("**Block Purchase**"). Such Block Purchase by BKIC triggered the obligation to launch a mandatory offer under the Takeovers, Mergers and Acquisitions code issued by the Central Bank of Bahrain ("**TMA**"), in the second phase, implemented through BKIC Offer.

2. OFFER SUMMARY

The BKIC Offer is an unconditional mandatory cash offer to acquire up to 36.31% of the issued and paid up ordinary shares of Takaful, representing all the outstanding shares of Takaful not currently held by BKIC, at an Offer Price of 95 fils (ninety-five fils) for every share in Takaful.

Takaful is a Bahraini public shareholding company registered with the Ministry of Industry, Commerce and Tourism ("**MOIC**") in the Kingdom of Bahrain. Takaful is licensed by the Central Bank of Bahrain ("**CBB**") as a locally incorporated insurance firm and provides Takaful and related products and services. The Company's ordinary shares are listed on the Bahrain Bourse ("**BHB**").

BKIC is registered with the MOIC as a Public Bahraini Shareholding Company whose ordinary shares are listed on the BHB and the Kuwait Stock Exchange. BKIC is licensed by the CBB as a locally incorporated insurance firm and provides its clients with all classes of general insurance.

Takaful Shareholders whose name appears in the share register as on the Record Date will be eligible to receive the BKIC Offer. Takaful will make an application to the BHB to suspend trading of Takaful Shares from the Record Date, until cash settlement is paid to the Takaful Shareholders accepting the BKIC Offer.

VI. Adviser's report from the professional independent adviser to the independent shareholders of Takaful International Company B.S.C. in respect of the offer

In accordance with clause 2.2 of the TMA, KPMG Fakhro has been appointed by the Takaful Board as "Professional Independent Adviser" to advise the independent Shareholders of Takaful as to whether the BKIC Offer is, or is not, fair and reasonable.

This report forms part of the Circular and sets out KPMG's financial evaluation of the BKIC Offer and KPMG's recommendation thereon for inclusion in the Circular.

3. TERMS OF REFERENCE

KPMG Fakhro ("KPMG" or "we" or "our") has been appointed to advise the independent Shareholders of Takaful, on the financial terms of the BKIC Offer and provide an opinion on whether or not the Offer is fair and reasonable.

In formulating our opinion and recommendation, we have drawn upon the information, opinions and facts provided to us by the Takaful Board and members of management of the Offeree (the "Management"), relied on the information as set out in the Circular, the Offer Document, audited financial statements of the Offeree, financial and non-financial information provided by the Offeror and other relevant public information collated by us in connection with the BKIC Offer. We have also relied on the information contained in various announcements made by the Company and the Offeror, as well as other public announcements in relation to the Offer. Whilst care has been exercised in reviewing the information we have relied upon, we have not independently verified the information and accordingly cannot and do not warrant, and do not accept any responsibility for the accuracy, completeness or adequacy of such information. Notwithstanding any of the foregoing, we have nevertheless made enquiries and used our judgment as we deemed necessary or appropriate in assessing relevant information and are not aware of any reason to doubt the reliability of the information.

It is not within our terms of reference to evaluate or comment on the legal, strategic and/or synergistic benefits and risks of accepting or rejecting the BKIC Offer and the long term prospects for Takaful and its shareholders. We are also not addressing the relative merits of the Offer vis-à-vis any alternative transactions previously considered by the Company or transactions that the Company may consider in the future, and as such, we do not express a view thereon. Such evaluations relating to Takaful remain the sole responsibility of the Takaful Board and the Management, although we may, to the extent we deem appropriate or necessary, rely and draw upon their evaluations in arriving at our recommendations.

We were neither a party to the negotiations, if any, that led to the Offer, nor were we involved in the deliberations leading up to the decision by the Takaful Board to enter into such negotiations and its subsequent actions relating thereof. We do not, by this report, warrant the merits of the Offer other than to form a recommendation to the independent Shareholders of Takaful with respect of the Offer. We were neither requested nor authorized to solicit, and we have not solicited, any indications of interest from any third party with respect to the Takaful Shares.

We have been advised by the Takaful Board that, to the best of their knowledge and belief, all material information in connection with the Offer and the Offeree has been disclosed to us and there are no omissions of which would render any information given to us to be untrue, misleading or inaccurate. We have relied upon assurances of the Takaful Board that the Circular has been reviewed by the Takaful Board (including those who may have delegated detailed supervision of the Circular) who have taken all reasonable care to ensure that the facts stated and opinions expressed in the Circular (other than those expressed in this report) are fair and accurate in all material respects and that no material facts have been omitted which might cause the Circular to be misleading. The Takaful Board jointly and severally accepts responsibility accordingly as per the Directors' Declaration as set out in the Circular.

The scope of our appointment does not require us to express, and we do not express, a view on the future prospects of the Company. We are therefore not expressing any view herein as to the price at which the Shares of Takaful may trade if the Offer was to be rejected by Shareholders or the prices at which any Shares of Takaful that have not been tendered as part of the Offer may trade or on the future financial performance of the Company.

VI. Adviser's report from the professional independent adviser to the independent shareholders of Takaful International Company B.S.C. in respect of the offer

Our opinion is based upon market, economic, industry and other conditions prevailing on, and the information available to us as at 29 May 2017 (the "Latest Practicable Date"). Our opinion does not reflect any developments that may have occurred after the Latest Practicable Date, and we assume no responsibility to update, revise or reaffirm our opinion in the light of any subsequent development after the Latest Practicable Date that may in any way affect our opinion contained herein.

In arriving at our recommendations, we have not had regard to the general or specific investment objectives, tax position, financial situation, tax status, risk profiles or unique needs and constraints or particular circumstances of any individual Shareholder. As different Shareholders would have different investment objectives and profiles, we advise the Takaful Board to recommend that any individual Shareholder who may require advice in the context of his specific investment strategy should consult his stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser.

This report is governed by, and construed in accordance with, the laws of the Kingdom of Bahrain, and is strictly limited to the matters stated herein and does not apply by implication to any other matter. Our recommendation in relation to the Offer should be considered in the context of the entirety of our report and the Circular.

4. INFORMATION ABOUT THE OFFEREE

Information about the Offeree is set out in Appendix I of the Circular.

5. INFORMATION ABOUT THE OFFEROR

Relevant information about the BKIC has been set out in section 5 of the BKIC Offer Document.

6. EFFECT OF THE BKIC OFFER, PROPOSED FINANCING OF BKIC OFFER AND POST ACQUISITION STRATEGY OF BKIC FOR TAKAFUL

The effect of the BKIC Offer, proposed financing of BKIC Offer and BKIC post acquisition strategy in relation to Takaful are available in the sections 14, 11 and 9, respectively of the enclosed BKIC Offer Document.

7. HISTORICAL FINANCIAL ANALYSIS OF TAKAFUL

General Bases and Explanatory Statements

In the course of our analysis, we have relied on the following bases and explanatory statements:

1. The audited financial statements of Takaful for the year ended 31 December 2014, 2015 and 2016;
2. Unaudited financial statements for the period ended 31 March 2017 (Q1 2017);
3. The issued share capital of Takaful as on 31 March 2017 is BHD 6.25 million comprising 62.5 million shares of 100 fills each;
4. As on the Latest Practicable Date, there are no outstanding convertible securities (including options) in respect to the capital of Takaful;
5. The information used in our assessment has been extracted, where available and/or applicable, from the Offer Document, the Circular, annual reports, announcements, Company website, Bahrain Bourse website, Bloomberg and any other publicly available information and reports. We make no representations or warranties, express or implied, as to the accuracy or completeness of such information.

VI. Adviser's report from the professional independent adviser to the independent shareholders of Takaful International Company B.S.C. in respect of the offer

7.1. Income Statement

Takaful Consolidated Income Statement - Total including Participants and Shareholders Income Statement

Amount in BHD thousand	Dec-14	Dec-15	Dec-16	Q1-17
Revenues				
Gross contributions	20,796	19,646	20,925	5,757
Retakaful share	(9,931)	(5,779)	(6,872)	(2,274)
Retained contributions	10,864	13,867	14,053	3,484
Movement in unearned contributions	(130)	(1,298)	111	(89)
Net earned contributions	10,734	12,569	14,164	3,395
Net commission and other takaful income/(expenses)	962	1,585	1,373	340
Total takaful revenue	11,696	14,154	15,537	3,735
Total takaful expenses	(9,785)	(11,176)	(10,238)	(2,462)
Surplus from takaful operations before wakala fees	1,911	2,977	5,299	1,273
Wakala fees	(2,788)	(3,754)	(4,978)	(1,208)
Surplus/(Deficit) from takaful operations after wakala fees	(877)	(777)	321	65
Wakala Fees	2,788	3,754	4,978	1,208
Investment income	338	489	328	83
	3,126	4,243	5,305	1,292
Net management, general and administrative expenses	(3,952)	(5,163)	(4,996)	(1,201)
Net profit (loss) and surplus/(deficit) for the year	(1,703)	(1,697)	631	156

Source: Takaful Audited Financial Statements for the year ended 2014, 2015, 2016 and unaudited financial statements for Q1 2017

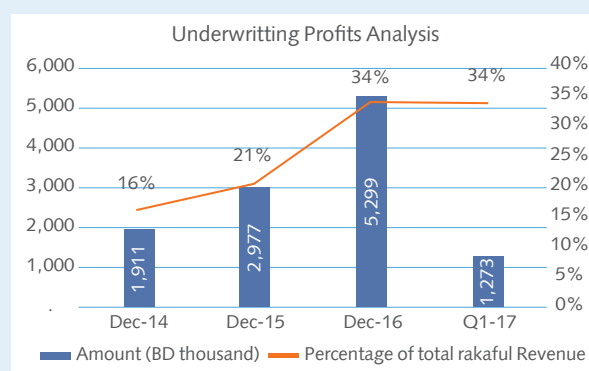
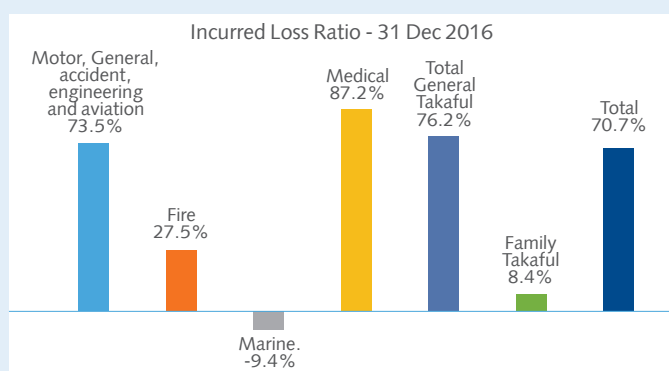
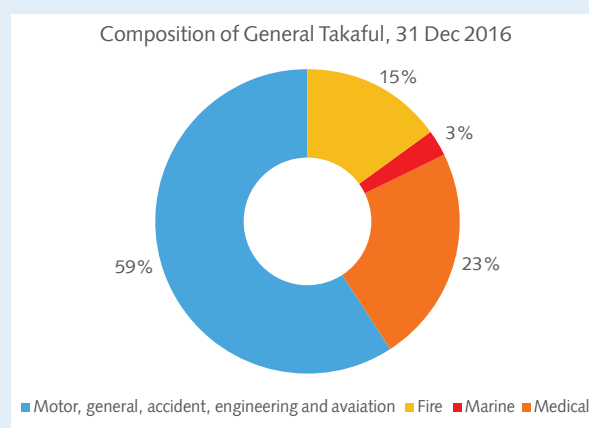
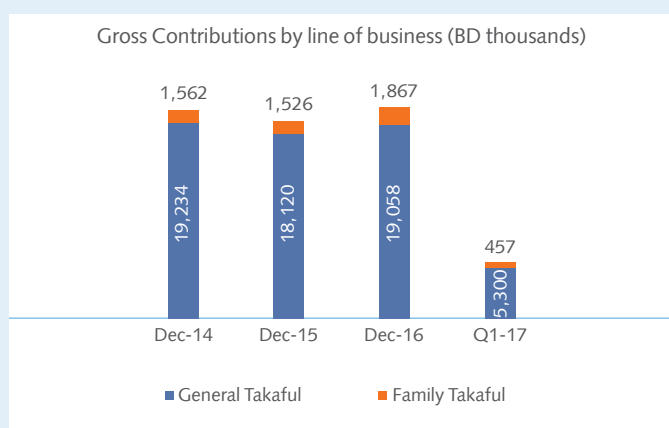
Net profit (loss) and surplus/(deficit) Summary	Dec-14	Dec-15	Dec-16	Q1-17
Amount in BD Thousand				
Surplus/(Deficit) - Participants	(859)	(943)	228	68
Surplus/(Deficit) - Shareholders	(844)	(754)	403	88
Total Net Profit (loss) for the year	(1,703)	(1,697)	631	156

Source: Takaful Audited Financial Statements for the year ended 2014, 2015, 2016 and unaudited financial statements for Q1 2017

Key Analysis:

- Gross contribution remained at 2014 level in 2016.
- General Takaful comprise circa 92% of the Gross contribution during the period 2014 to Q1' 2017.
- Motor & General Accidents and Medical segments comprise circa 59% and 23% of Gross contribution of General Takaful for the year ended 31 Dec 2016 respectively.
- Incurred loss ratio at an overall level was circa 70.7% as at 31 Dec 2016. Medical incurred loss ratio was highest at 87.2% followed by Motor & General Accidents at 73.5% as at 31 Dec 2016.
- Underwriting profits before wakala fees grew at impressive rate of Compound Annual Growth Rate (CAGR) of 67% during the period 2014 to 2016.
- In 2016, shareholders account reported net profit of BD 403 thousand as against losses incurred in 2014 and 2015.

VI. Adviser's report from the professional independent adviser to the independent shareholders of Takaful International Company B.S.C. in respect of the offer



Source: Takaful Financial Statements and KPMG Analysis

7.2. Balance Sheet

Key Analysis:

- Current assets comprise of cash and security deposit as well as Available for sale (short term) investment that the company makes to generate returns. As of Q1 2017, current assets constituted c. 28% of the total asset base.
- Non-current assets consists of company's investment in its property and retakaful and takaful receivables – which are balances due from retakaful and takaful companies domiciled mainly in the Middle East.
- As of 31 December 2016, of the c. BD9 million retakaful balance receivable, c. 60% was overdue but not impaired – as these are expected to be fully recoverable based on management's past experience.
- Company's share capital has remained at BHD 6.25 million while the accumulated losses have increased from c. BD 280 thousand in 2014 to c. BHD 598 thousand as of Q1 2017 – on account of business losses largely in 2015. In addition, there exists a deficit of c. BD 70 thousand in the participant's fund account – which as per principles of Takaful business – are required to be funded from shareholder equity.
- As a result, the adjusted equity as of Q1 2017 is estimated to be c. BD 6.44 million.
- Liabilities consists of takaful reserves, outstanding claims and other payables – relating to takaful business operations.

VI. Adviser's report from the professional independent adviser to the independent shareholders of Takaful International Company B.S.C. in respect of the offer

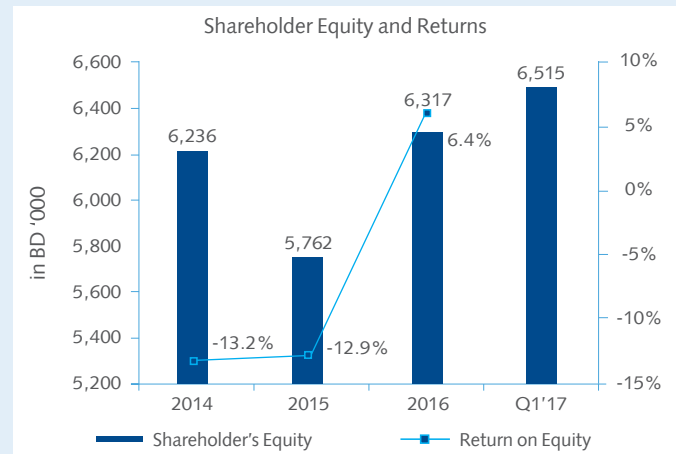
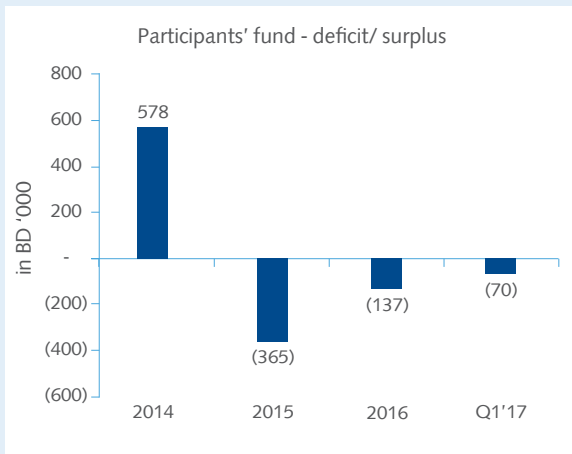
Takaful International Company B.S.C. - Balance Sheet

(Expressed in Bahraini Dinars)

	2014	2015	2016	Q1' 2017	2014	2015	2016	Q1' 2017
ASSETS								
Cash and investments:								
Statutory deposit	125,000	125,000	125,000	125,000	0.3%	0.4%	0.3%	0.3%
Cash and cash equivalents	3,379,263	5,237,154	7,608,103	5,797,304	9.1%	15.2%	19.3%	14.5%
Available-for-sale investments	5,130,432	5,114,475	4,686,569	5,259,433	13.8%	14.8%	11.9%	13.1%
	8,634,695	10,476,629	12,419,672	11,181,737	23.2%	30.4%	31.5%	27.9%
Takaful and retakaful balances receivable	10,846,515	8,191,292	9,018,826	10,108,680	29.1%	23.8%	22.8%	25.2%
Due from retakaful companies	8,926,724	8,691,892	8,901,992	9,115,270	23.9%	25.2%	22.5%	22.7%
Deferred retakaful contribution	3,741,314	2,160,164	3,030,352	3,648,685	10.0%	6.3%	7.7%	9.1%
Deferred policy acquisition costs	795,605	769,705	706,739	592,058	2.1%	2.2%	1.8%	1.5%
Due from retakaful companies (family takaful)	1,454,661	1,625,398	1,707,505	1,707,505	3.9%	4.7%	4.3%	4.3%
Property and equipment	1,977,987	2,351,551	2,272,525	2,228,449	5.3%	6.8%	5.8%	5.6%
Receivable from takaful funds	707,076	33,439	983,532	849,024	1.9%	0.1%	2.5%	2.1%
Other receivables and prepayments	189,848	164,446	449,060	673,195	0.5%	0.5%	1.1%	1.7%
TOTAL ASSETS	37,274,425	34,464,516	39,490,203	40,104,603	100.0%	100.0%	100.0%	100.0%
EQUITY AND LIABILITIES								
Shareholders' equity								
Share capital	6,250,000	6,250,000	6,250,000	6,250,000	16.8%	18.1%	15.8%	15.6%
Statutory reserve	480,066	480,066	519,727	519,727	1.3%	1.4%	1.3%	1.3%
General reserve	200,000	200,000	200,000	200,000	0.5%	0.6%	0.5%	0.5%
Accumulated losses	(280,787)	(1,036,159)	(679,213)	(598,402)	-0.8%	-3.0%	-1.7%	-1.5%
Investments fair value reserve	(427,046)	(147,453)	(43,751)	65,610	-1.1%	-0.4%	-0.1%	0.2%
Equity attributable to shareholders	6,222,233	5,746,454	6,246,763	6,436,935	16.7%	16.7%	15.8%	16.1%
Non-controlling interests	14,058	15,902	70,586	78,157	0.0%	0.0%	0.2%	0.2%
Total equity (Deficit)/surplus in participants' fund	6,236,291	5,762,356	6,317,349	6,515,092	16.7%	16.7%	16.0%	16.2%
Liabilities	578,197	(365,153)	(137,262)	(69,609)	1.6%	-1.1%	-0.3%	-0.2%
Gross outstanding claims	12,311,941	12,848,760	11,738,496	12,263,621	33.0%	37.3%	29.7%	30.6%
Unearned contributions reserve	8,222,100	7,929,198	8,688,463	9,395,498	22.1%	23.0%	22.0%	23.4%
Unearned retakaful commissions	739,956	343,477	485,316	553,574	2.0%	1.0%	1.2%	1.4%
Family takaful technical reserves	2,270,828	2,527,505	2,780,866	2,865,866	6.1%	7.3%	7.0%	7.1%
Retakaful/ takaful and other payables	4,834,718	4,103,431	6,824,812	5,861,762	13.0%	11.9%	17.3%	14.6%
Other liabilities and provisions	1,189,131	1,068,186	1,562,963	1,584,886	3.2%	3.1%	4.0%	4.0%
Employees' terminal benefits	184,187	213,317	245,668	284,889	0.5%	0.6%	0.6%	0.7%
Payable to shareholders	707,076	33,439	983,532	849,024	1.9%	0.1%	2.5%	2.1%
Total liabilities	30,459,937	29,067,313	33,310,116	33,659,120	81.7%	84.3%	84.4%	83.9%
TOTAL EQUITY and LIABILITY	37,274,425	34,464,516	39,490,203	40,104,603	100.0%	100.0%	100.0%	100.0%

Source: Takaful Audited Financial Statements for the year ended 2014, 2015, 2016 and unaudited financial statements for Q1 2017

VI. Adviser's report from the professional independent adviser to the independent shareholders of Takaful International Company B.S.C. in respect of the offer



8. EVALUATION OF THE BKIC OFFER

In assessing the financial terms of the Offer, we have taken into consideration the following parameters in respect of Takaful:

- Historical financial performance analysis;
- Business plan of Takaful duly approved by the Board of Takaful;
- Market performance analysis of the share price (Takaful) and liquidity of the shares;
- Market multiples of broadly comparable companies;
- Successful recent acquisition of companies engaged in the insurance sector in the GCC region;
- Recent acquisition of significant minority stake in Takaful by BKIC through Block Purchase.

Our assessment is based on the assumption of the Takaful as a going concern. We have not assessed or estimated any liquidation value of Takaful in our evaluation of the Offer.

We have considered the following valuation approaches to arrive at a fair price for ordinary shares of the Company and to conclude the fairness of the Offer:

8.1. Capitalized Earnings Approach

The valuation under this approach is computed by capitalizing maintainable earnings at expected rate of return by investors. The valuation is computed by dividing the earnings per share of the Company by the cost of equity, computed by using Capital Asset Price Model (CAPM) for unlevered Companies. The Company reported net profit in 2016 whereas incurred losses in earlier years. For the purpose of estimating maintainable earnings we have considered average of reported net profit (Shareholders statement) for the year 2016 and projected net profit for the period 2017 to 2019 based on the business plan of the Company duly approved by the Board of Takaful.

VI. Adviser's report from the professional independent adviser to the independent shareholders of Takaful International Company B.S.C. in respect of the offer

Particulars	Units	Pricing Analysis
Maintainable Net Profit (Shareholders statement) - Average for the year 2016 and projected net profit for the period 2017 to 2019	BD	516,323
Cost of Equity (based on CAPM approach)	%	11.60%
Value of the Company	BD	4,451,097
Number of Takaful shares outstanding	Number	62,500,000
Value per Share	fls	71 fls

Source: Takaful Board and KPMG Analysis

Cost of Equity computation based on CAPM approach:

Cost of Equity Components	Unit	Notes	Source
Risk-free rate (rf)	2.29%	Risk free rate on USA government bond for 10 years as on 30th April 2017	USA department of treasury website
Market Risk Premium (MRP = RM-RF)	5.69%	This represents the additional return that investors expect in return for holding risk in the form of a well-diversified portfolio of risky assets (such as a market index).	Damodaran website
Unlevered Insurance Industry Beta (B)	0.71	The beta factor measures systematic, undiversifiable or market risk. We have taken the median of unlevered beta for insurance industry.	Damodaran website
Country Risk Premium (CRM)	4.27%	The additional risk associated with investing in Bahrain as compared to USA risk free rate	Damodaran website
Company Risk Premium (CRP)	1%	Additional risk associated with the forecasting risk for the Company	KPMG estimate
Cost of Equity (Rf + MRP* B+ CRM+ CRP)	11.60%		

8.2. Market Multiples – Comparable companies P/E ratio

The valuation under this method is derived by multiplying the Net Profit of the Company (Shareholders statement) by the Price Earnings (PE) ratio of the comparable companies in GCC region. We established the range of values to identify the benchmark comparable Companies.

For the purpose of estimating valuation range, we have considered net profit (Shareholders statement) for the year 31 Dec 2016 and maintainable net profit as detailed in 8.1 above.

Particulars	Units	Net Profit for 2016	Maintainable Net Profit (average of 2016 and 2017 to 2019)
Net Profit (Shareholders statement)	BD	403,291	516,323
Price to Earnings (P/E) ratio of comparable companies	X times	10.25x	10.25x
Value of the Company	BD	4,133,733	5,292,308
Number of Takaful shares outstanding	Number	62,500,000	62,500,000
Value per Share	fls	66 fls	85 fls

Source: Takaful Board, and KPMG Analysis

VI. Adviser's report from the professional independent adviser to the independent shareholders of Takaful International Company B.S.C. in respect of the offer

Comparable companies selected for the assessment

We have considered the following criteria in assessing the comparable companies:

- Islamic insurance companies operating in the GCC region with focus on General Takaful
- Companies registered in the Kingdom of Saudi Arabia (KSA) have been excluded from the comparable companies list as the market opportunities and scale of operations are significantly larger in KSA and not comparable to the Company
- Comparable companies reported profit in latest financial year
- Comparable companies with shareholders' equity up to 4x of the shareholders' equity of the Company as of 31 Dec 2016
- Comparable companies with gross written contribution up to 2x of the gross written contribution of the Company for the year ended 31 Dec 2015.

Based on the above-mentioned criteria, the following comparable companies have been considered:

Name of Comparable Company	Country	Price to Earnings ratio*
National Takaful Co Watania PJSC	UAE	225.97**
Dar Al Takaful PJSC	UAE	24.29
Al Madina Takaful Company SAOC	Oman	10.25
Takaful Oman Insurance SAOG	Oman	6.38
Wethaq Takaful Insurance Company K.S.C.P.	Kuwait	6.52
Median multiple		10.25

Source: Respective comparable companies website, Bloomberg and KPMG Analysis

* Price to Earnings Ratio (P/E) is computed as price as of 30 April 2017 divided by Earnings Per Share for latest yearly reported financial statements.

** The multiple is very high and an outlier. We have therefore considered median multiple.

8.3. Market Multiples – Comparable companies P/B ratio

The valuation under this method is derived by multiplying the Adjusted Book Value of the Company (Shareholders Equity as of 31 March 2017 adjusted for deficit in Participant's fund, refer 8.5 below) by the Price Book (PB) ratio of the comparable companies in GCC region. We have considered the comparable companies as mentioned in 8.2 above.

Particulars	Units	Pricing Analysis
Adjusted Book Value (Shareholders' Equity) of the Company as of 31 March 2017#	BD	6,445,483
Price to Book (P/B) ratio of comparable companies	X times	1.12x
Value of the Company	BD	7,218,941
Number of Takaful shares outstanding	Number	62,500,000
Value per Share	fls	116 fls

Source: Takaful Board, and KPMG Analysis

Adjusted Book Value for the Company as well as comparable companies is arrived at by adjusting any deficit in the participants fund as at latest reported financial statements period.

VI. Adviser's report from the professional independent adviser to the independent shareholders of Takaful International Company B.S.C. in respect of the offer

Based on the selected comparable companies in 8.2, the following comparable companies have been considered:

Name of Comparable Company	Country	Price to Earnings ratio *
National Takaful Co Watania PJSC	UAE	1.12
Dar Al Takaful PJSC	UAE	2.10
Al Madina Takaful Company SAOC	Oman	0.71
Takaful Oman Insurance SAOG	Oman	1.20
Wethaq Takaful Insurance Company K.S.C.P.	Kuwait	0.51
Median multiple		1.12

Source: Respective comparable companies website, Bloomberg and KPMG Analysis

*Price to Book Ratio (P/B) is computed as price as of 30 April 2017 divided by Adjusted Book Value Per Share for latest reported financial statements.

8.4. Market Multiples – Comparable Transactions Approach

The valuation under this method is derived by multiplying the Adjusted Book Value of the Company (Shareholders Equity as of 31 March 2017 adjusted for deficit in Participant's fund, refer 8.5 below) by the Price Book (PB) ratio of the comparable transaction in the Insurance sector.

In Bahrain market, latest transaction concluded in Dec 2016 in Insurance sector was acquisition of majority stake of 71.46% stake in Al Ahlia Insurance Company B.S.C. ("AAIC") by Solidarity Group Holding B.S.C. (C) ("Solidarity"). Solidarity made voluntary offer to acquire up to 100% of the issued and paid up capital of AAIC for cash at an offer price of 242 fils. AAIC is a conventional insurance company whereas Solidarity is a Takaful company. This transaction was at arm's length between knowledgeable, willing and independent parties and accordingly considered as comparable transaction for this pricing analysis.

Price to Book value multiple for this transaction was 1.09x. The transaction was for acquisition of majority stake and generally attract control premium. Based on our experience and marker research reports, the control premium in the insurance sector is estimated in the range of 15% to 20%. For the purpose of our pricing analysis, we have considered control premium of 15% which results in an adjusted Price to Book value multiple of 0.93x (i.e. transaction multiple of 1.09x less 15% control premium). Based on the comparable transaction the pricing analysis of the Company is presented below:

Particulars	Units	Pricing Analysis
Adjusted Book Value (Shareholders' Equity) of the Company as of 31 March 2017	BD	6,445,483
Price to Book (P/B) ratio of comparable transaction post adjusting for control premium	X times	0.93x
Value of the Company	BD	5,971,740
Number of Takaful shares outstanding	Number	62,500,000
Value per Share	fils	96 fils

Source: Takaful Board, and KPMG Analysis

VI. Adviser's report from the professional independent adviser to the independent shareholders of Takaful International Company B.S.C. in respect of the offer

8.5. Adjusted Book Value

Book Value is considered as appropriate methodology for valuation of companies operating in financial services sector including insurance companies. The book value approach is usually used as cross-check the valuation based on Income Approach and Market Approach.

The Adjusted book value of the Company as on 31 March 2017 is arrived at as following:

Particulars	Unit	Amount as of 31 March 2017
Shareholder's Equity of the Company	BD	6,515,092
Deficit in participants fund	BD	(69,609)
Adjusted Book Value	BD	6,445,483
Number of Takaful shares outstanding	Number	62,500,000
Adjusted Book value per share	Fils	103 fils

Source: Takaful financial statement and KPMG Analysis

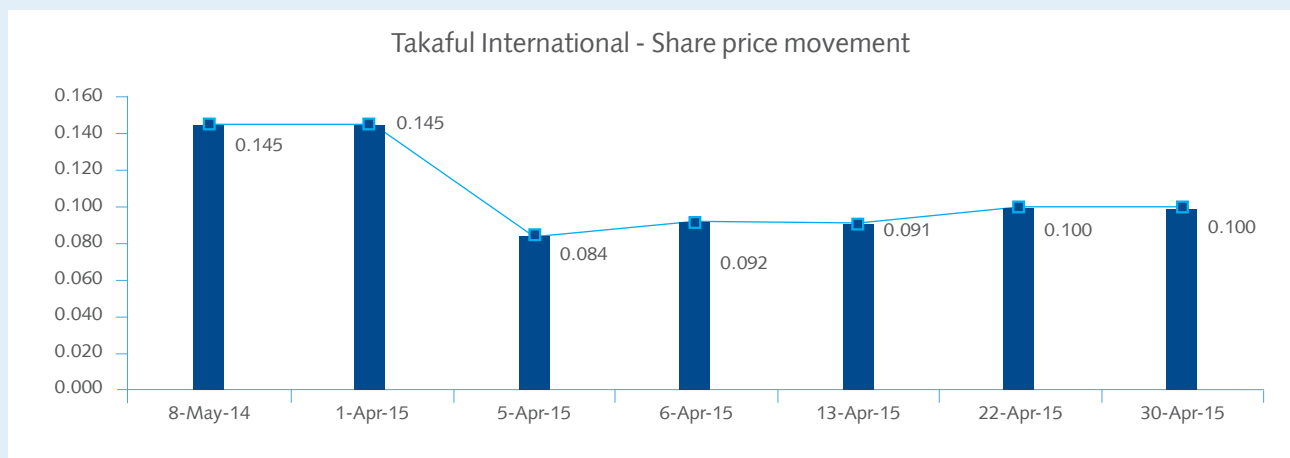
As per audited financial statements of Takaful as of 31 Dec 2016, the deficiency of the capital of the Company amounted to circa BD 1.206 million. The Company's Board of Directors submitted a restoration of net available capital plan to the Central Bank of Bahrain. Further, the Board of Directors of the Company resolved in their meeting held on 4 January 2017 to recommend to the Company's shareholders in the Annual General Meeting to increase the Company's issued share capital by BD 3 million.

8.6. Block Purchase by BKIC

On 2 April 2017, BKIC acquired 14,220,486 Takaful Shares representing 22.75% stake in Takaful through block purchase from Bahrain Islamic Bank B.S.C. at offer price of 95 fils (ninety-five fils) per share of Takaful.

8.7. Listed Price of Takaful

The stock of the Company is listed on Bahrain Bourse. As at Last Practical Date, listed price of the Company on Bahrain Bourse is 100 fils per share. Other than Block Purchase by BKIC, the last trade in the Company was on 22 April 2015.



VI. Adviser's report from the professional independent adviser to the independent shareholders of Takaful International Company B.S.C. in respect of the offer

Block Purchase price of ninety-five fils per share of Takaful is not reflected on the Bahrain Bourse as a Special Order Market transaction. Considering the fact that there have been no transaction in the shares of the Company on BHB, other than Block Purchase by BKIC, for more than two years the listed price has not been considered as fair basis to assess the price of shares of the Takaful.

The above price movements correspond to the below market trades. As evident from the table below, except a single market trade of c. 18 million shares in 2015, the overall trading volume has been insignificant.

Date	Trade Volume	Price
8-May-14	40,000	0.145
5-Apr-15	18,868,403	0.084
6-Apr-15	28,062	0.092
13-Apr-15	188,870	0.091
22-Apr-15	185,183	0.100
Total volume traded	19,310,518	

8.8. Other Considerations

(a) Alternative takeover offer from third parties

KPMG Fakhro has been informed by the Takaful Board that, from the BKIC Announcement Date to the Latest Practicable Date, no alternative formal offer for the Shares of Takaful has been received by the Takaful Board.

(b) Listing status of Takaful

Following the successful implementation of the BKIC Offer and acquisition of shares, BKIC intends to maintain Takaful's commercial registration and its listing on the Bahrain Bourse unless as a result of the BKIC Offer (i) BKIC will own Takaful Shares representing at least 95% of Takaful's issued and paid share capital in which case BKIC will compulsorily acquire all remaining Takaful Shares pursuant to Rule 3.4.1 of the TMA and Takaful will be converted into a Bahraini Shareholding Company (closed) and Takaful Shares may be de-listed, or (ii) the conditions for continuous listing of Takaful Shares cease to exist

8.9. Summary Analysis

Based on the various approaches considered to assess fair price of the Company as detailed in this section above as well considering qualitative analysis, the fair price summary is presented below:

- Based on various approaches adopted and as detailed in this report, the overall fair value range is 66 fils to 116 fils per share of Takaful;
- Fair value range based on the various earnings based approaches is in the range of 66 fils to 85 fils per share of Takaful;
- Fair value range based on the various book value based approaches is in the range of 96 fils to 116 fils per share of Takaful;
- Adjusted book value per Share of Takaful as of 31 March 2017 is 103 fils per share of Takaful;
- Block Purchase transaction for significant minority stake was executed at price of 95 fils per share of Takaful;
- As per audited financial statements of Takaful as of 31 Dec 2016, the deficiency of the capital of the Company amounted to circa BD 1.206 million, proposed to be funded through increase in paid up share capital of Takaful. Increase in share capital may have drag effect on the Return on Equity and Return of Assets of the Company in short term.
- Average and Median fair price based on the various approaches above is 90 fils and 95 fils per share of Takaful, respectively.

VI. Adviser's report from the professional independent adviser to the independent shareholders of Takaful International Company B.S.C. in respect of the offer

8.10. Other Considerations

- As BKIC Offer is cash offer, Takaful shareholders accepting the BKIC Offer may not derive any benefits from any synergies arising out of the economies of scale, rationalization of costs, better bargaining power with respect to the suppliers that are expected to evolve as a result of being part of BKIC;
- Takaful shareholders will forego their rights to receive dividends as they will no longer hold the Takaful Shares.

8.11. Our Opinion

Based on analysis above and taking into account the circumstances of the BKIC Offer as described in this Report, we conclude that cash Offer Price of 95 fils (ninety-five fils) per share to the shareholders of Takaful to acquire up to 36.31% stake in Takaful, representing all the outstanding shares of Takaful not currently held by BKIC is fair and reasonable from financial point of view. Accordingly, our recommendation to the Board of Directors of Takaful is that they should recommend the Shareholders to ACCEPT the BKIC Offer.

The opinion is provided solely for the benefit of the independent Shareholders of Takaful and the Takaful Board in their evaluation of the Offer and may not be used / or relied on for any other purposes, or distributed to any other person, without the prior written consent of KPMG. These opinions do not constitute, and should not be relied on, as a recommendation to, or confer any rights upon, any Shareholder as to how such Shareholder should deal with his Shares of Takaful in relation to the Offer or any matter related thereto. The recommendation to be made by the Takaful Board to the Shareholders shall remain the responsibility of the Takaful Board.

This opinion is governed by, and construed in accordance with, the laws of Kingdom of Bahrain, and is strictly limited to the matters stated herein and does not apply by implication to any other matter.

Yours faithfully
For and on behalf of
KPMG Fakhro



C. N. Ramachandran
Partner, Advisory

Appendix I – information about the offeree and other statutory information

1. BUSINESS OVERVIEW

Takaful is a Bahraini public shareholding company registered with the Ministry of Industry, Commerce and Tourism in the Kingdom of Bahrain and operates under commercial registration number 21100 obtained on 11 April 1989. Takaful is licensed by the CBB as a locally incorporated insurance firm. The Company's ordinary shares are listed on the Bahrain Bourse.

The Company provides Takaful and related products and services. The activities of the Company is organized on the principles of Shari'a. The principal activity of the Company is to manage the General and Family takaful activities and investments by adopting wakala and mudarabha models respectively, on behalf of the participants in accordance with the Islamic Shari'a principles.

In 2013, the Company was rated (B++) Secure with Stable Outlook by A.M. Best Rating Company.

The Company owns 60% stake in Health 360 Ancillary Services Co W.L.L., registered in Bahrain and providing third party administration (TPA) services.

2. KEY BUSINESS SEGMENTS

Takaful's operations are largely divided between two segments being General Takaful and Family Takaful. A brief snapshot of the business operations of Takaful is as provided below.

- **General Takaful**

The Company provides all range of General Takaful as following:

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

General Takaful segment comprises significant portion of the business contributing 91% of the Gross Contribution and circa 68.5% of the surplus from Takaful operations before Wakala fees as at 31 Dec 2016.

- **Family Takaful**

The Company provides various products under the Family Takaful as following:

- Osra-Tak
- Education Plan
- Saving Plan
- Travel Plan
- Hajj & Omrah
- Family Protection Plan
- Group life
- Group credit

Family Takaful segment contributed 9% of the Gross Contribution and circa 31.5% of the surplus from Takaful operations before Wakala fees as at 31 Dec 2016.

Appendix I – information about the offeree and other statutory information

3. MAJOR SHAREHOLDERS

Name of Shareholder	Nationality	No. of Shares	% Holding
Bahrain Kuwait Insurance Company B.S.C.	Bahraini	39,803,331	63.69%
Al Amana Alama State of Kuwait	Kuwaiti	5,250,000	8.40%
International Investment Group	Kuwaiti	3,991,187	6.39%
Total		49,044,518	78.48%

Source: Major Shareholders as of 9 May 2017 as provided by Bahrain Bourse

4. SHARE CAPITAL

4.1. Paid -up share capital

As at the Latest Practicable Date, Takaful has only one class of shares comprising ordinary shares. Authorized share capital of Takaful as at Latest Practicable Date is BD 20 million comprising 200 million shares of BD 0.100 each. Issued and fully paid up share capital of Takaful as at Latest Practicable Date is BD 6.25 million comprising 62.5 million shares of BD 0.100 each.

The Takaful Shares are quoted and listed on the Bahrain Bourse. All the shares carry equal rights as to dividend, voting and any other matter of shareholders concern.

4.2. Number of shares issued since the end of the last financial year

No new shares have been issued by Takaful since 31 December 2016.

4.3. Outstanding instruments convertible into, rights to subscribe for and options in respect of, securities being offered for or which carry voting rights affecting the Shares

There are no outstanding instruments convertible into, rights to subscribe for, and options in respect of securities offered for or which carry voting rights affecting the Takaful Shares.

5. DISCLOSURE OF INTERESTS

5.1. Shareholdings

i. Interests of the Takaful in shares of the Offeror

Takaful has Nil shares of BKIC which carry voting rights as at the Last Practicable Date.

ii. Dealing in shares of the Offeror by the Takaful

Takaful has not dealt for value in the shares of the Offeror during the six months prior to the Offer Period.

iii. Interests of Directors in Shares

None of the Directors have any direct or deemed interest in the Shares of Takaful as at the Latest Practicable Date.

Appendix I – information about the offeree and other statutory information

iv. Dealings in Shares by the Directors

None of the Directors have dealt for value in the Shares of Takaful during the six months prior to the Offer Period.

v. Interests of Directors in shares of the Offeror

None of the Directors have any direct or deemed interest in shares or convertible securities of the Offeror as at the Latest Practicable Date.

vi. Dealings in shares of the Offeror by the Directors

None of the Directors have dealt for value in the shares of the Offeror during the six months prior to the Offer Period.

vii. Interests of the Professional Independent Adviser

The Independent Adviser, KPMG Fakhro, Bahrain, holds shares in some locally listed entities as part of its long term investment portfolio and as part of these investments hold 152 shares in BKIC as on the Latest Practicable Date which were acquired in 1990.

viii. Dealings by the Adviser

Adviser has not dealt for value in the shares of the Offeror or Offeree during the six months prior to the Offer Period.

Save as disclosed above, there are no funds managed by the Adviser which have dealt in the Shares of the Offeree or the shares of the Offeror during the six months prior to the Offer Period.

5.2. Directors' Intention

As at Last Practicable Date, none of the Directors of Takaful own shares in Takaful and therefore are not entitled to receive the BKIC Offer.

5.3. Other Disclosures

Directors' Service Contracts

There are **no Director's Service Contracts** (either current or prior contracts which have been replaced or amended) between the Directors and Takaful:

- which have been entered into or amended within 6 months before the Latest Practicable Date;
 - no continuous service contracts in force which have a notice period of 12 months or more;
 - no fixed term service contracts which have a tenure of more than 12 months irrespective of the notice period.
- Directors of Takaful are elected by the Shareholders for a period of 3 years.

6. FINANCIAL INFORMATION

The financial data tabulated below is extracted from, and should be read together with, the audited financial statements of Takaful for its financial years ended 31 December 2014, 31 December 2015, 31 December 2016 and 31st March 2017 and the related notes thereto (copies of which are available for inspection as mentioned in section 8 of this Appendix).

Appendix I – information about the offeree and other statutory information

Independent auditor's report on the summary consolidated financial statements to the shareholders of Takaful International Company B.S.C.

Opinion

The summary consolidated financial statements, which comprise the summary consolidated statement of financial position as at 31 December 2016, 31 December 2015 and 31 December 2014, the summary consolidated statements of profit or loss, changes in shareholder's equity, changes in participants' fund and cash flows for the years then ended respectively, are derived from the audited consolidated financial statements of Takaful International B.S.C. (the "Company") and its subsidiary (together the "Group") for the years ended 31 December 2016, 31 December 2015 and 31 December 2014 respectively.

In our opinion, the accompanying summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements, in accordance with Financial Accounting Standards issued by AAOIFI.

Summary Consolidated Financial Statements

The summary consolidated financial statements do not contain all the disclosures required by Financial Accounting Standards issued by AAOIFI. Reading the summary consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements and the auditor's report thereon. The summary consolidated financial statements and the audited consolidated financial statements do not reflect the effects of events that occurred subsequent to the date of our reports on those audited consolidated financial statements.

The Audited Consolidated Financial Statements and our reports thereon

We expressed an unmodified audit opinion on the audited consolidated financial statements for the year ended 31 December 2016 in our report dated 20 February 2017.

Management's responsibility for the summary consolidated financial statements

Management is responsible for the preparation of the summary consolidated financial statements in accordance with Financial Accounting Standards issued by AAOIFI.

Auditor's responsibility

Our responsibility is to express an opinion on whether the summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements.

Appendix I – information about the offeree and other statutory information

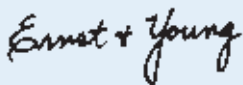
Independent auditor's report on the summary consolidated financial statements to the shareholders of Takaful International Company B.S.C. (continued)

Other information

The previous unconsolidated financial statements for the year ended 31 December 2015 and 31 December 2014 have been audited by other auditors whose audit opinions dated 23 February 2016 and 23 February 2015 have expressed unqualified opinions on those financial statements respectively.

As stated in Appendix 1 to the summary consolidated financial statements, until 31 December 2015, the Company prepared its financial statements on an unconsolidated basis. The consolidated statement of financial position as at 31 December 2015 and 31 December 2014 and consolidated statement of profit or loss, changes in shareholders' equity, changes in participants' fund and cashflows for the year ended 31 December 2015 have been restated and does not correspond to previously audited financial statements for the years ended 31 December 2015 and 31 December 2014. In addition, the information included in the statements of profit or loss, changes in shareholders' equity, changes in participants' fund and cash flows for the year ended 31 December 2014 are prepared and presented in the summary consolidated financial statements on an unconsolidated basis and were derived from the issued financial statements for the year ended 31 December 2014.

The summary consolidated financial statements contain the interim condensed consolidated statement of financial position as at 31 March 2017 and interim condensed consolidated statements of profit or loss, changes in shareholders' equity, changes in participants' fund and cash flows for the three-month period then ended, which management has derived from the reviewed interim condensed consolidated financial statements for the three-month period ended 31 March 2017. We issued an unmodified review conclusion on the interim condensed consolidated financial statements for the three-month period ended 31 March 2017 dated 10 May 2017.



18 May 2017
Manama, Kingdom of Bahrain




**Building a better
working world**

Appendix I – information about the offeree and other statutory information

Consolidated statement of financial position

At 31 March 2017, 31 December 2016, 2015 and 2014

	Reviewed 31 March 2017 BD	Audited 31 December 2016 BD	Restated Audited 31 December 2015 BD	Restated Audited 31 December 2014 BD
ASSETS				
Statutory deposit	125,000	125,000	125,000	125,000
Cash and cash equivalents	5,797,304	7,608,103	5,237,154	3,379,263
Available-for-sale investments	5,259,433	4,686,569	5,114,475	5,130,432
Takaful and retakaful balances receivable	10,108,680	9,018,826	8,191,292	10,846,515
Due from retakaful companies in connection with outstanding claims	9,115,270	8,901,992	8,691,892	8,926,724
Deferred retakaful contribution	3,648,685	3,030,352	2,160,164	3,741,314
Deferred policy acquisition costs	592,058	706,739	769,705	795,605
Due from retakaful companies in connection with family takaful technical reserves	1,707,505	1,707,505	1,625,398	1,454,661
Property and equipment	2,228,449	2,272,525	2,351,551	1,977,987
Receivable from takaful funds	849,024	983,532	33,439	707,076
Other receivables and prepayments	673,195	448,406	163,861	188,886
Amounts due from related parties	-	654	585	962
TOTAL ASSETS	40,104,603	39,490,203	34,464,516	37,274,425
SHAREHOLDERS' EQUITY, PARTICIPANTS' FUND AND LIABILITIES				
Shareholders' equity				
Share capital	6,250,000	6,250,000	6,250,000	6,250,000
Statutory reserve	519,727	519,727	480,066	480,066
General reserve	200,000	200,000	200,000	200,000
Accumulated losses	(598,402)	(679,213)	(1,036,159)	(280,787)
Investments fair value reserve	65,610	(43,751)	(147,453)	(427,046)
Equity attributable to shareholders of the parent	6,436,935	6,246,763	5,746,454	6,222,233
Non-controlling interests	78,157	70,586	15,902	14,058
Total equity	6,515,092	6,317,349	5,762,356	6,236,291
(Deficit) surplus in participants' fund	(69,609)	(137,262)	(365,153)	578,197
Liabilities				
Gross outstanding claims	12,263,621	11,738,496	12,848,760	12,311,941
Unearned contributions reserve	9,395,498	8,688,463	7,929,198	8,222,100
Unearned retakaful commissions	553,574	485,316	343,477	739,956
Family takaful technical reserves	2,865,866	2,780,866	2,527,505	2,270,828
Retakaful/ takaful and other payables	5,861,762	6,824,812	4,103,431	4,834,718
Other liabilities and provisions	1,584,886	1,562,963	1,068,186	1,189,131
Employees' terminal benefits	284,889	245,668	213,317	184,187
Payable to shareholders	849,024	983,532	33,439	707,076
Total liabilities	33,659,120	33,310,116	29,067,313	30,459,937
TOTAL SHAREHOLDERS' EQUITY, PARTICIPANTS' FUND AND LIABILITIES	40,104,603	39,490,203	34,464,516	37,274,425

Appendix I – information about the offeree and other statutory information

Consolidated statement of profit or loss

Three-month period ended 31 March 2017 and years ended 31 December 2016, 2015 and 2014

	Restated Three months ended 31 March 2017 BD	Audited Year ended 31 December 2016 BD	Restated Audited Year ended 31 December 2015 BD	Audited Year ended 31 December 2014 BD
Revenues				
Gross contributions	5,757,406	20,925,150	19,646,113	20,795,628
Retakaful share	(2,273,562)	(6,872,359)	(5,778,783)	(9,931,419)
Retained contributions	3,483,844	14,052,791	13,867,330	10,864,209
Movement in unearned contributions	(88,702)	110,923	(1,298,253)	(130,342)
Net earned contributions	3,395,142	14,163,714	12,569,077	10,733,867
Net commission and other takaful income (expenses)	340,033	1,373,292	1,584,813	961,721
Total takaful revenue	3,735,175	15,537,006	14,153,890	11,695,588
Expenses				
Gross claims settled	(3,712,649)	(20,045,877)	(17,139,994)	(16,565,570)
Claims recovered from retakaful and other parties	1,647,674	8,706,711	8,239,915	8,000,102
Net movement in outstanding claims	(311,847)	1,320,364	(771,649)	(1,092,666)
Net claims incurred	(2,376,822)	(10,018,802)	(9,671,728)	(9,658,134)
Transfer to family takaful technical reserve	(85,000)	(171,254)	(85,940)	(26,381)
(Charge) due to surrender of policies	-	(126,193)	(26,059)	-
Provision for impaired takaful receivables	-	78,043	(1,392,756)	(100,000)
Total takaful expenses	(2,461,822)	(10,238,206)	(11,176,483)	(9,784,515)
Surplus from takaful operations before wakala fees	1,273,353	5,298,800	2,977,407	1,911,073
Wakala fees	(1,208,406)	(4,977,520)	(3,754,171)	(2,787,833)
Surplus (Deficit) from takaful operations after wakala fees	64,947	321,280	(776,764)	(876,760)
Wakala fees	1,208,406	4,977,520	3,754,171	2,787,833
Investment income	83,454	327,913	488,503	338,397
	1,291,860	5,305,433	4,242,674	3,126,230
Management, general and administrative expenses and depreciation	(790,131)	(3,180,092)	(3,595,860)	(3,444,643)
Net acquisition costs	(373,841)	(1,637,016)	(929,710)	-
Impairment loss on available-for-sale investments	(146,740)	(470,868)	(1,422,946)	(501,302)
Other income (expenses) - net	109,940	292,445	785,728	(6,499)
Net management, general and administrative expenses	(1,200,772)	(4,995,531)	(5,162,788)	(3,952,444)
Net profit (loss) and surplus (deficit) for the period/year	156,035	631,182	(1,696,878)	(1,702,974)

Appendix I – information about the offeree and other statutory information

Consolidated statement of changes in shareholders' equity

Three-month period ended 31 March 2017 and years ended 31 December 2016, 2015 and 2014

	Share capital	Statutory reserve	General reserve	(Accumulated losses)/ retained earnings	Investments fair value reserve	Equity attributable to shareholders of the parent	Non Controlling interests	Total equity
	BD	BD	BD	BD	BD	BD	BD	BD
At 1 January 2017 (Audited)	6,250,000	519,727	200,000	(679,213)	(23,543)	6,266,971	70,586	6,337,557
Profit for the period	-	-	-	80,811	-	80,811	7,571	88,382
Other comprehensive income	-	-	-	-	92,074	92,074	-	92,074
Total comprehensive income for the period	-	-	-	80,811	92,074	172,885	7,571	180,456
At 31 March 2017 (Reviewed)	6,250,000	519,727	200,000	(598,402)	68,531	6,439,856	78,157	6,518,013
Balance at 1 January 2016 as previously reported	6,250,000	480,066	200,000	(1,036,159)	(74,368)	5,819,539	-	5,819,539
Effect of change due to consolidation	-	-	-	-	-	-	15,902	15,902
At 1 January 2016 (Audited/Restated)	6,250,000	480,066	200,000	(1,036,159)	(74,368)	5,819,539	15,902	5,835,441
Profit for the year	-	-	-	396,607	-	396,607	6,684	403,291
Other comprehensive income	-	-	-	-	50,825	50,825	-	50,825
Total comprehensive income for the year	-	-	-	396,607	50,825	447,432	6,684	454,116
Transfer to statutory reserve	-	39,661	-	(39,661)	-	-	-	-
Increase in subsidiary capital	-	-	-	-	-	-	48,000	48,000
At 31 December 2016 (Audited)	6,250,000	519,727	200,000	(679,213)	(23,543)	6,266,971	70,586	6,337,557
Balance at 1 January 2015 as previously reported	6,250,000	480,066	200,000	(280,787)	(241,217)	6,408,062	-	6,408,062
Effect of change due to consolidation	-	-	-	-	-	-	14,058	14,058
At 1 January 2015 (Audited/Restated)	6,250,000	480,066	200,000	(280,787)	(241,217)	6,408,062	14,058	6,422,120
(Loss) profit for the year	-	-	-	(755,372)	-	(755,372)	1,844	(753,528)
Other comprehensive income	-	-	-	-	166,849	166,849	-	166,849
Total comprehensive (loss) income for the year (Restated)	-	-	-	(755,372)	166,849	(588,523)	1,844	(586,679)
At 31 December 2015 (Audited/Restated)	6,250,000	480,066	200,000	(1,036,159)	(74,368)	5,819,539	15,902	5,835,441
At 1 January 2014 (Audited)	6,250,000	480,066	200,000	875,416	(266,832)	7,538,650	-	7,538,650
Loss for the year	-	-	-	(843,703)	-	(843,703)	-	(843,703)
Other comprehensive income	-	-	-	-	25,615	25,615	-	25,615
Total comprehensive (loss) income for the year	-	-	-	(843,703)	25,615	(818,088)	-	(818,088)
Dividends paid for 2013	-	-	-	(312,500)	-	(312,500)	-	(312,500)
At 31 December 2014 (Audited)	6,250,000	480,066	200,000	(280,787)	(241,217)	6,408,062	-	6,408,062

Appendix I – information about the offeree and other statutory information

Consolidated statement of changes in participants' fund

Three-month period ended 31 March 2017 and years ended 31 December 2016, 2015 and 2014

	General takaful BD	Family takaful BD	Investments fair value reserve		Total BD
			General takaful BD	Family takaful BD	
At 1 January 2017 (Audited)	(1,346,619)	1,209,357	12,833	(33,041)	(157,470)
Fair value changes arising during the period	-	-	10,916	8,506	19,422
Recycled to interim statement of profit or loss on disposal/impairment	-	-	(2,135)	-	(2,135)
Surplus for the period	58,330	9,323	-	-	67,653
At 31 March 2017 (Reviewed)	(1,288,289)	1,218,680	21,614	(24,535)	(72,530)
At 1 January 2016 (Audited)	(1,425,425)	1,060,272	(35,792)	(37,293)	(438,238)
Realised fair value losses on available-for-sale investments	-	-	15,271	13,632	28,903
Unrealised fair value gains (losses) on available-for-sale investments	-	-	33,354	(9,380)	23,974
Surplus for the year	78,806	149,085	-	-	227,891
At 31 December 2016 (Audited)	(1,346,619)	1,209,357	12,833	(33,041)	(157,470)
At 1 January 2015 (Audited)	(340,141)	918,338	(192,271)	6,442	392,368
Realised fair value losses on available-for-sale investments	-	-	19,006	(4,300)	14,706
Unrealised fair value gains (losses) on available-for-sale investments	-	-	137,473	(39,435)	98,038
(Deficit) surplus for the year	(1,085,284)	141,934	-	-	(943,350)
At 31 December 2015 (Audited)	(1,425,425)	1,060,272	(35,792)	(37,293)	(438,238)
At 1 January 2014 (Audited)	624,237	813,231	(36,425)	(2,150)	1,398,893
Realised fair value losses (gains) on available-for-sale investments	-	-	7,791	(1,082)	6,709
Unrealised fair value (losses) gains on available-for-sale investments	-	-	(163,637)	9,674	(153,963)
(Deficit) surplus for the year	(964,378)	105,107	-	-	(859,271)
At 31 December 2014 (Audited)	(340,141)	918,338	(192,271)	6,442	392,368

Appendix I – information about the offeree and other statutory information

Consolidated statement of cash flows

Three-month period ended 31 March 2017 and years ended 31 December 2016, 2015 and 2014

	Reviewed Three months ended 2017 BD	Audited Year ended 2016 BD	Restated Audited Year ended 2015 BD	Audited Year ended 2014 BD
OPERATING ACTIVITIES				
Net profit (loss) for the period/year	88,382	403,291	(753,528)	(843,703)
Surplus (deficit) from participants' operations	67,653	227,891	(943,350)	(859,271)
Adjustments for:				
Investment income	(86,031)	(262,744)	(582,110)	(338,397)
Impairment loss on available-for-sale investments	146,740	470,868	1,422,946	501,302
Gains on disposal of property and equipment	-	(5,253)	(32,004)	
Depreciation	45,619	210,975	276,328	295,737
Share of losses of equity accounted joint venture	-	-	-	30,957
Finance costs	-	-	25,483	-
Losses (gains) on sale of available-for-sale investments	2,577	(65,169)	93,607	29,732
Provision for impairment of general takaful balances receivable	-	(78,043)	1,392,756	100,000
Write offs for general takaful and retakaful balances receivable	-	41,761	1,032,473	
Movement in unearned contributions	88,702	(110,923)	1,288,248	84,355
Movement in unearned commissions	182,939	204,805	(370,579)	(16,908)
Movement in family takaful technical reserve	85,000	171,254	85,940	(27,307)
Operating profit before changes in operating assets and liabilities	621,581	1,208,713	2,936,210	(1,043,503)
Changes in operating assets and liabilities:				
Retakaful and takaful balance receivables	(1,089,854)	(791,252)	229,994	(245,469)
Other receivables and prepayments	(224,135)	(284,545)	25,025	735,800
Amount due from related parties	-	(69)	377	22,167
Due from retakaful companies in connection with outstanding claims	(213,278)	(210,100)	234,832	(2,586,146)
Gross outstanding claims	525,125	(1,110,264)	536,819	3,678,811
Retakaful and takaful balance payables	(963,051)	2,721,381	(731,287)	744,563
Other liabilities and provisions	21,923	494,777	(120,945)	(734,269)
Employees' leaving indemnity - net	39,221	32,351	29,130	25,173
Net cash (used in) from operating activities	(1,282,468)	2,060,992	3,140,155	597,127
INVESTING ACTIVITIES				
Investment income received	83,454	327,913	488,503	338,397
Purchase of property and equipment	(1,541)	(131,949)	(755,370)	(79,144)
Proceeds from sale of property and equipment	-	5,253	137,482	-
Purchase of available-for-sale investments	(878,497)	(1,136,434)	(3,043,261)	(4,447,116)
Proceeds from the sale of available-for-sale investments	268,254	1,197,174	1,915,865	4,006,698
Net expenditure on capital work-in-progress	-	-	-	(6,000)
Net cash (used in) from investing activities	(528,330)	261,957	(1,256,781)	(187,165)
FINANCING ACTIVITIES				
Finance costs paid	-	-	(25,483)	-
Dividends paid	-	-	-	(312,500)
Increase in share capital of subsidiary - Non controlling interest	-	48,000	-	-
Net cash from financing activities	-	48,000	(25,483)	(312,500)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,810,798)	2,370,949	1,857,891	97,462
Cash and cash equivalents, beginning of the period/year	7,608,102	5,237,154	3,379,263	3,246,145
CASH AND CASH EQUIVALENTS, END OF THE PERIOD/YEAR	5,797,304	7,608,103	5,237,154	3,343,607

Appendix I – information about the offeree and other statutory information

APPENDIX I

COMPARATIVE INFORMATION

Till 31 December 2015, the Company used to equity account the joint-venture and accordingly prepared the financial statements on an unconsolidated basis. However, from 1 January 2016, the management has reassessed the control and concluded to consolidate the entity which was previously classified as a joint-venture. The consolidation has been done retrospectively. Therefore the comparative information as at 31 December 2015 and 31 December 2014 included in the accompanying consolidated statement of financial position and for the year ended 31 December 2015 included in the consolidated statements of profit or loss, changes in shareholders' equity, changes in participants' fund and cash flows have been restated and not necessarily corresponds to previously issued audited financial statements. In addition, the comparative information included in the consolidated statements of profit or loss, changes in shareholders' equity, changes in participants' fund and cash flows for the year ended 31 December 2014 are prepared and presented in the summary consolidated financial statements on an unconsolidated basis and were derived from the issued financial statements for the year ended 31 December 2014.

The summarised effects of the above change are as follows:

	31 December 2015		31 December 2014	
	(Restated) BD	(Previously reported) BD	(Restated) BD	(Previously reported) BD
Consolidated statement of financial position				
Statutory deposit	125,000	125,000	125,000	125,000
Cash and cash equivalents	5,237,154	5,170,897	3,379,263	3,343,607
Available-for-sale investments	5,114,475	5,114,475	5,130,432	5,130,432
Investment in equity-accounted joint venture	-	24,003	-	21,088
Takaful and retakaful balances receivable	8,191,292	8,191,292	10,846,515	10,846,515
Due from retakaful companies in connection with outstanding claims	8,691,892	8,691,892	8,926,724	8,926,724
Deferred retakaful contribution	2,160,164	2,160,164	3,741,314	3,741,314
Deferred policy acquisition costs	769,705	769,705	795,605	795,605
Due from retakaful companies in connection with family takaful technical reserves	1,625,398	1,625,398	1,454,661	1,454,661
Property and equipment	2,351,551	2,331,839	1,977,987	1,953,711
Receivable from takaful funds	33,439	33,439	707,076	707,076
Other receivables and prepayments	163,861	162,265	188,886	174,542
Amounts due from related parties	585	585	962	962
Total assets	34,464,516	34,400,954	37,274,425	37,221,237
Gross outstanding claims	12,848,760	12,848,760	12,311,941	12,311,941
Unearned contributions reserve	7,929,198	7,929,198	8,222,100	8,222,100
Unearned retakaful commissions	343,477	343,477	739,956	739,956
Family takaful technical reserves	2,527,505	2,527,505	2,270,828	2,270,828
Retakaful/ takaful and other payables	4,103,431	4,100,496	4,834,718	4,834,718
Other liabilities and provisions	1,068,186	1,027,552	1,189,131	1,151,502
Employees' terminal benefits	213,317	209,226	184,187	182,686
Payable to shareholders	33,439	33,439	707,076	707,076
Total liabilities	29,067,313	29,019,653	30,459,937	30,420,807
Equity:				
- Equity attributable to shareholders of the parent	5,746,454	5,746,454	6,222,233	6,222,233
- Non-controlling interests	15,902	-	14,058	-
Total equity	5,762,356	5,746,454	6,236,291	6,222,233
(Deficit) surplus in participants' fund	(365,153)	(365,153)	578,197	578,197
Total shareholders' equity, liabilities and participants' funds	34,464,516	34,400,954	37,274,425	37,221,237
Net impact on total assets	63,562		53,188	

Appendix I – information about the offeree and other statutory information

APPENDIX I (continued)

COMPARATIVE INFORMATION (continued)

	31 December 2015	
	(Restated) BD	(Previously reported) BD
Consolidated statement of profit or loss		
Total takaful revenue	14,153,890	14,153,890
Total takaful expenses	(11,176,483)	(11,176,483)
Surplus from takaful operations before wakala fees	2,977,407	2,977,407
Wakala fees	(3,754,171)	(3,754,171)
Deficit from takaful operations after wakala fees	(776,764)	(776,764)
Wakala fees	3,754,171	3,754,171
Investment income	488,503	491,418
Management, general and administrative expenses and depreciation	(3,595,860)	(3,390,543)
Net acquisition cost	(929,710)	(929,710)
Impairment loss on available-for-sale investments	(1,422,946)	(1,422,946)
Other income	785,728	575,652
Net loss and deficit for the year	(1,696,878)	(1,698,722)

Appendix I – information about the offeree and other statutory information

(a) Statement of Material Changes

The statement below shows the material changes in the financial position of Takaful from the last Balance Sheet date:

There have been no material changes in the financial position of the Takaful since 1 January 2017 till the Latest Practicable Date.

There have been no material transactions (not in the ordinary course of business) to be reported since 1 January 2017 (the date after the last published annual report).

(b) Significant Accounting Policies

All the significant accounting policies as contained in the Annual Report for the financial year ending 31 December 2016 have been mentioned in Appendix II of this Circular, under the heading "Notes to the Financial Statements".

(c) Auditor's Qualification

The auditors have not made any qualifications in the Auditors Report in respect to the financials of Takaful in the past three years.

(d) Change in Accounting Policy

There has been no change in the Accounting Policy for the year ending 31 December 2016 except as mentioned in Appendix II of this Circular, under the heading "Significant Accounting Policies".

7. MANAGEMENT

A brief description of the management of Takaful International Company is furnished below:

Mr. Younis J. Al Sayed - Chief Executive Officer

Mr. Younis J. Al Sayed is a leading pioneer in the insurance and reinsurance sector with a rich experience that exceeds thirty years during which he held various positions.

A graduate of Kuwait University, he began his illustrious career with the Arab Insurance Group (ARIG) in 1982 and was responsible for underwriting operations of all aspects of aviation insurance regionally as well as in international markets. In 2001, he joined Dubai International Financial Centre (DIFC) as Managing Director and played a prominent role in establishing the infrastructure of insurance and reinsurance sector for DIFC.

Being specialized in Islamic Insurance (Takaful), Mr. Younis joined Takaful International Company in 2003 as General Manager and was promoted to the position of Chief Executive in 2008. Mr. Younis served as Chairman and Board member in various insurance organizations. He was the Chairman of the Bahrain Insurance Association (BIA) for two consecutive terms from 2011 till 2014, and the Chairman of the International Federation of Takaful and Islamic Insurance Companies (IFTI) from 2014 till 2016. He was also a Board member at the Egyptian Saudi Insurance Company, Egypt from 2005 till 2008.

Appendix I – information about the offeree and other statutory information

Mr. Essam Al Ansari – General Manager

Mr. Essam Al Ansari is a top professional in the insurance field. He is an ACII degree holder (Associate of the Chartered Insurance Institute) from the Chartered Insurance Institute-London and now pursuing towards FCII. He possesses more than twenty years of extensive experience in insurance and reinsurance business, through his long association in the insurance and reinsurance industry in Bahrain and the region.

He has been in the Executive Management Cadre of Bahrain National Insurance Company (BNI), National Company for Cooperative Insurance (Tawuniya) Saudi Arabia and Bahrain Kuwait Insurance Company (BKIC), before joining Takaful International Company in 2006.

Mr. A.Aziz Al Othman – Deputy General Manager

Mr. A.Aziz Al Othman is a certified Accountant since 2002 and holds a Masters degree in Business Administration from the University of Hull, UK. A true professional in the Islamic Insurance field, He has extensive experience in the Islamic Insurance business acquired by his long association of over twenty years in the insurance industry with in-depth understanding of Takaful Markets. Al Othman began his distinguished career with Takaful International Company in 1989.

After handling various administrative positions in 2008 he was designated as Deputy General Manager. He is also the Chairman of Health 360 Ancillary Services. His outstanding contributions have helped in enhancing the performance of the Company for the past few years. He is also well experienced in developing, evaluating and analyzing strategies and business planning, insurance statistical and financial statement, and has attended a number of seminars and workshops related to accounting and insurance.

Mr. Ali Noor - Deputy General Manager – Business development, IT and Family Investment

Mr. Ali Noor has over twenty years of extensive experience dealing with Life & Medical underwriting, Banassurance offerings & product development in the insurance field. He holds an insurance Diploma from (CII) Chartered Insurance Institute – UK and is presently pursuing his ACII. Highly versatile and efficient in project management, marketing, reinsurance & product documentation as acquired during his tenure with Bahrain National Insurance.

He joined Takaful International Co. in 2006 and is a member of the Executive Management. Currently chairing the BIA Medical Committee and is closely associated with promoting compulsory medical coverage in Bahrain in coordination with the Ministry of Health.

Source: Takaful International Management

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the registered office of Takaful International Company at Building No. 680, Road No. 2811, Seef District 428, P.O. Box 3230, Manama, Kingdom of Bahrain during normal office hours on Business day during the Offer period:

- a) the Memorandum and Articles of Association of Takaful;
- b) the annual reports of the Takaful for the year ended 31 Dec 2014, 31 Dec 2015 and 31 Dec 2016;
- c) the unaudited financial statements of the Takaful for the quarter ended 31 March 2017
- d) the Offer Document
- e) the Circular
- f) Written consent of the Professional Independent Adviser
- g) Any document evidencing an irrevocable commitment or a letter of intent which has been procured by the Offeror or Offeree company (as appropriate) or any of their respective associates.

The contents of this board circular are available on the website of Takaful www.takaful.bh and website of Bahrain Bourse www.bahrainbourse.com.

Appendix II – Audited financial statements of Takaful for the year ended 31 December 2016

Consolidated statement of financial position

(Expressed in Bahraini Dinars)

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

Khalil Ebrahim Nooruddin
Vice-Chairman

Khalid Jamal Al-Muzaire
Director

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

Appendix II – Audited financial statements of Takaful for the year ended 31 December 2016

Consolidated statement of financial position

(Expressed in Bahraini Dinars)

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

Younis J. Al Sayed
Chief Executive

VI Appendix II – Audited financial statements of Takaful for the year ended 31 December 2016

Consolidated statement of profit or loss

(Expressed in Bahraini Dinars)

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

Khalil Ebrahim Nooruddin
Vice-Chairman

Khalid Jamal Al-Muzaire
Director

Younis J. Al Sayed
Chief Executive

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

VI Appendix II – Audited financial statements of Takaful for the year ended 31 December 2016

Consolidated statement of changes in shareholders' equity (Expressed in Bahraini Dinars)

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

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

VI Appendix II – Audited financial statements of Takaful for the year ended 31 December 2016

Consolidated statement of changes in participants' fund

(Expressed in Bahraini Dinars)

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

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

VI Appendix II – Audited financial statements of Takaful for the year ended 31 December 2016

Consolidated statement of cash flows

(Expressed in Bahraini Dinars)

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

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

VI Appendix II – Audited financial statements of Takaful for the year ended 31 December 2016

Notes to the consolidated financial statements

(Expressed in Bahraini Dinars)

1 ORGANISATION AND ACTIVITIES

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

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

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

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

2 BASIS OF PRESENTATION

Statement of compliance

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

Accounting convention

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

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

Functional currency

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

3 BASIS OF CONSOLIDATION

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

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

VI Appendix II – Audited financial statements of Takaful for the year ended 31 December 2016

Notes to the consolidated financial statements

(Expressed in Bahraini Dinars)

3 BASIS OF CONSOLIDATION (continued)

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

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

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

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

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

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

The following is the subsidiary of the Group:

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

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

4 SIGNIFICANT ACCOUNTING POLICIES

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

Takaful

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

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

VI Appendix II – Audited financial statements of Takaful for the year ended 31 December 2016

Notes to the consolidated financial statements

(Expressed in Bahraini Dinars)

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

General takaful

Gross contributions

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

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

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

Retakaful share

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

Net commission

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

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

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

Gross claims settled

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

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

General takaful reserves

i) Gross outstanding claims

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

ii) Unearned contributions

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

VI Appendix II – Audited financial statements of Takaful for the year ended 31 December 2016

Notes to the consolidated financial statements

(Expressed in Bahraini Dinars)

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

General takaful (continued)

General takaful reserves (continued)

iii) Liability adequacy test

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

Family takaful

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

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

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

Gross contributions

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

Retakaful share

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

Net commission

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

Gross claims settled

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

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

Family takaful reserves

i) Gross outstanding claims

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

ii) Unearned contributions

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

VI Appendix II – Audited financial statements of Takaful for the year ended 31 December 2016

Notes to the consolidated financial statements

(Expressed in Bahraini Dinars)

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Family takaful (continued)

Family takaful reserves (continued)

iii) Liability adequacy test

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

Qard Hassan

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

Surplus/deficit in participants' fund

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

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

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

Cash and cash equivalents

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

Trade and settlement date accounting

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

VI Appendix II – Audited financial statements of Takaful for the year ended 31 December 2016

Notes to the consolidated financial statements

(Expressed in Bahraini Dinars)

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Available for sale investments

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

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

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

Takaful and retakaful receivables

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

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

Policy acquisition costs

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

Property and equipment

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

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

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

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

VI Appendix II – Audited financial statements of Takaful for the year ended 31 December 2016

Notes to the consolidated financial statements

(Expressed in Bahraini Dinars)

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

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

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

Receivables from takaful funds

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

Foreign currency transactions

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

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

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

Dividends on share capital

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

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

Share capital

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

Non-controlling interests

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

VI Appendix II – Audited financial statements of Takaful for the year ended 31 December 2016

Notes to the consolidated financial statements

(Expressed in Bahraini Dinars)

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Investment income

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

Rental income

Rental income is recognised on an accrual basis.

Dividends

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

Wakala fee

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

Mudarib share

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

Retakaful commissions

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

Offsetting

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

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

Fair value of financial instruments

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

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

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

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

VI Appendix II – Audited financial statements of Takaful for the year ended 31 December 2016

Notes to the consolidated financial statements

(Expressed in Bahraini Dinars)

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value of financial instruments (continued)

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

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

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

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

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

Impairment of financial assets

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

Available-for-sale financial assets

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

Derecognition of financial assets and financial liabilities

Financial assets

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

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

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

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4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets and financial liabilities (continued)

Financial liabilities

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

Employees' terminal benefits

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

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

Provisions

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

Financial liabilities

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

Retakaful and takaful payables

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

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

Payables and accruals

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

Earnings prohibited by Shari'a

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

VI Appendix II – Audited financial statements of Takaful for the year ended 31 December 2016

Notes to the consolidated financial statements

(Expressed in Bahraini Dinars)

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

The ultimate liability arising from claims made under insurance contracts

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

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

Impairment losses on available-for-sale securities

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

Impairment losses on takaful and retakaful receivables

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

Going concern

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

Family takaful reserves

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

6 STATUTORY DEPOSITS

Statutory deposits are maintained under the regulations of the Central Bank of Bahrain and Financial Institutions Law, 2006. Such deposits, which depend on the nature of the takaful business and the number of branches, cannot be withdrawn except with the approval of the Central Bank of Bahrain. A sum of BD125,000 (2015: BD125,000) has been deposited with Bahrain Islamic Bank B.S.C. in the name of the Group and for the order of Central Bank of Bahrain.

VI Appendix II – Audited financial statements of Takaful for the year ended 31 December 2016

Notes to the consolidated financial statements

(Expressed in Bahraini Dinars)

7 CASH AND CASH EQUIVALENTS

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

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

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

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

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Notes to the consolidated financial statements

(Expressed in Bahraini Dinars)

8 AVAILABLE-FOR-SALE INVESTMENTS

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

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

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

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

Analysis of available-for-sale investments

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

VI Appendix II – Audited financial statements of Takaful for the year ended 31 December 2016

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9 RETAKAFUL AND TAKAFUL RECEIVABLES

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

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

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

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

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

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

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

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10 OUTSTANDING CLAIMS

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

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

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11 CLAIMS DEVELOPMENT

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

Gross claims

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

12 UNEARNED CONTRIBUTIONS AND DEFERRED RETAKAFUL CONTRUBUTIONS

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

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13 DEFERRED POLICY ACQUISITION COSTS

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

14 UNEARNED RETAKAFUL COMMISSIONS

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

15 OTHER RECEIVABLES AND PREPAYMENTS

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

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

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16 PROPERTY AND EQUIPMENT

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

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

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17 RECEIVABLE FROM TAKAFUL FUNDS

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

18 RELATED PARTIES

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

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

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

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

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

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

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18 RELATED PARTIES (continued)

Compensation of key management personnel

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

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

19 EQUITY AND RESERVES

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

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

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

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

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19 EQUITY AND RESERVES (continued)

Additional information on shareholding pattern (continued)

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

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

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

Statutory reserve

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

General reserve

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

Dividends

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

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20 OTHER LIABILITIES AND PROVISIONS

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

21 EMPLOYEES' TERMINAL BENEFITS

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

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

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

22 WAKALA FEE AND MUDARIB SHARE

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

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23 INVESTMENT INCOME

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

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

24 OTHER INCOME - NET

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

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25 EARNINGS PER SHARE

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

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

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

26 SEGMENTAL UNDERWRITING RESULTS

Business segments – primary reporting segment

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

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

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

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26 SEGMENTAL UNDERWRITING RESULTS (continued)

Business segments – primary reporting segment

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

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

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

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26 SEGMENTAL UNDERWRITING RESULTS (continued)

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

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26 SEGMENTAL UNDERWRITING RESULTS (continued)

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

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

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26 SEGMENTAL UNDERWRITING RESULTS (continued)

Geographical segments – secondary reporting segment

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

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

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

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

27 RISK MANAGEMENT

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

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

Risk management

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

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

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

Takaful risk

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

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27 RISK MANAGEMENT (continued)

Takaful risk (continued)

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

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

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

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

Retakaful risk

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

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

Currency risk

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

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

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27 RISK MANAGEMENT (continued)

Currency risk (continued)

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

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

Price risk

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

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

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

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

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

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27 RISK MANAGEMENT (continued)

Credit risk

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

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

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

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

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

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

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27 RISK MANAGEMENT (continued)

Liquidity risk

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

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

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27 RISK MANAGEMENT (continued)

Liquidity risk (continued)

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

VI Appendix II – Audited financial statements of Takaful for the year ended 31 December 2016

Notes to the consolidated financial statements

(Expressed in Bahraini Dinars)

28 CAPITAL ADEQUACY AND SOLVENCY MARGIN REQUIREMENTS

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

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

29 SHARI'A SUPERVISORY BOARD

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

30 ZAKAH

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

31 EARNINGS PROHIBITED UNDER SHARI'A

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

32 CONTINGENT LIABILITIES

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

VI Appendix II – Audited financial statements of Takaful for the year ended 31 December 2016

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33 COMMITMENTS

a) Operating lease commitments

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

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

b) Other commitments

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

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

34 QARD AL HASSAN

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

35 COMPARATIVE INFORMATION

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

VI Appendix II – Audited financial statements of Takaful for the year ended 31 December 2016

Notes to the consolidated financial statements

(Expressed in Bahraini Dinars)

35 COMPARATIVE INFORMATION (continued)

The summarised effects of the above change are as follows:

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

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36 TOTAL COMPREHENSIVE INCOME

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