Patterns of Success

**Structure**

**Innovation**

**Transmission**

BNH

*Protecting Prosperity™*

Annual Report 2017

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

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

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

# CONTENTS

# GROUP OVERVIEW

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

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

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

## VISION

Creating prosperity through security

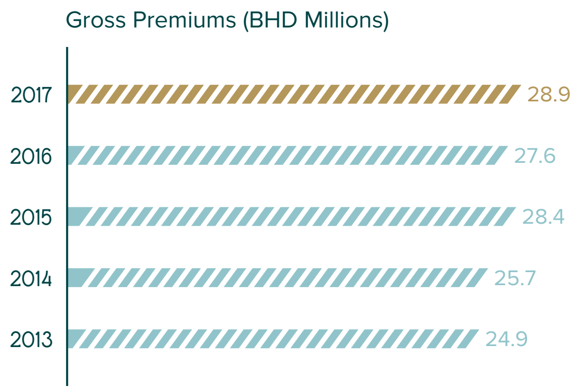
## MISSION

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

## VALUES

Integrity, Excellence, Pioneering

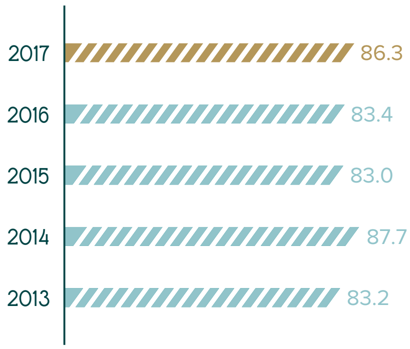
# FINANCIAL HIGHLIGHTS



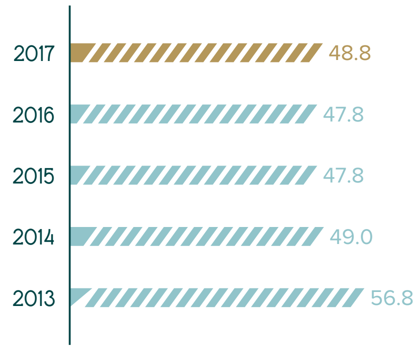

## BNH Financial Highlights from 2009 - 2017 (BHD Millions)

| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|---|---|---|
| Gross Premiums | 28.9 | 27.6 | 28.4 | 25.7 | 24.9 | 23.3 | 21.9 | 23.1 | 24.7 |
| Total Assets | 86.3 | 83.4 | 83.0 | 87.7 | 83.2 | 76.8 | 71.6 | 74.1 | 73.6 |
| Market Capitalisation | 48.8 | 47.8 | 47.8 | 49.0 | 56.8 | 44.7 | 46.3 | 46.1 | 52.9 |
| Total Equity | 50.3 | 49.1 | 47.7 | 47.8 | 45.3 | 42.9 | 42.2 | 42.2 | 40.2 |
| Net Earned Premiums | 15.8 | 15.0 | 14.8 | 13.7 | 14.3 | 14.3 | 13.4 | 13.6 | 13.4 |
| Net Profit | 2.3 | 3.9 | 4.2 | 3.8 | 3.0 | 2.3 | 3.3 | 3.8 | 4.1 |
| Earning Per Share (BHD Fils) | 19.5 | 36.2 | 37.8 | 33.6 | 27.8 | 20.1 | 29.2 | 34.7 | 36.9 |

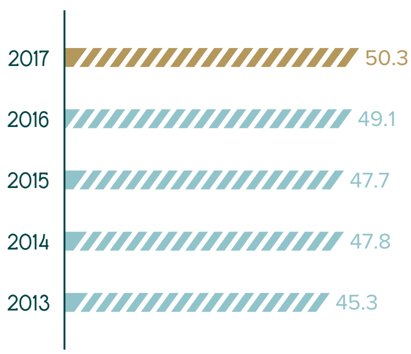
Total Assets (BHD Millions)



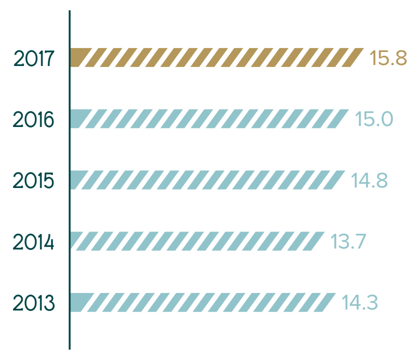

Market Capitalisation (BHD Millions)



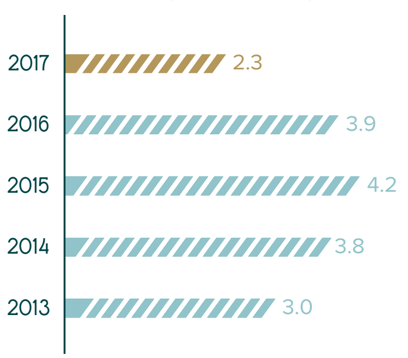

Total Equity (BHD Millions)



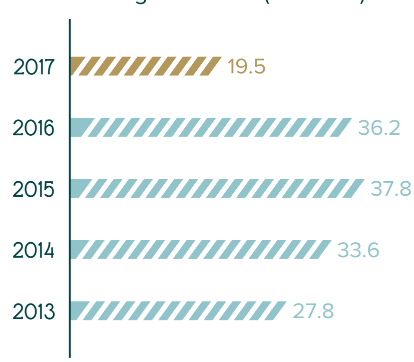

Net Earned Premiums (BHD Millions)




Net Profit (BHD Millions)




Earning Per Share (BHD Fils)



# BOARD OF DIRECTORS

**Farooq Yusuf Almoayyed**
**Chairman**

Nationality: Bahraini
Non-Executive Director
Board Member since 2008

Chairman of Nomination, Remuneration and Corporate Governance Committee since 2008

**Chairman:**
- Y. K. Almoayyed & Sons BSC (c), Bahrain
- Y. K. Almoayyed & Sons Property Co, Bahrain
- Almoayyed International Group, Bahrain
- National Bank of Bahrain BSC, Bahrain
- Bahrain Duty Free Shop Complex, Bahrain
- Gulf Hotels Group, Bahrain
- Ahlia University, Bahrain
- National Finance House BSC (c), Bahrain

**Director:**
- Investcorp Bank BSC, Bahrain

**Abdulhusain Khalil Dawani**
**Vice Chairman**

Nationality: Bahraini
Non-Executive Director
Board Member since 1999

**Chairman of Bahrain National Insurance Company BSC (c)**

Chairman of the Executive & Investment Committee and Vice Chairman of Nomination, Remuneration and Corporate Governance Committee; Chairman of Nomination, Remuneration and Corporate Governance Committee of Bahrain National Insurance.

**Chairman:**
- Dawani Group Holding BSC, Bahrain
- Deeko Bahrain W.L.L., Bahrain
- Dawanco W.L.L., Bahrain
- Dawanco Industries W.L.L., Bahrain
- Dawani Properties SPC, Bahrain
- Tominna Trading W.L.L., Bahrain
- Legend Paints Company W.L.L., Bahrain
- Collection W.L.L., Bahrain
- Bahrain Foundation Construction Company, Bahrain
- Al Jazira Group, Bahrain
- American Cultural & Educational Centre, Bahrain

**Vice Chairman:**
- Delmon Poultry Company W.L.L., Bahrain

**Abdulrahman Mohamed Juma**
**Director**

Nationality: Bahraini
Non-Executive Director
Board Member since 1999

**Chairman of Bahrain National Life Assurance Company BSC (c)**

Member of the Audit, Compliance & Risk Committee; Chairman of Nomination, Remuneration and Corporate Governance Committee of Bahrain National Life Assurance

**President:**
- Abdulrahman bin Mohamed Juma & Sons W.L.L, Bahrain

**Chairman & Managing Director:**
- UNEECO BSC (Closed)

**Chairman:**
- Prudent Solutions W.L.L., Bahrain
- Universal Laboratories W.L.L., Bahrain

**Vice Chairman:**
- Prudent Solutions, Saudi Arabia J/V

## Redha Abdulla Faraj
**Director**

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

Chairman of Audit, Compliance and Risk Committee and Member of Nomination, Remuneration and Corporate Governance Committee; Director, Chairman of Audit, Compliance and Risk Committee and Member of Nomination, Remuneration and Corporate Governance Committee of Bahrain National Insurance Company; Director, Chairman of Audit, Compliance and Risk Committee and Member of Nomination, Remuneration and Corporate Governance Committee of Bahrain National Life Assurance Company BSC (c); Chairman of iAssist Middle East.

**Member:**
- Shura Council, Bahrain

**Director:**
- Bahrain Maritime and Mercantile International (BMMI), Bahrain
- Y.K. Almoayyed and Sons BSC (c), Bahrain
- Almoayyed International Group, Bahrain
- Almoayyed Contracting Group, Bahrain
- National Concrete Company W.L.L., Bahrain
- Banader Hotels Company BSC, Bahrain

**Founder:**
- Al Faraj Consulting Co. W.L.L.
- Al Faraj Horizon Developments Co. W.L.L.

## Ghassan Qasim Fakhroo
**Director**

Nationality: Bahraini
Non-Executive Director
Board Member since 2008

Director and Chairman of the Executive and Investment Committee of Bahrain National Insurance.

**Chief Executive:**
- Mohamed Fakhroo & Bros., Bahrain

**Managing Director and Partner:**
- Fakhroo Information Technology Services, Bahrain

**Director and Partner:**
- Qasim Mohamed Fakhroo & Sons, Bahrain
- Areej Trading Establishment, Bahrain

**Board Member:**
- Alkindi Specialized Hospital, Bahrain
- National Institute for Industrial Training, Bahrain
- General Poultry Company BSC, Bahrain
- National Poultry Company BSC, Bahrain

# BOARD OF DIRECTORS
continued

**Jehad Yusuf Amin**
**Director**

Nationality: Bahraini
Non-Executive Director
Board Member since 1999

Vice Chairman of the Executive & Investment Committee and Member of Nomination, Remuneration and Corporate Governance Committee; Director, Vice Chairman of Nomination, Remuneration and Corporate Governance Committee and Member of the Executive & Investment Committee of Bahrain National Insurance.

**Vice Chairman:**
- Banader Hotels, Bahrain

**Director & Member of Audit Committee & the Metro/Market Committee:**
- General Company for Trading & Food industries (TRAFCO), Bahrain

**Director & Member of Executive Committee:**
- Bahrain Maritime & Mercantile Company (BMMI), Bahrain
- Bahrain Livestock, Bahrain
- Bahrain Cinema, Bahrain

**Director & Member of Investment Committee:**
- Bahrain Maritime & Mercantile Company (BMMI), Bahrain
- United Insurance, Bahrain
- Bahrain Duty Free Complex, Bahrain

**Ali Hasan Mahmood**
**Director**

Nationality: Bahraini
Board Member since 1999 up to 2010 and re-elected in 2014

Member of Audit, Compliance and Risk Committee

**Board Of Directors:**
- Bahrain Chamber of Commerce and Industry

**Chairman:**
- Hasan & Habib s/o Mahmood Group of Companies, Bahrain
- United Marketing International Co. W.L.L., Bahrain
- Bed Center, Bahrain
- Euro Gulf Co. W.L.L., Bahrain
- United Décor International, Bahrain
- Amaan International Safety Services Co. W.L.L., Bahrain

**Director:**
- Bahrain Specialist Hospital
- Bahrain Businessmen Association

**Managing Director:**
- Al Jazeera Shipping Company W.L.L., Bahrain

**Ayad Saad Algosaibi**
**Director**

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

Vice Chairman of the Audit, Compliance & Risk Committee; Director and Vice Chairman of Audit, Compliance and Risk Committee of Bahrain National Insurance Company; Vice Chairman of Audit, Compliance and Risk Committee of Bahrain National Life Assurance Company

**Director:**
- Khalifa A. Algosaibi Holding, Dammam, Saudi Arabia

## Sami Mohamed Sharif Zainal
**Director**

Nationality: Bahraini
Non-Executive Director
Board Member since 2008

**Vice Chairman of Bahrain National Insurance Company BSC (c)**

Vice Chairman of the Executive and Investment Committee and Member of Audit, Compliance and Risk Committee of Bahrain National Insurance; Vice Chairman of iAssist Middle East W.L.L.

**Chairman:**
- Arbitration & Trade Dispute Committee Bahrain Chamber of Commerce & Industry
- General Poultry Company, Bahrain
- General Poultry Company – Steering Committee, Bahrain

**Director:**
- GCC Commercial Arbitration Center
- Zainal Enterprises, Bahrain
- Tony Luke's, Bahrain
- Life Marketing SPC, Bahrain

**Marketing Director:**
- Mohamed Ali Zainal Abdulla (MAZA), Bahrain

**Member:**
- Joint Committee with Custom Affairs, Bahrain Chamber of Commerce & Industry

## Talal Fuad Kanoo
**Director**

Nationality: Bahraini
Non-Executive Director
Board Member since 2008

Director at Bahrain National Life Assurance

**Director:**
- Corporate Services - E. K. Kanoo BSC (c), Bahrain
- MotorCity, Bahrain
- National Finance House BSC (c), Bahrain

**Chairman of Executive Committee:**
- National Finance House, Bahrain
- E. K. Kanoo BSC (c), Bahrain

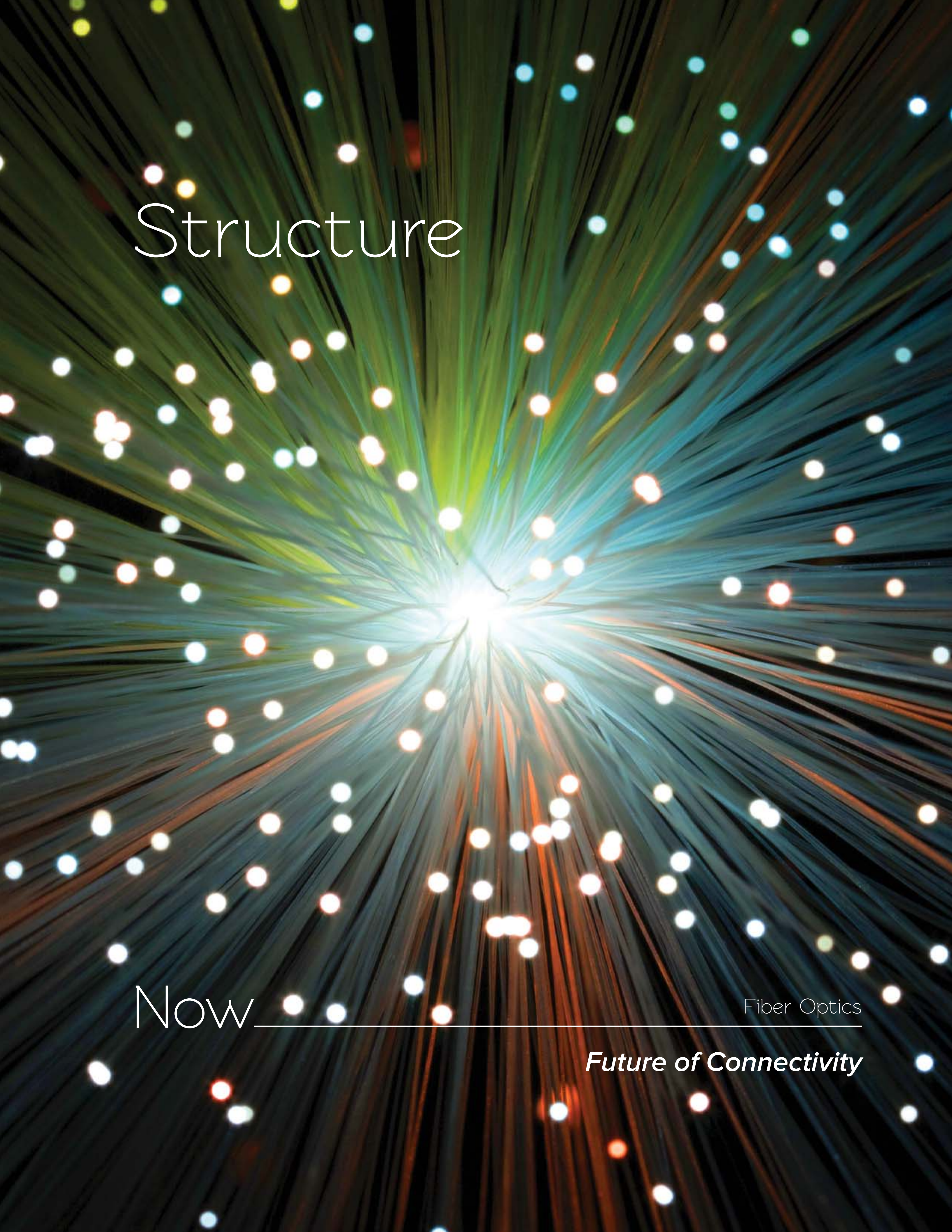
**Mohammed Kadhim**, Board Secretariat

# Structure

# Then

Wicker Woven

***Tradition of Connectivity***


Structure
Now
Fiber Optics
*Future of Connectivity*

# CHAIRMAN'S MESSAGE

"The Group registered gross insurance premiums of BD28.9 million at the end of 2017 compared with BD27.6 million in 2016, successfully defending its topline."

On behalf of the Board of Directors, I am pleased to share with you the annual report of Bahrain National Holding B.S.C (BNH) for the year ended on 31st December 2017.

The Group successfully faced a challenging market by growing its topline, although profitability was dragged down by conservative reserving and provisioning on the underwriting side.

Bahrain National Holding showed resilience in a highly competitive and soft insurance market in 2017. The Group has added to its bad debts provisions and reserves, keeping in view the future needs and challenges. During the year, the Group adopted proactive steps in order to mitigate the impact of pressure on premiums due to stiff competition and a spike in claims costs.

Going forward, the insurance market in Bahrain is expected to be characterized by higher competition. The challenging conditions are likely to have a greater impact on weaker players relative to stronger ones, increasing pressures to consolidate. The first nine months of 2017 signals underlying economic strength, as Bahrain recorded a GDP growth of 3.6%, emerging as the fastest-growing economy in the GCC. This, Combined with the relative stability in oil prices, offers a stronger base for insurance market growth in 2018.

The Group registered gross insurance premiums of BD28.9 million at the end of 2017 compared with BD27.6 million in 2016, successfully defending its topline. However, the Group's net profits were BD2.3 million in 2017, down by 42% compared with BD3.9 million a year earlier. Most of the drop is due to BD1.4 million in additional provisions and reserves. At the end of 2017, the gross underwriting profit was BD3.5 million down from BD5.1 million a year earlier. Total equity reached BD50.3 million and basic and diluted earnings per share were 19.5 fils at the close of the year.

Bahrain National Life Assurance (bnl) had a strong year in both life and medical insurance. Life premiums rose 28% to BD2.7 million while claims and surrenders fell during the year resulting in a sharp turnaround in underwriting profits. Medical insurance also grew by 14% to BD3.8 million in gross premiums compared with BD3.4 million a year earlier, while claims were well controlled resulting in an increase in underwriting profits to BD121 thousand compared to BD80 thousand in the previous year.

Core underwriting continued to perform well in bni, but was overshadowed by significant reserving and provisions in 2017, particularly in motor insurance. We believe that the reserving as well as the proactive measures by the management will make the Group's

balance sheet more resilient relative to our competitors, allowing us to gain a larger market share over the long run.

Commercial insurance has made further inroads into the SME business and managed to increase their customer base. The pricing environment continues to be weak while claims continue to trend upwards. A greater focus on Bahrain business relative to regional facultative business is helping the Group to control its claims.

We view the sustained performance on the investment side, combined with the maintenance of strong liquidity, as a key strategic advantage for the Group. Our associate companies have performed exceedingly well in 2017, and are a key component of the resilience of the Group's business model. While 2018 is widely expected to be a volatile year for investments in the wake of a rising interest rate environment, we expect that our disciplined investing philosophy, portfolio diversification and significant cash levels will act as a buffer.

While the Group has decided to upgrade its core IT system in 2018, the Board has also prioritized continuous training and skills upgradation as key component to the success of our strategic plan. The management has put in place a succession plan for the Group with career paths and training plans for its employees.

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

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

I would like to take this opportunity to thank all our shareholders, customers and business partners for their continuous trust and loyalty, and also the members of the Board of Directors, the Executive Management and all employees for their efforts and dedication during 2017.

**Farooq Yusuf Almoayyed**
Chairman of the Board

# EXECUTIVE MANAGEMENT

**Sameer AlWazzan**
**Chief Executive**

**Anand Subramaniam**
**Chief Financial Officer**

**Masood Bader**
**General Manager**

### Bahrain National Holding

An internationally recognized veteran of the insurance industry for over three decades, Sameer AlWazzan, has held senior management roles such as General Manager of National Insurance Company, General Manager of UNITAG Group, General Manager of Bahrain Kuwait Insurance Company, CEO of Solidarity Group and CEO of Al Khazna Insurance Company. He also has 10 years (1972–1982) of experience working as an Instrument Engineer at Bahrain Petroleum Company (BAPCO). Mr. AlWazzan is a Board Member of United Insurance Company, National Finance House, Al Kindi Specialised Hospital, Arabian Shield Cooperative Insurance Company (KSA) and Doha Bank Assurance Company (Qatar). He is also a Board Committee Member of Central Bank of Bahrain (CBB) "Motor Accident Compensation Fund" and the Bahrain Chamber of Commerce and Industry (BCCI) "Banking & Insurance Sectors" and "Arbitration & Legal" Committees. Mr. AlWazzan completed Management Studies from renowned institutions including Stanford University, California, USA, Manchester Business School, UK, Swansea Polytechnic, UK, Huddersfield Polytechnic, UK and University of Bahrain. He joined BNH as the Group's CEO in January 2014.

### Bahrain National Holding

Anand Subramaniam has over 20 years of experience in the field of investments and asset management. He holds a Chartered Financial Analyst designation from the CFA Institute, USA and a MBA and BBA from Sardar Patel University, Gujarat, India. He also holds a Chartered Alternative Investment Analyst designation from the CAIA Association, USA. Prior to this, he was the Head of Investments at Bahraini Saudi Bank BSC and a Fund Manager at TAIB Bank BSC. His other work experience includes working for Fincorp SAOG as VP-Asset Management and Oman Arab Bank as an Investment Officer. He started his career as an equity researcher in India focusing on the IT, banking and cement sectors. He joined BNH in 2010, where he is responsible for managing the Group's investment portfolio and overseeing the Groups' finance function.

### Bahrain National Insurance

Masood Bader joined bni in 2010, bringing 23 years of insurance and reinsurance experience to the company. An accounting major, he started his career as a Claims Assistant with Arab Insurance Group (Arig), working his way up to Executive Manager in charge of an international portfolio of Marine and Energy. In the seven years prior to joining bni, he worked as an Insurance and Reinsurance Broker, first for Arthur J. Gallagher Middle East as Regional Director, and then for AON Middle East as Vice President.

**Eman Mujali**
**Deputy General Manager**

### Bahrain National Insurance

Eman Mujali has been a part of bni since 1995, having over 20 years of experience in insurance. Her technical skills and experience, together with her talent for customer service, placed Eman in a Business Development position as a Deputy General Manager. She has qualifications in Business Administration and Marketing from the University of Bahrain, ACII in Insurance from The Chartered Insurance Institute and has also attended a number of technical, personal development and management courses.

**Enas Asiri**
**Assistant General Manager**

### Bahrain National Life Assurance

Enas Asiri joined Bahrain National Life Assurance (bnl) in September 2017 as the Assistant General Manager. Following the completion of her Bachelor's degree in Occupational Therapy, Enas has pursued her Insurance Studies in BIBF, completing three Insurance Diplomas (Intermediate, Advanced & Management); the Advanced Diploma of the Chartered Insurance Institute (ACII); and progressed to attain the Fellowship of the Chartered Insurance Institute (FCII) in 2015. She also holds Masters of Business Administration (MBA) from Strathclyde University. Prior to joining bnl, she was an Assistant Director in the Life and Medical Department at Arab Insurance Group (Arig). She started her career in insurance in 2007 as part of Arig's prestigious Graduate Development Program, after which she has specialised in Life Underwriting, and has headed the Medical Reinsurance operations. In addition to her assigned responsibilities in risk management, business developments and exploring new markets; Enas regularly participated in training workshops for Arig's clients, and conducts insurance training courses as a part-time lecturer at BIBF.

**Sergio Fernandez**
**General Manager**

### iAssist Middle East

With over 15 years of experience in motor-related services and the insurance field in various countries in the Middle East, Sergio Fernandez joined iAssist as General Manager in 2015. Prior to joining iAssist, he was a Financial Director at MAPFRE Insurance and CEO Advisor/Strategy and Planning Director at Al-Etihad Insurance, KSA. He also worked as an advisor in Strategy and Planning for the Ministry of Health in the Kingdom of Bahrain and as an External Expert Consultant with Grant Thornton. Mr. Fernandez holds an MBA in CEF from Financial Economic Centre, Madrid, Spain, a BSc in Business Economics from University Complutense of Madrid (UCM), Spain and a CII Award from Bahrain Institute of Banking and Finance (BIBF).

# CHIEF EXECUTIVE'S MESSAGE

"During the year, the Group has sustained its core business performance despite a competitive business landscape and increasing pressures on profitability."

It is my pleasure to present to you the Annual Report of Bahrain National Holding B.S.C (BNH) for the financial year ended on 31st December, 2017.

During the year, the Group has sustained its core business performance despite a competitive business landscape and increasing pressures on profitability. By adopting a conservative and proactive approach to reserving and provisions in insurance operations, we believe that we have created a base for sustainable future growth.

The Group's gross insurance premiums grew to BD28.9 million at the end of 2017 compared to BD27.6 million in 2016. However, net profits were BD2.3 million in 2017, down 42% compared with BD3.9 million a year earlier. This fall is mainly due to the additional reserving and provisions totalling to BD1.4 million, taken in response to what we see as structural shifts in bni's motor insurance operations.

At the end of 2017, the gross underwriting profit was BD3.5 million, down from BD5.1 million a year earlier. Group total equity grew to BD50.3 million compared to BD49.1 million, thanks to continuing strength in our investment and associates performance. Basic and diluted earnings per share fell to 19.5 fils compared to 36.2 fils in 2016.

Our life and medical insurance subsidiary, bnl, performed well with net profit increasing four-fold to 634 thousand in 2017 against BD118 thousand in 2016. Both life and medical premiums increased thanks to improved co-ordination with our partners and a renewed focus on customer retention based on superior service quality. Life business saw a sharp fall in claims and surrenders, improving overall profitability.

Property and casualty insurance premiums grew in competitive markets as a result to bni's focus on small and medium enterprises and a strategic decision to reduce the share of facultative business. Unnatural flooding in early 2017 impacted net claims, while net commission income fell primarily due to impact of previous year claims. Motor premiums were in line with 2016, a creditable achievement in a market that witnessed sharp falls in new car purchases. The underwriting loss in motor is primarily a result of conservative reserving in 2017. The management has taken proactive steps to control claims cost inflation and improve customer experience. As a result, bni reported BD164 thousand profit in 2017, as against BD2.7 million in 2016.

The investment portfolio of our insurance subsidiaries, consisting of marketable financial securities, performed well in

2017, recording a BD1.6 million of profit net of impairments and an increase in fair value of BD1 million. Strategically, the profitable performance of the portfolio offsets pressures on the underwriting side and is also a key component of the Group's liquidity. Our associate, Arabian Shield Company in Saudi Arabia had a very strong year along with all other associates, contributing positively to our results. Better occupancy at our investment properties also helped the overall results.

I am pleased to note that core Group costs, excluding provisions on bad debts, were kept under control in 2017, despite increasing inflationary pressures. Given the forecasted environment of rising interest rates, The Group's balance sheet, with comfortable levels of liquidity, will be an important source of strength for the Group.

The insurance sector in Bahrain is set to benefit from the stabilization of oil prices and the pipeline of investment projects worth $32 billion in public-private sector infrastructure, as mentioned by the Economic Development Board. The buoyancy in number of tourists, up 14% compared to 2016, is a key indicator of the underlying strength of the economy. We expect the Group to position itself to benefit from the associated economic flows.

We are implementing an extensive upgrade of our core IT system in 2018, which will help our Group in three key areas: product innovation, efficiency and online presence. Over the longer term, the upgrade will enhance our competitive position and allow us to exploit the technological changes sweeping the insurance sector. As we expect VAT to be implemented by late 2018, our Group has already undertaken preparations for smooth transitioning into the new tax regime.

Another area of focus will be up skilling our employees by providing appropriate training and individual career path. Our employees have undergone 222 training courses in 2017, and it is our intention to intensify our efforts in this critical area.

**Sameer Ebrahim AlWazzan**
Chief Executive

# Innovation

## Then

Ethnic Lantern

***Tradition of Conversion***


Innovation
Now
Laser Lights
Future of Conversion

# REVIEW OF OPERATIONS

Subsidiary

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

Despite highly competitive and soft market conditions in the insurance sector, bni maintained its core business performance in 2017, thanks to its prudent and proactive approach during the year. bni registered BD22.6 million in gross premiums compared to BD22.4 million in 2016, an increase of 1%.

Motor premiums reached BD13.1 million in 2017, similar to its performance in 2016, despite low sales of new cars. The loss ratio in Motor increased to 85% in 2017 up from 68% in the previous year. In addition to higher cost of claims in 2017 due to a significant increase in motor spare parts and repair costs in the Kingdom of Bahrain, bni chose to increase its claims reserves. The low sales of new cars in 2017 also contributed towards low yields on the motor insurance side. However, the market consensus is for a surge in car sales ahead of implementation of the 5% value added tax (VAT) anticipated before the end of 2018.

Commercial Insurance gross premiums increased 2%, reaching BD9.5 million in 2017 compared to BD9.3 million in 2016. Our Strategy to minimize exposure to facultative business contributed positively in 2017 and our focus on local business served as a catalyst for growth in this segment. An unusual increase in claims pattern, as well as the impact of previous claims on commission income, offset the positive impact. Underwriting profits of the commercial insurance division, including the Property, Engineering, Marine, Casualty and Financial lines and Miscellaneous Accidents classes were lower at BD202 thousand in 2017 compared to BD726 thousand in 2016. The retention ratio, which is the retained premiums over the gross premiums, were up 10.8% in 2017 compared to 8.9% in 2016, as we execute our business strategy of gradually increasing retention within the framework of our enterprise risk management.

Routine actuary assessment is required by the regulators once every two years in order to independently assess claims reserve levels. Given the claims inflation trends and certain structural changes in the insurance market, we proactively appointed an actuary in mid 2017. As a prudential step, bni significantly added to its reserves in 2017 apart from taking additional provisions on receivables. Based on our analysis of the structural changes in the cost of motor repairs in the market, bni is proactively reviewing ways to control claim costs while maintaining the quality and standards of service our customers expect from us.

Online premiums, as a share of total motor premiums, stood at 15% in 2017 compared to 14% in 2016, thanks to bni's enhancement of its online services and attractive pricing on online motor policies. bni is investing in upgrading the IT core system and the implementation is expected to be completed by the end of 2018. We expect the system to enhance our efficiency and cost effectiveness in addition to providing a strong foundation for future digital initiatives.

A.M. Best has affirmed bni's financial strength rating of B++ and long-term issuer credit rating of bbb+ with a stable outlook. The rating is reflective of bni's balance sheet strength, its strong operating performance and the increasing sophistication and use of its enterprise risk management system. bni's strong balance sheet is underpinned by risk-adjusted capitalisation at the strongest level, a high degree of liquidity and a well-rated reinsurance panel.

bni reported stronger performance from its marketable portfolio with net investment income after provisions of BD1.5 million compared to BD1.4 million in 2016. Apart from this the portfolio, fair value increased by BD629 thousand compared to BD55 thousand in 2016. This performance was achieved while maintaining strong levels of cash and liquidity. Regional markets underperformed global markets as increasing pressures on corporate profitability overwhelmed the positive macro picture of stabilizing oil prices. Increasing interest rates in an environment where valuation levels are at historical highs means a subdued and volatile outlook for future portfolio returns.

bni, one of the leading insurers in the Kingdom of Bahrain, offers Commercial Insurance and Motor and Personal Lines Insurance. It has been serving the market for the past 50 years and is the leader in motor insurance, offering comprehensive cover with a market share of 16%.

# REVIEW OF OPERATIONS
continued

Subsidiary

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

Careful selection of quality business, improved pricing and enhanced controls over claims boosted bnl's gross premiums and underwriting profits in 2017. Both the life and medical insurance businesses achieved higher gross premiums in 2017, resulting in a sharp increase in underwriting profits.

Despite fierce competition, bnl performed creditably with net profits increasing fourfold to BD634 thousand in 2017 against BD118 thousand a year earlier.

Medical Gross premiums reached BD3.8 million in 2017, slightly up compared to BD3.4 million a year earlier. It was gratifying to note the increased penetration into medium sized businesses in 2017 and a more diversified client base.

The Life segment also performed well, with higher traction particularly in Group credit products offered through our banking partners. Claims fell as a result of lower death claims and the limited number of policy maturities experienced in 2017 compared to previous years.

The Individual Life business, which represents 13% of the total Life portfolio, did well during 2017 with premiums reaching BD360 thousand compared to BD236 thousand in 2016, an increase of 53%.

As the Government gradually progresses with its plans to introduce compulsory insurance, we anticipate significant changes in the market for both basic and high-end medical insurance products targeting Bahrainis and expatriates. bnl plans to enhance its customer base by offering affordable solutions for a broad spectrum of the market.

On another front, the preparation of a formal risk management framework is in its final stages and upon completion, bnl will be in a position to optimize its capital allocation between underwriting risks and investment risks within an accepted governance framework. The Economic Capital Model will assist in this process by periodically assessing the company's economic solvency position and capital allocation. This is apart from various other operational and liquidity risk parameters that will be monitored at regular intervals.

bnl reported stronger performance from its marketable portfolio with net investment income after provisions of BD445 thousand compared to BD339 thousand in 2016. Apart from this, the portfolio fair value increased by BD399 thousand compared to BD158 thousand. This performance was achieved while maintaining strong levels of cash and liquidity. Regional markets underperformed global markets as increasing pressures on corporate profitability overwhelmed the positive macro picture of stabilizing oil prices. Increasing interest rates in an environment where valuation levels are at historical highs means a subdued and volatile outlook for future portfolio returns.

bnl aspires to be a leader in the local market and will continue to benefit from its prudent and proactive approach in the face of a challenging market. We aim to adopt the right marketing channels and offer unique, innovative, tailor-made and competitively priced products. bnl also plans to enhance its internal technical profit-testing processes and the proposed upgrading of the core IT system will result in enhancing the overall efficiency and cost-effectiveness of operations.

Subsidiary

## iAssist Middle East W.L.L.

BNH's wholly owned subsidiary iAssist, reported a higher profit in 2017 compared to the previous year. The body shop repair division faced higher spare parts costs but improved its performance by increasing the volume of cars repaired as well as controlling costs. The road assist division had to face a higher cost of car rentals but continued to generate steady profits.

In 2018, the focus will be on improving the efficiency of services for bni customers while extending services to non-bni customers as well.

iAssist's state-of-the-art car body shop in Salmabad offers a full range of auto services, ensuring improved quality and an efficient delivery of repaired vehicles to motor insurance customers. Today, the company has 49 employees, with a growing clientele.

# ASSOCIATES

**Al Kindi Specialised Hospital**
**Established:** 2008
**Paid-up capital:** BD2.2 million
**BNH share:** 27%
Al Kindi is a private specialist hospital offering high standards of primary and secondary medical care. Al Kindi Specialised Hospital is equipped with a 24-hour clinic, radiology unit, medical laboratory and pharmacy.
Website: www.alkindihospital.com

**Arabian Shield Cooperative Insurance Company**
**Established:** 2006
**Paid-up capital:** SR200 million
**BNH share:** 15%
The Arabian Shield Cooperative Insurance Company provides general (commercial and industrial) and medical insurance cover in the Kingdom of Saudi Arabia.
Website: www.der3.com

**National Finance House**
**Established:** 2005
**Paid-up capital:** BD7.5 million
**BNH share:** 34.93%
National Finance House (NFH) specialises in providing consumer and corporate financing for the purchase of private, commercial and heavy vehicles.
Website: www.nfh.com.bh

**United Insurance Company**
**Established:** 1986
**Paid-up capital:** BD5 million
**BNH share:** 20%
The United Insurance Company (UIC) provides insurance cover for passengers and vehicles crossing the King Fahad Causeway linking the Kingdom of Bahrain and Saudi Arabia.
Website: www.uic.bh

# Transmission

## Then

Pottery Wheel

***Tradition of Making***

# Transmission

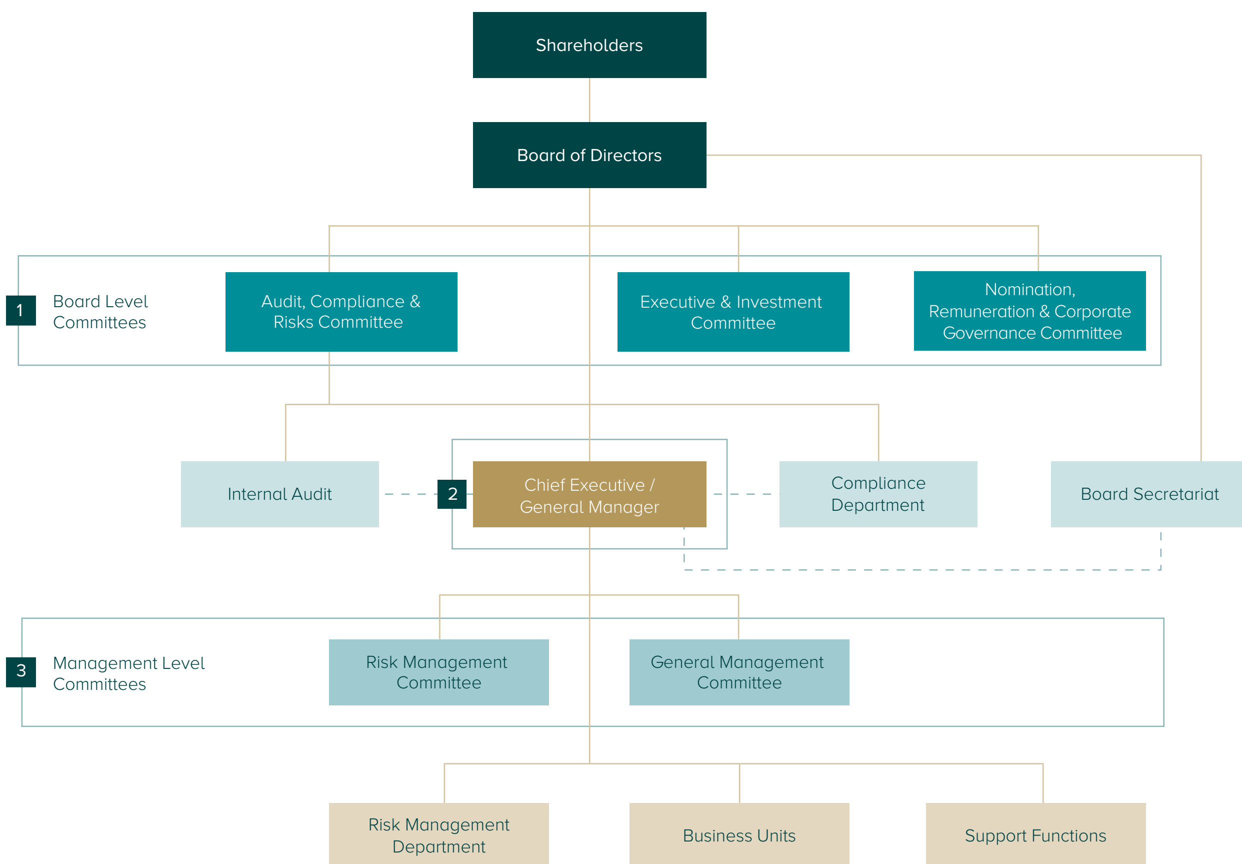
## Now

Sound Waves

***Future of Making***

# CORPORATE GOVERNANCE

Group Governance and Organization Structure




**Notes**

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

## Corporate Governance Commitment

Bahrain National Holding Company commits to undertake a system that is extracted from the corporate governance code of Bahrain, which was enacted by the Ministry of industry, commerce and tourism and the Central Bank of Bahrain in 2010. BNH awards the system high importance by developing and enhancing the implementation of the corporate governance requirements in every aspect of the operations and responsibilities of the company. BNH sees corporate governance as a system whereby the company's business operations financially and commercially directed and controlled.

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

## The Structure of Corporate Governance

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

1. Business units apply group's strategies in dealing with the risks, according to risks identification index.
2. Risk management system is responsible for the selection and ongoing monitoring of risks faced by the company in various areas of its business and suggests ways to avoid those risks or mitigate the severity of its impact as much as possible. Risk Management Committee is responsible for the verification of full implementation of this system by the concerned parties in the company.
3. The overall responsibility of risk management rests with the Board of Directors. In discharging its duties and responsibilities towards risk management, the Board is supported by the ACRC. The ACRC is the highest authority (after the Board) for taking decisions related to all risk and governance issues.

## Developments in 2017

### Bahrain National Holding Co.

In line with the issued governance rules by the Regulators, and Group's policies and strategies towards the development of corporate governance system, during 2017 BNH restructured the committees emanating from the Board of Directors by establishing independent committees of both the parent company and its subsidiaries separately as evidenced by the organizational structure shown on the page number 36 of this report.

### Central Bank of Bahrain

The group maintained its full commitment to all rules and regulations issued by the Central Bank of Bahrain, without reporting any violations during the year 2017.

## The Board

BNH's Board of Director consists of 10 non-executive members, elected and approved by the Central Bank of Bahrain in March 2017 for a term of 3 years. Following the election of the directors, each one signed a Letter of Appointment, setting out the terms of their tenure, duties and responsibilities, remuneration, attendance fees, code of conduct and confidentiality.

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

# CORPORATE GOVERNANCE
continued

### Directors' attendance at Board Meetings in 2017

| Board Members | 21 Feb | 21 March | 3 May | 10 Aug | 7 Nov | 12 Dec |
|---|---|---|---|---|---|---|
| Farooq Yusuf Almoayyed | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Abdulhusain Khalil Dawani | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Abdulrahman Mohamed Juma | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Jehad Yusuf Amin | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Sami Mohamed Sharif Zainal | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Ayad Saad Algosaibi | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Ghassan Qasim Fakhroo | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Talal Fuad Kanoo | ✓ | ✓ | ✓ | ✓ | × | ✓ |
| Ali Hasan Mahmood | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Redha Abdulla Faraj | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

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

### Board of Directors and Executive Management Interests from January to December 2017

| Name of Shareholder | Number of Shares As At 01/01/2017 | Number of Shares As At 31/12/2017 | Changes |
|---|---|---|---|
| **Directors** | | | |
| Farooq Yusuf Almoayyed (Chairman) | 1,234,088 | 1,234,088 | - |
| Abdulhusain Khalil Dawani (Vice Chairman) | 1,244,907 | 1,244,907 | - |
| Abdulrahman Mohamed Juma | 635,996 | 635,996 | - |
| Jehad Yousif Abdulla Amin | 566,157 | 566,157 | - |
| Ali Hasan Mahmood | 505,601 | 505,601 | - |
| Ayad Saad Algosaibi | 100,000 | 100,000 | - |
| Sami Mohammed Sharif Zainal | 139,876 | 139,876 | - |
| Talal Fuad Kanoo | 144,798 | 144,798 | - |
| Ghassan Qasim Fakhroo | 100,000 | 100,000 | - |
| **Executive Management** | | | |
| Sameer AlWazzan (CEO) | 109,278 | 109,278 | - |

## Board Committees

### Audit, Compliance and Risk Committee (ACRC)

***Responsibilities***

- Oversee the selection and compensation of the external auditor for appointment and approval at the Board and Annual General Meeting.
- Approve the appointment, replacement, reassignment or dismissal of the Head of Internal Audit.
- Review and approve the annual internal audit, risk and compliance plans.
- Review audited annual, quarterly and half-yearly financial statements, and discuss with the Board and obtain its approval.
- Assist in developing the risk management framework.
- Ensure compliance with all relevant regulatory and legal rules.
- Carry out the instructions of the Board for all investigations.
- Review arrangements for whistle blowing and ensure that whistle blowers are heard and their rights are safeguarded.
- Oversee procedures and internal controls consistent with the corporate governance structure.
- Monitor the effectiveness and integrity of internal control systems.
- Ensure that all ACRC members are familiar with significant accounting and reporting issues, practices and management estimates including recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Review and discuss the adequacy of internal audit personnel, procedures, internal controls and compliance procedures, and any risk management systems.
- Ensure processes are established and maintained to address critical financial reporting risks and transparency of financial reporting.
- Assess independence, accountability and effectiveness of external auditor.

### Directors' attendance at ACRC Meetings in 2017

| Members | 9 Feb | 25 Apr | 1 Nov | 3 Aug |
|---|---|---|---|---|
| Redha Abdulla Faraj | ✓ | ✓ | ✓ | ✓ |
| Ayad Saad Algosaibi | ✓ | ✓ | ✓ | ✓ |
| Abdulrahman Mohamed Juma | ✓ | ✓ | ✓ | ✓ |
| Ali Hasan Mahmood | × | ✓ | ✓ | ✓ |

- Mr. Redha Abdulla Faraj is the Chairman of the ACRC.
- Mr. Redha Abdulla Faraj and Mr. Ayad Saad Algosaibi are independent members.
- The ACRC is required to meet at least four times in a financial year. The meeting held in August was conducted by circulation as the quorum was not available (due to the ACRC members' travel schedule).

### Executive and Investment Committee (EIC)

***Responsibilities***

- Monitor the development of Group strategy in accordance with the three-year business plan.
- Guide, monitor and coordinate with the management and performance of the Group in line with approved strategies, business plan and budget.
- Develop and monitor investment policy as part of the overall business plan.
- Review and recommend business and investment opportunities.
- Assist in maintaining supervision of the financial requirements of the Group. To ensure that the Group has in place tools to monitor performance and that its Key Performance Indicators (KPI) are being checked and achieved.

### Directors' Attendance at EIC Meetings in 2017

| Members | 13 Sep | 5 Nov |
|---|---|---|
| Abdulhusain Khalil Dawani | ✓ | × |
| Jehad Yusuf Amin | ✓ | ✓ |
| Anand Subramaniam | ✓ | ✓ |

- Mr. Abdulhusain Dawani is the Chairman of the Executive and Investment Committee (EIC)
- The EIC is required to meet when and as required.

### Nomination, Remuneration and Corporate Governance Committee (NRCG)

***Responsibilities***

- Monitor the establishment of an appropriate Corporate Governance Framework.
- Nomination of members of Board and Sub-committees CEO/GM, CFO and Corporate Secretary.
- Make necessary recommendations to the Board as to changes to the Board and its Committees.
- Assist in designing a succession plan for the Board and Senior Executives.
- Recommend to the Board the remuneration policy and individual remuneration packages for all Senior Executives.
- Evaluate the performance of Board members, Committees and Senior Executives.

### Directors' Attendance at NRCG Meetings in 2017

| Members | 21 Feb | 21 March |
|---|---|---|
| Farooq Yusuf Almoayyed | ✓ | ✓ |
| Abdulhusain Khalil Dawani | ✓ | ✓ |
| Jehad Yusuf Amin | ✓ | ✓ |
| Redha Abdulla Faraj | ✓ | ✓ |

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

### Management

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

### Operational Committees

#### General Management Committee

***Objectives***

- Provide a forum by which the ideas and opinions of the Senior Management team are considered in issues relating to the Group's policy and strategy and for exchanging inter-departmental information.
- Provide assurance to the Board that the affairs of the Group are overseen by a team of senior managers.
- Achieve standardisation of policies and practices across the Group.
- Exercise such financial authorities as the Board may grant and achieve dispersion of financial authority.
- Provide a forum by which future general management talent within the Group can be exposed to cross-functional /general managerial issues.
- Ensure that all Board decisions are complied with.
- Inculcate a team culture within the Group.

***Membership***

- Sameer Al Wazzan
  Chief Executive Officer
  Committee Chairman
- Samia Saleh
  Human Capital Manager
  Committee Secretary

***Members:***

- Anand Subramaniam
  Chief Financial Officer
- Masood Bader
  General Manager, bni
- Eman Mujali, Deputy General Manager, bni
- Anantha Ramani
  Senior Manager Finance
- Enas Asiri
  Assistant General Manager, bnl
- Bashayer Dhaif
  Corporate Communications Manager
- Rolando Macalanda
  Property Manager
- Mohammed Alabbasi
  Legal, Compliance and AML Manager
- Mahmood Aladraj
  Information Technology Manager
- Bayan Jaberi
  Manager Enterprise Risk Management
- Amith Valsan
  Internal Auditor

#### Risk Management Committee

***Objectives***

- Co-ordinating decision-making to ensure consistency in the risk management responses.
- Overseeing the development and implementation of the Enterprise Risk Management Framework.
- Monitoring the on-going performance of the Enterprise Risk Management Framework.
- Ensuring that responsibility and authorities are clearly defined and that adequate resources are assigned to the Enterprise Risk Management Framework.
- Regularly reviewing the suitability of the risk management processes and risk responses.
- Providing a comprehensive view of the organisation's risk profile to the Board of Directors.
- Ensuring that the Business Continuity Plan is reviewed and monitored.
- Ensuring that the corporate plan and strategy risks are periodically reviewed.
- Ensuring that the organisation's insurance program is reviewed annually.
- Take risk decisions at management committee level and escalate further required risk decisions at Board of Directors to the ACRC.
- Ensuring risk mitigations and controls are implemented by various business units and support functions.

# CORPORATE GOVERNANCE
continued

***Membership***

- Sameer Alwazzan
  Chief Executive
  Committe Chairman
- Bayan Jaberi
  Manager Enterprise Risk
  Management

***Members:***

- Anand Subramaniam
  Chief Financial Officer
- Masood Bader
  General Manager, bni
- Enas Asiri
  Assistant General Manager, bnl
- Mohamed Al Abbasi
  Legal, Compliance and AML
  Manager
- Mahmood Aladraj
  Information Technology Manager
- Amith Valsan
  Internal Auditor

### Compliance Responsibility

Responsibility for ensuring the Group's compliance with the rules, regulations and guidelines of the Central Bank of Bahrain resides with the Compliance Officer, who is responsible for managing the Group's dedicated Legal and Compliance Unit and is directly responsible for all compliance related issues.

### Transparency and Efficiency

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

### Policies and Procedures

During 2017, BNH continued to regularly review and update all key policy and procedures manuals, covering critical operational areas in the Group's insurance subsidiaries and across all functions of the organisation.

### Directors and Officers (D&O) Liability Insurance

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

### Anti-Money Laundering (AML)

The Group has in place policies and procedures to handle all aspects of anti-money laundering activities in line with regulations of the Central Bank of Bahrain. Yearly, the Group conducts a thorough review of its policies, procedures, internal directives in addition to arranging specialized courses to ensure ongoing compliance. The Group has submitted its external auditors report for the year 2016 in accordance with the requirement of the Central Bank of Bahrain.

### Whistle Blowing Policy

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

### Key Persons Trading

The Group's compliance with the latest Key Persons Trading regulations of the Central Bank of Bahrain is supervised by the Audit, Compliance and Risks Committee which reports to the Board of Directors. The Group has submitted its internal audit report for the year 2017 in accordance with the requirement of the Central Bank of Bahrain.

### Code of Conduct

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

### Penalties

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

### Communications

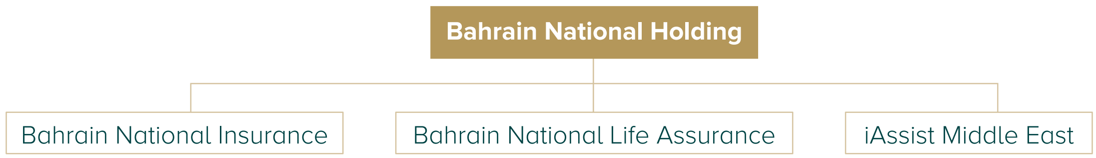
The Group remains committed by communicating effectively with all its stakeholders, both internally and externally in a timely, transparent and professional manners. The Group's main communications channels include the Annual General Meeting, quarterly/annual report, consolidated financial statements, corporate brochure, corporate website, Group intranet, press releases and announcements in the local and regional media.

### Corporate Secretary

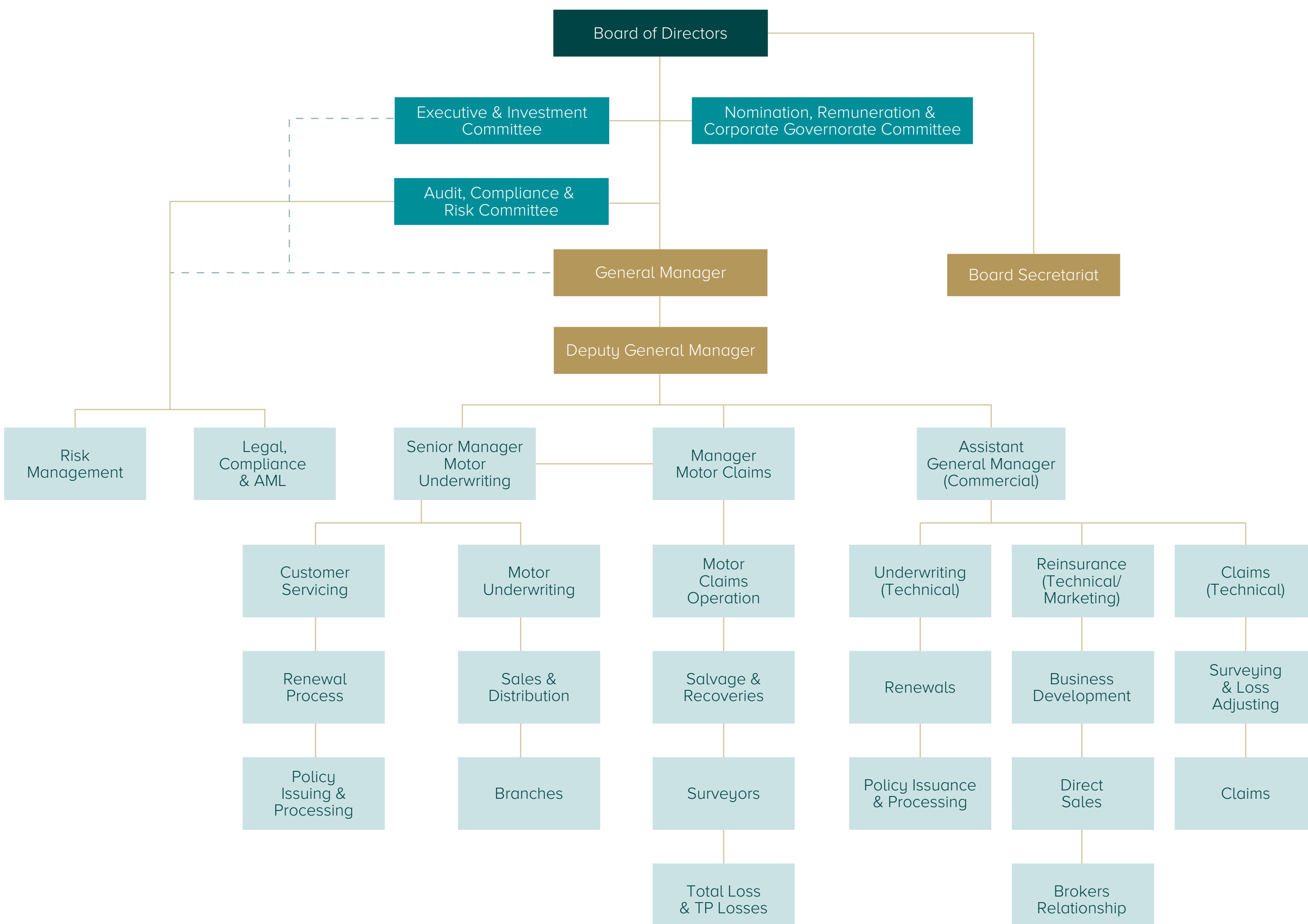
In accordance with the Corporate Governance Code, Kingdom of Bahrain principles, the Group has a separate section dealing with The Group corporate secretariat function resides with the Group corporate secretary who is responsible for ensuring the integrity of the governance framework, being responsible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

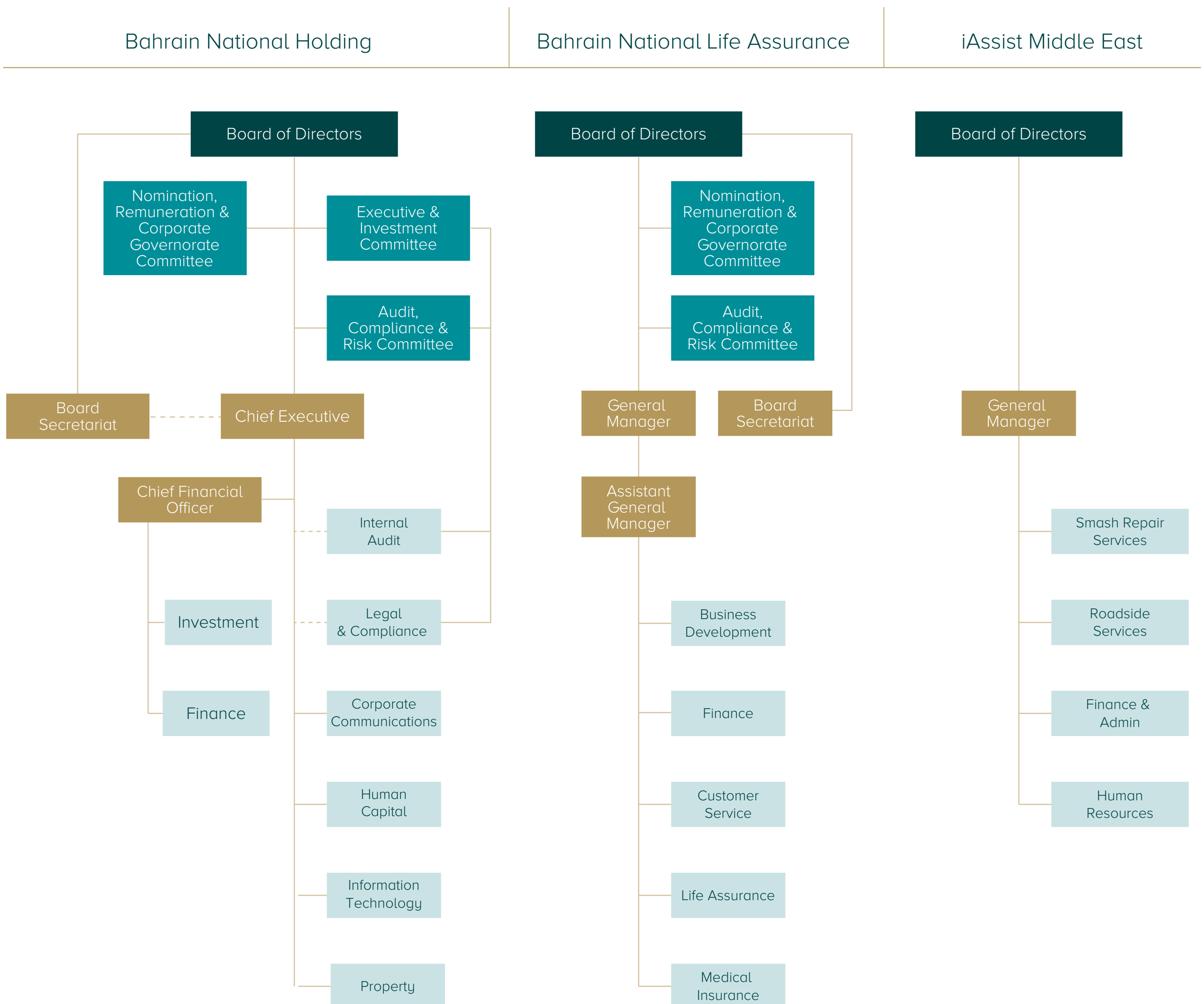
The Board Secretary maintains its support to the Board by ensuring the smooth functioning of the Management Committees, by ensuring that meetings are properly called & organised and that minutes are accurately recorded.

# ORGANISATIONAL CHART




## Bahrain National Insurance




Bahrain National Holding
Bahrain National Life Assurance
iAssist Middle East
Board of Directors
Nomination, Remuneration & Corporate Governorate Committee
Executive & Investment Committee
Audit, Compliance & Risk Committee
Board Secretariat
Chief Executive
Chief Financial Officer
Internal Audit
Investment
Legal & Compliance
Finance
Corporate Communications
Human Capital
Information Technology
Property
Board of Directors
Nomination, Remuneration & Corporate Governorate Committee
Audit, Compliance & Risk Committee
General Manager
Board Secretariat
Assistant General Manager
Business Development
Finance
Customer Service
Life Assurance
Medical Insurance
Board of Directors
General Manager
Smash Repair Services
Roadside Services
Finance & Admin
Human Resources

# CORPORATE SOCIAL RESPONSIBILITY

**Charities:**

- Donation to support Chinmaya Society
- Donation to support The Soul Divine for the Indian Fine Art Society
- Donation to support International Ladies Group Society
- Donation to support Ayadi Relief – Baitkum Baitna initiative which aims to restore & rebuild ramshackle houses
- Donation to the Bahrain Down Syndrome Society in support of the various activities
- Distributed Ramadan Boxes to needy families

**Awareness Campaigns:**

- Donated Radar Solar Speed Displays to the Traffic Department
- Took part in the Traffic department's Traffic week campaign aiming to raise awareness on safe driving

**Health:**

- Supported the Bahrain Cancer Society Annual Walkathon
- Supported the breast cancer Think Pink initiative
- Donated Eye Pressure Test Device to The Salmaniya Medical Complex
- Donated wheelchairs to the Bahrain Association for Parents and Friends of Disabled

**Education:**

- Gave out school stationery for children cancer patients as part of a back to school initiative by Future Society for Youth

**Sports:**

- Silver sponsors of Rotary Club of Salmaniya 37th Raft Race 2016
- Sponsored the Rotary Club Manama's 6-A-Side Football Tournament
- Contributed to the Bahrain Mobility International fund raiser campaign for the disabled athletes of various sports activities

**Insurance for Societies:**

- Covered the Insurance of Al Amal Special Education Institute vehicles
- Covered the Insurance of the UCO Parent Care Center vehicles

**Staff Activities:**

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

# CONTACTS

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

**bni Head Office**
5th Floor, BNH Tower,
Seef Business District,
P.O. Box 843,
Kingdom of Bahrain
Call Centre: 8000 8288
Fax: 17 583477, 17 583299
Website: www.bnidirect.com

**bnl Head Office**
3rd Floor, BNH Tower,
Seef Business District,
P.O. Box 843,
Kingdom of Bahrain
Tel: 17 587333
Fax: 17 583277
Website: www.bnl4life.com

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

**bni's branches and outlets:**

**Seef Branch**
First Floor, BNH Tower,
Seef Business District,
Manama

**Sanad branch**
2nd Floor, bni Complex
Building 1809, Road 4635,
Block 646
Al Nuwaidrat

**Manama branch**
Shop No.61, Al Hedaya Plaza,
Building 61, Block 305,
Government Avenue
Manama

**Muharraq branch**
Shop No. 2, Promoseven
Holding Building, Building 1130N,
Ground Floor, Road 1531, Block 215,
Al Ghous Highway,
Muharraq

**Budaiya branch**
Shop No. 3, Najibi Centre,
Building No. 3
Saar

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

**Sitra branch**
Building No. 946,
Road No. 115, Block 601,
Industrial Area,
Sitra

**Isa Town branch**
Shop No. 16, Isa Town Mall,
Building 3199,
Road 1012, Block 810
Isa Town

**Zinj branch**
Shop No. 61P, Manama Plaza,
Building No. 61,
Abdul Rahman Jassim Kanoo Avenue,
Buashira 332,
Manama

# INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

KPMG

KPMG Fakhro
12th Floor, Fakhro Tower
P.O. Box 710, Manama
Kingdom of Bahrain

CR No. 6220
Tel: +973 17 224 807
Fax: +973 17 227 443
Website: www.kpmg.com.bh

**The Bahrain National Holding Company BSC**
P.O. Box 843, 9th floor, BNH Tower,
Seef Business District, Kingdom of Bahrain

## Report on the audit of the consolidated financial statements

*Opinion*

We have audited the accompanying consolidated financial statements of Bahrain National Holding Company B.S.C. (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

*Basis of opinion*

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

*Key audit matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

***Technical insurance provisions***

(refer to the use of estimate and management judgement in note 4(b)(i), 4(b)(ii), accounting policy in note 4(a)(ii), 4(a)(iii) and note 15 to the consolidated financial statements).

| Description | How the matter was addressed in our audit |
|---|---|
| We focused on this matter because:<br>▪ As at 31 December 2017, the Group had significant technical insurance provisions, representing 73.4% of the Group's total liabilities, relating to outstanding claim reserves, life actuarial reserve, claims that have been incurred at reporting date but have not yet been reported to the Group, and unearned premiums;<br>▪ the valuation of technical insurance provisions involves high level of subjectivity, significant judgment and assumptions, in particular life actuarial reserves and claims that have been incurred at reporting date but have not yet been reported to the Group involve significant judgement over uncertain future outcomes, including primarily the timing and amount of ultimate full settlement of policyholder liabilities: and<br>▪ internal claim development methods and actuarial models are used to support the calculation of insurance technical reserves. The complexity of the models may give rise to errors as a result of inaccurate/ incomplete data or the design or application of the models may be inappropriate. Assumptions used in actuarial models, such as historical claims, which can be used to project the trend of future claims, mortality, morbidity, expenses, lapse rates, and so on, are set up in applying estimates and judgements based on the experience analysis and future expectations by management. | Our audit procedures, with the assistance of our actuarial specialists, included:<br>▪ testing the design and operating effectiveness of the key controls around recording and reserving process for reported claims, unreported claims and unearned premium;<br>▪ testing a sample of outstanding claims and related reinsurance recoveries and subrogation claims, focusing on those with most significant impact on the consolidated financial statements to assess whether claims and related recoveries are appropriately estimated;<br>▪ or major lines of business, we assessed the reasonableness of the key assumptions, such as loss ratio, risk factor, claims adjustment expenses, frequency and severity of claims, which were used in the valuation models and comparing them to the Group's historical data;<br>▪ we also evaluated whether reserving was consistent in approach, with sufficient justification for changes in assumptions. We used our industry knowledge to benchmark the Group's reserving methodologies and estimates of losses. Our audit focused on lines of business with most inherent uncertainty;<br>▪ we also considered the appropriateness of information provided to external independent actuarial experts engaged by the Group and considered their scope of work and findings to corroborate adequacy of management estimates on claims reserving; and<br>▪ assessing the adequacy of the Group's disclosures related to technical insurance provisions in the consolidated financial statements by reference to the requirements of the relevant accounting standards. |

**Valuation and Impairment of available-for-sale financial investments**

*(refer to the use of estimate and management judgement in note 4(b)(iii), accounting policy in note 4(a)(xii) and note 7 to the consolidated financial statements)*

| Description | How the matter was addressed in our audit |
|---|---|
| We focused on this matter because:<br><br>▪ As at 31 December 2017, the Group's financial investments comprise 34.6% of total assets in the consolidated financial statements and is considered one of the drivers of operations and performance. We do not consider these investments to be at high risk of significant misstatement, or to be subject to a significant risk of judgment because they mainly comprise liquid, quoted investments. However due to their materiality in the context of the consolidated financial statements as a whole, they are considered to be one of the areas which we focused on;<br><br>▪ As at 31 December 2017, a significant amount, representing 80.2% of total financial investments, comprise "available-for-sale securities" having carrying value of BD23.9 million, which is subject to impairment assessment; and<br><br>▪ The Group makes subjective judgments over both timing of recognition of impairment and the estimation of the amount of such impairment. | Our audit procedures, amongst others, included:<br><br>▪ testing the design and operating effectiveness of key controls over process of recording investment transactions and valuation of the quoted investment portfolio;<br><br>▪ agreeing the valuation of the quoted equity and debt securities and managed funds to externally quoted prices; and<br><br>▪ for unlisted managed funds, comparing the carrying values with the most recent Net Assets Values of the underlying funds.<br><br>For impairment of available-for-sale equity securities and managed funds, we:<br><br>▪ examined whether management has identified all investments that have experienced a decline in fair value below cost; and<br><br>▪ evaluated the reasonableness and consistency of the application of the criteria to determine that a significant or prolonged decline in fair value below cost has led to recognition of impairment.<br><br>For impairment of available for sale debt securities, we:<br><br>▪ evaluated individual debt security for any signs of significant financial difficulty of the issuer;<br><br>▪ assessed if there has been a default or past due event; and<br><br>▪ assessed if there had been a significant drop in fair value.<br><br>We also assessed the adequacy of the Group's disclosures in relation to valuation and impairment of available for sale financial investments by reference to the requirements of the relevant accounting standards. |

**Impairment of insurance receivables and recoveries**

*(refer to the use of estimate and management judgement in note 4(b)(iii), accounting policy in note 4(a)(vii) and 4(a)(xii) and notes 6 and 31(d)(i) to the consolidated financial statements).*

| Description | How the matter was addressed in our audit |
|---|---|
| We focused on this matter because:<br>▪ As at 31 December 2017, the Group had significant insurance receivables from policy holders and other insurance companies and recoverable amounts from reinsurance companies, representing 11.1% of Group's total assets;<br>▪ The Group faces a risk of non-recoverability of these receivables due to financial difficulties of the counter parties;<br>▪ Estimation of the recoverable amount and determining the level of impairment allowance involves judgement and estimation uncertainty; and<br>▪ The Group makes subjective judgments over both timing of recognition of impairment and the estimation of the amount of such impairment. | Our audit procedures, amongst others, included:<br>▪ testing the design and operating effectiveness of controls over the process of collection and identification of doubtful balances;<br>▪ focusing on those accounts with the most significant potential impact on the consolidated financial statements, results of reconciliation of statement of accounts and receipts subsequent to the year-end; and<br>▪ evaluating the adequacy of the Group's disclosures related to credit risk on insurance receivables and impairment allowance in the consolidated financial statements by reference to the requirements of the relevant accounting standards. |

*Other information*

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

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

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

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

# INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
continued

*Responsibilities of the board of directors for the consolidated financial statements*

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

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

*Auditor's responsibilities for the audit of the consolidated financial Statements*

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.

- Conclude on the appropriateness of the board of director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended 31 December 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Report on Other Legal and Regulatory Requirements

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

a) the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith;

b) the financial information contained in the chairman's report is consistent with the consolidated financial statements;

c) we are not aware of any violations during the year of the Bahrain Commercial Companies Law or the terms of the Company's memorandum and articles of association, that would have had a material adverse effect on the business of the Company or on its financial position; and

d) satisfactory explanations and information have been provided to us by management in response to all our requests.

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

**KPMG Fakhro**
Partner Registration No. 137
27 February 2018

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

*In thousands of Bahraini Dinars*

| | Note | **2017** | 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 5 | 3,097 | 5,048 |
| Placements with banks | 5 | 9,333 | 8,996 |
| Insurance and other receivables | 6 | 9,600 | 9,185 |
| Financial investments | 7 | 29,839 | 26,379 |
| Equity accounted investees | 8 | 16,934 | 15,670 |
| Reinsurers' share of insurance technical reserves | 9 | 9,980 | 10,523 |
| Deferred acquisition cost | 26 | 576 | 628 |
| Investment properties | 11 | 2,936 | 3,099 |
| Intangible assets | 12 | 211 | 282 |
| Property and equipment | 13 | 3,676 | 3,429 |
| Statutory deposits | 14 | 125 | 125 |
| **Total assets** | | **86,307** | 83,364 |
| **LIABILITIES** | | | |
| Insurance technical reserves | 15 | 26,428 | 24,522 |
| Insurance payables | 19 | 3,973 | 3,492 |
| Other liabilities | 20 | 5,586 | 6,272 |
| **Total liabilities** | | **35,987** | 34,286 |
| **Net assets** | | **50,320** | 49,078 |
| **EQUITY** | | | |
| Share capital | 22 b | 11,350 | 11,350 |
| Treasury shares | 22 c | (1,868) | (1,868) |
| Share premium | 22 g | 3,990 | 3,990 |
| Statutory reserve | 23 a | 5,675 | 5,675 |
| General reserve | 23 b | 13,585 | 13,585 |
| Investment fair value reserve | 23 c | 3,355 | 2,263 |
| Retained earnings | | 11,754 | 11,854 |
| **Equity attributable to shareholders of the Parent company** | | **47,841** | 46,849 |
| Non-controlling interest | 10 | 2,479 | 2,229 |
| **Total equity** | | **50,320** | 49,078 |

*The Board of Directors approved the consolidated financial statements consisting of pages 46 to 107 on 27 February 2018.*

**Farooq Yusuf Almoayyed**
*Chairman*

**Abdulhusain Khalil Dawani**
*Vice Chairman*

**Sameer AlWazzan**
*Chief Executive Officer*

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

*In thousands of Bahraini Dinars*

| | Note | **2017** | 2016 |
|---|---|---|---|
| Gross insurance premiums | 25 | 28,887 | 27,638 |
| Reinsurers' share of gross insurance premiums | | (12,702) | (12,312) |
| **Retained premiums** | | **16,185** | 15,326 |
| Net change in reserve for unearned premiums | 17 | (365) | (314) |
| **Net premiums earned** | | **15,820** | 15,012 |
| Gross claims paid | | (22,478) | (21,269) |
| Claims recoveries | | 11,974 | 11,553 |
| Outstanding claims adjustment - gross | 16 d | (1,748) | 1,992 |
| Outstanding claims adjustment - reinsurance | 16 d | (36) | (2,230) |
| **Net claims incurred** | | **(12,288)** | (9,954) |
| **Gross underwriting profit** | | **3,532** | 5,058 |
| Actuarial adjustment on life assurance obligation | 18 | (35) | (4) |
| Net commission and fee income | 26 | 102 | 608 |
| General and administration expenses - underwriting | 29 a | (4,031) | (3,908) |
| **Net underwriting (loss) / profit** | | **(432)** | 1,754 |
| Net investment income | 27 | 1,889 | 1,793 |
| Impairment losses on investment | 28 | (308) | (132) |
| Share of profit of equity accounted investees | 8 | 2,676 | 2,108 |
| Gains on partial sale of investment in equity accounted investees | | 114 | - |
| Net income from road assist services | | 97 | 139 |
| General and administration expenses - non-underwriting | 29 b | (1,783) | (1,753) |
| **Profit for the year** | | **2,253** | 3,909 |
| **Profit attributable to:** | | | |
| Parent company | | 2,095 | 3,880 |
| Non-controlling interest | 10 | 158 | 29 |
| | | **2,253** | 3,909 |
| Basic and diluted earnings per share | 22 d,e | **19.5 fils** | 36.2 fils |

*The Board of Directors approved the consolidated financial statements consisting of pages 46 to 107 on 27 February 2018.*

**Farooq Yusuf Almoayyed**
*Chairman*

**Abdulhusain Khalil Dawani**
*Vice Chairman*

**Sameer AlWazzan**
*Chief Executive Officer*

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

*In thousands of Bahraini Dinars*

| | Note | **2017** | 2016 |
|---|---|---|---|
| **Profit for the year** | | **2,253** | 3,909 |
| **Other comprehensive income / (loss):** | | | |
| Items that may be reclassified to profit or loss: | | | |
| Available-for-sale securities: | | | |
| - Change in fair value | | 1,028 | 129 |
| - Transfer to statement of profit or loss on impairment of securities | 28 | 308 | 132 |
| - Transfer to statement of profit or loss on disposal of securities | | (322) | (585) |
| Share of other comprehensive income of equity accounted investees | | 170 | 65 |
| **Other comprehensive income / (loss)** | | **1,184** | (259) |
| **Total comprehensive income** | | **3,437** | 3,650 |
| **Total comprehensive income attributable to:** | | | |
| Parent company | | 3,187 | 3,600 |
| Non-controlling interest | 10 | 250 | 50 |
| | | **3,437** | 3,650 |

The notes on pages 51 to 107 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

*In thousands of Bahraini Dinars*

| 2017 | Share capital | Treasury shares | Statutory reserve | Share premium | General reserve | Fair value reserve | Retained earnings | Total | Non-controlling Interest | Total Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Attributable to the shareholders of the Parent company** | | | | | | | | | |
| **Balance at 1 January** | **11,350** | **(1,868)** | **5,675** | **3,990** | **13,585** | **2,263** | **11,854** | **46,849** | **2,229** | **49,078** |
| Profit for the year | - | - | - | - | - | - | 2,095 | 2,095 | 158 | 2,253 |
| Other comprehensive income | - | - | - | - | - | 1,092 | - | 1,092 | 92 | 1,184 |
| **Total comprehensive income** | **-** | **-** | **-** | **-** | **-** | **1,092** | **2,095** | **3,187** | **250** | **3,437** |
| Dividends declared for 2016 | - | - | - | - | - | - | (2,145) | (2,145) | - | (2,145) |
| Donations declared for 2016 | - | - | - | - | - | - | (50) | (50) | - | (50) |
| **Appropriations approved by shareholders** | **-** | **-** | **-** | **-** | **-** | **-** | **(2,195)** | **(2,195)** | **-** | **(2,195)** |
| **Balance at 31 December** | **11,350** | **(1,868)** | **5,675** | **3,990** | **13,585** | **3,355** | **11,754** | **47,841** | **2,479** | **50,320** |

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

The notes on pages 51 to 107 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

*In thousands of Bahraini Dinars*

| | Note | 2017 | 2016 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| **Insurance operations** | | | |
| Premiums and service fees received, net of acquisition costs | | 29,278 | 28,188 |
| Payments to insurance and reinsurance companies | | (12,155) | (11,717) |
| Claims paid to policyholders | | (22,999) | (21,556) |
| Claims recovered from reinsurers and salvage recoveries | | 11,592 | 10,880 |
| **Cash flows from insurance operations** | | **5,716** | 5,795 |
| **Investment operations** | | | |
| Dividends and interest received | | 1,240 | 1,176 |
| Proceeds from sale and redemptions of financial investments | | 6,928 | 12,960 |
| Payments for purchases of financial investments | | (8,789) | (9,242) |
| Bank deposits with maturities of more than three months | | (9,458) | (9,121) |
| Redemption proceeds from bank deposits | | 9,121 | 7,098 |
| Payments for investment in equity accounted investees | | - | (160) |
| Proceeds from partial sale of investment in equity accounted investees | | 343 | - |
| Dividends received from equity accounted investees | | 1,353 | 469 |
| Payment for investment properties | | (5) | - |
| Rent received | | 289 | 248 |
| **Cash flows from investment operations** | | **1,022** | 3,428 |
| Expenses paid | | (5,781) | (5,570) |
| **Cash flows from operating activities** | | **957** | 3,653 |
| **INVESTMENT ACTIVITIES** | | | |
| Purchase of property, equipment and intangible assets | | (664) | (265) |
| **Cash flows used in investment activities** | | **(664)** | (265) |
| **FINANCING ACTIVITIES** | | | |
| Repayment of bank borrowings | | - | (191) |
| Finance costs paid | | - | (13) |
| Dividends paid to non-controlling interest | | - | (97) |
| Dividends paid to shareholders | | (2,207) | (1,975) |
| Donations paid | | (37) | (29) |
| **Cash flows used in financing activities** | | **(2,244)** | (2,305) |
| **Net (decrease) / increase in cash and cash equivalents** | | **(1,951)** | 1,083 |
| Cash and cash equivalents at 1 January | | 5,048 | 3,965 |
| **Cash and cash equivalents at 31 December** | 5 | **3,097** | 5,048 |

The notes on pages 51 to 107 are an integral part of these consolidated financial statements.

## 1 REPORTING ENTITY

Bahrain National Holding B.S.C (the “Company”) is domiciled in Kingdom of Bahrain. These consolidated financial statements as at and for the year ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as the “Group”). The principles activities of the Group is to transact in insurance and investment activities.

The Company’s registered office is Bahrain National Holding Company BSC , P.O. Box 843, BNH Tower, Seef Business District, Manama, Kingdom of Bahrain.

## 2 BASIS OF ACCOUNTING

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

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

### a) Functional and presentation currency

These consolidated financial statements are presented in Bahraini Dinar, which is the Group’s functional currency. All amounts have been rounded to the nearest thousands.

### b) Use of judgements and estimates

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4 (b).

### c) New standards, amendments and interpretations effective from 1 January 2017

The following standards, amendments and interpretations, which became effective as of 1 January 2017, are relevant to the Group:

*Disclosure Initiative (Amendments to IAS 7)*

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

The amendments are effective for annual periods beginning on or after 1 January 2017 on prospective basis.

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

*Annual Improvements to IFRSs 2014-2016 Cycle – various standards*

The annual improvements to IFRSs to 2014-2016 cycles include certain amendments to various IFRSs. earlier application is permitted (along with the special transitional requirement in each case), in which case the related consequential amendments to other IFRSs would also apply.

*In thousands of Bahraini Dinars*

## 2 BASIS OF ACCOUNTING continued

The following is the key amendment in brief:

- IFRS 1 First-time Adoption of IFRS – Outdated exemptions for first-time adopters of IFRS are removed. Effective for annual periods beginning on or after 1 January 2018.

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

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted; however, the Group has not early applied the following new or amended standards in preparing these consolidated financial statements.

The following standards are expected to have a material impact on the Group's consolidated financial statements in the period of initial application.

*IFRS 9 Financial Instruments*

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. However, certain exemptions have been provided for certain qualifying insurers to delay the application of IFRS 9 to the date of adaption of IFRS 17. The Group has performed an assessment of the exemption requirement and as the activities of the Group are predominantly connected with insurance, the Group has opted to apply the temporary exemption available under IFRS 4 and will therefore apply this standard for the periods beginning 1 January 2021.

*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)*

The differing effective dates of IFRS 9 Financial Instruments and the new insurance contracts standard could have a significant impact on insurers.

In response to concerns regarding temporary accounting mismatches and volatility, and increased costs and complexity, the IASB has issued amendments to IFRS 4 Insurance Contracts.

The amendments reduce the impacts, but companies need to carefully consider their IFRS 9 implementation approach to decide if and how to use them. The two optional solutions raise some considerations which require detailed analysis and management judgement.

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

*IFRS 15 Revenue from Contracts with Customers*

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

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

The Group is assessing the impact of applying IFRS 15.

*In thousands of Bahraini Dinars*

## 2 BASIS OF ACCOUNTING continued

*IFRS 16 Leases*

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

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

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

The Group is assessing the impact of applying IFRS 16.

## 3 BASIS OF CONSOLIDATION

*(i) Subsidiaries*

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

*(ii) Non-controlling interest (NCI)*

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

*(iii) Loss of control*

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

*(iv) Interest in equity-accounted investee*

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

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

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

*In thousands of Bahraini Dinars*

## 3 BASIS OF CONSOLIDATION continued

*(v) Transactions eliminated on consolidation*

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

## 4 SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

### a) Significant accounting policies

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements:

*(i) Insurance and investment contracts*

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

Insurance contracts are those contracts where the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. Such contracts may also transfer financial risk. As a general guideline, the Group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event.

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

*(ii) General insurance business*

*Gross insurance premiums*

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

*Reinsurers' share of gross insurance premiums*

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

*In thousands of Bahraini Dinars*

## 4 SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS continued

*Unearned premiums*

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

- by the 24th method for all annual insurance contracts, except for marine cargo business, and
- by the 6th method for marine cargo business, in order to spread the contributions earned over the tenure of the insurance contracts.

*Gross claims paid*

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

*Claims recoveries*

Claim recoveries include amounts recovered from reinsurers in respect of the gross claims paid by the Group, in accordance with the reinsurance contracts held by the Group.

*Outstanding claims*

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

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

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

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

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

*Commission income*

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

*In thousands of Bahraini Dinars*

## 4 SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS continued

*Deferred commission and acquisition costs*

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

*Salvage and subrogation reimbursements*

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

*General and administration expenses*

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

*(iii) Life assurance business*

The life assurance operations underwrites two categories of policies:

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

*Gross insurance premiums*

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

*Reinsurers' share of gross insurance premiums*

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

*Life assurance actuarial reserve*

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

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

*In thousands of Bahraini Dinars*

## 4 SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS continued

*Gross claims paid*

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

*Claims recoveries*

Claim recoveries include amounts recovered from reinsurers in respect of the gross claims paid by the Group, in accordance with the reinsurance contracts held by the Group.

*Outstanding claims*

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

*Acquisition costs*

Acquisition costs include commission, brokerage and other variable insurance costs directly associated when acquiring business. These costs are amortised over the period of the insurance contract. Acquisition costs that relate to periods of risk that extend beyond the end of financial year are reported as deferred acquisition costs.

*Fee and commission income*

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

*Bonuses*

Bonuses to policyholders on profit-linked insurance contracts are recognised when declared by the Bahrain National Life Assurance Company.

*(iv) Liability adequacy test*

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

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

*(v) Reinsurance contracts*

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts in note 4 (i) are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts. The benefits to which the Group is entitled under its reinsurance contracts held are recognized as reinsurance assets.

*In thousands of Bahraini Dinars*

## 4 SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS continued

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

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

### *(vi) Financial assets and financial liabilities*

*Classification*

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

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

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

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

*Recognition and de-recognition*

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

*Measurement*

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

*In thousands of Bahraini Dinars*

## 4 SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS continued

*Gains and losses on subsequent measurement*

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

*Fair value basis*

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

*Gains or losses on disposal of investments*

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

*(vii) Receivables*

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

*(viii) Cash and cash equivalents*

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

*(ix) Intangible assets*

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

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

Amortisation is calculated to write off cost of intangible assets less their estimated residual values using straight line method over their estimated useful lives and is generally recognised in profit or loss. The estimated useful life of software for the current and comparative periods is five years.

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

*In thousands of Bahraini Dinars*

## 4 SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS continued

*(x) Property and equipment*

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

*Subsequent expenditure*

Subsequent expenditure is capitalised only if it is probable that future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the statement of profit or loss as an expense when incurred.

*Depreciation*

Depreciation is calculated to write off cost of equipment less their estimated residual values using straight line method over their estimated useful lives and is generally recognised in profit or loss.

The useful lives of different categories of property and equipment are as follows:

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

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

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

*(xi) Investment properties*

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

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

*(xii) Impairment of assets*

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

*In thousands of Bahraini Dinars*

## 4 SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS continued

*Financial assets carried at amortised cost*

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

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

*Impairment of available-for-sale investments*

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

Impairment losses recognised in the consolidated statement of profit or loss on AFS equity instruments are subsequently reversed through the statement of comprehensive income. Reversals of impairments losses on debt instruments classified as available- for-sale are reversed through consolidated statement of profit or loss if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognized in the consolidated statement of profit or loss. For available-for-sale investments carried at cost, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is assessed to be below the cost of the investment.

*Non-financial assets*

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

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

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

*In thousands of Bahraini Dinars*

## 4 SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS continued

*(xiii) Employees' benefits*

*Bahraini employees*

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

*Expatriate employees*

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

*Employee savings scheme*

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

*(xiv) Share Capital*

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

*(xv) Dividends*

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

*(xvi) Directors' remunerations*

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

*(xvii) Segment reporting*

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

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

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

*In thousands of Bahraini Dinars*

## 4 SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS continued

*(xviii) Foreign currency translation*

*Transactions and balances*

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

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

*Other group companies*

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

### b) Critical accounting estimates and judgments in applying accounting policies

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

*(i) The ultimate liability arising from claims made under insurance contracts*

The estimation of the ultimate liability arising from claims made under insurance contracts is the Group's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Group will ultimately pay for such claims.

The ultimate cost of setting claims is estimated using a range of loss reserving methods. These techniques assume that the Group's own claims experience is indicative of future claims development patterns and therefore ultimate claims costs. The assumptions used, including loss ratios and future claims inflations are implicitly derived from the historical claims development data on which the projections are based, although judgement is applied to assess the extent to which past trends might not apply in the future trends are expected to emerge.

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

*(ii) Life assurance actuarial reserve estimation*

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

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

*In thousands of Bahraini Dinars*

## 4 SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS continued

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

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

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

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

The Group determines that available-for-sale equity securities and managed funds are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgement. In the case of quoted equity securities in active markets, the Group considers a decline in value below cost of 30%, or if the average cost of the investment is higher than the 52-week high traded price as on the date of assessment. In the case where markets for the investment are assessed to be inactive, the Group determines impairment based on its assessment of the investee companies' financial health, industry and sector performance.

Where fair values are not available, the recoverable amount of such investment is estimated to test for impairment. In making this judgement, the Group evaluates among other factors, the normal volatility in share price, evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

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

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

Impairment losses on receivables are established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties at the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. Losses are recognised in profits or loss and reflected in an allowance against the receivables. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the statement of profit or loss.

*In thousands of Bahraini Dinars*

## 4 SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS continued

*(iv) Classification of investments*

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

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

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

## 5 CASH AND BALANCES WITH BANKS

| | **2017** | 2016 |
|---|---|---|
| Cash and bank current accounts | 3,097 | 5,048 |
| **Cash and cash equivalents** | **3,097** | 5,048 |
| **Placements with banks with maturities of more than three months** | **9,333** | 8,996 |
| **Total cash and balances with banks** | **12,430** | 14,044 |

Information about the Group's exposure to interest rate and credit risks are included in note 31.

## 6 INSURANCE AND OTHER RECEIVABLES

| | **2017** | 2016 |
|---|---|---|
| **Insurance receivables** | | |
| Policyholders | 3,454 | 3,193 |
| Provision for impairment of receivables from policyholders | (484) | (333) |
| Insurance and reinsurance companies | 5,655 | 5,064 |
| Provision for impairment of receivables from insurance and reinsurance companies | (655) | (447) |
| | **7,970** | 7,477 |
| **Other receivables** | | |
| Recoverable deposits | 443 | 377 |
| Accrued income | 838 | 824 |
| Prepayments and advances | 172 | 104 |
| Others | 177 | 403 |
| | **1,630** | 1,708 |
| | **9,600** | 9,185 |

*In thousands of Bahraini Dinars*

## 6 INSURANCE AND OTHER RECEIVABLES continued

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

| | 2017 | 2016 |
|---|---|---|
| Opening balance | 780 | 635 |
| Charges during the year | 359 | 147 |
| Balances recovered during the year | - | (2) |
| | **1,139** | 780 |

Information about the Group's exposure to credit and market risks, and impairment losses for receivables is included in note 31.

## 7 FINANCIAL INVESTMENTS

| | 2017 | 2016 |
|---|---|---|
| Securities carried at fair value through profit or loss | 1,606 | 1,499 |
| Available-for-sale securities | 23,933 | 20,080 |
| Held-to-maturity securities | 4,300 | 4,800 |
| | **29,839** | 26,379 |

### a) Securities carried at fair value through profit or loss

| | 2017 | 2016 |
|---|---|---|
| Listed securities: | | |
| - Equity securities | 402 | 486 |
| - Government debt securities | 392 | 209 |
| - Corporate debt securities | 180 | 309 |
| - Managed funds | 556 | 390 |
| Unlisted funds | 76 | 105 |
| | **1,606** | 1,499 |
| **Movement during the year:** | | |
| Opening balance | 1,499 | 2,664 |
| Purchases | 200 | 185 |
| Sales | (180) | (1,335) |
| Valuation losses | 87 | (15) |
| | **1,606** | 1,499 |

Information about the Group's exposure to credit and market risk, and fair value measurement, is included in notes 31, 32, 33, and 35.

*In thousands of Bahraini Dinars*

## 7 FINANCIAL INVESTMENTS continued

### b) Available-for-sale securities

| | **2017** | 2016 |
|---|---|---|
| Listed securities: | | |
| - Equity securities | 8,349 | 7,061 |
| - Government debt securities | 1,864 | 1,766 |
| - Corporate debt securities | 5,670 | 4,548 |
| - Managed funds | 5,474 | 2,772 |
| Unlisted securities and funds | 2,576 | 3,933 |
| **Total** | **23,933** | 20,080 |

**Movement during the year:**

| | **2017** | 2016 |
|---|---|---|
| Opening balance | 20,080 | 22,249 |
| Purchases | 8,569 | 7,765 |
| Disposals | (5,600) | (9,640) |
| Fair value movement | 1,192 | (162) |
| | 24,241 | 20,212 |
| Impairments | (308) | (132) |
| | **23,933** | 20,080 |

Investments in unlisted securities and funds include investments of BD176 thousand (2016: BD170 thousand) carried at cost less impairment in the absence of a reliable measure of fair value.

Information about the Group's exposure to credit and market risk, and fair value measurement, is included in notes 31, 32, 33, and 35.

*In thousands of Bahraini Dinars*

## 7 FINANCIAL INVESTMENTS continued

### c) Held-to-maturity securities

| | 2017 Fair value | 2016 Fair value | 2017 Carrying value | 2016 Carrying value |
|---|---|---|---|---|
| Government debt securities | 3,468 | 3,567 | 3,368 | 3,451 |
| Corporate debt securities | 984 | 1,416 | 932 | 1,349 |
| | **4,452** | 4,983 | 4,300 | 4,800 |
| **Movement during the year:** | | | | |
| Opening balance | | | 4,800 | 4,952 |
| Purchases | | | - | 1,318 |
| Disposals on maturity | | | (489) | (1,476) |
| Exchange gains/(losses) | | | (11) | 6 |
| | | | **4,300** | 4,800 |

Information about the Group's exposure to credit and market risk is included in notes 33, 32 and 33.

### d) Policyholders' investments

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

| | 2017 | 2016 |
|---|---|---|
| Cash and cash equivalents | 36 | 42 |
| Placements with banks | 614 | 600 |
| Financial investments | 2,453 | 2,346 |
| | **3,103** | 2,988 |
| **Life assurance actuarial reserve** (note 18) | **3,038** | 2,804 |

*In thousands of Bahraini Dinars*

## 8 EQUITY ACCOUNTED INVESTEES

### a) Interests in associates

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

| Name of the entity | Location of business / country | Percentage of ownership interest 2017 | Percentage of ownership interest 2016 | Nature of relationship | Principal activities |
|---|---|---|---|---|---|
| National Finance House BSC (c) | Kingdom of Bahrain | 34.93 % | 34.93 % | Associate | Engaged in consumer and auto finance business |
| Al Kindi Specialised Hospital W.L.L. | Kingdom of Bahrain | 27 % | 27 % | Associate | Engaged in providing private medical services |
| United Insurance Company BSC (c) | Kingdom of Bahrain | 20 % | 20 % | Associate | Primarily provides insurance coverage for motor vehicles |
| Arabian Shield Cooperative Insurance Company | Kingdom of Saudi Arabia | 15 % | 15.29 % | Associate | Transact various types of general insurance business |

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

| 2017 | National Finance House | Al Kindi Specialised Hospital | United Insurance Company | Arabian Shield Cooperative Insurance Company* | Total |
|---|---|---|---|---|---|
| Opening balance | 4,826 | 1,465 | 2,668 | 6,711 | 15,670 |
| Share of profit | 461 | 113 | 625 | 1,477 | 2,676 |
| Dividends received | (210) | (42) | (500) | (602) | (1,354) |
| Partial sale | - | - | - | (228) | (228) |
| Share of other comprehensive income | - | 75 | 66 | 29 | 170 |
| | **5,077** | **1,611** | **2,859** | **7,387** | **16,934** |

*In thousands of Bahraini Dinars*

## 8 EQUITY ACCOUNTED INVESTEES continued

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

* The market value of Group's investments in Arabian Shield Cooperative Insurance Company based on the price quoted in Saudi Stock Exchange as at 31 December 2017 was BD 12,969 thousand (31 December 2016: BD 12,430 thousand).

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

| **2017** | **National Finance House** | **United Insurance Company** | **Arabian Shield Cooperative Insurance Company** |
|---|---|---|---|
| Total assets | 53,119 | 26,664 | 116,677 |
| Total liabilities | 38,583 | 12,367 | 79,616 |
| Net assets | 14,536 | 14,299 | 37,061 |
| Revenue | 4,691 | 8,684 | 52,339 |
| Profit | 1,202 | 3,081 | 5,686 |
| Other comprehensive income | - | 198 | 193 |

| 2016 | National Finance House | United Insurance Company | Arabian Shield Cooperative Insurance Company |
|---|---|---|---|
| Total assets | 51,316 | 23,652 | 108,805 |
| Total liabilities | 37,501 | 10,311 | 77,773 |
| Net assets | 13,815 | 13,341 | 31,032 |
| Revenue | 3,014 | 7,485 | 60,111 |
| Profit | 1,151 | 2,915 | 2,923 |
| Other comprehensive loss | - | (925) | - |

*In thousands of Bahraini Dinars*

## 8 EQUITY ACCOUNTED INVESTEES continued

### d) Reporting dates of financial information of associates

For equity accounting and for disclosing financial information of the Arabian Shield Cooperative Insurance Company, the information taken from the unaudited interim financial statements for the nine months ended September 30, 2017 and 2016. For the other associates, the information for 2017 is taken from the financial statements for the year ended December 31, 2017.

## 9 REINSURERS' SHARES OF INSURANCE TECHNICAL RESERVES

| | **2017** | 2016 |
|---|---|---|
| Outstanding claims recoverable from reinsurers (note 16) | 5,369 | 5,405 |
| Reinsurers' share of unearned premiums (note 17) | 4,611 | 5,118 |
| | **9,980** | 10,523 |

Amounts due from reinsurers in respect of claims paid by the Group on the contracts that are reinsured are included in insurance receivables (note 6).

## 10 INVESTMENTS IN SUBSIDIARIES

Set out below are the Group's subsidiaries at 31 December 2017. Unless otherwise stated, they have share capital consisting solely of ordinary shares, that are held directly by the Group and the proportion of ownership interests held equals to the voting rights held by the Group. The country of incorporation or registration is also their principal place of business:

| Name of the entity | Place of business / country of incorporation | Date of incorporation | Ownership interest held by the Group | | Ownership interest held by non-controlling interest | | Principal activities |
|---|---|---|---|---|---|---|---|
| | | | **2017** | 2016 | **2017** | 2016 | |
| Bahrain National Insurance Company BSC (c) | Bahrain | 30 December 1998 | **100%** | 100% | **-** | - | Transact various types of general insurance business. |
| Bahrain National Life Assurance Company BSC (c) | Bahrain | 4 October 2000 | **75%** | 75% | **25%** | 25% | Transact the business of life assurance, medical insurance, retirement planning and savings. |
| iAssist Middle East Company W.L.L. | Bahrain | 14 January 2010 | **100%** | 100% | **-** | - | Transact the business of automobile smash repairs, roadside assistance and automobile services. |

*In thousands of Bahraini Dinars*

## 10 INVESTMENTS IN SUBSIDIARIES continued

### Subsidiary with material non-controlling interests

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

**Bahrain National Life Assurance Company BSC (c)**

| | 2017 | 2016 |
|---|---|---|
| Cash and cash equivalents | 845 | 1,521 |
| Placements with banks | 2,022 | 1,533 |
| Insurance and other receivables | 1,495 | 1,266 |
| Reinsurers' share of insurance technical reserves | 1,521 | 1,913 |
| Deferred acquisition costs | 129 | 154 |
| Financial investments | 11,358 | 10,017 |
| Intangible assets | 26 | 40 |
| Equipment | 10 | 12 |
| Statutory deposits | 50 | 50 |
| Insurance technical reserves | (5,420) | (5,541) |
| Insurance payables | (883) | (590) |
| Other liabilities | (1,266) | (1,479) |
| **Net assets (100 %)** | **9,887** | 8,896 |
| **Net assets attributable to NCI** | **2,479** | 2,229 |
| Net premium earned | 2,148 | 1,928 |
| Net claims incurred | (1,084) | (1,189) |
| General and administration expenses - underwriting | (464) | (490) |
| Net commission expenses | (271) | (337) |
| Life assurance actuarial reserve charge | (35) | (4) |
| Net investment income | 534 | 395 |
| Impairment losses on investment | (89) | (56) |
| General and administration expenses - non-underwriting | (105) | (129) |
| **Net profit** | **634** | 118 |
| Other comprehensive income | 367 | 83 |
| **Total comprehensive income** | **1,001** | 201 |
| **NCI's share of profit (25%)** | **158** | 29 |
| **NCI's share of total comprehensive income (25%)** | **250** | 50 |
| Cash flows from / (used in) operating activities | 69 | (455) |
| Cash flows (used in) / from investing activities | (733) | 1,022 |
| Cash flows used in financing activities, before dividends to NCI | - | (293) |
| Cash flows used in financing activities, cash dividends to NCI | - | (97) |
| Donations paid | (12) | (8) |
| **Net change in cash and cash equivalents** | **(676)** | 169 |

*In thousands of Bahraini Dinars*

## 11 INVESTMENT PROPERTIES

| **2017** | **BNH Tower in Seef** | **BNH Building in Sanad** | **Total** |
|---|---|---|---|
| **Cost** | | | |
| At 1 January | 2,793 | 1,924 | 4,717 |
| Additions | 5 | - | 5 |
| **At 31 December** | **2,798** | **1,924** | **4,722** |
| **Accumulated depreciation** | | | |
| At 1 January | 1,311 | 307 | 1,618 |
| Depreciation | 85 | 83 | 168 |
| **At 31 December** | **1,396** | **390** | **1,786** |
| **Net book value at 31 December** | **1,402** | **1,534** | **2,936** |
| | | | |
| **Total fair value at 31 December** | **11,304** | **3,682** | **14,986** |
| This comprises: | | | |
| Investment properties | 1,482 | 1,617 | 3,099 |
| Owner occupied | 1,360 | 331 | 1,691 |
| **Total net book value at 31 December** | **2,842** | **1,948** | **4,790** |

| 2016 | BNH Tower in Seef | BNH Building in Sanad | Total |
|---|---|---|---|
| Cost | | | |
| At 1 January | 2,793 | 1,924 | 4,717 |
| At 31 December | 2,793 | 1,924 | 4,717 |
| Accumulated depreciation | | | |
| At 1 January | 1,226 | 230 | 1,456 |
| Depreciation | 85 | 77 | 162 |
| At 31 December | 1,311 | 307 | 1,618 |
| Net book value at 31 December | 1,482 | 1,617 | 3,099 |
| | | | |
| Total fair value at 31 December | 11,304 | 3,682 | 14,986 |
| This comprises: | | | |
| Investment properties | 1,482 | 1,617 | 3,099 |
| Owner occupied | 1,360 | 331 | 1,691 |
| Total net book value at 31 December | 2,842 | 1,948 | 4,790 |

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

*In thousands of Bahraini Dinars*

## 12 INTANGIBLE ASSETS

| **2017** | **Goodwill** | **Software** | **Development cost** | **Total** |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January | 74 | 1,924 | 10 | 2,008 |
| Additions | - | 22 | - | 22 |
| Disposals | - | (218) | - | (218) |
| Reclassified to property and equipment | - | (16) | - | (16) |
| Transfers | - | 10 | (10) | - |
| **At 31 December** | **74** | **1,722** | **-** | **1,796** |
| **Accumulated amortisation** | | | | |
| At 1 January | - | 1,726 | - | 1,726 |
| Amortisation | - | 80 | - | 80 |
| Disposals | - | (218) | - | (218) |
| Reclassified to property and equipment | - | (3) | | (3) |
| **At 31 December** | **-** | **1,585** | **-** | **1,585** |
| **Net book value at 31 December** | **74** | **137** | **-** | **211** |

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

*In thousands of Bahraini Dinars*

## 13 PROPERTY AND EQUIPMENT

| **2017** | **Lands and buildings** | **Machinery** | **Furniture, equipment & other assets** | **Capital work-in-progress** | **Total** |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January | 4,228 | 740 | 2,279 | 18 | 7,265 |
| Additions | 519 | 9 | 70 | 28 | 626 |
| Disposals | - | - | (818) | - | (818) |
| Reclassified from intangible assets | - | - | 16 | - | 16 |
| **At 31 December** | **4,747** | **749** | **1,547** | **46** | **7,089** |
| **Accumulated depreciation** | | | | | |
| At 1 January | 1,359 | 575 | 1,902 | - | 3,836 |
| Depreciation | 122 | 80 | 190 | - | 392 |
| Disposals | - | - | (818) | - | (818) |
| Reclassified from intangible assets | - | - | 3 | - | 3 |
| **At 31 December** | **1,481** | **655** | **1,277** | **-** | **3,413** |
| **Net book value at 31 December** | **3,266** | **94** | **270** | **46** | **3,676** |

| 2016 | Lands and buildings | Machinery | Furniture, equipment & other assets | Capital work-in-progress | Total |
|---|---|---|---|---|---|
| Cost | | | | | |
| At 1 January | 4,168 | 735 | 2,098 | 31 | 7,032 |
| Additions | 60 | 5 | 166 | 18 | 249 |
| Disposals | - | - | (16) | - | (16) |
| Transfers | - | - | 31 | (31) | - |
| At 31 December | 4,228 | 740 | 2,279 | 18 | 7,265 |
| Accumulated depreciation | | | | | |
| At 1 January | 1,239 | 495 | 1,672 | - | 3,406 |
| Depreciation | 120 | 80 | 246 | - | 446 |
| Disposals | - | - | (16) | - | (16) |
| At 31 December | 1,359 | 575 | 1,902 | - | 3,836 |
| Net book value at 31 December | 2,869 | 165 | 377 | 18 | 3,429 |

*In thousands of Bahraini Dinars*

## 14 STATUTORY DEPOSITS

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

## 15 INSURANCE TECHNICAL RESERVES

| | **2017** | 2016 |
|---|---|---|
| Outstanding claims - gross (note 16) | 11,432 | 9,684 |
| Unearned gross insurance premiums (note 17) | 11,743 | 11,885 |
| Unearned commissions income (note 26) | 215 | 149 |
| Life assurance actuarial reserve (note 18) | 3,038 | 2,804 |
| | **26,428** | 24,522 |

## 16 OUTSTANDING CLAIMS

### a) Claims development

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

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

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

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

*In thousands of Bahraini Dinars*

## 16 OUTSTANDING CLAIMS continued

**(i) Gross insurance claims for general insurance business**

| Accident year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Estimate of ultimate claims costs: | | | | | | | | | | | |
| At end of reporting year | 7,693 | 6,485 | 5,420 | 3,883 | 7,275 | 5,550 | 8,850 | 4,772 | 4,798 | **6,524** | 61,250 |
| One year later | 6,240 | 9,692 | 5,950 | 4,632 | 7,512 | 7,510 | 8,928 | 5,833 | **5,813** | | 62,110 |
| Two year later | 6,598 | 9,658 | 6,074 | 5,140 | 6,059 | 7,957 | 9,433 | **5,934** | | | 56,853 |
| Three year later | 6,538 | 9,399 | 6,120 | 4,970 | 5,972 | 7,901 | **9,629** | | | | 50,529 |
| Four year later | 6,311 | 9,573 | 6,072 | 4,948 | 5,818 | **7,979** | | | | | 40,701 |
| Five year later | 6,382 | 10,442 | 5,940 | 4,789 | **5,897** | | | | | | 33,450 |
| Six year later | 5,986 | 10,399 | 5,313 | **4,869** | | | | | | | 26,567 |
| Seven year later | 6,161 | 10,434 | **5,385** | | | | | | | | 21,980 |
| Eight year later | 6,213 | **10,644** | | | | | | | | | 16,857 |
| Nine year later | **6,328** | | | | | | | | | | 6,328 |
| Current estimate of cumulative claims **(A)** | 6,328 | 10,644 | 5,385 | 4,869 | 5,897 | 7,979 | 9,629 | 5,934 | 5,813 | 6,524 | 69,002 |
| Cumulative payments to date **(B)** | 6,314 | 9,720 | 5,335 | 4,441 | 5,729 | 7,651 | 9,113 | 5,257 | 4,641 | | 58,201 |
| **Total (A – B)** | **14** | **924** | **50** | **428** | **168** | **328** | **516** | **677** | **1,172** | **6,524** | **10,801** |
| Reserve in respect of years prior to 2008 | | | | | | | | | | | 87 |
| **Total gross reserve included in the statement of financial position** | | | | | | | | | | | **10,888** |

**(ii)** Gross outstanding claims for life and medical insurance business amounting to BD 544 thousand.

*In thousands of Bahraini Dinars*

## 16 OUTSTANDING CLAIMS continued

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

| Accident year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Estimate of ultimate claims costs: | | | | | | | | | | | |
| At end of reporting year | 4,890 | 3,908 | 1,986 | 1,949 | 3,409 | 2,281 | 2,083 | 2,201 | 2,888 | **4,424** | 30,019 |
| One year later | 2,707 | 4,046 | 2,383 | 2,259 | 3,356 | 2,874 | 2,794 | 3,122 | 3,360 | | 26,901 |
| Two year later | 3,189 | 3,949 | 2,496 | 2,263 | 3,279 | 3,260 | 3,142 | **3,442** | | | 25,020 |
| Three year later | 3,001 | 3,729 | 2,590 | 2,179 | 3,153 | 3,320 | **3,364** | | | | 21,336 |
| Four year later | 2,808 | 3,735 | 2,602 | 2,117 | 3,132 | **3,403** | | | | | 17,797 |
| Five year later | 2,878 | 3,802 | 2,460 | 2,104 | **3,178** | | | | | | 14,422 |
| Six year later | 2,871 | 3,767 | 2,437 | **2,193** | | | | | | | 11,268 |
| Seven year later | 2,963 | 3,759 | **2,463** | | | | | | | | 9,185 |
| Eight year later | 2,993 | **3,783** | | | | | | | | | 6,776 |
| Nine year later | **3,031** | | | | | | | | | | 3,031 |
| Current estimate of cumulative claims **(A)** | 3,031 | 3,783 | 2,463 | 2,193 | 3,178 | 3,403 | 3,364 | 3,442 | 3,360 | 4,424 | 32,641 |
| Cumulative payments to date **(B)** | 3,023 | 3,659 | 2,446 | 2,144 | 3,130 | 3,309 | 3,126 | 3,168 | 2,831 | | 26,836 |
| **Total (A – B)** | **8** | **124** | **17** | **49** | **48** | **94** | **238** | **274** | **529** | **4,424** | **5,805** |
| Net reserve in respect of years prior to 2008 | | | | | | | | | | | 59 |
| **Total net reserve included in the statement of financial position** | | | | | | | | | | | **5,864** |

**(iv)** Net outstanding claims for life and medical insurance business amounting to BD199 thousand.

### b) Changes in insurance assets and liabilities

| | **2017** | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Gross** | **Reinsurance** | **Net** | Gross | Reinsurance | Net |
| Reported claims | 8,439 | 5,405 | 3,034 | 10,826 | 7,635 | 3,191 |
| IBNR | 1,245 | - | 1,245 | 850 | - | 850 |
| Total at beginning of the year | 9,684 | 5,405 | 4,279 | 11,676 | 7,635 | 4,041 |
| Change in liabilities | 24,226 | 11,938 | 12,288 | 19,632 | 9,378 | 10,254 |
| Claims settled | (22,478) | (11,974) | (10,504) | (21,624) | (11,608) | (10,016) |
| **Balance as at 31 December** | **11,432** | **5,369** | **6,063** | 9,684 | 5,405 | 4,279 |
| Reported claims | 9,282 | 5,369 | 3,913 | 8,439 | 5,405 | 3,034 |
| IBNR | 2,150 | - | 2,150 | 1,245 | - | 1,245 |
| **Balance as at 31 December** | **11,432** | **5,369** | **6,063** | 9,684 | 5,405 | 4,279 |

*In thousands of Bahraini Dinars*

## 16 OUTSTANDING CLAIMS continued

### c) Sensitivity analysis

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

| | Profit or loss & Equity | |
|---|---|---|
| ***Non-Life Insurance*** | **2017** | 2016 |
| **Expense rate** | | |
| 1 percent increase | (35) | (34) |
| 1 percent decrease | 35 | 34 |
| **Expected loss ratio** | | |
| 1 percent increase | (118) | (93) |
| 1 percent decrease | 118 | 93 |

| | Profit or loss & Equity | |
|---|---|---|
| ***Life Assurance*** | **2017** | 2016 |
| **Demographic assumptions** | | |
| 1 percent increase in base mortality rate | (20) | (24) |
| 1 percent decrease in base mortality rate | 20 | 24 |
| **Expense assumptions** | | |
| 1 percent increase | (3) | (3) |
| 1 percent decrease | 3 | 3 |
| **Expected loss ratio** | | |
| 1 percent increase | (4) | (6) |
| 1 percent decrease | 4 | 6 |

The Group has certain single insurance contract which it considers as risks of high severity but very low frequency. The Group re-insures substantial part of these risks and its loss on any one single event is limited to a loss of BD125 thousand in case of property and marine and BD75 thousand in case of causality whereas in case of motor losses Group's exposure to a single event is limited to BD100 thousand.

### d) Movements in outstanding claims

| | Gross outstanding claims | | Reinsurers' share | | Net outstanding claims | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| At 1 January | 9,684 | 11,676 | 5,405 | 7,635 | 4,279 | 4,041 |
| Net movement during the year | 1,748 | (1,992) | (36) | (2,230) | 1,784 | 238 |
| | **11,432** | 9,684 | **5,369** | 5,405 | **6,063** | 4,279 |

*In thousands of Bahraini Dinars*

## 17 NET CHANGE IN RESERVES FOR UNEARNED INSURANCE PREMIUMS

| | Unearned gross insurance premiums | | Reinsurers' share | | Net unearned premiums | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| At 1 January | 11,885 | 11,355 | 5,118 | 4,902 | 6,767 | 6,453 |
| Net movement during the year | (142) | 530 | (507) | 216 | 365 | 314 |
| | **11,743** | 11,885 | **4,611** | 5,118 | **4,611** | 6,767 |

## 18 LIFE ASSURANCE ACTUARIAL RESERVE AND ACTUARIAL ASSUMPTIONS

| | **2017** | 2016 |
|---|---|---|
| **Life assurance actuarial reserve** | | |
| Balance at 1 January | 2,804 | 3,383 |
| Contributions received | 208 | 244 |
| Benefits paid | (186) | (897) |
| Acturial adjustment on life insurance obligation | 35 | 4 |
| Management fee | (44) | (62) |
| Policyholders' share of net investment income | 221 | 132 |
| **Balance at 31 December** | **3,038** | 2,804 |
| **Life assurance actuarial reserve per statement of financial position** | **3,038** | 2,804 |
| **Actuarial estimate of the present value of future benefit obligations at 31 December** | **3,038** | 2,804 |

The actuarial estimate has been prepared by independent actuaries, Actuscope Consulting Actuaries, Lebanon. The mortality rate assumptions used was 45% (2016: 50%) of the 75-80 Ultimate Mortality US Table and the valuation interest rate was set at 4.5% p.a. (2016: 4.5% p.a.) Allowances have been made for reinsurance, guaranteed bonuses, renewal expenses unexpired risks and contingencies where appropriate.

## 19 INSURANCE PAYABLES

| | **2017** | 2016 |
|---|---|---|
| Policyholders – Claims | 159 | 227 |
| Insurance and reinsurance companies | 3,814 | 3,265 |
| | **3,973** | 3,492 |

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

*In thousands of Bahraini Dinars*

## 20 OTHER LIABILITIES

| | **2017** | 2016 |
|---|---|---|
| Premiums received in advance | 1,146 | 1,157 |
| Vehicle repairers and spare parts | 1,410 | 1,858 |
| Medical claims care fund | 398 | 581 |
| Accrued expenses | 162 | 116 |
| Unclaimed dividends - prior years | 400 | 430 |
| Provision for employees' benefits | 485 | 494 |
| Employees' leaving indemnities | 454 | 391 |
| Other | 1,131 | 1,245 |
| | **5,586** | 6,272 |

## 21 RETIREMENT BENEFITS COST

As at 31 December 2017, the Group employed 154 Bahrainis (2016: 156 Bahrainis) and 65 expatriates (2016: 61 expatriates).

Bahraini employees are covered by the pension scheme of Social Insurance Organisation of the Government of Bahrain. Employees and the Group contribute monthly to this scheme on a fixed-percentage-of-salaries basis. The Group's contributions in respect of Bahraini employees for 2017 amounted to BD226 thousand (2016: BD228 thousand), which cover other benefits besides pension entitlements.

The Group also offers, on a voluntary basis, to its Bahraini employees, a defined contribution plan, which is determined by the annual contributions paid by the Group and the employees to a post-employment benefit plan, together with investment returns arising from the contributions. The Group's contributions in 2017 amounted to BD76 thousand (2016: BD77 thousand). The scheme is administered by Bahrain National Life Assurance Company on behalf of the Group.

The liability towards the retirement plan as at 31 December 2017 amounted to BD721 thousand (2016: BD675 thousand) and is included in the Life assurance actuarial reserve (note 18). The liability is funded by way of contributions from the retirement scheme. The contributions received are invested as part of policyholders' investments (note 7 d).

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

### Employees' leaving indemnities

| | **2017** | 2016 |
|---|---|---|
| At beginning of year | 391 | 354 |
| Indemnities and advances paid | (10) | (3) |
| Charge to statement of profit or loss | 73 | 40 |
| | **454** | 391 |

*In thousands of Bahraini Dinars*

## 22 SHARE CAPITAL

| | Number 2017 | Amount 2017 | Number 2016 | Amount 2016 |
|---|---|---|---|---|
| **a) Authorised shares 100 fils each** | **200,000,000** | **20,000** | 200,000,000 | 20,000 |
| **b) Issued and fully paid** | **113,500,000** | **11,350** | 113,500,000 | 11,350 |

**c) Treasury shares:**

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

| | Number 2017 | Amount 2017 | Number 2016 | Amount 2016 |
|---|---|---|---|---|
| Balance at the beginning of the year | **6,253,816** | **1,868** | 6,253,816 | 1,868 |
| **Balance at 31 December** | **6,253,816** | **1,868** | 6,253,816 | 1,868 |

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

| | 2017 | 2016 |
|---|---|---|
| Basic and diluted earnings per share – fils | 19.5 | 36.2 |
| Proposed cash dividend – fils | 12.0 | 20.0 |
| Net asset value – fils | 469.2 | 457.6 |
| Stock exchange price at 31 December – fils | 430.0 | 420.0 |
| Market capitalization at 31 December – in thousands of BD | 48,805 | 47,670 |
| Price/Earnings ratio at 31 December | 22.1 | 11.6 |

**e) Earnings per share**

The calculation of earnings per share is based on the net profit attributable to the shareholders for the year of BD2,095 thousand (2016: BD 3,880 thousand), attributable to 107,246,184 (2016: 107,246,184) ordinary shares for basic earnings, being the weighted average number of ordinary shares outstanding during the year.

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

*In thousands of Bahraini Dinars*

## 22 SHARE CAPITAL continued

### f) Major shareholders

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

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

### g) Share premium

During the 2005 financial year, the Company issued 20,000,000 shares @ 300 fils (share premium 200 fils) per share on a rights basis.

### h) Additional information on shareholding pattern

i. The Company has only one class of equity shares and the holders of the shares have equal voting rights.

ii. Distribution schedule of equity shares, setting out the number of holders and percentage in the following categories:

| Categories | Number of shareholders | Number of shares | % of total outstanding shares |
|---|---|---|---|
| Less than 1 % | 599 | 49,789,477 | 43.87 |
| 1 % up to less than 5 % | 15 | 30,988,027 | 27.30 |
| 5 % up to less than 10 % | 3 | 20,247,316 | 17.84 |
| More than 10% | 1 | 12,475,180 | 10.99 |
| **TOTAL** | **618** | **113,500,000** | **100.00** |

*In thousands of Bahraini Dinars*

## 23 RESERVES

### a) Statutory reserve

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

### b) General reserves

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

### c) Investment fair value reserve

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

## 24 PROPOSED APPROPRIATIONS AND DIRECTORS REMUNERATION

| | **2017** | 2016 |
|---|---|---|
| Profit as per consolidated statement of profit or loss | 2,253 | 3,909 |
| Net profit attributable to non-controlling interest | (158) | (29) |
| **Profit attributable to shareholders of parent company** | **2,095** | 3,880 |
| **Proposed appropriations:** | | |
| Dividend to shareholders | 1,287 | 2,145 |
| Bonus shares to shareholders | 568 | - |
| Donations | - | 20 |
| Retained earnings | 240 | 1,715 |
| | **2,095** | 3,880 |

The Company proposed to distribute 5 bonus shares for every 100 shares held by the shareholders. The Company has only one class of equity shares and the holders of these shares have equal voting rights.

Proposed director's remuneration is BD116 thousand (2016: BD115 thousand). The appropriation of the 2017 profit is subject to approval by shareholders at the annual general meeting.

## 25 GROSS INSURANCE PREMIUMS

| | **2017** | 2016 |
|---|---|---|
| Direct Business | 28,701 | 27,098 |
| Inward Business | 186 | 540 |
| | **28,887** | 27,638 |

*In thousands of Bahraini Dinars*

## 26 NET COMMISSION AND FEE INCOME

| | 2017 | 2016 |
|---|---|---|
| Commission and fee income | 1,592 | 1,813 |
| Adjustment for unearned commission income | (66) | 209 |
| Commission expenses | (1,372) | (1,432) |
| Adjustment for deferred commission expense | (52) | 18 |
| **Net commission and fee income** | **102** | 608 |

**Movements in unearned commission income and deferred commission expense:**

| | Unearned commission income | | Deferred commission expense | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| At 1 January | 149 | 358 | 628 | 610 |
| Net movement during the year | 66 | (209) | (52) | 18 |
| | **215** | 149 | **576** | 628 |

## 27 NET INVESTMENT INCOME

| | 2017 | 2016 |
|---|---|---|
| Net gains / (losses) on disposal of financial investments | 11 | (73) |
| Transfer from other comprehensive income on disposal of available-for-sale securities | 322 | 585 |
| Valuation gains / (losses) on trading securities | 86 | (14) |
| Foreign exchange gains | 12 | 12 |
| Amortisation of premiums on held-to-maturity securities | (11) | 6 |
| Interest income | 987 | 911 |
| Dividend income | 672 | 567 |
| Other income | - | 9 |
| Investment administration expenses | (60) | (61) |
| Policyholders' share of investment income | (221) | (132) |
| Investment properties' income | 319 | 235 |
| Depreciation charges on investment properties | (168) | (162) |
| Investment properties' maintenance expenses | (60) | (90) |
| **Net investment income** | **1,889** | 1,793 |

*In thousands of Bahraini Dinars*

## 28 IMPAIRMENT ON INVESTMENT

| | 2017 | 2016 |
|---|---|---|
| Opening balance | 759 | 726 |
| Transfer to profit or loss on disposal of securities | (221) | (99) |
| Impairment losses for the year | 308 | 132 |
| | **846** | 759 |

## 29 EXPENSES

| a) General and administration expenses - underwriting | 2017 | 2016 |
|---|---|---|
| Employee costs | 2,177 | 2,213 |
| Depreciation and amortisation | 344 | 406 |
| Other costs | 1,510 | 1,289 |
| | **4,031** | 3,908 |

| b) General and administration expenses - non-underwriting | 2017 | 2016 |
|---|---|---|
| Employee costs | 1,232 | 1,172 |
| Depreciation and amortisation | 128 | 136 |
| Other costs | 423 | 445 |
| | **1,783** | 1,753 |

## 30 SEGMENTAL INFORMATION

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

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

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

Medical Insurance segment comprises medical insurance products.

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

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

*In thousands of Bahraini Dinars*

## 30 SEGMENTAL INFORMATION continued

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

| 2017 | Motor | Property and General | Medical | Life Assurance | Corporate | Consolidation adjustments | Total |
|---|---|---|---|---|---|---|---|
| **Gross insurance premiums** | **13,051** | **9,520** | **3,838** | **2,691** | **-** | **(213)** | **28,887** |
| **Net premiums earned** | **12,771** | **973** | **1,261** | **887** | **-** | **(72)** | **15,820** |
| Net claims incurred | (10,818) | (432) | (682) | (402) | - | 46 | (12,288) |
| General and administration expenses - underwriting | (2,700) | (1,097) | (209) | (255) | - | 230 | (4,031) |
| Net commission and fee income / (expense) | (385) | 758 | (249) | (22) | - | - | 102 |
| Actuarial adjustment on life assurance obligation | - | - | - | (35) | - | - | (35) |
| **Underwriting profits** | **(1,132)** | **202** | **121** | **173** | **-** | **204** | **(432)** |
| Net investment income | 862 | 863 | 183 | 351 | 573 | (943) | 1,889 |
| Impairment losses on investment | (109) | (110) | (30) | (59) | - | - | (308) |
| Share of profit of equity accounted investees | - | - | - | - | 2,051 | 625 | 2,676 |
| Gains on partial sale of equity accounted investees | - | - | - | - | - | 114 | 114 |
| Net income from road assist services | 97 | - | - | - | - | - | 97 |
| Corporate Services fees | - | - | - | - | 591 | (591) | - |
| General and administration expenses - non-underwriting | (336) | (150) | (65) | (40) | (1,791) | 599 | (1,783) |
| **Segment results** | **(618)** | **805** | **209** | **425** | **1,424** | **8** | **2,253** |

*In thousands of Bahraini Dinars*

## 30 SEGMENTAL INFORMATION continued

| 2016 | Motor | Property and General | Medical | Life Assurance | Corporate | Consolidation adjustments | Total |
|---|---|---|---|---|---|---|---|
| Gross insurance premiums | 13,048 | 9,331 | 3,372 | 2,106 | - | (219) | 27,638 |
| Net premiums earned | 12,505 | 654 | 1,264 | 664 | - | (75) | 15,012 |
| Net claims incurred | (8,539) | (263) | (636) | (553) | - | 37 | (9,954) |
| General and administration expenses - underwriting | (2,651) | (1,004) | (213) | (277) | - | 237 | (3,908) |
| Net commission and fee income/ (expenses) | (394) | 1,339 | (335) | (2) | - | - | 608 |
| Actuarial adjustment on life assurance obligation | - | - | - | (4) | - | - | (4) |
| Underwriting profits | 921 | 726 | 80 | (172) | - | 199 | 1,754 |
| Net investment income | 756 | 755 | 146 | 249 | 314 | (427) | 1,793 |
| Impairment losses on investment | (38) | (38) | (38) | (18) | - | - | (132) |
| Share of profit of equity accounted investees | - | - | - | - | 1,557 | 551 | 2,108 |
| Net income from road assist services | 139 | - | - | - | - | - | 139 |
| Corporate Services fees | | | | | 610 | (610) | - |
| General and administration expenses - non-underwriting | (332) | (149) | (80) | (49) | (1,765) | 622 | (1,753) |
| Segment results | 1,446 | 1,294 | 108 | 10 | 716 | 335 | 3,909 |

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

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

### Geographical information

| **2017** | **Bahrain** | **GCC** | **Other Countries** | **Total** |
|---|---|---|---|---|
| Gross insurance premiums | 28,701 | 186 | - | **28,887** |
| Non-current assets | 27,706 | 12,234 | 12,024 | **51,964** |

| 2016 | Bahrain | GCC | Other Countries | Total |
|---|---|---|---|---|
| Gross insurance premiums | 27,162 | 453 | 23 | 27,638 |
| Non-current assets | 26,122 | 10,593 | 10,005 | 46,720 |

In presenting the geographic information, segment revenue is based on the location of the customers and segment assets were based on the geographic location of the assets.

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

## 31 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### a) Risk management framework

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

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

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

### b) Insurance Risk Management

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

*(i) Underwriting Policy*

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

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

*In thousands of Bahraini Dinars*

## 31 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

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

*(ii) Reinsurance Policy*

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

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

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

*In thousands of Bahraini Dinars*

## 31 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

*(iii) Terms and conditions of insurance contracts*

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

| Type of contract | Terms and conditions | Key factors affecting future cash flows |
|---|---|---|
| Property and Engineering | This contract indemnifies the insured against material damage to the property of the insured being buildings, contents, machinery and equipment, caused by specified perils, or against all risks subject to specific exclusion and limitations. The insured can extend the policy as the loss can also affect the potential income of the insured and therefore covers loss of income based on this business interruption. | The risk on any policy varies according to many factors such as location, age, occupancy, weather conditions and safety measures in place. The events insured against are fortuitous, sudden and unforeseen. Claims have to be notified within a specified period and a surveyor and/or loss adjustor is appointed in most cases. The loss would be the cost to repair, reinstate or replace the assets damaged bringing the insured to the same position before the loss. In cases of business interruption losses time for completion are key factors influencing the level of claims under these policies. |
| Casualty (General Accident and Liability) | Under these contracts, compensation is paid for injury suffered by individuals, including employees or members of public. And to indemnify the insured against legal liability as a result of an act or omission inured against causing either bodily injury or third party property damage. | are generally agreed benefits or amounts easily quantified. In the case of liability claims these are very much dependent on factors beyond the control of the parties involved such as court proceedings and identification of medical conditions in the case of bodily injury. Estimating claims provisions for these claims involves uncertainties such as the reporting lag, the number of parties involved in the claim, whether the insured event is over multiple time periods and the potential amounts of the claim. The majority of bodily injury claims are decided based on the laws in force and court judgment, and are settled within two – three years. |
| Marine Hull and Cargo | These are very standard contracts within the international spectrum and indemnify the insured against loss of cargo and in the case of hull against material damage to the hull or liability arising out of the use of the hull. | The nature of marine business especially cargo is cross border movement of goods and therefore tend to take longer to quantify or to establish the cause of loss. Underwriters use various loss adjustors to protect their interest The main risk is the establishing the correct cause of loss. Most of these losses will initiate rights of recovery from third parties and even this presents some uncertainty as to quantum and time. |

*In thousands of Bahraini Dinars*

## 31 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

| Type of contract | Terms and conditions | Key factors affecting future cash flows |
|---|---|---|
| Motor | Motor insurance contracts provide cover in respect of policyholder's private cars and their liability to third parties in respect of damage to property and injury. The exposure on motor insurance contracts is normally limited to the replacement value of the vehicle and a policy limit in respect of third party damage. Exposure to third party bodily injury is unlimited in accordance with statutory requirements. | In general, claims lags are minor and claim complexity is relatively low. The frequency of claims is affected by adverse weather conditions, and the volume of claims is higher in adverse weather conditions. The number of claims is also connected with the economic activity, which affects the amount of traffic activity. The majority of bodily injury claims are decided based on the laws in force and court judgment, and are settled within two – three years. |
| Term life | These contracts indemnify the life of the policyholder over a defined period. | Claims reporting lags are minor and claim complexity is relatively low. The exposure of the Company and amount of claim is limited to the policy value. |
| Unit-linked | These are issued unit-linked savings contracts that are classified as investment contracts. | All financial risk is borne by the policyholder as investment performance directly affects the value of the unit fund and hence the benefits payable. Other key factors affecting future net cash flows to the shareholders are the level of charges levied on these unit-linked funds. |
| Medical | These contracts pay benefits for medical treatment and hospital expenses. The policyholder is indemnified for only part of the cost of medical treatment or benefits are fixed. | Claims under these contracts depend on both the incidence of policyholders becoming ill and the duration over which they remain ill. Claims are generally notified promptly and can be settled without delay. Premium revisions are responded reasonably quickly to adverse claims experience. |

*In thousands of Bahraini Dinars*

## 31 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

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

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

| **2017 Geographical area** | **General Insurance** | **Life Assurance** | **Total** |
|---|---|---|---|
| **Bahrain** | | | |
| Gross insurance premiums | 26,010 | 2,691 | 28,701 |
| Retained premiums | 15,260 | 887 | 16,147 |
| **Other countries** | | | |
| Gross insurance premiums | 186 | - | 186 |
| Retained premiums | 38 | - | 38 |
| **Total** | | | |
| **Gross insurance premiums** | **26,196** | **2,691** | **28,887** |
| **Retained premiums** | **15,298** | **887** | **16,185** |

| 2016 Geographical area | General Insurance | Life Assurance | Total |
|---|---|---|---|
| Bahrain | | | |
| Gross insurance premiums | 25,056 | 2,106 | 27,162 |
| Retained premiums | 14,613 | 663 | 15,276 |
| Other countries | | | |
| Gross insurance premiums | 476 | - | 476 |
| Retained premiums | 50 | - | 50 |
| Total | | | |
| Gross insurance premiums | 25,532 | 2,106 | 27,638 |
| Retained premiums | 14,663 | 663 | 15,326 |

### c) Capital Management

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

The Group's objectives for managing capital are:

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

*In thousands of Bahraini Dinars*

## 31 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

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

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

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

### d) Financial Risk Management

The Group has exposure to the following risks:

- credit risk
- liquidity risk
- market risk

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

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

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

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

*In thousands of Bahraini Dinars*

## 31 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

(i) *Credit risk*

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

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

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

*Management of credit risk*

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

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

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

*In thousands of Bahraini Dinars*

## 31 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

*Overall exposure to credit risk*

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

| Financial assets | 2017 | 2016 |
|---|---|---|
| Receivables: | | |
| - Policyholders | 2,970 | 2,860 |
| - Insurance and reinsurance companies | 5,000 | 4,617 |
| - Others | 1,458 | 1,604 |
| Financial investment securities: | | |
| - Fair value through profit or loss - debt instruments | 572 | 518 |
| - Available-for-sale debt instruments | 7,534 | 6,314 |
| - Held to maturity securities | 4,300 | 4,800 |
| Cash and cash equivalents | 3,090 | 5,041 |
| Placements with banks | 9,333 | 8,996 |
| Statutory deposits | 125 | 125 |
| | **34,382** | 34,875 |

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

*Concentrations of credit risk*

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

The specific concentration of risk from the top counterparties where receivables for any one counterparty or group of connected counterparties is BD1 million or more at the year-end is as follows:

| | 2017 | 2016 |
|---|---|---|
| **Debt instruments:** | | |
| Government of Bahrain | **5,148** | 5,084 |
| **Placements and bank accounts:** | | |
| National Bank of Bahrain | **3,547** | 1,122 |
| Ahli United Bank | **3,112** | 1,496 |
| Mashreq Bank | **2,181** | 754 |
| Arab Bank | **1,917** | 1,794 |

*In thousands of Bahraini Dinars*

## 31 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

*Assets that are past due*

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

| **Financial assets** | **Neither past due nor impaired** | **Past due but not impaired** | | **Individually impaired** | | |
|---|---|---|---|---|---|---|
| **2017** | **Less than 90 days** | **91–180 days** | **More than 180 days** | **Gross Amount** | **Provision for impairment** | **Total** |
| Receivables: | | | | | | |
| - Policyholders | 1,486 | 678 | 806 | 484 | (484) | 2,970 |
| - Insurance and Reinsurance companies | 1,332 | 1,151 | 2,517 | 655 | (655) | 5,000 |
| - Others | 1,458 | - | - | - | - | 1,458 |
| | **4,276** | **1,829** | **3,323** | **1,139** | **(1,139)** | **9,428** |

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

*(ii) Liquidity risk*

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations and commitments associated with its insurance contracts and financial liabilities in cash or other financial assets. Liquidity risk may arise from inability to sell a financial asset at a price close to its fair value.

Liquidity requirements are monitored on a regular basis and the management ensures that sufficient funds are available to meet any future commitments. In the normal course of business, the Group does not normally resort to borrowings but, given its gearing, has the ability to raise funds from banks at short notice. The maturity profile of the Group's investments is set out in note 32.

*In thousands of Bahraini Dinars*

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

*Management of liquidity risk*

The Group limits liquidity risks by continually reconciling the cash flows and assets of the Group with payment liabilities. Methodologies adopted for Group assets and liabilities valuation have been disclosed in significant accounting policies in note 4. The Group is exposed to daily calls on its available cash resources mainly from claims arising from short-term insurance contracts.

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

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

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

*Exposure to liquidity risk*

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

| **2017** | **Contractual undiscounted cash flows** | | | | |
|---|---|---|---|---|---|
| **Financial liabilities** | **Carrying amount** | **Less than 1 year** | **1 – 2 years** | **2 – 5 years** | **More than 5 years** |
| Policyholders' liabilities | 159 | 159 | - | - | - |
| Insurance/reinsurance companies | 3,814 | 3,814 | - | - | - |
| Other payables | 5,586 | 5,586 | - | - | - |

| 2016 | Contractual undiscounted cash flows | | | | |
|---|---|---|---|---|---|
| Financial liabilities | Carrying amount | Less than 1 year | 1 – 2 years | 2 – 5 years | More than 5 years |
| Policyholders' liabilities | 227 | 227 | - | - | - |
| Insurance/reinsurance companies | 3,265 | 3,265 | - | - | - |
| Other payables | 6,272 | 6,272 | - | - | - |

*(iii) Market risk*

Market risk is the risk that the value of financial instrument will fluctuate as a result of changes in market prices on account of factors specific to the individual security or to its issuer or factors affecting the securities market. The Group is exposed to market risk with respect to its investments in securities. The Group manages market risk by maintaining a well-diversified portfolio and by continuous monitoring of pertinent developments in international securities markets. In addition, the Group actively monitors the key factors that are likely to affect the prices of securities, including operational and financial performance of investees. The geographical concentration of the Group's investments is set out in note 33.

*In thousands of Bahraini Dinars*

## 31 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

*Management of market risks*

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

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

*Interest rate risk*

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

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

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

| | **2017 Aggregate principal** | **2017 Effective rate** | 2016 Aggregate principal | 2016 Effective rate |
|---|---|---|---|---|
| Cash and short-term deposits | **12,555** | **2.47%** | 14,162 | 1.52% |
| Bonds | **12,406** | **5.30%** | 11,632 | 6.18% |

*Derivatives:*

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

*Currency risk*

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

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

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

*In thousands of Bahraini Dinars*

### 31 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

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

***Net currency-wise concentration***

| Financial Assets | 2017 | 2016 |
|---|---|---|
| Euros | 367 | 386 |
| Pounds sterling | 231 | 93 |
| Other currencies | 244 | 111 |
| **Total open foreign exchange position at 31 December** | **842** | 590 |
| United States dollars | 26,400 | 23,944 |
| GCC Currencies | 10,472 | 8,798 |
| Bahraini dinars | 31,043 | 31,967 |
| | **68,756** | 65,299 |
| This comprises of: | | |
| Financial investments | 29,839 | 26,379 |
| Equity accounted investees | 16,934 | 15,670 |
| Cash and cash equivalents | 3,097 | 5,048 |
| Placements with banks | 9,333 | 8,996 |
| Statutory deposits | 125 | 125 |
| Receivables: | | |
| Policyholders | 2,970 | 2,860 |
| Insurance and reinsurance companies | 5,000 | 4,617 |
| Others | 1,458 | 1,604 |
| | **68,756** | 65,299 |

| Financial Liabilities | 2017 | 2016 |
|---|---|---|
| Bahraini dinars | 7,838 | 8,582 |
| United States dollars | 1,288 | 954 |
| GCC Currencies | 358 | 210 |
| Pounds sterling | 19 | 4 |
| Euros | 43 | 5 |
| Other currencies | 13 | 9 |
| | **9,559** | 9,764 |
| This comprises of: | | |
| Policyholders liabilities | 159 | 227 |
| Insurance/reinsurance companies payables | 3,814 | 3,265 |
| Other payables | 5,586 | 6,272 |
| | **9,559** | 9,764 |

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

*In thousands of Bahraini Dinars*

## 31 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

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

*Sensitivity analysis – currency risk*

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

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

| | **2017** | | 2016 | |
|---|---|---|---|---|
| **Financial assets and liabilities** | **Profit or loss** | **Equity** | Profit or loss | Equity |
| US Dollars | 84 | 251 | 86 | 230 |
| GCC currencies | 75 | 101 | 69 | 86 |
| Euro | - | 3 | - | 4 |
| Pounds Sterling | - | 2 | - | 1 |
| Other currencies | 1 | 2 | - | 1 |

*Sensitivity analysis to market risks*

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

| | **2017** | | 2016 | |
|---|---|---|---|---|
| **31 December** | **Profit or loss** | **Equity** | Profit or loss | Equity |
| ***Interest rate risk*** | | | | |
| + 1 percent shift in yield curves | 106 | 879 | 120 | 720 |
| - 1 percent shift in yield curves | (106) | (879) | (120) | (720) |
| ***Equity price risk*** | | | | |
| +1 percent increases in equity prices | 4 | 85 | 5 | 80 |
| -1 percent decrease in equity prices | (4) | (85) | (5) | (80) |

*In thousands of Bahraini Dinars*

## 32 MATURITY PROFILE OF INVESTMENTS

| 2017 | Less than 1 year | 1 - 5 years | 5 - 10 years | Over 10 years / no maturity | Total |
|---|---|---|---|---|---|
| Equities | - | - | - | 8,354 | 8,354 |
| Government bonds | - | 4,081 | 1,003 | 149 | 5,233 |
| Corporate bonds | 151 | 4,365 | 502 | 1,583 | 6,601 |
| Managed funds | - | - | - | 5,469 | 5,469 |
| Unquoted equities & funds | - | - | - | 2,576 | 2,576 |
| Equity accounted investees | - | - | - | 16,934 | 16,934 |
| | **151** | **8,446** | **1,505** | **35,065** | **45,167** |

This balance comprises of:

| | 2017 |
|---|---|
| Available-for-sale securities | 23,933 |
| Held-to-maturity securities | 4,300 |
| Equity accounted investees | 16,934 |
| | **45,167** |

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

This balance comprises of:

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

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

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

*In thousands of Bahraini Dinars*

## 33 GEOGRAPHICAL CONCENTRATION OF INVESTMENTS

| | 2017 | 2016 |
|---|---|---|
| Bahrain | 21,478 | 20,143 |
| Other GCC countries | 12,562 | 11,211 |
| North America | 6,810 | 5,380 |
| Europe | 2,509 | 2,477 |
| Japan and Korea | 11 | 45 |
| Other Asia/Oceania | 1,243 | 996 |
| Global/multi-regional | 2,160 | 1,797 |
| | **46,773** | 42,049 |

This comprises of:

| | 2017 | 2016 |
|---|---|---|
| Securities carried at fair value through profit or loss | 1,606 | 1,499 |
| Available-for-sale securities | 23,933 | 20,080 |
| Held-to-maturity securities | 4,300 | 4,800 |
| Equity accounted investees | 16,934 | 15,670 |
| | **46,773** | 42,049 |

**Investment income by segment**

| | 2017 | 2016 |
|---|---|---|
| Bahraini listed equities | 317 | 365 |
| Other equities | 274 | 213 |
| Government and corporate bonds | 632 | 738 |
| Managed funds | 517 | 472 |
| Cash and short-term deposits | 339 | 206 |
| Investment properties | 319 | 235 |
| Others | - | 9 |
| **Gross investment income** | **2,398** | 2,238 |
| Investment administration expenses | (60) | (61) |
| Policyholders' share of net investment income | (221) | (132) |
| Depreciation charges on investment properties | (168) | (162) |
| Investment properties' maintenance expenses | (60) | (90) |
| **Net investment income** | **1,889** | 1,793 |

*In thousands of Bahraini Dinars*

## 34 RELATED PARTIES

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

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

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

### a) Related party balances

| | **2017** | 2016 |
|---|---|---|
| Receivables from companies in which directors held interests | 186 | 189 |
| Receivables from associates | 363 | 386 |
| Payables to companies in which directors held interests | 1,038 | 1,290 |
| Payables to associates | 505 | 395 |

### b) Transactions with related parties

| | **2017** | 2016 |
|---|---|---|
| Gross insurance premiums from associates | 263 | 247 |
| Gross insurance premiums from companies in which directors held interests | 2,677 | 2,373 |
| Gross claims paid to associates | 163 | 121 |
| Gross claims paid to companies in which directors held interests | 2,797 | 1,548 |
| Retirement and saving plan contributions received from associates | 108 | 107 |
| Retirement and saving plan contributions received from companies in which directors held interests | 5 | 6 |
| Retirement and saving plan benefits paid to associates | 8 | 29 |
| Retirement and saving plan Benefits paid to companies in which directors held interests | 20 | 1 |

### c) Transactions with key management personnel

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

The key management personnel compensation is as follows:

| | **2017** | 2016 |
|---|---|---|
| Salaries and allowances | 536 | 553 |
| Terminal benefits | 38 | 40 |
| Other benefits | 32 | 28 |
| Board remuneration | 116 | 115 |

*In thousands of Bahraini Dinars*

### 35 FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer liability in an ordinary transaction between market participant at the measurement date in the principle or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

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

| **2017** | Fair value through the statement of profit or loss | Available-for- sale | Held-to-maturity | Loans and receivables | Other financial liability | **Total carrying value** | **Fair value** |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | - | - | - | 3,097 | - | 3,097 | 3,097 |
| Placements with banks | - | - | - | 9,333 | - | 9,333 | 9,333 |
| Insurance and other receivables | - | - | - | 9,428 | - | 9,428 | 9,428 |
| Financial investments | 1,606 | 23,933 | 4,300 | - | - | 29,839 | 29,991 |
| **Total financial assets** | **1,606** | **23,933** | **4,300** | **21,858** | **-** | **51,697** | **51,849** |
| Insurance payables | - | - | - | - | 3,973 | 3,973 | 3,973 |
| Other liabilities | - | - | - | - | 5,586 | 5,586 | 5,586 |
| **Total financial liabilities** | - | - | - | **-** | **9,559** | **9,559** | **9,559** |

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

*In thousands of Bahraini Dinars*

## 35 FAIR VALUE MEASUREMENT continued

**Fair value hierarchy**

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

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

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

- **Level 1**
  quoted prices (unadjusted) in active markets for identical assets and liabilities.

- **Level 2**
  inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- **Level 3**
  inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

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

| **2017** | **Level 1** | **Level 2** | **Level 3** | **Total** | **Carrying Value** |
|---|---|---|---|---|---|
| Available-for-sale investments | 21,357 | 2,400 | - | 23,757 | 23,757 |
| Securities carried at fair value through profit or loss | 1,530 | 76 | - | 1,606 | 1,606 |
| | **22,887** | **2,476** | **-** | **25,363** | **25,363** |

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

*In thousands of Bahraini Dinars*

## 35 FAIR VALUE MEASUREMENT continued

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

Fair value represents the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to curtail materially the scale of its operation or to undertake a transaction on adverse terms.

The carrying amount of the Group's held-to-maturity investments equals BD4,300 thousand (2016: BD4,800 thousand) whereas the fair value of the investments is BD4,452 thousand (2016: BD4,983 thousand). The investments in available-for-sale securities include investment in unlisted equity securities and managed funds carried at cost and having carrying value of BD171 thousand (2016: BD165 thousand) and 5 thousand (2016: BD5 thousand) respectively.

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

## 36 COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2017, the Group has commitments to make investments amounting to BD391 thousand (2016: BD463 thousand).

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

## 37 COMPARATIVE

Certain corresponding figures of 2016 have been regrouped where necessary to conform to the current year's presentation. Such regrouping did not affect previously reported total assets, total liabilities, equity, profit or loss or comprehensive income.