BNH

Annual Report 2008

Prosperity through Protection & Participation

HIS HIGHNESS SHAIKH KHALIFA BIN SALMAN AL KHALIFA

The Prime Minister of the Kingdom of Bahrain

HIS MAJESTY KING HAMAD BIN ISA AL KHALIFA

The King of the Kingdom of Bahrain

HIS HIGHNESS SHAIKH SALMAN BIN HAMAD AL KHALIFA

The Crown Prince & Deputy Supreme Commander

"If future generations are to remember us with gratitude rather than contempt, we must leave them something more than the miracles of technology. We must leave them a glimpse of the world as it was in the beginning, not just after we got through with it"

Lyndon B. Johnson

Contents

Mission Statement

Our Vision

Creating prosperity through security

Our Mission

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

Our Values

Integrity, Excellence, Pioneering

Board Of Directors

Sitting - *Left to Right*

Mr. Ahmed Ali Al A'ali
Director

Mr. Abdulhussain Khalil Dawani
Vice Chairman

Mr. Farouk Yousif Almoayyed
Chairman

Mr. Ghassan Qassim Mohd Fakhroo
Director

Mr. Ali Rashid Al Amin
Director
(Not in the picture)

Standing - *Left to Right*

Mr. Sami Mohamed Sharif Zainal
Director

Mr. Talal Fuad Kanoo
Director

Mr. Jehad Yousif Amin
Director

Mr. Ayad Saad Khalifa Algosaibi
Director

Mr. Abdul Hakim Al Adhamy
Director

Mr. Abdulrahman Mohamed Juma
Director

Chairman's Statement

"BNH enjoyed another successful year in 2008, highlighted by strong results in underwriting, significant strategic progress, excellent business achievements and ongoing organizational developments."

On behalf of the Board of Directors, it is my pleasure to present the Annual Report of Bahrain National Holding Company (BNH) for the year ended 31 December 2008. Given the global financial meltdown and its effect on the regional markets during the second half of 2008, this has proved to be the most challenging year for the Group. However, I am happy to report that BNH enjoyed another successful year in 2008, highlighted by strong results in underwriting, significant strategic progress, excellent business achievements and ongoing organizational developments.

BNH posted a mixed financial performance in 2008. Net profit decreased by 62 per cent largely due to investment portfolio write downs, while underwriting profits grew by 56 per cent, as a result of prudent underwriting and claims management. Due to the continued volatility of global and regional financial markets, investment income declined by 87 per cent to BD 0.4 million against BD 3.1 million for the previous year. Shareholders' equity declined by 6 per cent to BD 38.7 million (2007: BD 41.0), while earnings per share fell to 19 fils from 48 fils in 2007. Accordingly, the Board of Directors is recommending a total cash dividend of BD 1.6 million (2007: BD 2.2 million), which is equivalent to 15 fils per share (2007: 20 fils) for the year 2008.

The underwriting results illustrate the successful implementation of the Group's strategy and underlines the ability of our two subsidiaries – Bahrain National Insurance (BNI) and Bahrain National Life Assurance (BNL) – to maintain a dominant share of the market, despite intensely growing competition from existing local and regional players (both conventional and Takaful) and new international entrants. This achievement was reinforced by Standard & Poor's re-affirming BNI's 'BBB+' financial strength rating with a 'Stable' outlook, based on the Company's 'strong operating performance, strong capitalisation and strong investments and liquidity.'

During 2008, the Group advanced its strategy to grow the business by investing in insurance and complimentary businesses and expanding its presence outside Bahrain. Initiatives included the acquisition of a 25 per cent stake in Al Kindi Specialised Hospital, a new specialist private hospital that opened in Bahrain in 2008, and the sale of 25 per cent of BNL's shareholding to Al Khaleej Insurance & Reinsurance Company in Qatar. The Group also approved its participation as a founding member of a proposed Qatari-Bahraini Islamic Insurance Company. With its two subsidiaries and five associate companies BNH now has a presence in Saudi Arabia and Qatar as well as Bahrain.

BNI continued to enhance its reputation for innovation with the launch of additional 'industry-first' initiatives in 2008. These included a co-branded credit card with AUB and "bnidirect" which provides e-insurance transactions facilities. Also during the year BNH continued to build its institutional capability. New HR and IT initiatives were introduced and the Group's corporate governance, compliance and risk management framework was further strengthened with the creation of two new Board committees and development of a new Enterprise Risk Management (ERM) system.

As a leading Bahrain-based financial institution, BNH is committed to contributing to the social and economic well-being of the Kingdom. Throughout 2008 the Group continued to implement its comprehensive programme of Corporate Social Responsibility. This comprises financial assistance for charitable, community, educational, medical, cultural and sporting organisations as well as sponsorship of various activities and events that support the growth and development of the regional insurance industry.

Chairman's Statement *contd...*

Looking ahead, the current soft market conditions and increasing competitive nature of the regional insurance industry, are expected to continue for the medium term. To meet these challenges, the Board has approved a new three-year business plan for 2009-2011. Key objectives include growing the core business lines of the Group, introducing new related products and services, and broadening the existing customer base and sector focus. The Group will also continue to expand into the GCC where it can leverage its strong brand name and underwriting expertise to enter into ventures with local partners in lucrative regional markets.

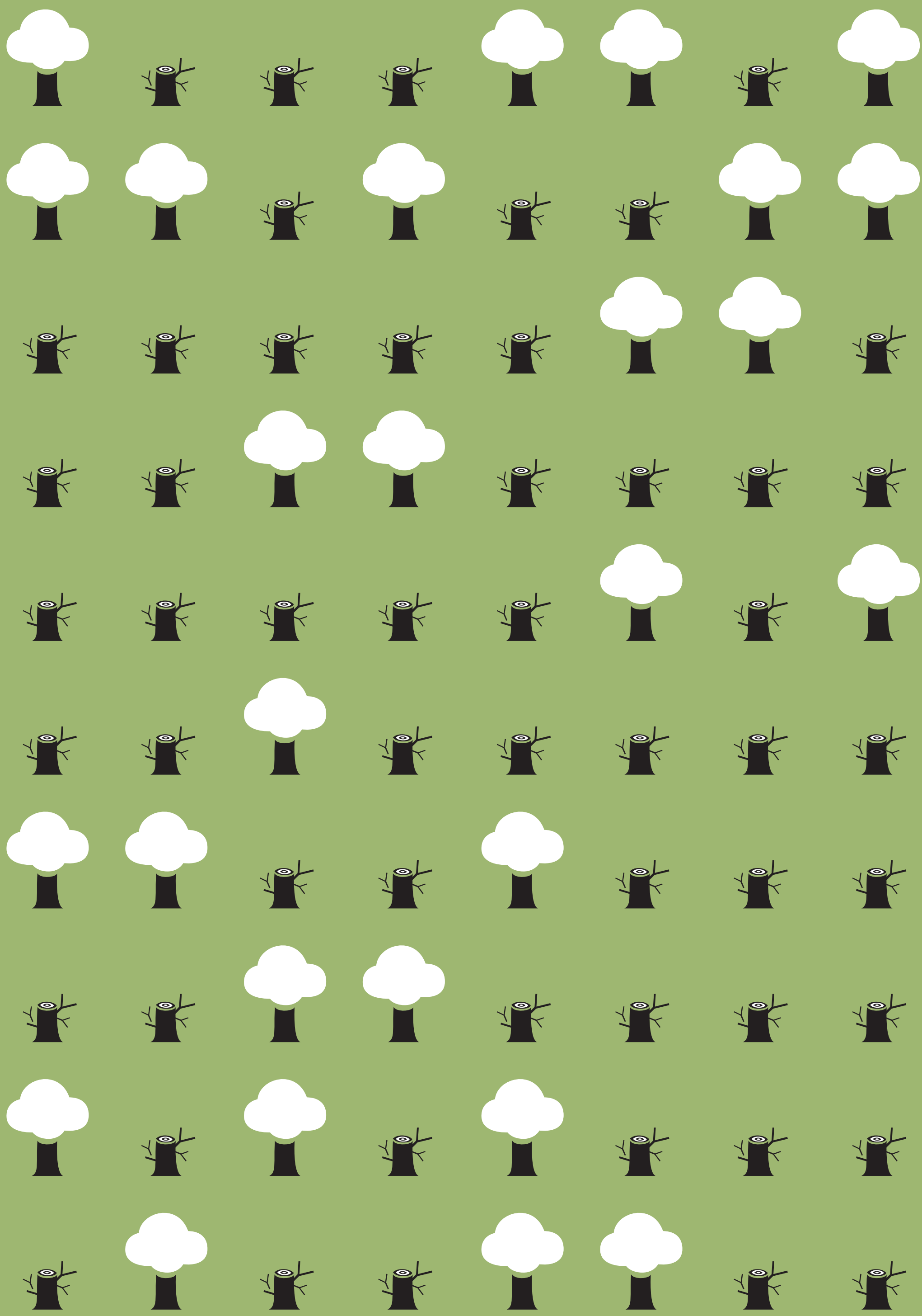
A number of changes to the composition of the Board of BNH took place during the year. I would like to thank the outgoing Chairman, Mr. Ali Hussain Yateem, and the retiring Directors – Mr. Mohammed Jaber Zubari, Mr. Ali Hassan Mahmood and Mr. Nezar Mohamed Al Saie – for their respective contributions to the development of the Group. I would also like to welcome the new Directors – Mr. Ayad Saad Khalifa Algosaibi, Mr. Talal Fuad Kanoo, Mr. Ghassan Qassim Mohd. Fakhroo, Mr. Sami Mohamed Sharif Zainal and Mr. Abdul Hakim Al Adhamy – whose collective skills and experience will be of great benefit to the Board. As the new Chairman of BNH, I look forward to working with my fellow Directors and the Management team to implement the Group's new strategic direction.

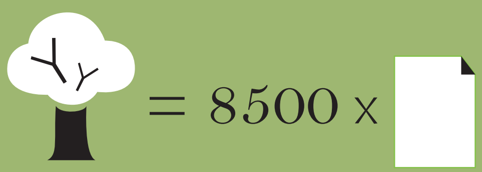
On behalf of the Board of Directors, I would like to express my gratitude to His Majesty the King of Bahrain, His Highness the Prime Minister and His Highness the Crown Prince for their wise leadership, visionary reform programme and encouragement for the Kingdom's financial sector. I also thank all Government ministries and bodies especially the Central Bank of Bahrain, the Bahrain Stock Exchange, the Ministry of Finance and the Ministry of Industry and Commerce for their continued guidance and support of the insurance industry.

I also take this opportunity to acknowledge the continued confidence and loyalty of our shareholders, customers and business partners. Finally, my sincere appreciation goes to our management team and staff whose hard work and dedication have contributed to yet another successful year for Bahrain National Holding Company.

Farouk Yousif Almoayyed
Chairman

"Key objectives include growing the core business lines of the Group, introducing new related products and services and broadening the existing customer base and sector focus. The Group will also continue to expand into the GCC where it can leverage its strong brand name."





1 tree = 17 reams of paper
1 ream = 500 sheets of A4 (80gsm)

For every 1 ream used, you use about 6% of a tree.

I am pleased to report that the Group's subsidiaries and associate companies continued to perform well during 2008. The continued expansion of our business operations, supported by further strengthening of our organizational capability, resulted in a yet another good financial performance by BNH.

The growth in premiums and profits from our technical business lines resulted not only from prudent underwriting and claims management but also from the Group's ability to meet its planned increase in retentions which remain a cornerstone of our insurance risk management policy. Given the severity of the global financial meltdown and its growing impact on the GCC economies, the increasingly competitive nature of the regional insurance industry and the further softening of insurance rates during the year, these results constitute a significant achievement. This was further reinforced by the performance of the Group's life and medical insurance subsidiary, Bahrain National Life Assurance Company (BNL).

Bahrain National Insurance Company maintained its 'BBB+' insurer financial strength and long term counterparty credit ratings which were originally assigned by Standard & Poor's in 2005. In 2008 the rating agency highlighted the Company's 'strong operating performance, market leadership, business diversification, strong capitalization, strong investments and the benefit it derives from its publicly-listed parent Company.'

A number of key initiatives were successfully introduced during the year. These are covered in more detail in the following Review of Operations and, to highlight a few, in line with our strategy to expand operations outside Bahrain to other key GCC markets, the Group sold 25 per cent of its subsidiary BNL to Al Khaleej Insurance & Reinsurance Company in Qatar. This will provide the Group with an important foothold in this lucrative market. At the same time, Arabian Shield Cooperative Insurance Company, established in 2007 with local partners in the Kingdom of Saudi Arabia, enjoyed a successful first full year of operations. Additionally, we advanced our policy of making strategic investments in insurance and complementary businesses by taking a 25 per cent stake in Al Kindi Specialised Hospital in the Kingdom of Bahrain.

These, and other initiatives during the year, illustrate the success of our strategy to develop BNH as a diversified, regional holding company in order to support the planned growth and sustainable profitability of the Group. Constrained by the size of the Bahraini insurance market, which is becoming increasingly competitive, the Group seeks to grow income and market share by venturing into new markets and new areas of business that offer synergies with existing operations. Currently, the Group comprises a total of seven insurance and complimentary businesses including subsidiaries, joint-ventures, associate companies and other related investments. A number of additional attractive investment opportunities across the region have been identified, with some of these expected to be implemented during 2009, in line with the Group's prudent business approach and depending on market conditions.

Chief Executive's Message

"The Group's pioneering heritage and reputation for innovation was further illustrated during the year by a number of new developments. These included the official opening of The Gulf Insurance Institute (GII) of which BNH is a founding shareholder."

The Group's pioneering heritage and reputation for innovation was further illustrated during the year by a number of new developments. These included the official opening of The Gulf Insurance Institute (GII) of which BNH is a founding shareholder. By providing internationally recognized and accredited professional qualifications for insurance and financial services practitioners, GII will play a pivotal role in the growth and development of the regional insurance industry. Additionally, BNI continued to introduce a number of new 'industry-first' products and services during the year, the most notable being the launch of "bnidirect", which will enable customers to conduct their insurance transactions online. At the same time, the Customer Satisfaction & Legal Coordination Unit – the first of its kind by a national insurance company, which was established in 2007 as the first entry point for all complaints - was well received by customers.

The unprecedented global financial crisis and credit squeeze has focused attention on the need for the highest standards of corporate governance and ethical behaviour. Accordingly, throughout 2008, BNH continued to build its corporate governance, risk management, compliance and legal framework and to further enhance its organisational capability by strengthening the shared services – particularly Human Resources and Information Technology – that are provided by the Group. As a result, BNH is a more professional, efficient and responsive institution better equipped to face the challenges that lie ahead.

In response to such challenges, the Group has adopted a proactive attitude to charting its future strategic direction. A new three-year business plan for 2009 to 2011, which was approved by the Board at end of 2008, includes an analysis of the local and regional insurance market, plans for further regional expansion, opportunities for new strategic investments, potential new strategic partnerships, ongoing investment in the development of Management Information Systems (MIS) and Enterprise Risk Management (ERM) and a financial plan based on a number of key economic, market and business assumptions.

In conclusion, I express my sincere appreciation to the Board of Directors for their steadfast support and guidance; to our customers for their continued loyalty and trust; and to our business partners for their ongoing encouragement and cooperation. I also pay tribute to the Group's management and staff for their dedication, professionalism and hard work. Together, all our stakeholders have helped to make 2008 another successful year for BNH, and I earnestly thank them for their respective contributions.

Mahmood Al Soufi
Chief Executive

Executive Management

Sitting - *Left to Right*

Mr. Mohammed Kadhim
Assistant General Manager
Legal & Compliance - BNH

Mrs. Ebtisam Al Jowder
Assistant General Manager
Motor & Personal Lines - BNI

Mr. Mahmood Al Soufi
Chief Executive - BNH

Standing - *Left to Right*

Mr. C. A. Gopalakrishnan
Head of Finance & Investments - BNH

Mr. Jonathan J. Abela
Assistant General Manager
General Insurance - BNI

Mr. Abdulla Khamis Abdulla Al Suwaidi
General Manager
Motor & Personal Lines - BNI

Mr. Fathalla Ebrahim
General Manager
Life & Medical Insurance - BNL

Mr. David E. Matthews
Chief Financial Officer - BNH

Mr. Joseph M. Rizzo
General Manager
General Insurance - BNI

115 billion sheets of paper are used annually for personal computers.

It is estimated that 95% of business information is still stored on paper.

Review of Operations

Group Shared Services

Investment Operations

The unprecedented volatility of global financial markets and the ensuing turmoil of regional stock markets, most of which experienced their worst year ever during 2008, had an adverse effect on the Group's investment income, compared to the record gains reported in 2007.

However, the Group's consistent portfolio discipline and diversified investment strategy helped to minimise the impact. BNH invests primarily in international and regional funds, bonds and equities, with a core focus on regional equities, mostly in Bahrain. During 2008, the Group reviewed and strengthened its policy guidelines for limiting exposures to clients, business lines, sectors and countries.

Details of the Group's strategic investments – in joint-ventures, associate companies and other related businesses – are covered later in this section of the Annual Report.

Customer Service

BNI regards customer service as a top priority. The new formal procedure to handle customer complaints – Customer Satisfaction & Legal Coordination Unit – which was established the previous year, was well received by customers during its first full year of operations in 2008.

The first of its kind by a national insurance company, the unit is staffed by people with legal experience and customer service skills. It acts as the first entry point for all customer complaints, reinforcing the Group's image as a fair, customer-conscious and quality-driven institution, genuinely seeking to achieve a swift and amicable solution to any disputes. To ensure that clients are aware of their rights, all motor and personal lines product literature carry a complaints procedure, encouraging customers to contact BNH, should they have cause for complaint, or to pass on ideas and suggestions for improvements related to products and services.

Human Resources

Throughout 2008, BNH made good progress with its commitment to build a world-class Human Resources development capability. The expanded HR team reviewed and updated HR related processes and procedures and implemented the new job evaluation and job-point system that was commissioned from the Hay Group in 2007.

The newly established HRD Committee met regularly during the year to ensure the continued provision of specific training and development opportunities for staff to acquire specialist insurance skills, knowledge and qualifications through which to progress their careers with BNH. These include sponsorship of staff to undertake studies at the Gulf Insurance Institute of which BNH is a founder member. A comprehensive range of training programmes is provided for all levels of staff with theoretical courses covering key areas such as insurance, IT, marketing, customer service, communications, anti-money laundering and compliance. Practical on-the-job training is provided by placements with overseas reinsurance companies.

The Group's Executive Development Programme (EDP) entered its second phase in 2008. To date, all Executive Managers have successfully undertaken individually-tailored programmes at leading international institutions. The programme embraces general business, professional and leadership skills as well as specialist areas such as strategy development.

Information Technology

The adoption of the latest Information and Communications Technology (ICT) is a critical business enabler in supporting the Group's current business activities and future strategic direction. During 2008, BNH continued to review and revise its ICT strategy and continued implementation of the three-year ICT plan that was introduced in 2007, designed to meet the ongoing requirements of the restructured business divisions.

A new system for Investment Operations was successfully tested and commissioned. This provides enhanced automated data entry and portfolio management processes to improve decision making and reporting. Also, during the year, the phased introduction of major enhancements for non-life insurance lines continued, which will improve access to information through current and planned distribution channels. To support the growth of life and medical portfolios current applications were reviewed and new systems introduced to cater for future requirements. In addition, the internal ICT HelpDesk became fully operational and was well received by staff in terms of identifying and rectifying all systems related issues in a more systematic, controlled and responsive manner.

Subsidiaries

The Group's two insurance subsidiaries are unified under the BNH brand. Bahrain National Insurance Company (BNI) provides a range of personal lines insurance solutions, comprising motor, home, travel, domestic servants and third party cover, as well as a comprehensive range of general insurance products and services. Bahrain National Life Assurance Company (BNL) specialises in life and medical insurance for individuals and businesses.

Bahrain National Insurance

Motor & Personal Lines Insurance

The Group's dedicated Personal Lines division continued to grow its team and streamline its processes and procedures during 2008. The division also maintained its focus on customer satisfaction, expanding its customer services unit, providing both underwriting and claims services at more branches and strengthening its claims unit to assist customers with progress on the status of their vehicle repairs with approved garages.

A key initiative during the year was the launch of "bnidirect" – which enables customers to conduct their insurance transactions online. The take-up of this innovative new service, which is the first of its kind in Bahrain and the GCC region, was substantially higher than expected. Building on the success of "bnidirect", plans were finalised for the launch of the Intelligent Insurance Zone (IIZ) in 2009 which will provide sophisticated ATM facilities including the ability to link motor insurance renewals via the e-Government gateway and "bnidirect" for vehicle registration renewals, representing yet another 'industry-first' for BNI.

Another innovative development was the launch of a co-branded credit card with Ahli United Bank (AUB) – the first for a national insurance company, while Asfaar – the upgraded travel insurance policy offering superior but cost-effective protection launched in 2007, achieved a significant increase in sales during the year.

In order to maintain the division's competitive edge by enhancing business planning and forecasting and to support new ICT-based developments, two new specialist units were created in 2008. The Business Specialist Unit incorporates advanced science-based software to facilitate test pricing, correlations, modelling, segmentation, risk profiling and decision making, using real data based on mathematical equations rather than relying on traditional planning methodologies. The Intelligent Insurance Unit will provide technology-based coordination and support for new products and services such as "bnidirect" and e-Government initiatives.

General Insurance

The Group's General Insurance division experienced a challenging year in 2008 highlighted by the continuation of increased competition both in the Bahrain market and the Gulf region as a whole. Anticipating this continued trend BNI implemented a number of strategic initiatives designed to protect a sustainable performance of the portfolio in the longer term. These included the maximization of retained capacity; improving and balancing the territorial exposure of inward business; attaining a better spread of local business by concentrating on quality; and applying stricter underwriting terms and conditions without prejudicing existing clients and the expiring portfolio.

After careful studying and modelling of the portfolio the success of these strategies required the support of BNI's longstanding international reinsurance partners who provide the capacity and mechanism for this development, together with an increase in BNI's per-risk retentions. This led to a consolidation on the gross premium side but produced an extensive improvement of net technical underwriting results, before investment income, with profits more than triple, compared to 2007.

All classes of business produced a positive bottom line result, with the best performers being property and casualty business which achieved a rate of return on gross premium of 8 per cent and 24 per cent respectively. Engineering achieved a higher gross premium income and doubled the net underwriting result whilst Marine produced a consistent result of 6 per cent return on gross premium.

The underwriting results for 2008 were supported by improved loss ratios, together with releases from prior year reserves, in particular those related to cyclone Gonu, and the prompt settlement of claims. The expense ratio – the administration costs apportioned to the general insurance business – remained consistent at 9 per cent of written gross premiums.

Bahrain National Life Assurance

During 2008, the Group's Life and Medical Assurance company continued to fine tune the restructuring exercise that was initiated in 2007. This involves enhancing its in-house specialist expertise, widening its client base, streamlining processes and systems and improving its reinsurance utilization. The Client Relationship Unit was expanded while a new unit was introduced to focus on marketing, product development and sales support. This unit will be responsible for market intelligence, widening the product portfolio with new innovative products that address all the needs of clients and helping to reinforce the reputation of BNL as a specialist solutions provider, operating to the highest international standards.

In line with the Group's strategy of geographic expansion, the subsidiary further developed its plan to expand its presence outside Bahrain. Currently, direct billing facilities are provided for some Bahrain-based clients' staff working in other GCC states, while in 2009, a BNL branch will be opened in Qatar in conjunction with Al Khaleej Insurance & Reinsurance Company who took a 25 per cent stake in BNL during the year. At the same time the company established new partnerships with leading international insurance and reinsurance companies.

The company continues to benefit from having its own in-house teams of actuaries, doctors and nurses which remain a unique competency for a national insurance company. These specialists provide expertise in underwriting, diagnosis and claims settlement as well as assisting clients and providers in assessing and meeting their protection and management of risk requirements which is another unique differentiator of BNL.

Having already established itself as the preferred life and medical provider for corporate clients, in 2008 the company focused on growing its individual client business while also serving the needs of the fast-growing small-to-medium enterprises (SME) sector. Distribution channels were also widened, with a particular focus on retail banks for which BNL provides insurance training and education for their staff.

Associate Companies

Arabian Shield Cooperative Insurance Company

Paid-up capital: SR 200 million

BNH share: 15%

Arabian Shield is a company established with local partners in the Kingdom of Saudi Arabia in 2006. Following its oversubscribed IPO in 2007 it was listed on the Saudi stock exchange. Through its head office in Riyadh and branches in Jeddah and Dammam, it provides general (commercial and industrial) and medical insurance cover. The Company posted a profit for its first full year of operations in 2008.

National Finance House

Paid-up capital: BD 7.5 million

BNH share: 25.9%

Established in 2006, NFH provides financing for new vehicles and construction equipment. In a very short space of time it has built a strong market share in the Kingdom of Bahrain. The Company is currently reviewing plans to broaden its range of products and services and expand its operations to other GCC countries. In 2008, NFH successfully concluded a BD 10 million loan facility from BBK and posted a profit for its second full year of operations.

Review of Operations contd...

United Insurance Company

Paid-up capital: BD 1.5 million

BNH share: 20%

A long established company, UIC provides insurance cover for passengers and vehicles crossing the King Fahad causeway linking the Kingdoms of Bahrain and Saudi Arabia. The Company grew its revenues and profits during 2008 benefiting from the increase in traffic using the causeway.

Gulf Insurance Institute

Paid-up capital: US$ 2 million

BNH share: 17.1%

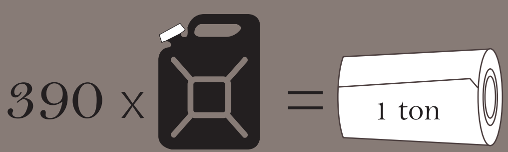
Established in 2007 by local, regional and international institutions, GII was officially opened in 2008. Through the provision of internationally recognised and accredited professional qualifications for insurance and financial services practitioners, GII will play a pivotal role in the growth and development of the regional insurance industry. The Institute offers e-learning as well as conventional training.

Al Kindi Specialised Hospital

Paid-up capital: BD 2.2 million

BNH share: 25%

Established in 2008 in the Kingdom of Bahrain, Al Kindi is a private specialist hospital offering high standards of primary and secondary medical care. Staffed by a multinational team of 30 doctors, the hospital's services include oral and dental surgery, general and laparoscopic surgery, endoscopy, internal medicine and gastroenterology, obstetrics and gynaecology, paediatrics, endocrinology and infectious diseases, cardiology, ophthalmology, orthopaedics, dermatology and plastic surgery. With a female surgeon and anaesthesiologist, the hospital will put a special focus on women's healthcare. Al Kindi is equipped with a 24-hour clinic, radiology unit, medical laboratory and pharmacy.



It takes 390 gallons of oil to produce a ton of paper.

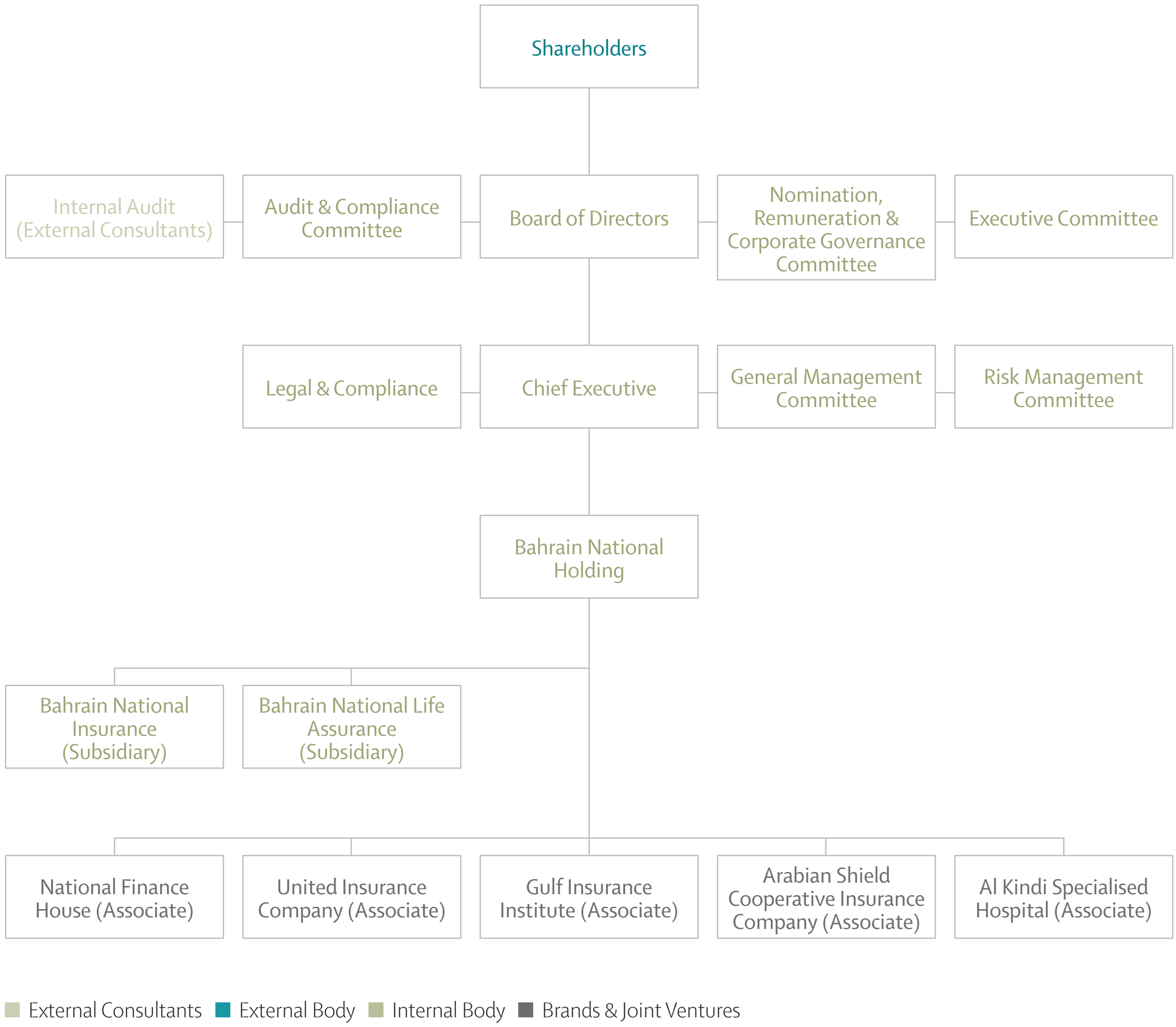
By recycling 1 ton of paper you save roughly 17 trees and about 390 gallons oil.

Corporate Governance & Risk Management

BNH views Corporate Governance as the system by which financial and business corporations are directed and controlled. The Corporate Governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, shareholders, managers and other stakeholders and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the corporate objectives are set and the means of attaining those objectives and monitoring performance.

In addition to complying fully with the Kingdom of Bahrain's rules and regulations of the Central Bank of Bahrain, BNH is committed to developing and implementing best practice in corporate governance in all areas of the Group's operations and responsibilities.

Corporate Governance Structure



The Board

The Board of BNH comprises 10 non-executive Directors and 1 independent non-executive Director. During 2008, Letters of Appointment were issued to all Directors setting out the term of their tenure, duties and responsibilities, remuneration and attendance fees and code of conduct and confidentiality. The names and profiles of all Directors are listed at the end of this section.

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 shareholder value while protecting the rights and interests of other stakeholders and maintaining high standards of transparency and accountability.

Board Committees

During 2008, changes were made to the structure and responsibilities of the Board Committees. Two new Committees were established: Executive Committee, which incorporates the responsibilities of the previous Investment Committee; and Nomination, Remuneration & Corporate Governance Committee.

Audit & Compliance Committee

Responsibilities

- Select external auditors and ensure their professional standards
- Select internal auditors
- Review periodic financial reports and review and approve audited annual financial statements
- Assist in developing risk management framework
- Ensure compliance with all relevant regulatory and legal rules
- Carry out instruction of the Board for all investigations

Members

Abdul Hakim Al Adhamy – Chairman

Ahmed Ali Al A'ali – Member

Ayad Saad Algosaibi – Member

Ghassan Qassim Fakhroo – Member

The Committee held 5 meetings during 2008.

Executive Committee

Responsibilities

- Monitor the development of Group strategy
- Guide, monitor and coordinate the management and performance of the Group in line with approved strategies, business plan and budget
- Develop and monitor investment policy as part of the overall business plan
- Review and recommend business and investment opportunities
- Assist in maintaining oversight of the financial requirements of the Group

Members

Abdulhussain Khalil Dawani – Chairman

Jehad Yousif Amin – Vice Chairman

Abdulrahman Mohamed Juma – Member

Talal Fuad Kanoo – Member

Sami Mohamed Sharif Zainal – Member

The Committee held 3 meetings during 2008.

Nomination, Remuneration & Corporate Governance Committee

Responsibilities

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

Members

Farouk Yousif Almoayyed – Chairman

Abdulhussain Khalil Dawani – Vice Chairman

Abdul Hakim Al Adhamy – Member

The Committee held 1 meeting during 2008.

The Management

The Board delegates responsibility for the day-to-day management of the business of the Group to the Chief Executive who is supported by an experienced Senior Management team and a number of operational committees. The names and profiles of the CE and Senior Management team are listed at the end of this section.

Corporate Governance & Risk Management contd...

Operational Committees

General Management Committee

Objectives

- To provide a forum by which the ideas and opinions of the Senior Management team are considered in issues relating to Group policy and strategy and for exchanging inter-departmental information
- To provide assurance to the Board that the affairs of the Group are overseen by a team of Senior Managers
- To achieve standardization of policies and practices across the Group
- To exercise such financial authorities as the Board may grant and to achieve dispersion of financial authority
- To provide a forum by which future General Management talent within the Group can be exposed to cross-functional/general managerial issues
- To ensure that all Board decisions are complied with
- To inculcate a team culture within the Group

Members

Chief Executive – Chairman

Chief Financial Officer – Member

GM, BNI Motor & Personal Lines Insurance – Member

GM, BNI General Insurance – Member

Risk Management Committee

Objectives

- To set minimum standards for, and continuously monitor, the quality of the Group's reinsurers
- To set minimum standards for insurers as ceding companies under the Group's inward business
- To evaluate and set standards for all other business partners including brokers, agents and other intermediaries by way of creditworthiness, reputation, ratings, solvency and technical competence
- To monitor dependency and accumulation thereof
- To ensure compliance with statutory regulations, prudential rules and market agreements
- To ensure the completion and implementation, monitoring and review of Enterprise Risk Management including the physical, operational and financial risks involved
- To ensure that all corporate exposures are known and that they are maintained with the acceptable risk tolerance decided. This will also include the monitoring of the Business Continuity Plan and Disaster Recovery.
- To appoint and call members of management to perform and/or report on items under their respective departments on issues concerning the above
- To report findings and shortcomings to the CE and other concerned committees
- To monitor investment policy within and according to established mandates

Members

GM, BNI General Insurance – Chairman

Chief Financial Officer – Member

GM, BNI Motor and Personal Lines Insurance – Member

GM, BNL Life & Medical – Member

AGM, Legal & Compliance – Member

Senior Manager, Compliance – Member

Human Resources Development Committee

Objectives

- To steer and implement all employee development programmes and other HR initiatives
- To structure such programmes to meet agreed objectives in respect of development scope, duration and budget
- To provide guidance and support to all participants and GMs for implementation and ongoing monitoring of such programmes and the agreed deliverables
- To research and develop appropriate channels for such programme content and quality
- To periodically review and assess the Group's training and development policies and procedures
- To support the Group's recruitment policy through interviews and assessment of potential employees

Members

Chief Executive – Chairman

Chief Financial Officer – Member

Manager, HR – Member

GM, BNI Motor and Personal Lines Insurance – Member

GM, BNI General Insurance – Member

GM, BNL Life & Medical Assurance – Member

Market Exchange Forum

Objectives

- To facilitate the growth and development of the Group's business by maximizing the potential of the client base
- To actively promote cross-departmental products and services (cross and up selling) with the objectives of:
  - Developing a 'one-stop-shop' concept of selling
  - Creating a strong and loyal client base via the Sales Task Force, to serve as a forum for identifying new prospects
- To improve the competitiveness of products and services by providing value-added customer service
- To exchange market knowledge, intelligence and expertise

Members

This comprises nominated representatives from the Group's subsidiaries BNI and BNL, the Sales Task Force, Corporate Communications and Information Technology.

Social Committee

Objectives

- To plan and organise informal in-house gatherings for staff
- To brainstorm and explore entertaining programmes and events for staff
- To explore and negotiate discounted deals with suppliers, restaurants and other social facilities to benefit staff
- To encourage the participation of staff in social and sporting activities that are organized for charitable fund-raising purposes

Members

This will be coordinated by the Group's Corporate Communications department with the aim of involving a cross-section of staff from all areas of the Group.

Compliance Responsibility

Responsibility for ensuring the Group's compliance with the rules, regulations and guidelines of the Central Bank of Bahrain resides with the Assistant General Manager – Legal & Compliance who also acts as Company Secretary. He is responsible for managing the Group's dedicated Legal and Compliance Unit which is directly responsible for all compliance issues.

Transparency & Efficiency

In developing our Corporate Governance process and under our guiding principles we aim to maximize transparency and efficiency of the whole process for the benefit of all the Group's stakeholders particularly in the areas of insider trading, anti-money laundering, information security and the sound management of our financial assets.

Policies & Procedures

During 2008, the Group continued to regularly review and update its key policies and procedures covering critical operational areas in its insurance subsidiaries and across all Group functions.

Directors & Officers (D & O) Policy

The Group is insured under a Directors & Officers insurance policy. The adequacy of the cover is measured in terms of size of the assets and future growth expectations of the Group. No claims have been reported during the last 6 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. Each year the Group conducts a thorough review of its policies, procedures and internal directives to ensure ongoing compliance.

The Group has submitted its external auditors report for the year 2007 in accordance with the requirement of the Central Bank of Bahrain.

Corporate Governance & Risk Management *contd...*

Insider Trading

The Group's compliance with the latest insider trading regulations of the Central Bank of Bahrain is supervised by the Audit Committee which reports to the Board of Directors.

The Group has submitted its internal audit report for the year 2008 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 behaviour and working practices of the Directors, Management and staff.

Penalties

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

Communications

The Group is committed to communicating effectively with all its stakeholders – both internal and external – in a timely, transparent and professional manner. The Group's main communications channels include the Annual Report, interim reports of consolidated financial statements, corporate brochure, corporate website, newsletter, press releases and announcements in the local and regional media.

Risk Management Strategies & Practices

In line with latest developments in Corporate Governance practices, the Group takes a 'portfolio view' of its risk entities spanning our insurance, investment and corporate activities and covering both internal and external factors. The Group have in place robust procedures and controls to quantify, manage and mitigate existing and potential risks. The Group embraces a strong risk management culture at all levels. Underwriting and claims processes are standardized and systemized and audited frequently. There are clear and unequivocal authority limits on claims processing and underwriting limits and operational practices are in line with international standards that are endorsed and supported by the Group's international reinsurance partners.

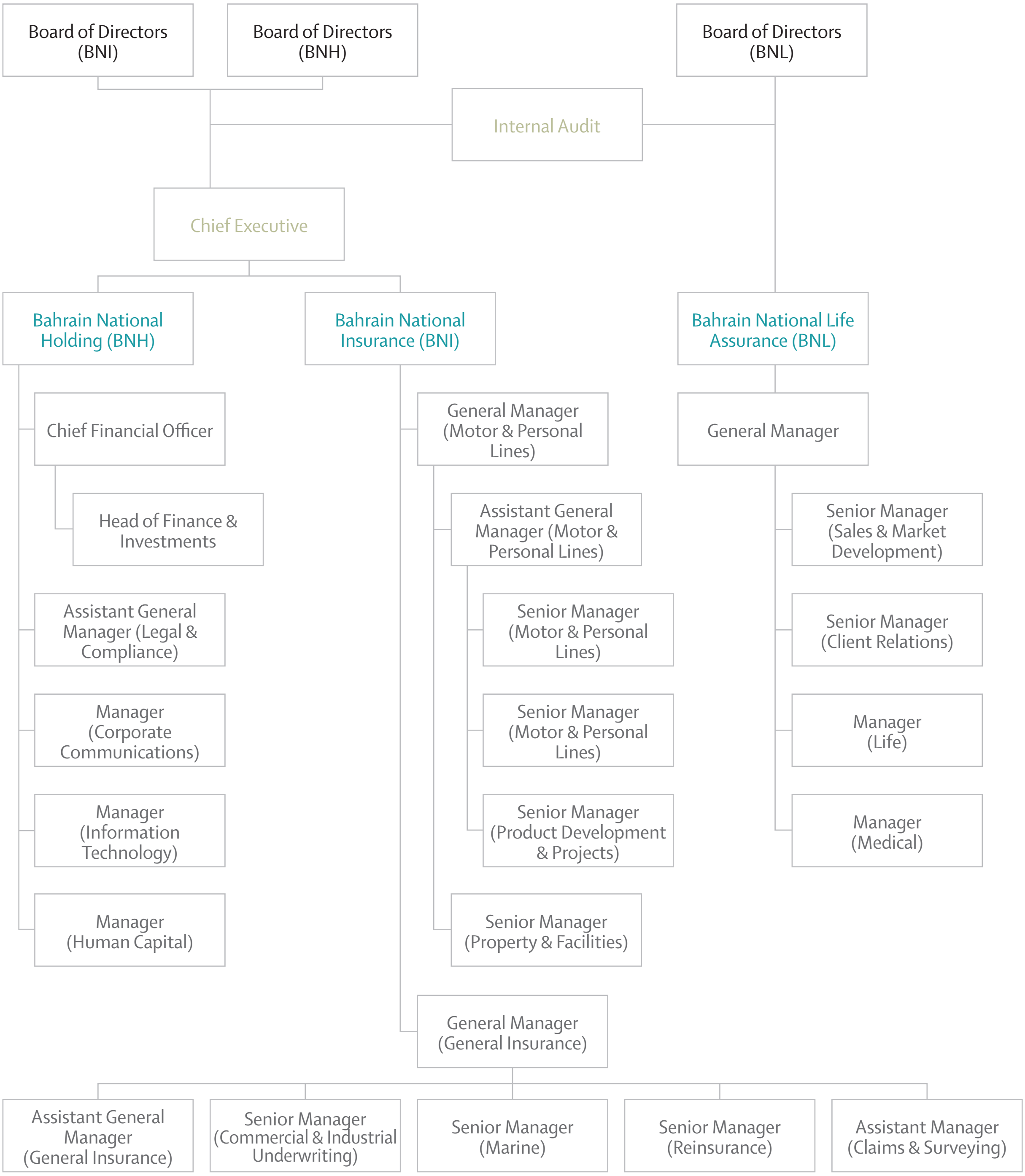
Investment risks are clearly formulated and documented. The Group's Executive & Investment Committee and the investment team continually monitor these risks and take proactive measures to manage or mitigate them as appropriate. The Group's investment policy is widely diversified and designed to provide stable and sustainable investment returns.

Internal control risks are mitigated by putting in place adequate internal control systems and testing them on a frequent basis. The Group's Internal Audit function reports to the Audit Committee on all matters of internal controls. The internal audit, which is carried out by external consultants, ensures policies and procedures are well documented and adhered to. During 2008, no significant deviation from the policies and procedures has been reported.

"The Group takes a 'portfolio view' of its risk entities spanning our insurance, investment and corporate activities and covering both internal and external factors. We have in place robust procedures and controls to quantify, manage and mitigate existing and potential risks."

Corporate Governance & Risk Management contd...

Organization Structure



Board of Directors' Profiles

Mr. Farouk Yousif Almoayyed

Chairman (Bahraini)
Non-executive Director
Board Member since 2008
Chairman:
Bahrain Duty Free Shop Complex, Bahrain
Gulf Hotels Group, Bahrain
Y. K. Almoayyed & Sons B.S.C. (c), Bahrain
Y. K. Almoayyed & Sons Property Co, Bahrain
Almoayyed International Group, Bahrain
Ashrafs, Bahrain
Dar Alwasat for Publishing & Distribution B.S.C. (c), Bahrain
Ahlia University, Bahrain
National Finance House BDS (c), Bahrain
Deputy Chairman:
National Bank of Bahrain B.S.C., Bahrain
Labour Market Regulatory Authority, Bahrain
Director:
TAIB Bank B.S.C. (c), Bahrain
Investcorp Bank B.S.C., Bahrain
Chairman of Board of Trustees:
Ibn Khuldoon National School, Bahrain

Mr. Abdulhussain Khalil Dawani

Vice Chairman (Bahraini)
Non-executive Director
Board Member since 1999
Chairman:
Deeko, Bahrain
Dawanco, Bahrain
Dawanco Industries, Bahrain
Tomina Trading, Bahrain
Bahrain Foundation Construction Company, Bahrain
Director:
AlJazira Group, Bahrain

Mr. Ahmed Ali Al A'ali

Member (Bahraini)
Non-executive Director
Board Member since 1999
Director:
Haji Hassan Group, Bahrain
Bahrain Precast Concrete, Bahrain
Bahrain Bulk Trade, Bahrain
Bahrain Cement Company, Bahrain

Mr. Ali Rashid Al Amin

Member (Bahraini)
Non-executive Director
Board Member since 1999
Chairman:
Ali Rashid Al Amin Co. B.S.C. (c), Bahrain
Ramakaza Trading Co. W.L.L., Bahrain
Ramakaza Trading Co. W.L.L., Qatar
A&B Logistic Services W.L.L., Bahrain
Rawabi Al Amin Distribution Co. Ltd., Saudi Arabia
A.R. Al Amin Industries, Qatar
A.R. Al Amin Industries, Bahrain
Chairman of the Board of Trustees:
Ali Rashid Al Amin Charity Establishment

Mr. Abdulrahman Mohamed Juma

Member (Bahraini)
Non-executive Director
Board Member since 1999
Managing Director & Vice Chairman:
CELTEX Weaving Mills E.C., Bahrain
Managing Director:
UNEECO Group of Companies, Bahrain
Prudent Solutions W.L.L., Bahrain
Abdulrahman bin Moh'd Juma & Sons W.L.L., Bahrain
Board Member & Audit Committee Member:
Bahrain Bayan School, Bahrain

Mr. Jehad Yousif Amin

Member (Bahraini)

Non-executive Director

Board Member since 1999

Board Member:

Banader Hotel Company, Bahrain

General Company for Trading and Food Industries, Trafco, Bahrain

Bahrain Cinema Company, Bahrain

United Insurance Company, Bahrain

Board Member & Member of the Executive, Investment & Audit Committees:

BMMI, Bahrain

Applebee's Committees of Trafco, Bahrain

Mr. Ayad Saad Khalifa Algosaibi

Member (Bahraini)

Non-executive Director

Board Member since 2008

Chairman:

Columbus IT Middle East, Dubai, UAE

Director:

Ismailia Food Industries, Ismailia, Egypt

Managing Director:

Algosaibi Information Systems Co., Bahrain

Mr. Ghassan Qassim Mohd Fakhroo

Member (Bahraini)

Non-executive Director

Board Member since 2008

General Manager:

Mohamed Fakhroo & Bros., Bahrain

Managing Director and Partner:

Fakhroo Information Technology Services, Bahrain

Director & Partner:

FATE Record Management, Bahrain

Mr. Talal Fuad Kanoo

Member (Bahraini)

Non-executive Director

Board Member since 2008

Board Member:

Bahrain International Circuit, Bahrain

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

Al Ahli Football Club, Bahrain

Associate Member:

American Chamber of Commerce, Bahrain

Strategic Planning Committee of Ebrahim Khalil Kanoo B.S.C. (c), Bahrain

Mr. Sami Mohamed Sharif Zainal

Member (Bahraini)

Non-executive Director

Board Member since 2008

Marketing Manager:

Maza, Bahrain

Member:

Chamber of Commerce Committees (Food & Agriculture, SMEs), Bahrain

Mr. Abdul Hakim Al Adhamy

Member (British)

Independent Non-executive Director

Board Member since 2008

Board Member & Member of Audit Committee:

Islamic Bank of Britain, UK

Director & Chairman of Audit Committee:

Ebrahim Khalil Kanoo B.S.C. (c), Bahrain

Member of the Risk & Corporate Governance Committee:

Kuwait Finance House B.S.C., Bahrain

Member of the Audit & Risk Committee:

MERAAS Holding, Dubai, UAE

Member of the Audit Committee:

Commercial Bank of Dubai, UAE

Chairman:

Golden Light Company W.L.L., Jordan

Executive Management Profiles

Mr. Mahmood Al Soufi

Chief Executive

Bahrain National Holding

Joined BNH in 2002. An Engineering graduate from Nottingham U.K, he attended a large number of professional courses, including IMD Geneva, the Chartered Institute of Marketing UK, Swiss Insurance Training Centre and various international conferences including World Economic Forum in Davos. He possesses around 31 years of experience in managing senior positions including 17 years as General Manager of Bahrain Saudi Marketing Company (BALCO) & Bahrain Aluminum Extrusion Company (BALEXCO) & currently is CEO of BNH for the last 6 years. He currently serves as a Chairman & Board member of 7 companies in the GCC.

Mr. Abdulla Khamis Abdulla Al Suwaidi

General Manager

Motor & Personal Lines Insurance

Bahrain National Insurance

Joined BNI in 2003. Graduated from Kuwait University. Attended a number of development courses and seminars including Accelerated Development Program for Chief Executives at London Business School. Attained a Diploma and Advance Diploma in Insurance and a Diploma in Insurance Management. He has 30 years' experience working with various organizations. His last position was Assistant General Manager at Bahrain Aluminum Extrusion Company.

Mr. Joseph M. Rizzo

General Manager

General Insurance

Bahrain National Insurance

Joined BNI in 2007. He is an Associate of the Chartered Insurance Institute and a Chartered Insurer with more than 25 years experience in Insurance and Reinsurance. He previously held the position of General Manager and later Chief Operations Officer with Middlesea Insurance, a leading insurance company in Malta. He occupied various directorships in subsidiaries and associated companies, was chairman of a surveying and loss adjusting firm operating in the Mediterranean region, and involved in overseas expansion projects.

Mr. Fathalla Ebrahim

General Manager

Bahrain National Life Assurance

Joined BNL in 2006. Prior to joining he worked with Arig since 1993 in various technical and managerial positions, in direct and reinsurance roles. He possesses extensive experience of working for medical insurance businesses in the GCC and the Levant. He also lectured widely at regional and international conferences. He is a former BIBF "Student of the Year" in 1993 and holds a BBA (Dean's List of Honor) and MBA (Distinction).

Mr. David E. Matthews

Chief Financial Officer

Bahrain National Holding

Joined BNH in 2008. He is a Fellow of the Institute of Chartered Accountants in England and Wales and has over 30 years experience in Finance, Audit and Systems Design and Implementation. He previously held the position of Group Financial Controller with RCR Tomlinson Ltd, an engineering company in Perth, Australia. Prior to that he has worked in Australia, England and Bahrain in various financial and administrative positions.

Mr. Mohammed Kadhim

Assistant General Manager

Legal & Compliance

Bahrain National Holding

Joined BNH in 1978. He possesses a law degree and has attended a number of courses in insurance, management, personal development and leadership. He was the Assistant General Manager - Legal, Personnel & Training of BNH Group till 2007 and the Assistant General Manager of BNI Motor until 2003. Membership of Professional bodies includes Secretary of Motor Committee of BIA and then Chairman of the said Committee and Director for Legal and Association Affairs of BIA.

Corporate Governance & Risk Management contd...

Mr. C. A. Gopalakrishnan

Head of Finance & Investments

Bahrain National Holding

Joined BNH in 2003. He is an associate member of the Institute of Chartered Accountants of India and holds a Bachelors degree in Commerce. He has over 23 years of experience in Audit, Finance and Investment Management. His previous position was Finance Manager of Al Shirawi Group of Companies, UAE. Prior to that, he served as Accounts Manager for various companies in India and Bahrain.

Mr. Jonathan J. Abela

Assistant General Manager

General Insurance

Bahrain National Insurance

Joined BNI in 2006. He is an Associate of the Chartered Insurance Institute, a Chartered Insurer, an Associate of the Malta Institute of Management and holds the Applied Insurance Studies Diploma awarded by the Malta International Training Centre (MITC). He has over 16 years of experience derived mainly from the Maltese Insurance market in Motor and Personal Lines claims, underwriting and product development as well as insurance broking. An insurance lecturer for a number of years on behalf of the MITC, he has delivered various courses in Malta and the UAE. He was previously a member of the Executive Committees of the Malta Green Card Bureau and Motor Insurer's Bureau of the Malta Insurance Association.

Mrs. Ebtisam Al Jowder

Assistant General Manager

Motor & Personal Lines Insurance

Bahrain National Insurance

Joined BNI in 1982. She has over 25 years of experience in Insurance and holds a BIBF Diploma and Advanced Diploma in Insurance. She has also attended a number of Technical and Management courses.

Corporate Social Responsibility

BNH discharges its commitment to support the local community and contributes to the development of the regional insurance industry through a comprehensive Corporate Social Responsibility programme. The core pillars of this programme are outlined below together with examples of relevant initiatives.

Supporting the Local Community

BNH provides practical and financial aid for a number of local charitable, educational, cultural, social and sporting societies and events. In particular, BNH supports organizations and centres that provide treatment, care and rehabilitation for disadvantaged people. The Group also seeks to raise awareness on important social issues such as the environment.

Promoting Sensible Usage of Resources to Counter Waste

In 2008, BNH launched a major energy and water conservation awareness campaign underpinned by the message: 'Use only what you need.' The objective of this campaign is to raise awareness and promote greater understanding by the general public of current local environmental issues, in particular the responsible use of resources such as energy and water. The campaign comprises press releases, articles and specially printed polo shirts bearing the campaign theme message.

Insurance Industry Support

BNH contributes to the development of the local and regional insurance sector by supporting industry initiatives and sponsoring and participating in conferences, seminars and exhibitions. The Group is also committed to raising the professional standards of insurance practitioners and attracting university graduates and school pass outs to pursue a promising career in the insurance industry.

Fostering Personal Potential & Professional Standards

BNH encourages and supports its employees to obtain relevant professional qualifications to progress their careers. The Group adopts the 'Hay Guide Chart-profile method' to evaluate the performance of individuals and ensure fair and competitive remuneration. A major regional insurance industry initiative, in which BNH played a pioneering role, was the establishment of the Gulf Insurance Institute to provide internationally recognized and accredited professional development programmes and certification paths for insurance and financial services professionals in the GCC region.

Developing Tomorrow's Leaders

BNH supports a number of initiatives aimed at helping young people to discover and develop their true potential, realize their career ambitions and make a positive impact on Bahraini society through a greater understanding of global social issues.

Providing Life-changing Overseas Experience

In 2008, BNH sponsored two young Bahrainis to live and work in Brazil and Columbia as part of the AIESEC International Internship program. The largest student organisation in the world, AIESEC provides an international platform for young people to discover and develop their potential and leadership skills through overseas life-changing work experience. They are then encouraged to transfer such experience into valuable and tangible actions that will benefit the wider community.

Change a **Light Bulb:**
One compact fluorescent bulb lasts as long as 13 filament bulbs and uses 75% less energy. Also costs less in the long run.

Carry a Bag along:
Average family uses about 500 bags per year. A bag takes upto 1000 years to break down. Reuse your bags. You can save upto 450 bags per year. And that's 250 Million tonnes less of plastic in the environment.

Consolidated Financial Statements

Independent Auditors' Report to the Shareholders

KPMG Fakhro
Audit
5th floor, Chamber of Commerce Building
PO Box 710, Manama, Kingdom of Bahrain

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

Report on the consolidated financial statements

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 balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Responsibility of the Directors for the consolidated financial statements

The Directors of the Company are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control, relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2008, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

In addition, in our opinion, the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith. We have reviewed the accompanying report of the Chairman and confirm that the information contained therein is consistent with the consolidated financial statements. We are not aware of any violations of the Bahrain Commercial Companies Law 2001 or the terms of the Company's memorandum and articles of association having occurred during the year that might have had a material effect on the business of the Company or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

Manama, Kingdom of Bahrain
18 February 2009

Consolidated Balance Sheet

As at 31 December 2008 (In thousands of Bahraini Dinars)

	Note	**2008**	2007
ASSETS			
Cash and cash equivalents		13,658	11,226
Statutory deposits	8	125	125
Receivables	9	5,622	5,369
Reinsurers' share of technical reserves	10	12,410	15,190
Investment securities	11	26,191	30,963
Investment in associates	14	9,108	8,921
Investment property	15	1,733	1,821
Property, plant and equipment	16	4,262	4,127
TOTAL ASSETS		**73,109**	77,742
LIABILITIES			
Insurance technical reserves	17	27,790	31,476
Insurance payables	21	3,792	2,924
Other liabilities	22	2,842	2,318
TOTAL LIABILITIES		**34,424**	36,718
TOTAL NET ASSETS		**38,685**	41,024
EQUITY (page 35)			
Share capital	5	11,350	11,350
Treasury shares	5	(1,430)	(758)
Statutory reserve		4,560	4,358
Share premium		3,986	3,961
General reserve		13,585	11,485
Investment fair value reserve		3,165	6,090
Retained earnings		1,963	4,538
Total equity attributable to shareholders of the parent company		**37,179**	41,024
Minority interest		1,506	–
TOTAL EQUITY		**38,685**	41,024

Farouk Yousif Almoayyed
Chairman

Abdul-Hussain K Dawani
Deputy Chairman

Mahmood Al Soufi
Chief Executive Officer

The Board of Directors approved the consolidated financial statements consisting of pages 33 to 78 on 18 February 2009.

Consolidated Income Statement

For the year ended 31 December 2008 (In thousands of Bahraini Dinars)

	Note	**2008**	2007
GROSS PREMIUMS	25	**28,031**	27,509
Reinsurance ceded	25	(14,847)	(14,908)
Retained premiums		13,184	12,601
Unearned premiums – Gross	25	(579)	1,211
Unearned premiums – Reinsurance	25	295	(1,650)
NET PREMIUMS EARNED		**12,900**	12,162
Gross claims paid	25	(20,937)	(13,057)
Reinsurance recoveries	25	13,047	7,006
Outstanding claims adjustment – gross	25	4,470	(5,111)
Outstanding claims adjustment – recoveries	25	(3,598)	3,102
NET CLAIMS INCURRED		**(7,018)**	(8,060)
Departmental expenses	27	(3,446)	(3,033)
Commission income	25	1,983	2,344
Commission expense	25	(1,224)	(1,227)
Net transfer from/(to) life assurance actuarial reserve	20	–	(180)
UNDERWRITING PROFIT FOR THE YEAR		**3,195**	2,006
Net Investment Income	26	**433**	3,103
Share of profit of associate companies	14	403	578
Gain on partial disposal of shares of subsidiary company	2	608	–
Gain on partial disposal of shares of associate company		–	849
Net transfer from/(to) life assurance actuarial reserve	20	441	(289)
Corporate and financial expenses	27	(1,109)	(933)
PROFIT BEFORE IMPAIRMENT PROVISION		**3,971**	5,314
Provision for impairment on investment	11	(1,950)	(35)
NET PROFIT FOR THE YEAR		**2,021**	**5,279**
Net profit attributable to :			
Parent Company		**2,068**	5,279
Minority interest		**(47)**	–
NET PROFIT FOR THE YEAR		**2,021**	5,279
Basic earnings per share (100 Fils each)		**18.55 Fils**	48.12 Fils

Farouk Yousif Almoayyed
Chairman

Abdul-Hussain K Dawani
Deputy Chairman

Mahmood Al Soufi
Chief Executive Officer

The Board of Directors approved the consolidated financial statements consisting of pages 33 to 78 on 18 February 2009.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008 (In thousands of Bahraini Dinars)

2008	Total equity attributable to shareholders of the parent company									
	Share capital	Treasury shares	Statutory reserve	Share premium	General reserve	Investment fair value reserve	Retained earnings	Total	Minority Interest	Total Equity
Balance at 1 January	11,350	(758)	4,358	3,961	11,485	6,090	4,538	41,024	–	41,024
Change in fair value of available for sale securities	–	–	–	–	–	(2,886)	–	(2,886)	(47)	(2,933)
Transfer to income statement on disposal of AFS investments	–	–	–	–	–	(39)	–	(39)	–	(39)
Share of share premium in an associate company	–	–	–	25	–	–	–	25	–	25
Net profit/(loss) recognized directly in equity	–	–	–	25	–	(2,925)	–	(2,900)	(47)	(2,947)
Net profit for the year	–	–	–	–	–	–	2,068	2,068	(47)	2,021
Total recognized income and expense	**–**	**–**	**–**	**25**	**–**	**(2,925)**	**2,068**	**(832)**	**(94)**	**(926)**
Treasury stock purchases	–	(672)	–	–	–	–	–	(672)	–	(672)
Dividends declared for 2007	–	–	–	–	–	–	(2,191)	(2,191)	–	(2,191)
Directors remuneration declared for 2007	–	–	–	–	–	–	(100)	(100)	–	(100)
Donations declared for 2007	–	–	–	–	–	–	(50)	(50)	–	(50)
Transfers to reserves (refer note 7)	–	–	202	–	2,100	–	(2,302)	–	–	–
Minority interest in subsidiary's capital	–	–	–	–	–	–	–	–	1,600	1,600
Balance at 31 December	**11,350**	**(1,430)**	**4,560**	**3,986**	**13,585**	**3,165**	**1,963**	**37,179**	**1,506**	**38,685**

The consolidated financial statements consist of pages 33 to 78.

Consolidated Statement of Changes in Equity *contd...*

For the year ended 31 December 2008 (In thousands of Bahraini Dinars)

2007	Total equity attributable to shareholders of the parent company									
	Share capital	Treasury shares	Statutory reserve	Share premium	General reserve	Investment fair value reserve	Retained earnings	Total	Minority Interest	Total Equity
Balance at 1 January	11,350	(700)	3,830	3,961	9,485	5,153	3,803	36,882	–	36,882
Change in fair value of available for sale securities	–	–	–	–	–	1,178	–	1,178	–	1,178
Transfer to income statement on disposal of AFS investments	–	–	–	–	–	(241)	–	(241)	–	(241)
Net income recognized directly in equity	–	–	–	–	–	937	–	937	–	937
Net profit for the year	–	–	–	–	–	–	5,279	5,279	–	5,279
Total recognized income and expense	–	–	–	–	–	937	5,279	6,216	–	6,216
Treasury stock purchases	–	(58)	–	–	–	–	–	(58)	–	(58)
Dividends declared for 2006	–	–	–	–	–	–	(1,866)	(1,866)	–	(1,866)
Directors remuneration declared for 2006	–	–	–	–	–	–	(100)	(100)	–	(100)
Donations declared for 2006	–	–	–	–	–	–	(50)	(50)	–	(50)
Transfers to reserves (refer note 7)	–	–	528	–	2,000	–	(2,528)	–	–	–
Balance at 31 December	11,350	(758)	4,358	3,961	11,485	6,090	4,538	41,024	–	41,024

The consolidated financial statements consist of pages 33 to 78.

Statement of Consolidated Cash Flows

For the year ended 31 December 2008 (In thousands of Bahraini Dinars)

	2008	2007
OPERATING ACTIVITIES		
Insurance operations (including life assurance)		
Premiums received net of acquisition costs	28,459	27,262
Contribution received from policyholders	211	365
Payments to insurance and reinsurance companies	(14,221)	(12,711)
Claims paid to policyholders	(20,313)	(13,057)
Claims recovered from reinsurers and salvage recoveries	13,033	6,572
Cash flows from insurance operations	**7,169**	8,431
Investment operations		
Dividends and interest received	1,216	1,334
Proceeds from sale and redemptions	8,423	5,769
Payments for purchases	(9,560)	(7,573)
Investment in associates	(550)	(4,964)
Proceeds from partial sale of shares in a subsidiary	2,212	–
Proceeds from partial sale of shares in an associate	–	1,238
Dividends received from an associate	300	120
Cash flows from investment operations	**2,041**	(4,076)
Expenses paid	(3,194)	(3,996)
Cash flows from operating activities	**6,016**	359
INVESTMENT ACTIVITIES		
Purchase of property, plant and equipment	(582)	(134)
Cash flows from investment activities	**(582)**	(134)
FINANCING ACTIVITIES		
Bank loan repaid	–	(1,666)
Payment for purchase of treasury stock	(672)	(58)
Dividends paid to shareholders	(2,170)	(2,068)
Directors' remuneration paid	(99)	(95)
Donations paid	(61)	(43)
Cash flows from financing activities	**(3,002)**	(3,930)
TOTAL NET CASH flows during the year	**2,432**	(3,705)
Cash and cash equivalents at 1 January	11,226	14,931
Cash and cash equivalents at 31 December	**13,658**	11,226
CASH AND CASH EQUIVALENTS at 31 December		
Cash and bank balances	2,264	997
Short-term deposits	11,394	10,229
Total as per balance sheet	**13,658**	11,226

The consolidated financial statements consist of pages 33 to 78.

Notes to the 2008 Consolidated Financial Statements

(In thousands of Bahraini Dinars)

1. Status and operations

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

2. Subsidiary companies

Subsidiary	Date of Incorporation	% of Holding	Paid-up Share capital
Bahrain National Insurance Company B.S.C. (c)	30 December 1998	100%	6,500
Bahrain National Life Assurance Company B.S.C. (c)	4 October 2000	75%	5,000

During the year the Group has sold 25% ownership interest of its subsidiary, Bahrain National Life Assurance Company. The incoming shareholders interest in the subsidiary is shown under **minority interest**. Gain on disposal of 25% ownership interest of its subsidiary amounts to BD 608.

3. Associates

The Group holds 20% (2007: 20%) of the equity share capital of the United Insurance Company BSC (closed), a Bahraini shareholding company (closed). United Insurance Company primarily provides insurance coverage for motor vehicles. (Refer note: 14)

The Group holds 25.9% (2007: 25.9%) of the voting capital of National Finance House BSC (c) (NFH), a closed Bahraini joint stock company, engaged in consumer and auto finance business. (Refer note: 14).

The Group holds 15% (2007:15%) of the voting capital of Arabian Shield Cooperative Insurance Company, Saudi Arabia (ASIC), a Saudi Arabian Registered joint stock company, engaged in consumer and Insurance business. (Refer note: 14).

The Group holds 17.2% (2007: 18%) of the voting capital of Gulf Insurance Institute BSC (c) (GII), a Bahraini shareholding company (closed), engaged in conducting training mainly in insurance related subjects. (Refer note: 14).

During the year the Group has acquired a 25% ownership interest of Al Kindi Specialised Hospital W.L.L., a Bahraini with limited liability company, engaged in providing private medical services. (Refer note: 14).

4. Significant accounting policies

a. Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Bahrain Commercial Companies Law 2001.

b. Basis of preparation

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

(In thousands of Bahraini Dinars)

4. *Significant accounting policies contd...*

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

c. Basis of consolidation

i. Subsidiaries

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly (through subsidiaries), to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases.

ii. Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

iii. 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.

d. Insurance

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. The investment contract has been accounted for and recognized in accordance with IAS 39 – Financial Instruments: Recognition and Measurement and the insurance contract has been accounted for and recognized in accordance with IFRS 4 – Insurance Contracts.

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

Investments contracts are those contracts with insignificant transfer of insurance risk from the policyholder to the Company and are classified as investment contracts and are accounted for as financial instruments under IAS 39 Financial Instruments: Recognition and Measurement and IAS 18 Revenue Recognition.

(In thousands of Bahraini Dinars)

4. Significant accounting policies contd...

e. Liability adequacy test

At each balance sheet 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 income statement by establishing a provision for losses arising from liability adequacy tests.

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

The Group assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in the income statement. 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.

g. General Insurance business

i. **Gross 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 “other liabilities” in the balance sheet.

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

iii. **Unearned premiums:**

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

(In thousands of Bahraini Dinars)

4. Significant accounting policies contd...

iv. **Claims settled** in the year are charged to the income statement net of reinsurance, salvage and other recoveries. At the balance sheet date, provision is made for all outstanding claims including claims incurred but not reported (IBNR).

v. **Outstanding claims**

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

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.

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 the management, to meet certain contingencies such as:

- unexpected and unfavourable 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.

vi. **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 balance sheet date.

vii. **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 balance sheet.

viii. **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.

ix. **Departmental expenses** include direct departmental expenses and apportioned overheads (based on staff costs). All expenses are charged to the income statement in the year in which they are incurred.

(In thousands of Bahraini Dinars)

4. Significant accounting policies contd...

h. Life assurance business

i. Bahrain National Life Assurance Company, the life assurance subsidiary of the Group, 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.

ii. **Gross 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.

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

iv. **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.

v. **Acquisition costs** are written off when incurred.

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

vii. **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.

viii. **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 balance sheet date. The life assurance actuarial reserve is created by crediting the net investment income arising out of the investments made by the Company on behalf of the life assurance policyholders. At the balance sheet 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 balance sheet date. The shortfall, if any, is charged to the income statement.

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

(In thousands of Bahraini Dinars)

4. Significant accounting policies contd...

ix. **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 income statement as the service is provided over the term of the contract. Fee income is being disclosed as part of investment income (note 26).

i. Critical accounting estimates and judgments in applying accounting policies

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

i. The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Group's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Group will ultimately pay for such claims. The estimation for claims incurred but not reported (IBNR) using statistical models include an estimation made to meet certain contingencies such as unexpected and unfavorable court judgments which may require a higher payout than originally estimated and settlement of claims, which may take longer than expected, resulting in actual payouts being higher than estimated.

ii. Life assurance actuarial reserve estimation

The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the Group. Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to risk. The Group bases these estimates on standard industry and comparable mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the Group's own experience. For contracts that insure the risk of longevity, appropriate but not excessively prudent allowance is made for expected mortality improvements. The estimated number of deaths determines the value of the benefit payments and the value of the valuation premiums. The main source of uncertainty is that epidemics such as AIDS, SARS and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which the Group has significant exposure to mortality risk. However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Group is exposed to longevity risk.

There is no reinsurance protection held in respect of these contracts that would reduce these amounts. For contracts without fixed terms, it is assumed that the Group will be able to increase mortality risk charges in future years in line with emerging mortality experience. Under certain contracts, the Group has offered guaranteed annuity options. In determining the value of these options, estimates have been made as to the percentage of contract holders that will exercise them. Changes in investment conditions could result in significantly more contract holders exercising their options than has been assumed. With respect to changes in policyholder options, reserves do not take into account lapsation. Thus there is no effect of changes in policyholder options.

(In thousands of Bahraini Dinars)

4. *Significant accounting policies contd...*

Estimates are also made as to future investment income arising from the assets backing long term insurance contracts. These estimates are based upon the current market returns as well as expectations about future economic and financial developments. For the long term plans an assumption of 5% has been used. This has resulted in surplus generated in the past. For the accumulation products where the entire investments return less charges are given to the policyholders, there is no surplus from investment income. For other plans such as yearly renewable plans where 1/24 method of reserving is used, the entire 3% income on reserves is contribution to surplus.

For long-term insurance contracts with fixed and guaranteed terms and with DPF, estimates are made in two stages. Estimates of future deaths, voluntary terminations, investment returns and administration expenses are made at the inception of the contract and form the assumptions used for calculating the liabilities during the life of the contract. A margin for risk and uncertainty is added to these assumptions.

These assumptions are 'locked in' for the duration of the contract. New estimates are made each subsequent year in order to determine whether the previous liabilities are adequate in the light of these latest estimates. If the liabilities are considered adequate, the assumptions are not altered. If they are not adequate, the assumptions are altered ('unlocked') to reflect the best estimate assumptions. A key feature of the adequacy testing for these contracts is that the effects of changes in the assumptions on the measurement of the liabilities and related assets are not symmetrical. Any improvements in estimates have no impact on the value of the liabilities and related assets until the liabilities are derecognised, while significant enough deterioration in estimates are immediately recognised to make the liabilities adequate.

iii. Impairment losses for available-for-sale securities and receivables

The Group determines that available-for-sale equity securities and managed funds are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgement. In the case of quoted equity securities in active markets, the Group considers a decline in value below cost of 30%, or a decline that persists for more than 270 days as an indicator of impairment. In the case where markets for the investment are assessed to be inactive, the Group determines impairment based on its assessment of the investee companies' financial health, industry and sector performance. At 31 December 2008, the Group had a decline in value of certain AFS securities below their cost by BD 2,682 (2007: BD 117) of which BD 1,950 (2007: BD 35) has been taken to the income statement as impairment on investments and the balance amount of BD 732 (2007: BD 82) is not considered to be impaired in accordance with the Group's impairment policy and accordingly is taken to investment fair value reserve.

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 income statement 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 income statement.

4. *Significant accounting policies contd...*

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.

j. Financial assets and liabilities

i. Recognition and de-recognition

The Group initially recognises financial assets and liabilities at the trade date i.e. the date that the Group contracts to purchase or sell the asset, at which the Group becomes party to the contractual provisions of the instrument.

A financial asset or liability is initially measured at fair value which is the value of the consideration given (in the case of an asset) or received (in the case of a liability), including transaction costs that are directly attributable to its acquisition or issue.

The Group derecognises a financial asset 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. The Group writes off certain financial assets when they are determined uncollectible. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

ii. Measurement principles

Financial assets and liabilities are measured either at fair value, amortised cost or in certain cases carried at cost.

iii. Fair value measurement

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

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. 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.

iv. Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate.

(In thousands of Bahraini Dinars)

4. Significant accounting policies contd...

k. Investments

i. 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.

ii. Change in accounting policy

In October 2008 the International Accounting Standards Board (IASB) issued Reclassification of Financial Assets (Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: The amendments to IAS 39 permits an entity to reclassify under 'rare circumstances' any non-derivative financial asset, other than those designated at fair value through profit or loss upon initial recognition, out of the trading category (and hence out of the fair value through profit or loss category) if it is no longer held for the purpose of being sold or repurchased in the near term.

The amendment to IFRS 7 introduces additional disclosure requirements if an entity has reclassified financial assets in accordance with the amendment to IAS 39. The amendments are effective retrospectively from 1 July 2008.

If an entity reclassifies financial asset out of the trading category then the financial asset is reclassified at its fair value on the date of reclassification and this fair value becomes the new cost.

Any gain or loss recognized in the profit or loss is not reversed.

Pursuant to these amendments, the Group has reclassified certain securities from trading to available-for-sale securities. For details of impact of these reclassifications, refer to note 11.

iii. 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 are 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.

iv. 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 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 contd...

v. 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 income statement 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 equity 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 balance sheet date are transferred to investment income.

vi. Fair value basis

In respect of quoted equities and bonds, the fair value is the quoted bid price of the security at the balance sheet 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. 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 balance sheet date. The fair value of other managed funds is either the bid value or the net asset value of the fund, depending on the terms of redemption under the fund's prospectus.

Treasury shares: The amount of consideration paid in respect of repurchased shares are classified as treasury shares and presented as a deduction from equity.

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 equity are transferred to investment income.

Dividend income is recognised when the right to receive the dividend is established.

l. 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. (refer Note 25).

m. Foreign currency translation

Functional and presentation currency

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

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 income statement. Translation differences on non-monetary items classified as available-for-sale financial assets are included in investments fair value reserve.

Receivables are stated at their cost less provision for impairment, if any.

(In thousands of Bahraini Dinars)

4. Significant accounting policies contd...

n. Property, plant and equipment

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

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property.

i. Subsequent expenditure

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

ii. Depreciation

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

Building	25 years
Plant & Machinery	10 years
Software	5 years
Computer and office equipment	4 years
Furniture, fixtures and telephone systems	5 years
Motor vehicles	4 years
Office improvements	3 years

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

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

o. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset are included in the cost of that asset. Such borrowing costs are capitalized as part of the cost of the asset when it is probable that they will result in future economic benefits to the enterprise and the costs can be measured reliably. Other borrowing costs are recognized as an expense in the period in which they are incurred.

(In thousands of Bahraini Dinars)

4. Significant accounting policies contd...

p. Investment property

Investment property comprises of let out portion of the buildings and is carried at cost less depreciation and impairment losses, if any.

q. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and short-term deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are not subject to significant risk of change in value.

r. Impairment of assets

The carrying values of assets are assessed at each balance sheet date to ascertain whether there is any indication of impairment. If the estimated recoverable amount in respect of an asset is less than its carrying amount, the carrying amount is reduced to its estimated recoverable amount by recognising an impairment loss. Impairment losses are charged to the income statement.

s. Dividends

Dividends to shareholders and directors' remuneration are recognized as a liability in the period in which they are declared.

t. Employees benefits

i. Bahraini employees

Pensions and other social benefits for Bahraini employees are covered by the General Organisation for Social Insurance scheme, 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.

ii. Expatriate employees

Expatriate employees on fixed contracts are entitled to leaving indemnities payable under the Bahraini Labour Law for the Private Sector of 1976, 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 balance sheet date.

iii. Employee savings scheme

The Group has a voluntary employees saving scheme. The Company and the employee contribute monthly on a fixed percentage of salaries basis to the scheme. The scheme is managed and administered by a board of trustees.

(In thousands of Bahraini Dinars)

5. Share capital

	Number 2008	**Amount 2008**	Number 2007	Amount 2007
Authorised: shares of 100 fils each	200,000,000	20,000	200,000,000	20,000
Issued and fully paid	**113,500,000**	**11,350**	113,500,000	11,350

(a) 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 2008	**Amount 2008**	Number 2007	Amount 2007
Balance at beginning of year	3,916,037	758	3,757,237	700
Treasury stock purchases	1,301,226	672	158,800	58
Balance at 31 December	**5,217,263**	**1,430**	3,916,037	758

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

	2008	2007
Basic earnings per share – fils	18.55	48.12
Proposed cash dividend – fils	15.0	20.0
Net asset value – fils	355.11	373.93
Stock Exchange price at 31 December – fils	520.00	484.00
Market capitalisation at 31 December – in thousands of BD	59,020	54,934
Price/Earnings ratio at 31 December	28.03	10.05

In accordance with IAS 33, the calculation of earnings per share is based on the net profit for the year of BD 2,021 (2007: BD 5,279), attributable to 108,936,433 (2007: 109,708,871) ordinary shares for basic earnings, being the weighted average number of ordinary shares outstanding during the year.

(c) 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**	**% holding**
National Insurance Company	Iraqi	7,436,890	6.55%
Yousif Abdulla Amin	Bahraini	11,409,275	10.05%

(In thousands of Bahraini Dinars)

5. *Share capital contd...*

(d) 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 %	624	56,293,013	49.60
1 % up to less than 5 %	17	38,360,822	33.80
5 % up to less than 10 %	1	7,436,890	6.55
10% up to less than 20%	1	11,409,275	10.05
Total	**643**	**113,500,000**	**100.00**

6. *Reserves*

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

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.

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 income statement.

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

7. *Proposed appropriations:*

	2008	2007
Net profit as per income statement	2,021	5,279
Proposed appropriations:		
Statutory reserve	202	528
Dividend to shareholders	1,624	2,192
Directors' remuneration	109	100
Donations	50	50
General reserve	–	2,100
Retained earnings	36	309
	2,021	5,279

The appropriation of the 2008 profit is subject to approval by shareholders at the annual general meeting.

(In thousands of Bahraini Dinars)

8. *Statutory deposits* are maintained under the regulations of the Central Bank of Bahrain and Financial Institutions Law, 2006. Such deposits, which depend on the nature of the insurance business and the number of branches, cannot be withdrawn except with the approval of the Central Bank of Bahrain.

9. *Receivables*

	2008	2007
Policyholders	2,078	2,452
Insurance and reinsurance companies	3,541	2,829
Others	369	459
Provision for impairment	(366)	(371)
Total per balance sheet	**5,622**	5,369

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

	2008	2007
Balance at beginning of the year	371	793
Balances recovered during the year	(15)	(437)
Additional amount provided during the year	10	15
Balance at end of the year	**366**	371

10. *Reinsurers' share of insurance technical reserves*

	2008	2007
Outstanding claims recoverable from reinsurers (refer note 18)	6,524	10,226
Reinsurers' share of unearned premiums (refer note 19)	5,957	5,139
Provision for impairment	(71)	(175)
Total per balance sheet	**12,410**	15,190

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

	2008	2007
Balance at beginning of the year	175	175
Balances recovered during the year	(104)	–
Balance at end of the year	**71**	175

(In thousands of Bahraini Dinars)

11. Investment securities

	2008	2007
Securities carried at fair value through profit or loss	2,423	14,547
Available for sale securities	18,740	13,622
Held-to-maturity securities	5,028	2,794
Total per balance sheet	**26,191**	30,963

a) Securities carried at fair value through profit or loss

	2008	2007
Trading		
Quoted		
Equities	577	3,600
Government bonds	294	573
Other bonds	37	1,094
Managed funds	1,515	9,280
Total	**2,423**	14,547

Movement during the year	2008	2007
Opening balance as at 1 January	14,547	12,516
Purchases	3,850	3,451
Sales	(3,082)	(3,316)
Valuation (losses)/gains	(813)	1,896
Transfer to available-for-sale securities	(12,079)	–
Balance as at 31 December	**2,423**	14,547

b) Available-for-sale securities

	2008	2007
Quoted		
Equities	7,726	7,373
Government bonds	476	870
Other bonds	1,236	1,283
Managed funds	8,971	3,764
Unquoted equities & funds	331	332
Total	**18,740**	13,622

(In thousands of Bahraini Dinars)

11. Investment securities contd...

Movement during the year	**2008**	2007
Opening balance as at 1 January	13,622	11,819
Purchases	1,555	1,639
Sales	(4,132)	(1,499)
Valuation (losses)/gains	(2,434)	1,697
Impairment provision	(1,950)	(35)
Transfer from trading securities	12,079	–
Total	**18,740**	13,622

Investments in unquoted equities and funds are carried at cost less impairment in the absence of a reliable measure of fair value.

The carrying value of available-for-sale securities is after deducting **provision for impairment** in respect of certain investment. The movements in the provision account are as under:

	2008	2007
Balance at beginning of the year	435	442
Additional provision during the year	1,950	35
Release of provision during the year	–	(42)
Total	**2,385**	435

Reclassification out of trading securities

Pursuant to the amendments to IAS 39 and IFRS 7 [described in note 4(k)] the Group has reclassified certain trading securities to available-for-sale securities. The Group identified financial assets eligible under the amendments, for which it had changed its intent such that it no longer held these financial assets for the purpose of selling in the short term. The Group determined that in the context of the deterioration of the financial markets during the third and fourth quarter 2008 constituted rare circumstances that permit reclassification our of the trading category.

Under IAS 39 as amended, the reclassification was made with effect from 30 June 2008 at fair value at that date. The table below sets the financial asset reclassified and the carrying and fair value.

	30 June 2008		**31 December 2008**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Trading securities reclassified to available-for-sale securities	12,079	12,079	7,571	7,571

(In thousands of Bahraini Dinars)

11. Investment securities contd...

The table below sets out the amounts actually recognised in income statement and equity during 2008 in respect of the financial asset reclassified out of trading securities.

	Income Statement	Equity
Period before reclassification		
Trading securities reclassified to available-for-sale securities:		
Net trading income	46	–
Dividend income	110	–
	156	–
Period after reclassification		
Trading securities reclassified to available-for-sale securities:		
Profit / (loss) on sale of reclassified securities	(172)	–
Provision for impairment	(1,481)	–
Net change in fair value	–	(391)
	(1,653)	(391)

The amount of BD 391 would have been recognised in the income statement in the period following reclassification during 2008 if reclassifications had not been made.

c) Held-to-maturity securities

	2008 Fair value	2007 Fair value	**2008 Carrying value**	2007 Carrying value
Government bonds	428	426	425	407
Other bonds	4,550	2,401	4,603	2,387
Total per balance sheet	**4,978**	2,827	**5,028**	2,794

Movement during the year	**2008**	2007
Opening balance as at 1 January	2,794	1,724
Purchases	3,494	1,632
Disposals on maturity	(1,082)	(647)
Exchange (losses)/gains	(178)	85
Balance as at 31 December	**5,028**	2,794

Notes to the 2008
Consolidated Financial Statements *contd...*

(In thousands of Bahraini Dinars)

12. *Policyholders' investments*

The Group identified specific investments as policyholders' investments. These investments represent the funding of the life assurance actuarial reserve. The Company 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 Company. The carrying value of the policyholders' investments (including investments of the staff retirement scheme) at the balance sheet date, included under "investments in securities" is as follows:

	2008	2007
Investments in securities	3,274	3,457
Life assurance actuarial reserve (note 20)	**3,048**	3,278

13. *Effective interest rates on cash and bonds*

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:

	2008 Aggregate principal	**2008 Effective rate**	2007 Aggregate principal	2007 Effective rate
Cash and short-term deposits	11,394	3.20%	10,229	4.10%
Fixed rate bonds	6,252	2.90%	5,798	5.30%
Floating rate bonds (repriced within 4-6 months)	818	2.60%	816	4.20%

14. *Investments in associates*

The Group's interests in its principal associates, all of which, excluding Arabian Shield Insurance Company, are unlisted, were as follows:

		Group interest %	
Name	**Country**	**2008**	2007
United Insurance Company BSC (c)	Bahrain	20.0	20.0
National Finance House BSC (c)	Bahrain	25.9	25.9
Gulf Insurance Institute BSC (c).	Bahrain	17.2	18.0
Arabian Shield Cooperative Insurance Co.	Saudi Arabia	15.0	15.0
Al Kindi Specialised Hospital W.L.L.	Bahrain	25.0	–

(In thousands of Bahraini Dinars)

14. Investments in associates contd...

The movements in the investment account are as follows:

	2008	2007
Balance at beginning of the year	8,921	3,495
Payment for acquisition of shares	550	4,964
Share of profit for the year	403	578
Share of share premium	25	–
Dividends received	(300)	(120)
Share of investment fair value reserve	(491)	4
Total per balance sheet (equity method)	**9,108**	8,921

This balance comprises:	2008	2007
Investment at cost	7,653	7,104
Bonus shares issued by UIC in 2001	100	100
Share of reserves at 31 December	1,355	1,717
Total per balance sheet	**9,108**	8,921

The share of profits and fair value reserve is arrived at based on unaudited financial statements of UIC, GII, Al Kindi and NFH as at 30 November 2008, and ASIC as at 30 September 2008.

The total assets, liabilities, total revenue and profit & loss of Associates were:

	2008	2007
Total assets (excl. ASIC)	44,337	48,645
Total liabilities (excl. ASIC)	25,806	10,524
Total revenue	7,830	5,708
Total profit	2,355	3,653

15. Investment property

	2008	2007
Balance at beginning of the year	1,821	1,909
Depreciation for the year	(88)	(88)
Total per balance sheet	**1,733**	1,821

Investment property comprises of let out portion of the building situated in Seef District. The fair value of the Investment Property is BD 5,380 (2007: BD 5,634).

Notes to the 2008 Consolidated Financial Statements contd...

(In thousands of Bahraini Dinars)

16. Property, plant and equipment

	Land and building	Plant & Machinery	Furniture, equipment & other assets	Capital Work-in-progress	**2008 Total**	2007 Total
Cost						
At 1 January	3,546	367	1,113	54	5,080	4,946
Additions	–	–	536	46	582	215
Disposals	–	–	–	–	–	(81)
At 31 December	**3,546**	**367**	**1,649**	**100**	**5,662**	5,080
Depreciation						
At 1 January	380	119	454	–	953	603
Charge for the year	121	37	289	–	447	350
At 31 December	**501**	**156**	**743**	**–**	**1,400**	953
Net book value at 31 December	**3,045**	**211**	**906**	**100**	**4,262**	4,127

Capital commitments as at the balance sheet date amounted to BD 38 (2007: BD 26).

17. Insurance technical reserves

	2008	2007
Outstanding claims - gross (refer Note 18)	12,547	17,017
Unearned gross premiums (refer Note 19)	12,070	10,968
Unearned commissions (refer Note 19)	125	213
Life assurance actuarial reserve (refer Note 20)	3,048	3,278
Total per balance sheet	**27,790**	31,476

18. Outstanding claims

Claim 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 balance sheet, with the exception of life assurance and medical business.

Notes to the 2008 Consolidated Financial Statements contd...

(In thousands of Bahraini Dinars)

18. Outstanding claims contd...

Insurance claims for general insurance business – Gross

Accident year	2004	2005	2006	2007	**2008**	**Total**
Estimate of ultimate claims costs:						
At end of reporting year	4,426	4,664	6,797	10,095	7,633	33,615
One year later	4,613	4,508	7,272	7,936	–	24,329
Two years later	4,624	4,682	6,896	–	–	16,202
Three years later	4,272	4,501	–	–	–	8,773
Four years later	4,862	–	–	–	–	4,862
Current estimate of cumulative claims (A)	4,862	4,501	6,896	7,936	7,633	31,828
Cumulative payments to date (B)	3,746	4,171	6,370	6,344	–	20,631
Total (A – B)	1,116	330	526	1,592	**7,633**	11,197
Liability recognized in the balance sheet						11,197
Reserve in respect of years prior to 2004						854
Total reserve included in the balance sheet						**12,051**

Insurance claims (gross) for life and medical insurance business amounting to BD 496 pertain to 2008.

Insurance claims for general insurance business – Net

Accident year	2004	2005	2006	2007	**2008**	**Total**
Estimate of ultimate claims costs:						
At end of reporting year	1,962	2,301	3,321	5,049	4,890	17,523
One year later	1,936	1,584	3,664	2,585	–	9,769
Two years later	1,545	1,758	3,510	–	–	6,813
Three years later	1,505	1,577	–	–	–	3,082
Four years later	1,554	–	–	–	–	1,554
Current estimate of cumulative claims (A)	1,554	1,577	3,510	2,585	4,890	14,116
Cumulative payments to date (B)	1,511	1,511	3,372	2,362	–	8,756
Total (A – B)	43	66	138	223	**4,890**	5,360
Liability recognized in the balance sheet						5,360
Reserve in respect of years prior to 2004						409
Total reserve included in the balance sheet						**5,769**

Insurance claims (net) for life and medical insurance business amounting to BD 325 pertain to 2008.

(In thousands of Bahraini Dinars)

18. Outstanding claims contd...

Changes in insurance assets and liabilities

(a) Movements in insurance liabilities and related reinsurance assets

	2008			2007		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Reported claims	15,595	10,226	5,369	11,051	6,948	4,103
IBNR	1,422	(175)	1,597	855	–	855
Total at beginning of the year	17,017	10,051	6,966	11,906	6,948	4,958
Change in liabilities	16,467	9,449	7,018	18,168	10,108	8,059
Claims settled	(20,937)	(13,047)	(7,890)	(13,057)	(7,005)	(6,051)
Total at end of year	**12,547**	**6,453**	**6,094**	17,017	10,051	6,966
Reported claims	11,563	6,524	5,039	15,595	10,226	5,369
IBNR	984	(71)	1,055	1,422	(175)	1,597
Total at end of year	**12, 547**	**6,453**	**6,094**	17,017	10,051	6,966

Sensitivity analysis

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

	Income Statement & Equity	
	2008	2007
General Insurance		
31 December 2008		
Expense rate		
1 percent increase	(33)	(30)
1 percent decrease	33	30
Expected loss ratio		
1 percent increase	(56)	(68)
1 percent decrease	56	68

(In thousands of Bahraini Dinars)

18. Outstanding claims contd...

	Income Statement & Equity	
	2008	2007
Life Insurance		
31 December 2008		
Demographic assumptions		
5 percent decrease in base mortality and morbidity rates	58	58
5 percent increase in base mortality and morbidity rates	(60)	(60)
Expense assumptions		
1 percent increase	(7)	(6)
1 percent decrease	7	6
Expected loss ratio		
1 percent increase	(14)	(13)
1 percent decrease	14	13

The Group has certain single insurance contract which it considers as risks of high severity but very low frequency. The Group re-insures substantial part of these risks and its loss on any one single event is limited to a loss of BD 250 whereas in case of marine and motor losses Company's exposure to single event is limited to BD 25.

19. Unearned premiums/Unearned commissions

(a) Movements in Unearned premiums

	Reinsurers' share of Gross premiums		Unearned Gross Premiums	
	2008	2007	**2008**	2007
At 1 January	5,139	6,789	10,968	12,179
Charge during the year	818	(1,650)	1,102	(1,211)
At 31 December	**5,957**	5,139	**12,070**	10,968

(b) Movements in Unearned commissions

	2008	2007
At 1 January	213	312
Charge/(Release) during the year	(88)	(99)
At 31 December	**125**	213

(In thousands of Bahraini Dinars)

20. Life assurance actuarial reserve and actuarial assumptions

	2008	2007
a. Life assurance actuarial reserve		
Balance at 1 January	3,278	2,022
Transfer of contributions	211	365
Transfer of deferred single premium	–	422
Net transfer from/(to) income statement	(441)	469
Balance at 31 December	**3,048**	3,278

	2008	2007
b. Deferred single premiums		
Balance at 1 January	–	521
Released to income statement	–	(100)
Transfer to Life Assurance actuarial reserve	–	(421)
Balance at 31 December	**–**	–
Life Assurance actuarial reserve per balance sheet	**3,048**	3,278
Actuarial estimate of the present value of future benefit obligations at 31 December	**3,027**	3,278

The actuarial estimate has been prepared by independent actuaries, Mercer Zainal Consulting Sdn. Bld., Malaysia based on 75% of the English life Table A4952 (2003: English life Table A4952) at an interest rate of 5% per annum for all contracts. Allowances have been made for reinsurance, guaranteed bonuses, renewal expenses unexpired risks and contingencies where appropriate.

21. Insurance payables

	2008	2007
Policyholders - Claims	363	163
Insurance and reinsurance companies	3,429	2,761
Total per balance sheet	**3,792**	2,924

22. Other liabilities

	2008	2007
Premiums received in advance	290	286
Vehicle repairers and spare parts	755	332
Accrued expenses	184	555
Unclaimed dividends - prior years	126	105
Provision for employee benefits	603	568
Provision for employees' leaving indemnities	293	209
Other liabilities	591	263
Total per balance sheet	**2,842**	2,318

(In thousands of Bahraini Dinars)

22. Other liabilities contd...

The movements in the provision account for employee benefits (excluding leaving indemnities) are as follows:

	2008	2007
Balance at beginning of the year	568	419
Paid during the year	(457)	(339)
Additional amount provided during the year	492	488
Balance at end of the year	**603**	568

23. Retirement benefits cost

The Company employed 165 Bahrainis (2007: 160 Bahrainis) and 37 expatriates (2007: 29 expatriates) as at 31 December 2008.

Bahraini employees are covered by the pension scheme of General Organisation for Social Insurance 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 2008 amounted to BD 177 (2007: BD 158), 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 2008 amounted to BD 83 (2007: BD 73). The scheme also has an additional life insurance and is administered by Bahrain National Life Assurance Company on behalf of the group.

The liability towards the retirement plan as at 31 December 2008 amounted to BD 286 (2007: BD 262) and is included in the Life assurance actuarial reserve (refer note 20). The liability is funded by way of contributions from the retirement scheme. The contributions received are invested as part of policyholders' investments (refer note 12).

Expatriate employees on limited-term contracts are entitled to leaving indemnities payable under the Bahrain Labour Law for the Private Sector, 1976, 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 balance sheet date.

Provision for employees' leaving indemnities

	2008	2007
At beginning of year	209	183
Indemnities and advances paid	–	(10)
Charge to income statement	84	36
Balance at end of the year	**293**	209

24. Gross and retained premiums

	2008			2007		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Written premiums:						
- Direct	25,656	12,777	12,879	24,993	12,810	12,183
- Inward	2,375	2,070	305	2,516	2,098	418
Total	**28,031**	**14,847**	**13,184**	27,509	14,908	12,601

(In thousands of Bahraini Dinars)

25. Segmental reporting / Business departmental results

2008	Fire	Accident & liability	Engineering	Marine and aviation	Motor	Medical	Life	Total
Gross Premiums	**3,703**	**1,733**	**6,496**	**1,614**	**10,243**	**2,463**	**1,779**	**28,031**
Net Premiums Earned	**272**	**248**	**195**	**139**	**9,621**	**1,650**	**775**	**12,900**
Net claims incurred	24	249	108	28	(6,012)	(1,272)	(143)	(7,018)
Departmental expenses	(430)	(229)	(345)	(260)	(1,547)	(309)	(326)	(3,446)
Net commission income	468	172	326	197	(389)	52	(67)	759
Underwriting Profit	**334**	**440**	**284**	**104**	**1,673**	**121**	**239**	**3,195**
Net retention (%)	7.3	14.3	3.0	8.6	93.9	67.0	43.6	46.2
Loss ratio (%)	(8.7)	(100.4)	(55.4)	(20.3)	62.5	77.0	18.5	54.4
Identifiable assets	3,104	1,225	5,444	899	1,124	326	170	12,292
Identifiable liabilities	4,011	1,530	6,431	1,145	12,319	1,345	3,276	30,057

Assets amounting to BD 60,817 and liabilities amounting to BD 4,367 are not specifically identifiable with general and life insurance business.

2007	Fire	Accident & liability	Engineering	Marine and aviation	Motor	Medical	Life	Total
Gross Premiums	6,523	2,581	3,080	1,827	9,508	2,170	1,820	27,509
Net Premiums Earned	436	313	214	169	8,853	1,282	895	12,162
Net claims incurred	(541)	(287)	(99)	(94)	(5,765)	(1,074)	(200)	(8,060)
Departmental expenses	(447)	(181)	(320)	(239)	(1,299)	(260)	(287)	(3,033)
Net commission income	571	202	336	276	(305)	80	(43)	1,117
Net transfer to life assurance actuarial reserve	–	–	–	–	–	–	(180)	(180)
Underwriting Profit	19	47	131	112	1,484	28	185	2,006
Net retention (%)	6.7	12.1	7.0	9.2	93.1	59.1	49.2	43.9
Loss ratio (%)	124.1	91.7	46.4	55.6	65.1	83.8	22.3	69.8
Identifiable assets	4,910	673	2,706	344	1,910	–	190	10,733
Identifiable liabilities	6,871	1,324	3,937	692	11,029	822	3,557	28,232

Assets amounting to BD 67,009 and liabilities amounting to BD 8,486 are not specifically identifiable with general and life insurance business.

Classification of general insurance business for departmental purposes

Fire
Fire, theft and allied perils including Business interruption and Household insurance

Marine and aviation
Marine cargo, Marine hull, Aviation Marine ship repairer's liability

Liability
General Third party (excluding Motor) Products, Employer's including Workmen Compensation, Professional Indemnity and Director's and Officers

Accident
General Accident and Sickness, Money, Fidelity Guarantee, Travel, Domestic Servants

Engineering
Contractor's all risks, Erection, Plant & Machinery, Deterioration of stock, Machinery Breakdown and Electronic Equipment

Motor
Motor comprehensive
Motor third party liability

Medical
Group and individual medical

(In thousands of Bahraini Dinars)

26. Net investment income

	2008	2007
Profit on sale of securities carried at fair value through profit or loss and available-for-sale securities	65	447
Valuation (losses)/gains	(667)	1,336
Foreign exchange (losses)/gains	(117)	111
Amortisation of premiums on held-to-maturity securities	(8)	4
Interest income	683	852
Dividend income	595	506
Other income/(expenses)	20	32
Gross investment income	**571**	3,288
Investment administration expenses	(301)	(286)
Investment property income	317	273
Investment property expenses	(154)	(172)
Total net investment income per income statement	**433**	3,103

Gross investment income by segment

	2008	2007
Shares in Bahraini public companies	733	657
Other equities	(209)	792
Government and other bonds	244	411
Managed funds	(562)	967
Cash and short-term deposits	345	429
Miscellaneous income	20	32
Gross investment income	**571**	3,288

(In thousands of Bahraini Dinars)

27. Expenses

	2008	2007
Employee costs	2,965	2,532
Depreciation	283	355
Other costs	1,307	1,079
Total expenses	**4,555**	3,966
This comprises:		
Departmental expenses	3,446	3,033
Corporate and financial expenses	1,109	933
Total expenses	**4,555**	3,966

28. Insurance contracts, financial instruments and risk management

i. Insurance Risk Management

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

The group principally issues the following types of general insurance contracts: Marine, motor, fire and general. Risks under these policies usually cover twelve months duration. For general insurance contracts the most significant risks arise from accidents, climate changes, natural disasters and terrorist activities. These risks do not vary significantly in relation to the location of the risk insured by the group, type of risk insured and by industry.

Underwriting and retention policies and procedures and limits precisely regulate who is authorized and accountable for concluding insurance and reinsurance contracts and at what conditions. Compliance with these guidelines is regularly checked 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 required.

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

Reinsurance is used to manage insurance risk. Although the Company has reinsurance arrangements, it does not, however, discharge the Company'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 Company 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. 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)

28. Insurance contracts, financial instruments and risk management contd...

Risk exposure and concentration of insurance risk

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

31 December 2008	**General Insurance**	**Motor**	**Medical**	**Life**	**Total**
Geographical area					
Bahrain					
Gross	11,578	10,243	2,463	1,779	26,063
Retained	578	9,861	1,718	775	12,932
Other countries					
Gross	1,968	–	–	–	1,968
Retained	252	–	–	–	252
Total					
Gross	**13,546**	**10,243**	**2,463**	**1,779**	**28,031**
Retained	**830**	**9,861**	**1,718**	**775**	**13,184**

31 December 2007	General Insurance	Motor	Medical	Life	Total
Geographical area					
Bahrain					
Gross	11,495	9,508	2,171	1,819	24,993
Retained	582	9,100	1,605	896	12,183
Other countries					
Gross	2,516	–	–	–	2,516
Retained	418	–	–	–	418
Total					
Gross	14,011	9,508	2,171	1,819	27,509
Retained	1,000	9,100	1,605	896	12,601

ii. Capital Management

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

All of the 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.

(In thousands of Bahraini Dinars)

28. Insurance contracts, financial instruments and risk management contd...

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.

iii. Financial Risk Management

The Group has exposure to the following risks from its use of financial instruments:

- 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 Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify 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 market conditions and the Group's activities. 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 Audit 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 Audit Committee is assisted in its oversight role by Internal Audit.

Credit risk

Credit risk is the risk that one party to an insurance contract 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 as a part of its insurance operations 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

To control the credit risk, the Group compiles group-wide data on receivables.

Group 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. 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 investments are managed by the Group by monitoring credit exposures and continually assessing the creditworthiness of counterparties.

(In thousands of Bahraini Dinars)

28. Insurance contracts, financial instruments and risk management contd...

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.

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	**2008**	2007
Receivables		
Policyholders	1,813	2,196
Insurance and reinsurance companies	3,440	2,714
Others	369	459
Outstanding claims recoverable from reinsurers	6,453	10,051
Investments		
Securities carried at fair value through profit or loss	331	1,665
Available for sale securities	1,712	2,153
Held to maturity securities	5,027	2,794
Cash and cash equivalents	13,658	11,226
Total	**32,803**	33,258

The carrying amounts of financial assets and cash and cash equivalents 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 3 counterparties where receivables for any one counterparty or group of connected counterparties is BD 2 million or more at the year end is as follows:

	2008	2007
Berenberg Bank	6,714	8,024
JP Morgan Chase	2,890	3,487
National Bank of Bahrain	3,250	3,813

(In thousands of Bahraini Dinars)

28. Insurance contracts, financial instruments and risk management contd...

Assets that are past due

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

Financial assets	Neither past due nor impaired	Past due but not impaired		Individually impaired		Total
31 December 2008	Less than 90 days	91– 180 days	More than 180 days	Gross Amount	Provision for impairment	
Receivables						
Policyholders	1,009	539	265	266	(266)	1,813
Insurance and Reinsurance companies	522	2,074	844	101	(101)	3,440
Others	369	–	–	–	–	369
Outstanding claims recoverable from reinsurers	484	754	5,215	72	(72)	6,453
Total	**2,384**	**3,367**	**6,324**	**439**	**(439)**	**12,075**

Financial assets	Neither past due nor impaired	Past due but not impaired		Individually impaired		Total
31 December 2007	Less than 90 days	91– 180 days	More than 180 days	Gross Amount	Provision for impairment	
Receivables						
Policyholders	1,206	594	396	256	(256)	2,196
Insurance and Reinsurance companies	288	899	1,527	115	(115)	2,714
Others	459	–	–	–	–	459
Outstanding claims recoverable from reinsurers	507	1,029	8,515	175	(175)	10,051
Total	2,460	2,522	10,438	546	(546)	15,420

Liquidity risk

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

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

(In thousands of Bahraini Dinars)

28. Insurance contracts, financial instruments and risk management contd...

Management of liquidity risk

The Group limits liquidity risks by continually reconciling the cash flows and assets of the Group with payment liabilities. Methodologies adopted for Group assets and liabilities valuation have been discussed and disclosed earlier in significant accounting policies. The Group is exposed to daily calls on its available cash resources mainly from claims arising from short-term insurance contracts. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover maturities, claims and surrenders at unexpected levels of demand.

- Budgets are prepared and revised on a regular basis to predict cash outflows from insurance and investment contracts over the short, medium and long term.
- The Group purchases assets with similar durations to its insurance and investment contracts.
- Assets purchased by the Group are required to satisfy specified marketability requirements.
- The Group maintains cash and liquid assets to meet daily calls on its insurance and investment contracts.

Exposure to liquidity risk

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

31 December 2008	**Contractual undiscounted cash flows**				
Financial liabilities	**Carrying amount**	**Less than 1 year**	**1 – 2 years**	**2 – 5 years**	**More than 5 years**
Policyholders' liabilities	363	363	–	–	–
Insurance/reinsurance company payables	3,429	3,422	7	–	–
Outstanding claims - Gross	12,547	7,607	2,580	1,735	625
Other payables	2,365	2,365	–	–	–

31 December 2007	Contractual undiscounted cash flows				
Financial liabilities	Carrying amount	Less than 1 year	1 – 2 years	2 – 5 years	More than 5 years
Policyholders' liabilities	163	127	36	–	–
Insurance/reinsurance company payables	2,761	2,837	(44)	(32)	–
Outstanding claims - Gross	17,017	10,282	3,603	2,307	825
Other payables	1,554	1,554	–	–	–

(In thousands of Bahraini Dinars)

28. Insurance contracts, financial instruments and risk management contd...

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 limits market risk by maintaining a well-diversified portfolio and by continuous monitoring of pertinent developments in international securities markets. In addition, the Group actively monitors the key factors that are likely to affect the prices of securities, including operational and financial performance of investees. The geographical concentration of the Group's investments is set out in note 30.

Management of market risks

All entities in the Group manage market risks locally in accordance with their asset/liability management framework. At Group level, the Investment Committee manages and monitors market risks. This committee was established by the Board of Directors and consists of both executive and non-executive members. The Committee reports regularly to the Board of Directors on its activities.

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 other bonds consists of both fixed and floating rate instruments. The effective interest rates on deposits and bonds are set out in note 13.

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 Company backs its insurance commitments to a very large extent by funds in the same currency.

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

The Group's exposure to currency risk, other than United States dollars and Bahraini Dinars, as well as the currency-wise concentration of investments, expressed in the equivalent of Bahraini dinars (excluding short-term deposits and assets and liabilities arising from insurance contracts) is summarised below:

Notes to the 2008 Consolidated Financial Statements contd...

(In thousands of Bahraini Dinars)

28. Insurance contracts, financial instruments and risk management contd...

Net currency-wise concentration in thousands of Bahraini dinar equivalents

Assets	**2008**	**2007**
Euros	1,498	1,954
Pounds sterling	603	846
Other currencies	311	366
Total open foreign exchange position at 31 December	2,412	3,166
United States dollars	21,303	27,846
GCC Currencies	1,588	11,414
Bahraini dinars	35,729	24,103
Total at 31 December	**61,032**	66,529

This comprises:	**2008**	**2007**
Securities carried at fair value through profit or loss	2,423	14,547
Available-for-sale securities	18,740	13,622
Held-to-maturity securities	5,028	2,794
Investment in associates	9,108	8,921
Cash and Bank balances	13,658	11,226
Receivables:		
Policyholders	1,813	2,196
Insurance and reinsurance companies	3,440	2,714
Others	369	459
Outstanding claims recoverable from reinsurers	6,453	10,050
Total	**61,032**	66,529

Liabilities	**2008**	**2007**
United States dollars	295	315
GCC Currencies	645	224
Bahraini dinars	17,412	15,120
Total at 31 December	**18,352**	15,659

This comprises:	**2008**	**2007**
Payables		
Policyholders Liabilities	363	163
Insurance/reinsurance companies payables	3,429	2,761
Unearned premiums	12,070	10,968
Unearned commissions	125	213
Others payables	2,365	1,554
Total	**18,352**	15,659

(In thousands of Bahraini Dinars)

28. Insurance contracts, financial instruments and risk management contd...

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

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

Sensitivity analysis to market risks

The table below shows the results of sensitivity testing on the Group's income statement 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.

	2008		2007	
As at 31 December	**Income statement**	**Equity**	Income statement	Equity
Interest rate risk				
+ 1 percent shift in yield curves	2	159	(17)	(167)
- 1 percent shift in yield curves	(2)	(159)	17	167
Equity price risk				
+1 percent increases in equity prices	6	77	36	59
-1 percent decrease in equity prices	(6)	(77)	(36)	(59)

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.

	2008		2007	
Receivables, Investments & Cash	**Income Statement**	**Equity**	Income Statement	Equity
US Dollars	98	112	226	49
Euro	11	4	18	2
Pounds Sterling	4	2	8	1
GCC currencies	5	6	112	–
Other currencies	1	2	4	–

(In thousands of Bahraini Dinars)

29. Maturity profile of investments

2008	Less than 1 year	1-5 years	5-10 years	Over 10 years / no maturity	Total 2008	Total 2007
Equities	–	–	–	7,915	7,915	7,373
Government bonds	276	513	39	–	828	1,277
Other bonds	935	3,961	834	181	5,911	3,670
Managed funds	–	–	202	8,581	8,783	3,764
Unquoted equities & funds	–	–	–	9,439	9,439	9,253
Total per balance sheet	**1,211**	**4,474**	**1,075**	**26,116**	**32,876**	25,337
2007	2,241	2,625	444	20,027	25,337	

This balance comprises:

	2008	2007
Available-for-sale securities	18,740	13,622
Held-to-maturity securities	5,028	2,794
Investment in associates	9,108	8,921
Total	**32,876**	25,337

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.

30. Geographical concentration of investments

	2008	2007
Bahrain	12,339	14,423
Other GCC countries	6,856	7,454
Japan and Korea	188	282
Other Asia/Oceania	667	1,208
Europe	2,040	4,072
North America	12,424	11,491
Middle East and Africa	144	144
Global/multi-regional	640	810
Total per balance sheet	**35,298**	39,884

(In thousands of Bahraini Dinars)

30. Geographical concentration of investments contd...

This comprises:

	2008	2007
Securities carried at fair value through profit or loss	2,423	14,547
Available-for-sale securities	18,740	13,622
Held-to-maturity securities	5,027	2,794
Investment in associates	9,108	8,921
Total	**35,298**	39,884

31. Related parties

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

Related parties include transactions with associate companies, key management personnel including Directors of the Company and companies in which the Directors are interested. Transactions with companies owned and controlled by the Directors are conducted on a normal commercial basis.

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

	2008	2007
Assets		
Receivable – policyholders	67	124
Income and expenses		
Gross premiums	474	619
Claims	103	105

Associates

Transactions with associates are on normal commercial terms. Balances as at the year end are as follows:

	2008	2007
Assets – receivables		
United Insurance Company BSC (c)	148	–
National Finance House	10	–
Gulf Insurance Institute BSC (c)	–	137

Notes to the 2008 Consolidated Financial Statements *contd...*

(In thousands of Bahraini Dinars)

31. Related parties contd...

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:

	2008	2007
Salaries and benefits	522	305
Terminal benefits	16	5
Post employment benefits	29	33
Board remuneration	100	100
Board committee sitting fees	17	3

32. Fair value measurement

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

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

2008	Fair value through the income statement	Available-for- sale	Held-to-maturity	Loans and receivables	**Total carrying value**	**Fair value**
Cash and cash equivalents	–	–	–	13,658	13,658	13,658
Receivables	–	–	–	5,622	5,622	5,622
Outstanding claims recoverable from reinsurers	–	–	–	6,453	6,453	6,453
Securities carried at fair value through profit or loss	2,423	–	–	–	2,423	2,423
Held-to-maturity investments	–	–	5,028	–	5,028	4,978
AFS investments	–	18,740	–	–	18,740	18,740
Total financial assets	**2,423**	**18,740**	**5,028**	**25,733**	**51,924**	**51,874**
Outstanding claims – Gross	–	–	–	12,547	12,547	12,547
Insurance payables	–	–	–	3,792	3,792	3,792
Other liabilities	–	–	–	2,365	2,365	2,365
Total financial liabilities	**–**	**–**	**–**	**18,704**	**18,704**	**18,704**

(In thousands of Bahraini Dinars)

32. Fair value measurement contd...

2007	Fair value through the income statement	Available-for- sale	Held-to-maturity	Loans and receivables	Total carrying value	Fair value
Cash and cash equivalents	–	–	–	11,226	11,226	11,226
Receivables	–	–	–	5,369	5,369	5,369
Outstanding claims recoverable from reinsurers	–	–	–	10,051	10,051	10,051
Securities carried at fair value through profit or loss	14,547	–	–	–	14,547	14,547
Held-to-maturity investments	–	–	2,794	–	2,794	2,827
AFS investments	–	13,622	–	–	13,622	13,622
Total financial assets	14,547	13,622	2,794	26,646	57,609	57,642
Outstanding claims – Gross	–	–	–	17,017	17,017	17,017
Insurance payables	–	–	–	2,924	2,924	2,924
Other liabilities	–	–	–	1,554	1,554	1,554
Total financial liabilities	–	–	–	21,495	21,495	21,495

33. Commitments and contingent liabilities

As at 31 December 2008, the Group has commitments to make investments amounting to BD 1,000 (2007: BD 550).

34. New international financial reporting standards and interpretations not yet adopted

During the year the following new/amended IFRS's standards and interpretations relevant to the activities of the Group have been issued which are not yet mandatory for adoption by the Group:

- IAS 1 - Presentation of Financial Statements (effective for financial periods beginning on or after 1 January 2009)
- IFRS 8 - Operating Segments (effective for financial periods beginning on or after 1 January 2009)
- Amended IAS 27 - Consolidated and separate financial statements (effective for financial periods beginning on or after 1 July 2009)
- Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments Arising on Liquidation (effective for financial periods beginning on or after 1 July 2009)

The adoption of these standards and interpretations are not expected to have a material impact on the consolidated financial statements.

35. Subsequent event

Subsequent to 31 December 2008, due to further deterioration in the financial markets, the Group incurred additional fair value losses on its trading portfolio amounting to BD 56 and the available-for-sale portfolio declined in value by BD 725 as at 18 February 2009.

36. Comparatives

Certain corresponding figures of 2007 have been reclassified where necessary to conform to the current year's presentation.