

TRIBUTETO
BYGONE
DAYS



Annual Report 2011

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**His Royal Highness Prince
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 Royal Highness Prince
Salman Bin Hamad Al Khalifa**
The Crown Prince and Deputy
Supreme Commander of the
Kingdom of Bahrain

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TRIBUTE TO BYGONE DAYS

As the theme for this year's annual report, we feature the traditional Bahraini neighbourhood known as the "fereej". Today, few "fereej"s still exist, either in towns or in the countryside, but most have disappeared in the wake of remorseless urban development.

The "fereej" was based on clusters of homes, providing accommodation for extended families, built around community spaces (barayeh) where people could congregate and children could play together. These open spaces were connected by a network of narrow lanes (sikka) which allowed residents convenient and shaded passage through the neighbourhood.

Built around the concept of community, self-sufficiency, safety, social integration, the "fereej" provided a stable and sustainable lifestyle. However, the introduction of electricity, cold stores, motor cars, telephones, newspapers, radio and television since the 1950s, has slowly but surely changed this traditional way of life.

As a responsible corporate citizen, BNH is committed to supporting the local community and improving the quality of life for Bahraini citizens. This commitment extends to

preserving Bahrain's rich heritage and traditional way of life. We therefore actively support initiatives that seek to build cohesive and sustainable communities, protect the environment, save historical architecture, and preserve local customs.

GROUP PROFILE

We are the premier Bahraini insurance group offering all types of insurance and risk management solutions. Set up in 1998 by merging the operations of Bahrain Insurance Company and National Insurance Company, our insurance heritage dates back to 1969. Over the years, we have earned a formidable reputation for the quality and excellence of our service and are, today, a household name in Bahrain.

We are a widely-held public company listed on Bahrain Bourse. Our Group operations are organized into 3 incorporated entities:

- BNH, the parent company, which is the asset management and corporate arm of our Group.
- Our wholly owned subsidiary, Bahrain National Insurance Company B.S.C. (c), which offers General Insurance and Motor & Personal Lines Insurance trades under bni brand.
- Our 75% owned subsidiary, Bahrain National Life Assurance Company B.S.C. (c), which offers Life & Medical Insurance trades under the bnl brand.

MISSION STATEMENT

Our Vision

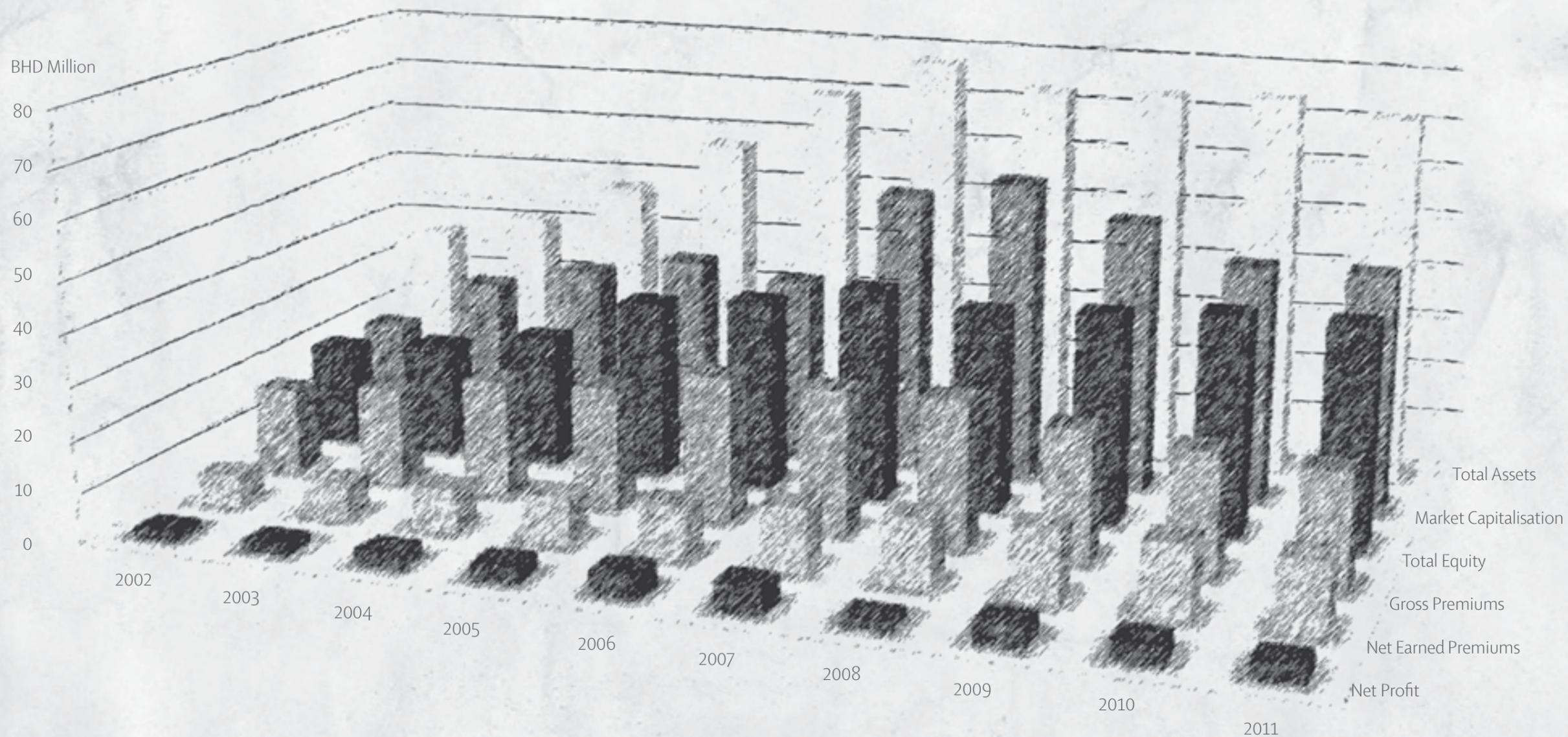
Creating prosperity through security

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



FINANCIAL HIGHLIGHTS

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total Assets	34.5	39.4	47.4	58.0	69.9	77.7	73.1	73.7	74.1	71.6
Market Capitalisation	19.1	29.8	34.4	38.1	35.8	54.9	59.0	52.9	46.1	46.3
Total Equity	19.8	22.1	25.7	34.7	36.9	41.0	38.7	40.2	42.2	42.2
Gross Premiums	16.7	19.1	22.8	23.7	28.0	27.5	28.0	24.7	23.1	21.9
Net Earned Premiums	5.9	6.9	8.2	9.1	10.0	12.2	12.9	13.4	13.6	13.4
Net Profit	1.9	2.2	3.1	3.5	4.7	5.3	2.0	4.1	3.8	3.3

BOARD OF DIRECTORS



Mr. Farouk Yousif Almoayyed
Chairman
Board Member since 2008
Chairman of NRCG since 2008

Chairman: Y. K. Almoayyed & Sons B.S.C. (c), Bahrain • Y. K. Almoayyed & Sons Property Co, Bahrain • Almoayyed International Group, Bahrain • National Bank of Bahrain B.S.C., Bahrain • Bahrain Duty Free Shop Complex, Bahrain • Gulf Hotels Group, Bahrain • Ahlia University, Bahrain • National Finance House B.S.C. (c), Bahrain;
Vice Chairman: Bahrain Emirates Insurance Company B.S.C.(c), Bahrain
Director: Investcorp Bank B.S.C., Bahrain
Chairman of Board of Trustees: Ibn Khuldoon National School, Bahrain



Mr. Abdulhussain Khalil Dawani
Vice Chairman
Board Member since 1999
Chairman of the Executive Committee

Chairman: Bahrain National Insurance Company B.S.C.(c), Bahrain • Deeko, Bahrain • Dawanco, Bahrain • Dawanco Industries, Bahrain • Tomina Trading, Bahrain • Bahrain Foundation Construction Company, Bahrain • Al Jazira Group, Bahrain • American Cultural & Educational Centre, Bahrain
Director: Delmon Poultry Company W.L.L, Bahrain • National Institute of Industrial Training, Bahrain



Mr. Ayad Saad Khalifa Algozaibi
Director
Board Member since 2008
Vice Chairman of the Audit & Compliance Committee

Chairman: Columbus IT Middle East, Dubai, UAE
Director: Bahrain National Insurance Company B.S.C.(c), Bahrain • Ismailia Food Industries, Ismailia, Egypt • Khalifa A. Algozaibi Holding, Dammam, Saudi Arabia



Mr. Jehad Yousif Amin
Director
Board Member since 1999
Vice Chairman of the Executive Committee

Director: Banader Hotel Company, Bahrain
Director & Member of the Audit and Metro/Market Committees: General Company for Trading and Food Industries (TRAFCO), Bahrain
Director & Member of the Audit Committee: Bahrain Cinema Company, Bahrain • Bahrain Live Stock, Bahrain
Director & Member of the Executive Committee: Bahrain Maritime and Mercantile Company- (BMMI)
Director & Member of the Investment Committee: United Insurance Company, Bahrain



Mr. Ghassan Qassim Fakhroo
Director
Board Member since 2008
Member of the Executive Committee

Vice Chairman: Bahrain National Insurance Company B.S.C.(c), Bahrain
Chief Executive: Mohamed Fakhroo & Bros., Bahrain
Managing Director and Partner: Fakhroo Information Technology Services, Bahrain



Mr. Ali Rashid Al Amin
Director
Board Member since 1999

Chairman: Ali Rashid Al Amin Co. B.S.C. (c), Bahrain • Midway Supermarkets, Bahrain • Lulu Food Factory, Bahrain • Al Amin Fresh Fruits Company, Bahrain • Lily Flower Shop, Bahrain • Al Amin Garden, 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 Board of Trustees: Ali Rashid Al Amin Charity Est., Bahrain



Mr. Talal Fuad Kanoo
Director
Board Member since 2008
Member of the Executive Committee

Director: Bahrain International Circuit, Bahrain • National Finance House B.S.C.(c), Bahrain • E. K. Kanoo B.S.C.(c) Corporate Services, Bahrain
Executive Director: Motor City, Bahrain



Mr. Ali Hasan Mahmood
Director
Board Member since 1999
and Re-elected in 2011

Chairman: Hasan & Habib s/o Mahmood Group of Companies, Bahrain
Director: Bahrain Specialist Hospital • Bahrain Businessmen Association
Managing Director: Al Jazeera Shipping Company W.L.L., Bahrain



Mr. Sami Mohamed Sharif Zainal
Director
Board Member since 2008
Member of the Executive Committee

Director: Bahrain National Insurance Company B.S.C.(c), Bahrain • UltraTune Middle East WLL, Bahrain • Zainal Enterprises, Bahrain
Director & Marketing Director: MAZA, Bahrain
Member: Bahrain Chamber of Commerce & Industry (Food & Agriculture Committee), Bahrain



Mr. Abdulrahman Mohamed Juma
Director
Board Member since 1999
Member of the Audit & Compliance Committee

Chairman: Bahrain National Life Assurance Company B.S.C. (c), Bahrain • Abdulrahman bin Mohamed Juma & Sons, Bahrain
Chairman & Managing Director: UNEECO Group of Companies, Bahrain • Prudent Solutions, Bahrain
Vice Chairman: Prudent, Saudi Arabia
Vice Chairman & Managing Director: Caltex Weaving Mills



Mr. Jassim Hasan Abdulaal
Director
Board Member since 2011
Chairman of the Audit & Compliance Committee

Director and Chairman of Audit Committee: Gulf Hotels Group, Bahrain
Director: Bahrain National Insurance Company B.S.C. (c), Bahrain • Bahrain National Life Assurance Company B.S.C (c), Bahrain • Minors Estate Directorate, Bahrain
Managing Partner: Grant Thornton - Abdulaal Gulf Audit , Bahrain
Member of Audit Committee: Labour Market Regulatory Authority (LMRA), Bahrain
Member of Advisory Board: The Institute of Chartered Accountants in England and Wales (ICAEW), Middle East



Farouk Yousif Almoayyed | Chairman

The increasingly competitive nature of the insurance market in Bahrain resulted in a further softening of rates and erosion of margins.

CHAIRMAN'S STATEMENT

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 2011. From a global, regional and national perspective, this proved to be an even more challenging year than 2010. Nevertheless, I am pleased to be able to report that BNH achieved a positive performance in 2011, as measured in terms of financial, operational and strategic progress.

The global financial crisis and economic downturn continued to impact the GCC, while political and social unrest across the MENA region, including Bahrain, added a new dimension of risk and uncertainty during the year. This affected business sentiment and investor confidence, with a consequent reduction in commercial activity, bank lending and consumer spending. In addition, the increasingly competitive nature of the insurance market in Bahrain resulted in a further softening of rates and erosion of margins.

Against such a backdrop, BNH posted an acceptable financial performance despite the difficult circumstances in 2011. Net profit was BD 3.31 million against BD 3.81 million for the previous year. Underwriting profit improved to BD 2.23 million from BD 2.01 million in 2010, reflecting the Group's prudent underwriting claims management. While gross premiums declined by 5 per cent to BD 21.92 million due to increased competition and softer rates, net earned premiums are similar to last year, illustrating the success of BNH in increasing

its retention of risk, which remains a cornerstone of our insurance risk management policy.

Reflecting the increased volatility of global and regional financial markets during 2011, net investment income fell by 33 per cent to BD 1.73 million against BD 2.60 million for the previous year. However, it should be noted that investment income in 2010 included a one-off profit of BD 500 thousand due to the sale of a specific investment holding. Having said that, the overall blended return for investment income in 2011 was 4 per cent, which compares more than favourably with bank deposit rates. In line with our prudent approach to provisioning, we made an impairment charge of BD 112 thousand against BD 235 thousand in 2010.

Total assets at the end of the year were BD 71.62 million (2010: BD 74.13), while total equity was BD 42.22 million (2010: BD 42.16). Basic earnings per share was Bahraini fils 29.2 compared with Bahraini fils 34.7 in 2010.

CHAIRMAN'S STATEMENT

(contd...)

During the year, the Board has approved a new 3 year strategic plan to ensure the continued growth and development of the Group.

The Board of Directors is recommending that the dividend distribution for 2011 to shareholders should be maintained at the previous year's level of 20 per cent. This translates to a total cash dividend of BD 2.14 million (2010: BD 2.14 million), which is equivalent to 20 Bahraini fils per share (2010: 20 fils) for the year 2011. BNH has a consistent track record of creating shareholder wealth. During the past 10 years, net worth has increased from BD 19.8 million in 2002 to BD 42.22 million in 2011, representing a CAGR of 9 per cent. The Group's market capitalisation has grown at a similar rate, while total assets have more than doubled from BD 34.5 million to BD 71.62 million.

Given the difficult conditions in 2011, our financial results represent an impressive achievement. They underline the validity of our diversified business model and consistent strategy; our prudent approach to underwriting and claims management; and our adoption of sound corporate governance and risk management practices. They also reflect our substantial investment in product innovation, customer service, human capital, information technology and branding, which serve as a unique competitive advantage and a significant barrier to entry. In addition, they illustrate the continued success of our two subsidiaries – Bahrain National Insurance (bni) and Bahrain National Life Assurance (bnl) – in maintaining their market share and profitability; and the encouraging progress of our insurance-related associate companies. These achievements were further reinforced during the

year by the latest ratings from Standard & Poor's. The Group's global long-term counterparty credit and insurer financial strength rating of 'BBB with a negative credit watch' is the maximum possible rating for a company in Bahrain, given the Kingdom's sovereign rating of 'BBB/A3 on credit watch'. Reflecting recent events in the region, the Group's GCC rating was downgraded to 'gcAA- with a negative credit watch', which compares favourably with our regional peers.

During the year, the Board has approved a new three-year strategic plan to ensure the continued growth and development of the Group. Key high level objectives include focusing on our core insurance activities and growing organically and via acquisitions; expanding our overseas presence in the GCC, MENA and Europe; maintaining our market share in Bahrain; and developing the non-core activities of our associate companies on a regional basis. A number of key developments during 2011 illustrate our determination to implement our strategy and maintain momentum.

In terms of regional expansion, we obtained regulatory approval from the Qatar Financial Centre Regulatory Authority to establish a bni branch office in Doha; while on the business development front, we actively pursued a number of new opportunities in discussion with potential strategic partners. These include identifying the right vehicle through which to enter the fast-growing Takaful sector. An important strategic objective is our enduring

commitment to contribute to the social well-being and economic prosperity of the Kingdom of Bahrain. Throughout 2011, we continued to implement the Group's 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.

Looking ahead, 2012 will undoubtedly be another challenging year, with a continuation of soft market conditions and increasing competition. However, given the strong underlying economic fundamentals of the GCC, we remain cautiously optimistic about the future outlook for the regional insurance industry and its potential for growth and increased penetration. Based on the Group's successful achievements to date, we are confident about our business and strategic prospects for 2012. Strongly capitalised, highly liquid and not leveraged – with a clear vision and strategic focus – BNH is ideally positioned to continue taking advantage of new business opportunities.

On behalf of the Board of Directors, I would like to express my gratitude to His Majesty the King of Bahrain, His Royal Highness the Prime Minister and His Royal 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

BD 3.31 million
Net Profit

Bourse, the Ministry of Finance and the Ministry of Industry and Commerce for their continued guidance and support of the insurance industry.

Finally, I take this opportunity to acknowledge the continued confidence and loyalty of our shareholders, customers and business partners; and the hard work and dedication of our management team and staff during 2011.

Farouk Yousif Almoayyed
Chairman

EXECUTIVE MANAGEMENT



Mr. Mahmood Al Soufi
Chief Executive
Bahrain National Holding

Joined BNH in 2002. He possesses a Higher National Diploma and College Diploma in Engineering from Nottingham U.K. and attended a large number of professional courses, including IMD Geneva, the Chartered Institute of Marketing UK, Swiss Insurance Training Centre and World Economic Forum in Davos. He comes with approximately 35 years of experience, including 17 years as General Manager of Bahrain Saudi Marketing Company BALCO and BALEXCO. Currently Chairman of Ultra Tune Middle East and MASY Holding. He is also Board Member of United Insurance Company, Gulf Insurance Institute, National Finance House, Bahrain Emirates Insurance Company and Al Kindi Hospital.



Mr. David 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. Abdulla Al Suwaidi
General Manager
Motor & Personal Lines
Bahrain National Insurance

Joined 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 Diploma and Advance Diploma in Insurance as well as Diploma in Insurance Management. He has 31 years' experience working with various organizations. Currently Board Member of Bahrain National Life Assurance Company (BNL) and Ultra Tune Middle East (UTME). He is also a Member of Audit Committee for (BNL).



Mr. Joseph Rizzo
General Manager
General Insurance
Bahrain National Insurance

Joined bni in September 2007, an Associate of the Chartered Insurance Institute and a Chartered Insurer with 30 years experience in insurance and reinsurance. He is a director on the board and a member of the executive and investment committee of Arabian Shield Insurance Corporation in Saudi Arabia and Bahrain National Life Assurance in Bahrain. Mr. Rizzo presently chairs the Risk Management Committee of BNH and is involved in the implementation of ERM. He previously held the position of General Manager and later Chief Operations Officer with Middlesea Insurance, Malta. He also served as a chairman and board member in various insurance and related companies. He formed part of the management team of a branch at the London Underwriting Centre writing treaty and facultative reinsurance business.

He was involved in strategic development in new market initiatives such as branches and strategic partnerships in the Mediterranean region and responsible for setting up an operation in Gibraltar. He was active in the insurance industry by being a council member with the Malta Insurance Association and the Chamber of Commerce.



Robert Grey
General Manager
Bahrain National Life

Joined bnl in 2011. A Fellow of the Chartered Insurance Institute, he holds a Law degree from Oxford University, UK. He has worked in insurance in the UK and Europe, and has spent the past 20 years in life and medical insurance. Prior to joining bni, he was Board Member and Director of Communications & Development at the American Mission Hospital, Bahrain. He was previously Head of Marketing at Arab Insurance Group (ARIG), Bahrain; and Pensions and Investment Manager at Eagle Star UK. He has also worked in international insurance with Generali Worldwide and Friends Provident International.



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, corporate governance, money laundering and leadership. He was the Assistant General Manager - Legal, Personnel & Training of BNH Group between 2003 and 2007 and before that he was the Assistant General Manager of bni Motor until 2003. Membership of Professional bodies held included Secretary of Motor committee of BIA and then Chairman of the said committee and Director for Legal and Association Affairs of BIA.



Anand Subramaniam
Head of Investments &
Projects
Bahrain National Holding

Joined BNH in 2010. He holds a Chartered Financial Analyst designation from the CFA Institute, USA and is an MBA and BBA from Sardar Patel University, Gujarat, India. He also holds a Chartered Alternative Investment Analyst designation from the CAIA Association, USA. He has over 15 years of experience in the field of investments and asset management. Prior to this, he was the Head of Investments at Bahraini Saudi Bank BSC and a Fund Manager at TAIB Bank BSC. He also worked with Fincorp SAOG as their VP-Asset Management and Oman Arab Bank as an Investment Officer. He started his career as an equity researcher in India focusing on IT, banking and cement sectors.



Mrs. Ebtisam Al Jowder
Assistant General
Manager
Motor & Personal
Lines Insurance
Bahrain National Insurance

Joined bni in 1982. She has over 29 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.



Mr. Adrian Reid
Group IT Manager
Bahrain National Holding

Joined BNH in June 2007. His IT career spans 42 years focusing on application development and business consulting; he spent 8 years with Ernst & Young as a Principal Consultant before specializing in the insurance industry, implementing IT systems and running projects. His other international insurance consulting experiences include UAE, South Africa, United Kingdom, Egypt and Malta. His responsibilities include the enhancement of IT strategies and systems to support the growing business needs of the various companies within the Group.



We were successful in maintaining the financial strength of the balance sheet, achieving good profitability, increasing retentions and protecting our dominant market share.

Mahmood Al Soufi | Chief Executive

CHIEF EXECUTIVE'S MESSAGE

Our strong overall performance in 2011 demonstrates the underlying resilience and strength of the Group to withstand the numerous challenges – economic, financial and political – in yet another year of volatility and uncertainty. We were successful in maintaining the financial strength of the balance sheet, achieving good profitability, increasing retentions and protecting our dominant market share. At the same time, we expanded the Group's presence outside Bahrain and identified new strategic investments; launched new products and services and broadened our distribution channels; continued to invest in human capital and information technology; and strengthened our corporate governance and risk management framework. Throughout the year, we continued to build upon our unique strengths and differentiators to maintain competitive advantage; while pursuing a prudent and proactive approach to ensure the Group's strategic and business growth.

Financial highlights

In 2011, BNH grew retained premium income and improved underwriting profit. These positive technical results underline the Group's ability to increase retentions and prudently manage claims; while an overall investment return of just under 4 per cent, illustrates our consistent portfolio management and diversified investment strategy. These achievements helped BNH to achieve good profitability for the year and growth. At the same time, the Group's wholly owned subsidiary – Bahrain National Insurance Company – maintained the highest rating possible, considering Bahrain's country rating of "BBB" from Standard & Poor's. BNH remains a financially-sound institution with a strong capital base, healthy liquidity and a diversified and well-balanced investment portfolio.

Customer Service

Since inception, BNH has pioneered numerous customer service initiatives that have set a benchmark for Bahrain's insurance industry. During 2011, the Group continued to respond to customers' needs, with a particular focus on expanding the range of e-services. We increased the number of 'intelligent insurance' self-service machines and finalised plans for the launch of the latest third-generation machines in 2012. The e-Cargo portal for Marine clients and brokers was further enhanced, while development of a new range of m-Commerce services made good progress. In addition, we extended the Group's branch network with the opening of our tenth branch at Amwaj Islands.

CHIEF EXECUTIVE'S MESSAGE

(contd...)

Since inception, BNH has pioneered numerous customer service initiatives that have set a benchmark for Bahrain's insurance industry. During 2011, the Group continued to respond to customers' needs, with a particular focus on expanding the range of e-services.

Technology

BNH has led the industry in the utilisation of cutting-edge information and communications technology, with investment over the past five years exceeding BD 1.5 million. This not only improves business efficiency and customer service, but also provides the Group with a distinct competitive advantage through raising the barriers to entry. Key developments in 2011 include the successful introduction of internal 'Cloud Computing', which enables fast and seamless updating of the Data Centre; further enhancement of the Enterprise Content Management (ECM) system, including a centralised approach to claims management; and the successful commissioning of a new remote Disaster Recovery Site. In addition, development of an Enterprise Risk Management (ERM) system made good progress. Plans are underway to introduce additional delivery channels for enhanced communications and customer service experience, including a revamped website for the Life & Medical business, equipped with the latest social media tools.

People

The Group is committed to developing young Bahrainis and providing them with every opportunity to enhance their professional skills and progress their careers. Staff training is provided locally at the Gulf Insurance Institute and the Bahrain Institute of Banking & Finance and also at specialist institutions abroad; and staff are sponsored to achieve Associate of the Gulf Insurance Institute accreditation and other relevant professional qualifications.

The Group's Executive Development Programme focuses on grooming selected staff for future executive roles; while the Graduate Development Programme provides an understanding of different areas of insurance and the achievement of relevant professional qualifications.

These programmes benefit not only BNH in terms of building a strong cadre of professionals and supporting succession planning; but also contribute to the development of the local insurance industry and the skills base of the Kingdom of Bahrain, which is an important factor in attracting foreign direct investment. During the year, we strengthened the management team with two new appointments. I would like to take this opportunity to welcome Robert Grey, the new General Manager of Bahrain National Life Assurance Company; and Fareed Hasan Amin, the new Human Capital Manager.

Governance

BNH continued to strengthen its corporate governance and risk management framework during 2011. Quarterly revisions to the Insurance Handbook by the Central Bank of Bahrain (CBB) were closely reviewed and discussed with all departments to ensure continued compliance.

Following the introduction in 2010 of the Code of Corporate Governance of the Kingdom of Bahrain by the Ministry of Industry & Commerce, and subsequent revised requirements by the CBB, a gap analysis highlighting potential areas of non-compliance was completed by the internal auditors and the results sent to the Board for its review and implementation.

The Group's risk management framework was further enhanced by the development of an Enterprise Risk Management (ERM) system, which is due to be completed by mid-2012. To support the Group's business continuity plan, a new remote disaster recovery site, which is located at Amwaj Islands, was successfully installed.

Strategy

During 2011, the Board approved the Group's new

BD 1.5 m

investment in technology over the past five years

three-year strategy and business plan for 2012 to 2014. Our strategy entails developing BNH as a diversified insurance holding company, with a core focus on the MENA region and selective international presence. Key high-level objectives of the new strategy include growing the core insurance business lines of BNH; pioneering the introduction of innovative products and services; broadening the existing customer base and sector focus; and prudently expanding the Group's presence in MENA and Europe, either through alliances with local partners or by selective mergers and acquisitions.

Our business plan incorporates ongoing analysis of the local and regional insurance market; identifying opportunities for further regional expansion, new strategic investments and potential business partnerships; maintaining our substantial investment in human capital and information technology; strengthening the Group's corporate governance and risk management framework; and adopting an enlightened approach to corporate social responsibility.

A key strategic development during 2011 was the approval from the Qatar Financial Centre Regulatory Authority to establish a bni branch office in Doha, which marks our first operational presence outside Bahrain. Also during the year, we actively pursued a number of investment and business opportunities across the region, in discussion with potential strategic partners. The Group's insurance-related associate companies performed well during the year. Ultra Tune Middle East, which is a 50-50 joint venture set up with an Australian partner to provide roadside assistance, service centres and a crash repair facility, continued to expand its services to the market during 2011.

Looking ahead

Based on our successful performance during the year, we look forward to 2012 with renewed confidence. We will continue the successful implementation of our strategy, maximise our pan-Group synergies and economies of scale to compete effectively, and take early advantage of new business opportunities. Given the intensifying competition across the regional insurance industry, we will also continue to build the Group's expertise and competitive advantage in the key areas of product innovation and customer service; marketing and distribution; claims management; and human capital and information technology.

The insurance sector in Bahrain is intensely competitive and fragmented. BNH competes with over 30 companies, of which half are international players. The sector is served by ancillary service providers such as brokers, actuaries, insurance consultants and loss adjusters.

A key concern is that local insurers typically retain a small portion of the risk and transfer the remaining risk to their international reinsurance partners.

This has significant growth implications, given the opportunities for investment in an open economy such as Bahrain, which is primarily services-driven. This issue merits intervention on the part of the Government, insurance associations and insurance companies themselves. Insurance has the potential to make a major contribution to the Kingdom's GDP. In countries such as the UK, insurance has long made a substantial contribution to the economy.

The growth of the insurance sector as a major component of the Bahrain financial services industry is attainable if the right conditions are cultivated by regulators, policymakers and the sector itself. The potential for growth in the region remains intact, but companies need to embrace change and adopt a more international outlook, and think long-term value rather than short-term profitability. There is huge potential to grow the insurance industry – currently insurance spend per capita in the Kingdom is barely two per cent – and market penetration has remained traditionally low.

Acknowledgements

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. All our stakeholders have helped to make 2011 another successful year for BNH, and I look forward to working with them in 2012 to ensure our continued mutual success and prosperity.

Mahmood Al Soufi
Chief Executive

TRADING BY EXCHANGE (BARTERING)



The exchange of goods and services without money (barter) was a traditional way of doing business in the "fereej". The local baker would exchange his bread for fruit, vegetable, eggs and milk from a farmer; fish and seafood from a fisherman; baskets and mats from a weaver; and water carried by women from nearby springs.

REVIEW OF OPERATIONS



Subsidiaries

Bahrain National Insurance Company (bni)

Motor & Personal Lines Insurance

Despite increased competition in the Bahrain market for Motor and Personal Lines, the Company maintained gross written premiums and profitability during 2011, and posted a slightly improved performance over the previous year. Motor business continued to perform well, protecting its market share despite a more fragmented car market and price cutting by competitors. For Personal Lines business, Travel and Home Contents also maintained their respective market shares. Claims management improved due to a restructuring of the Claims Department and the successful implementation of the Document Management System (DMS) system. This provides centralised automated processing of LPOs and Work Orders and better auditing and control due to an electronic database of historical data.

The Company continued its focus on delivering the highest levels of customer service, supported by the utilisation of cutting-edge technology, in order to maintain its competitive edge. The customer-facing service of the Intelligent Insurance Unit was enhanced to provide a more efficient response to policyholders' queries and complaints. On the technical front, the Unit increased the number of self-service kiosks, and introduced new features such as acceptance of debit cards for payments as well as credit cards. In addition, a dedicated PC in every branch was used to demonstrate to customers the ease and convenience of renewing vehicle registrations at the same time as motor insurance through the eGovernment service.

Also during the year, plans were finalised for the launch in 2012 of the latest third-generation machines, which will feature advanced applications. The Company also commenced development of its new m-Commerce services, which will enable customers to conduct business via their smart phones and other electronic devices. The popularity of the bnidirect service continued to grow, with overall customer usage of e-services increasing by 11.6 per cent in 2011. Other customer service improvements included ongoing renovation of the branch network, and the opening of a new branch office in Amwaj Islands.

The scientific approach adopted by the Business Analysis Unit continued to provide the Company with a unique competitive edge during the year. The utilisation of specialised software for analysis, modelling, pricing, segmentation and forecasting by the Unit enables the Company to react more quickly to changes in market dynamics and trends.

General Insurance

Through its General Insurance business, the Company serves the insurance requirements of corporates, in the industrial and commercial sectors, whose performance is influenced by the economic and business activities in the region. The year 2011 witnessed a continued decline in commercial activity, putting further pressure on the revenues and profits of the Company's corporate clients, especially those in the Kingdom of Bahrain. This resulted in a slowdown in gross premium written for certain areas. In addition, some large accounts due for renewal, which formed part of the Company's budgeted figures, did not

materialise since they were all extended with their present insurers. Existing construction projects were delayed or suspended, with hardly any new development activity during the year. As a result, Engineering premium reduced from Bahrain and more noticeably from the UAE, with the latter reducing income from facultative inward business written outside Bahrain. This was compounded by a large reduction in business emanating from the North African region, as the Company took precautionary measures due to political unrest in the region.

Furthermore, the Company witnessed yet more reduction in rates and terms for business written from the region. In order to safeguard its performance from future losses, the Company decided to either reduce its shares or decline business with substandard conditions. The largest reduction from a gross premium point of view was experienced in the Marine account, mainly from the Hull portfolio, due to competitive reductions in price.

Income from the Property portfolio, which focuses on Small-to-Medium size risks, increased by 14 per cent in 2011. The profits from this class also maintained a rate of return to gross premiums of 15 per cent before allocating administration expenses and investment income. Excellent underwriting results were also achieved in Engineering and Marine, notwithstanding the reduction in gross premiums.

The Company's net retention continues to increase as it seeks to underwrite more selectively. Underwriting standards are primarily concerned with pre-risk inspections, occupancy and the nature of risk with suggested risk improvement, since price is more an issue of market pressures. The company's net account is operating at a net loss ratio of 16 per cent, with the best performer in 2011 being Engineering. The portfolio produced a technical return of 7 per cent before allocating overheads and investment income, and an absolute net return of 10 per cent.

The Company considers that the solution for sustainable growth lies in consistency, focus and technical competence in order to provide excellent service and advice to clients. The Company also maintains substantial capacities secured by the leading high-rated securities in the international reinsurance market. It is committed to continuing this line of growth since it provides a superior, consistent and manageable long-term bottom line expectation.

Bahrain National Insurance Company (bni) Qatar Branch

General Insurance/ Motor & Personal Lines Insurance

A key development during 2011 was approval from the Qatar Financial Centre Regulatory Authority for the Company to open a branch in Doha. This is in line with the Company's strategy to expand operations outside Bahrain to other key regional markets. The new branch office, which became operational in early 2012, will offer general insurance products both as retail, being motor and personal lines, as well as corporate including commercial and industrial policies.

Bahrain National Life Assurance Company (bnl)

Life and Medical Insurance

Despite the challenging socio-economic and market conditions in Bahrain during 2011, the Company responded in a positive and proactive manner, and achieved an overall increase in life and medical insurance gross written premiums compared with 2010.

The reduction in bank lending in Bahrain during the first half of 2011 affected individual Life business since term assurance policies are linked to bank loans. Many policyholders looked at surrendering their policies in order to raise funds. Business improved during the second half of the year, and the Company responded by revising term assurance rates to become more competitive and support bank lending. A new range of savings and investment products was developed for launch in 2012. This is the result of the Company's collaboration with Fidelity Worldwide Investments (one of the world's leading asset managers with over US\$ 200 billion of assets under management) to make available a selection of their award-winning mutual funds. These include tailored plans for wealth management with a focus on investments; wealth protection through life cover, critical illness and disability options; and child education and protection.

The Medical insurance business was affected by a continuing pressure on pricing. Due to the ongoing decline in commercial activity, employers set reduced budgets and did not follow increases in insurers' premiums caused by medical inflation, which typically runs in excess of other types of inflation. This resulted in reduced cover for employees.

REVIEW OF OPERATIONS

(contd...)

In line with its belief that building long-term and productive relationships is the key to mutual success, the Company launched a number of new customer service initiatives in 2011, including the appointment of a Customer Service & Quality Manager. The findings of a customer market survey revealed that individual policyholders are seeking better communications and regular updates on new products and services. In response, the Company established a Customer Hotline and Customer Service & Complaints Unit and commenced production of a regular marketing newsletter featuring both business news and health tips. In addition, a new dedicated bnl website, equipped with the latest social media tools, is being developed for launch in 2012. The Company continued to provide corporate clients with a personalised service, including regular updates on their company employee saving schemes, and also health awareness tips to improve sickness records, staff productivity and promote wellness of employees.

In terms of strategic development, the Company will soon be applying for a license from the Qatar Financial Centre Regulatory Authority to operate from the Group's new branch in Doha. bnl's life and medical assurance services will complement the current provision of motor and personal lines and general insurance services.

Group Shared Services Legal & Compliance

The Group's Legal Coordination Unit continued to work closely with the insurance subsidiaries to resolve customer disputes. More than 59 per cent of complaints are now resolved amicably, with the number of court cases having reduced by 25 per cent.

BNH continued to strengthen its corporate governance and risk management framework during 2011. Quarterly revisions to the Insurance Rulebook by the Central Bank of Bahrain (CBB) were closely reviewed and discussed with all departments to ensure continued compliance.

Following the introduction in 2010 of the Code of Corporate Governance of the Kingdom of Bahrain by the Ministry of Industry & Commerce, and subsequent revised requirements by the CBB, a gap analysis highlighting potential areas of non-compliance was completed by the internal auditors, and the results sent to the Board for its review and implementation.

The Group's risk management framework was further enhanced by the development of an Enterprise Risk Management (ERM) system, which is due to be completed by mid-2012. BNH is believed to be the first and only insurance institution in Bahrain and the GCC to adopt a fully-fledged ERM system. To support the Group's business continuity plan, the new remote disaster recovery site, which is located at Amwaj Islands, was successfully tested and became fully operational.

Investments

In view of the increased volatility of regional and international markets during 2011, the Group maintained its prudent and cautious approach to investments, and continued its policy of moving surplus cash into non-financial corporate bonds and dividend yielding equities in the GCC. The Group moved pro actively in cutting exposure to European debt and the Euro in the first half of 2011. The Group's Investment Policy & Procedures Manual, which was comprehensively reviewed and revised during the year, was approved by the Board.

The Group's well-balanced investment portfolio, with a total value of BD 53 million (2010: BD 55 million) comprises equities, bonds, alternative investments, cash and equivalents, land and buildings, and subsidiaries and associates. The marketable investment portfolio, valued at BD 35 million, consists of 42 per cent in bonds, 26 per cent in equities, 25 per cent in cash and equivalents, and 7 per cent in alternative investments.

Net investment income in 2011 was BD 1.73 million compared with BD 2.6 million in 2010. However, the previous year's income included a one-off profit of BD 500 thousand from the sale of a specific investment. The overall blended return for the marketable investment portfolio was just under 4%, which compares in shares of profits from associates and joint ventures increased to BD 0.72mn from (2010: BD 0.65mn) very favourably with the performance of benchmark indices in 2011.

During 2011, BNH enhanced its Treasury function in order to make better use of surplus cash balances. An internal trading desk, concentrating on GCC equities, was established. The objective of setting up the trading desk is to build a track record with the longer-term intention of attracting outside funds for management. BNH also implemented a decision support software to improve portfolio monitoring along various dimensions.



REVIEW OF OPERATIONS

(contd...)

Human Capital

BNH maintained recruitment during 2011, and ended the year with a headcount of 200 compared with 206 at the end of 2010. Bahraini nationals employed across the Group comprised 79 per cent of the total workforce.

The Group is committed to developing young Bahrainis and providing them with every opportunity to enhance their professional skills and progress their careers. Training is provided locally at the Gulf Insurance Institute and the Bahrain Institute of Banking & Finance, and also at specialist institutions abroad; and staff are sponsored to achieve Associate of the Chartered Insurance Institute (ACII) accreditation. The Executive Development Programme focuses on grooming selected staff for future executive roles; while the Graduate Development Programme – to be launched in early 2012 – provides an understanding of different areas of insurance and the achievement of relevant professional qualifications.

Human Capital developments during the year include the introduction of a new Performance Appraisal System, a new Succession Planning policy and procedures, and a new HR System. The latter automates and integrates all aspects of HR activities, previously handled by separate systems, such as payroll administration. The new system incorporates an Employee Self Service feature – enabling staff to submit leave requests, and check salary and savings scheme details online. It also includes finger scanning and face recognition to log attendance and monitor time-keeping and improve security. Also during the year, the Human Capital Policies & Procedures Manual was fully revised, together with an update of employee benefits including medical cover, life assurance and personal accident cover and the Staff Saving Scheme for Bahraini staff.

Information & Communications Technology

During 2011, the Group continued to invest in the utilisation of cutting-edge Information and Communications Technology (ICT). This not only improves business efficiency and customer service, but also provides BNH with a distinct competitive advantage through raising the barriers to entry.

Implementation of the three-year ICT strategy, which was introduced last year, remained on track. Key developments include the successful introduction of internal 'Cloud Computing', which enables fast and seamless updating of the Data Centre to support current business activities and facilitate future upgrades and expansion with minimal disruption. In support of the Group's business continuity plan – the new remote Disaster Recovery Site (DRS) located at Amwaj Islands – with redundant connectivity ensuring high availability of operational systems – became fully operational. The DRS will also serve the new branch office in Qatar.

The Enterprise Content Management (ECM) system – introduced last year – was further enhanced to streamline critical business processes. These include a centralised approach to claims management, with major efficiencies having been achieved through the automation of purchase orders and approvals. The two standalone Medical & Life systems were fully integrated into the Group's core insurance applications, resulting in faster access to more comprehensive Business Intelligence statistics. Additional developments include enhancements to the e-Cargo portal for Marine clients and brokers, and Intelligent Insurance kiosks to improve customer service. Plans are underway to introduce additional delivery channels for enhanced communications and customer service experience, including a revamped website for the Life & Medical business, equipped with the latest social media tools.

ASSOCIATE COMPANIES



Al Kindi Specialised Hospital

Paid-up capital: BD 2.2 million

BNH shareholding: 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 provides a comprehensive range of health services. With a female surgeon and anaesthesiologist, Al Kindi places special focus on women's healthcare. The hospital is equipped with a 24-hour clinic, radiology unit, medical laboratory and pharmacy.



Gulf Insurance Institute

Paid-up capital: BD 1.0 million

BNH shareholding: 24.2%

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 plays a pivotal role in the growth and development of the regional insurance industry. The Institute offers e-learning as well as conventional training.



National Finance House

Paid-up capital: BD 7.5 million

BNH shareholding: 30%

Established in 2006, NFH provides financing for new vehicles. In just a few years, it has built a strong market share in the Kingdom of Bahrain. The Company's strategy includes plans to broaden its range of products and services and expand its operations to other GCC countries.



United Insurance Company

Paid-up capital: BD 1.5 million

BNH shareholding: 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.



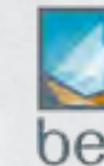
شركة الدرع العربي للتأمين
ARABIAN SHIELD INSURANCE

Arabian Shield Cooperative Insurance Company

Paid-up capital: SR 200 million

BNH shareholding: 15%

Arabian Shield was established in 2006 as a joint venture with local partners in the Kingdom of Saudi Arabia. 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.



Bahrain Emirates Insurance Company

Paid-up capital: BD 10.5 million

BNH shareholding: 30%

Bahrain Emirates Insurance (BEI) was established in the Kingdom of Bahrain in 2010 with partners from the UAE. Through its head office in Bahrain and branch in Abu Dhabi, the company underwrites general insurance business, seeking to leverage synergies between its founding partners.



Ultra Tune Middle East

Paid-up capital: BD 0.75 million

BNH shareholding: 50%

Established in 2009 in the Kingdom of Bahrain, UTME is a joint venture with an Australian partner. The company was set up to provide roadside assistance, service centres and a smash repair facility.

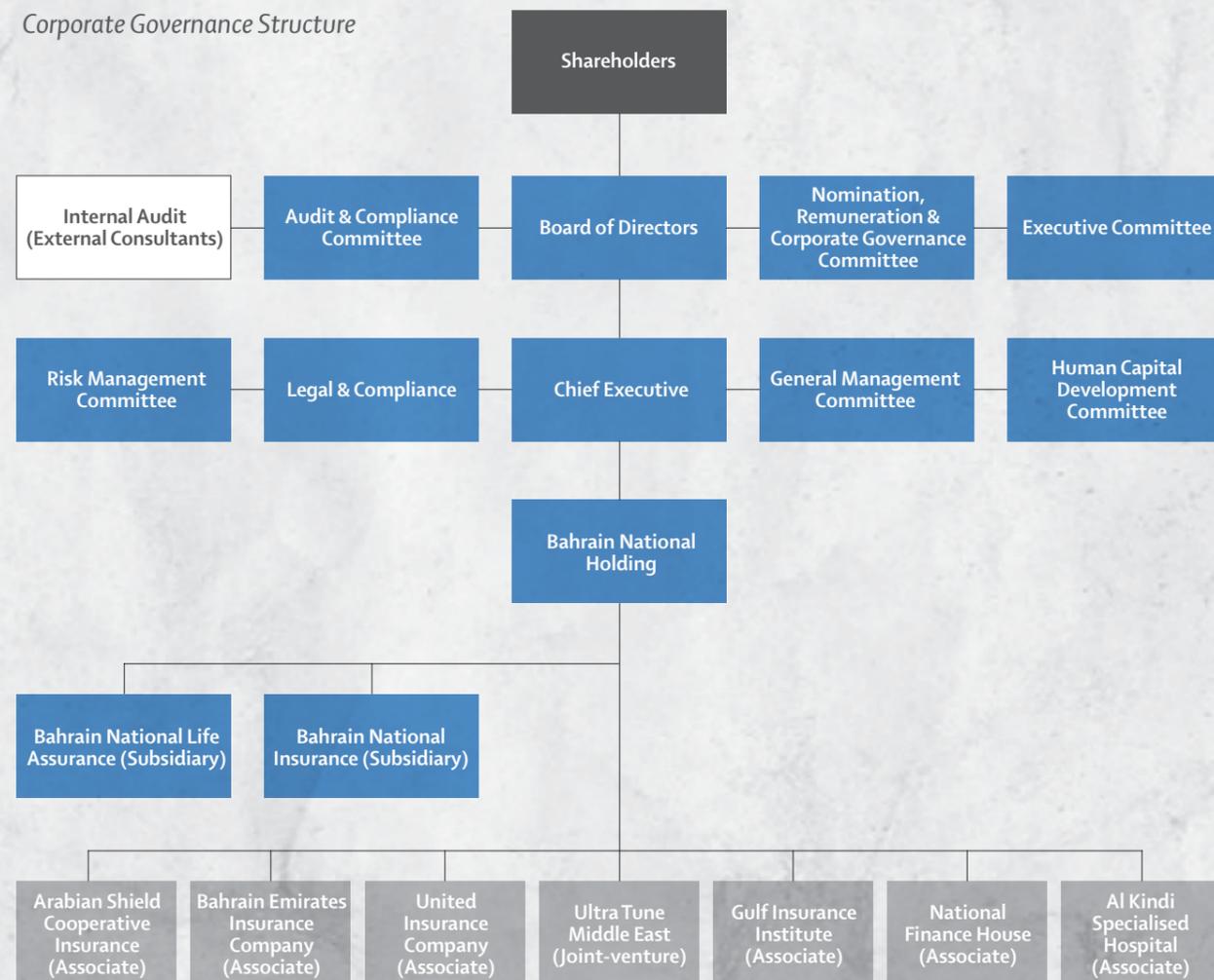
COFFEE AND CONVERSATION



The local coffee shop, known as "Gahwa", in the "fereej" provided men with a convenient place to meet and relax over a cup of coffee or tea. In the days of no newspapers, radio or television, they would pass on knowledge and share ideas; and also discuss the latest news provided by a travelling official – a kind of 'town crier' known as a "monadi".

CORPORATE GOVERNANCE & RISK MANAGEMENT

Corporate Governance Structure



■ External Body □ External Consultants ■ Internal Body ■ Joint Ventures

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.

THE BOARD

The Board of BNH comprises of 9 non-executive directors and 2 independent non-executive directors. During 2011, 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.

The schedule of Board meetings and the attendance of the members of the Board in 2011 was as follows:

BOARD MEMBERS	23 Feb	29 Mar	4 May	25 May	31 May	26 Oct	13 Dec
Farouk Yousif Almoayyed	✓	✓	✓	✓	✓	✓	✓
Abdulhussain Khalil Dawani	✓	✓	✓	✓	✓	✓	✓
Ali Rashid Al-Amin	✓	✓	✓	✓			✓
Abdulrahman Mohamed Juma	✓	✓		✓	✓	✓	✓
Sami Mohamed Sharif Zainal	✓	✓	✓	✓	✓	✓	✓
Jehad Yousif Amin	✓	✓	✓	✓	✓	✓	✓
Ayad Saad Khalifa Algosaibi	✓	✓	✓	✓	✓	✓	✓
Ghassan Qassim Mohd Fakhroo	✓	✓	✓	✓	✓	✓	✓
Talal Fuad Kanoo	✓	✓	✓	✓			✓
Jassim Hasan Abdulaal (Elected in March 2011)			✓		✓	✓	✓
Ali Hassan Mahmood (Elected in March 2011)			✓	✓	✓	✓	✓
Ahmed Alaali (Resigned in March 2011)	✓						
Abdulhakim Al Adhamy (Resigned in March 2011)	✓						

The Board of Directors were elected by the shareholders in the Annual General Meeting held in March 2011 for a term of 3 years.

- All board members are non-executive

- Mr Ayad Saad Khalifa Algosaibi and Mr Jassim Hasan Abdulaal are the independent directors on the board. An independent director is a director whom the board has specifically determined has no material relationship with the company which could affect his independence of judgment taking into account of all known facts.

- The induction and orientation process for the Board of

Directors is carried out with the assistance of the Chief Executive and the Company Secretary by way of continuous meeting and discussion with the Senior Management, external/internal auditors of the company to increase the awareness of current issues and market trends.

- The Board of Directors are required to meet at least four times in a financial year, and the board members are expected to attend at least three quarters of the meeting held during any twelve month period.

- The remuneration policy for the directors is determined by the shareholders at the Annual General Meeting.

CORPORATE GOVERNANCE & RISK MANAGEMENT

(contd...)

BOARD COMMITTEES

Audit & Compliance Committee (ACC)

Responsibilities

- Select external auditors and ensure their professional standards.
- Select internal auditors, and review and approval of internal audit plan. The audit plan includes review of internal control processes and procedures by the internal auditors.
- Review annual audited, quarterly and half yearly reviewed financial statements and discuss with the board members

- and obtain their approval.
- Assist in developing risk management framework.
- Ensure compliance with all relevant regulatory & legal rules.
- Carry out instruction of the Board for all investigations.

The schedule of ACC meetings and the attendance of the members of the ACC in 2011 was as follows:

MEMBERS	17 Feb	4 May	5 Jun	17 Jul	24 Oct
Jassim Hasan Abdulaal		✓	✓	✓	✓
Abdulrahman Mohamed Juma			✓		✓
Ayad Saad Khalifa Algosaibi	✓	✓	✓	✓	✓
Ghassan Qassim Mohd Fakhroo (Resigned in March 2011)	✓				
Ahmed Alaali (Resigned in March 2011)	✓				
Abdul-Hakim Al-Adhamy (Resigned in March 2011)	✓				

- Mr Ayad Saad Khalifa Algosaibi and Mr Jassim Hasan Abdulaal are independent members, and Mr Jassim Hasan Abdulaal is the Chairman in the ACC.
- The ACC members are required to meet at least four times in a financial year.

Executive Committee (EC)

Responsibilities

- Monitor the development of Group strategy in accordance with the 3 year business plan.
- Guide, monitor and coordinate the management and performance of the Group in line with approved strategies, business plan and budget.
- Develop and monitor investment policy as part of the overall business plan.
- Review and recommend business and investment opportunities.
- Assist in maintaining oversight of the financial requirements of the Group.

The schedule of EC meetings and the attendance of the members of the EC in 2011 was as follows:

MEMBERS	23 Jan	18 Apr	20 Jul	12 Oct	7 Dec
Abdulgussain Khalil Dawani	✓	✓	✓	✓	✓
Jehad Yousif Amin	✓	✓	✓	✓	✓
Sami Mohamed Sharif Zainal	✓	✓	✓	✓	✓
Talal Fuad Kanoo	✓		✓	✓	✓
Ghassan Qassim Mohd Fakhroo		✓		✓	✓
Abdulrahman Mohamed Juma (Resigned in March 2011)	✓				

Nomination, Remuneration & Corporate Governance Committee (NRCC)

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.

The schedule of NRCC meetings and the attendance of the members of NRCC in 2011 is as follows:

MEMBERS	23 Feb	13 Dec
Farouk Yousif Almoayyed	✓	✓
Abdulgussain Khalil Dawani	✓	✓
Jassim Hasan Abdulaal		✓
AbdulHakim Al Adhamy (Resigned in March 2011)	✓	

- Mr Farouk Yousif Almoayyed is the Chairman of the NRCC.
- The NRCC members are required to meet at least two times in a financial year.

The Management

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

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

OPERATIONAL COMMITTEES

General Management Committee

Objectives

- Provide a forum by which the ideas and opinions of the Senior Management team are considered in issues relating to Group policy and strategy, and for exchanging inter departmental information
- Provide assurance to the Board that the affairs of the Group are overseen by a team of senior managers

Membership

- Mahmood Al Soufi, Chief Executive – Chairman
- David Matthews, Chief Financial Officer – Member
- Abdulla Al Suwaidi, General Manager (bni - Motor & Personal Lines) – Member
- Joseph Rizzo, General Manager (bni - General Insurance) – Member
- Mohammed Kadhim, Assistant General Manager (Legal & Compliance) – Member

CORPORATE GOVERNANCE & RISK MANAGEMENT

(contd...)

Risk Management Committee

Objectives

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

Membership

- Joseph Rizzo, General Manager (bni - General Insurance) – Chairman
- David Matthews, Chief Financial Officer – Member
- Abdulla Al Suwaidi, General Manager (bni - Motor & Personal Lines) – Member
- Mohammed Kadhim, Assistant General Manager (Legal & Compliance) – Member
- Robert Grey, General Manager (bni) (From April 2011) – Member
- Koluthumani Ramakrishnan, Senior Manager (Compliance) – Member

Human Capital Development Committee

Objectives

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

Membership

- Mahmood Al Soufi, Chief Executive – Chairman
- David Matthews, Chief Financial Officer – Member
- Jassim Al Hammadi, Human Capital Consultant (until September 2011) – Member
- Fareed Hasan Amin, Manager - Human Capital (from October 2011) – Member
- Abdulla Al Suwaidi, General Manager (bni - Motor & Personal Lines) – Member
- Joseph Rizzo, General Manager (bni General Insurance Division) – Member
- Robert Grey, General Manager (bni) (From April 2011) – Member

Compliance Responsibility

Responsibility for ensuring the Group's compliance with the rules, regulations and guidelines of the Central Bank of Bahrain resides with the 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 2011, we continued to regularly review and update our key policies and procedures manuals covering critical operational areas in our 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 9 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 2010 in accordance with the requirement of the Central Bank of Bahrain.

Key Persons Trading

The Group's compliance with the latest Key Persons Trading regulations of the Central Bank of Bahrain is supervised by the Audit & Compliance Committee which reports to the Board of Directors.

The Group has submitted its internal audit report for the year 2011 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. The compliance with the code of Business Ethics by the staff is monitored by the Human Capital Department, and the board members collectively or individually monitor the compliance by the Board members.

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, Group's intranet, press releases and announcements in the local and regional media.

CORPORATE GOVERNANCE & RISK MANAGEMENT

(contd...)

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. We 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 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 & Compliance 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 2011, no significant deviation from the policies and procedures has been reported.

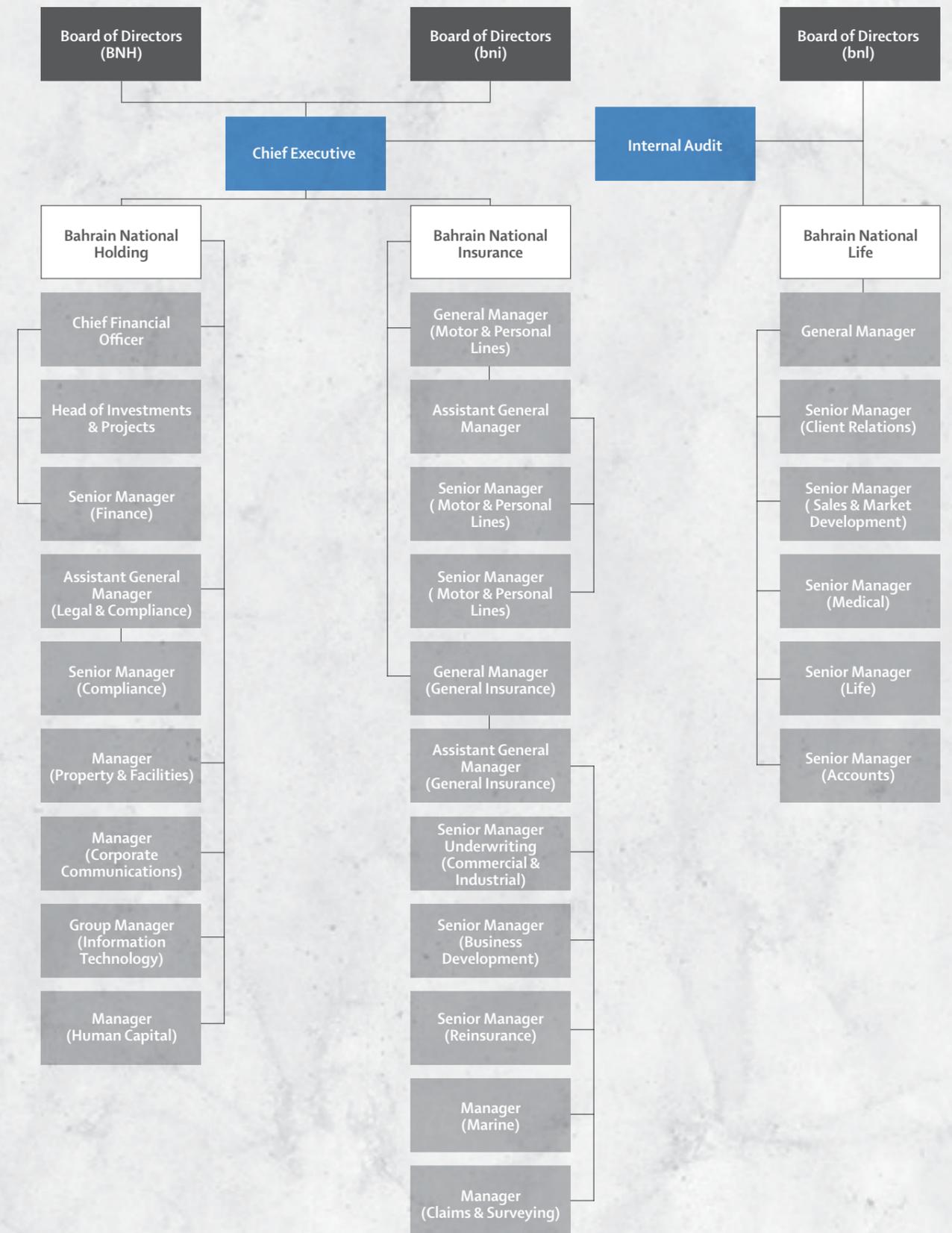
ENTERPRISE RISK MANAGEMENT

The board and management of the company, in conjunction with external consultants, have initiated the process of implementing an extensive ERM framework at a group and subsidiary level, the objective is for the group to be in a position to continuously monitor and calculate its economic capital using various methods and modeling.

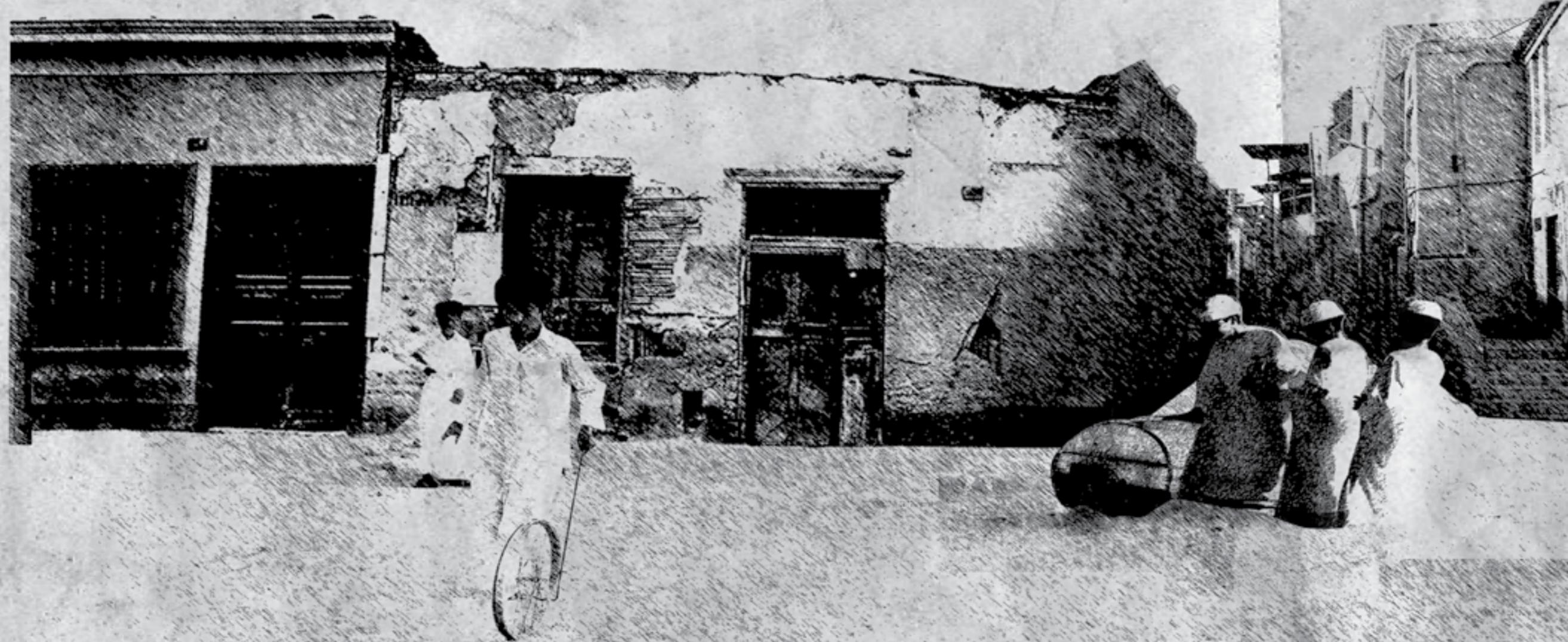
The framework will clearly articulate the risk strategy and appetite of the group and its subsidiaries. It will address and continuously test business performance, adequate capital management, governance, organization and policy. The prime drivers for this exercise is

- Reviewing regularly the level of Risk
- Strengthening controls
- More informed decision making
- Manage better extreme case scenarios
- More efficient allocation of capital
- Minimisation of strategic risk management failures
- More effective capital and solvency management especially in view of expansion strategy.
- Protecting future sustainability
- Embedding risk management into strategic planning is critical for success
- Increased pressure from regulators and ratings agencies to demonstrate ERM is embedded

Organization Structure



A SAFE PLACE TO PLAY



The open space (baraha) of the "fereej" provided the children with a convenient and safe space in which to meet and play. Before the arrival of modern-day television, computers, electronic games and imported toys, they would use their imagination and ingenuity to recycle everyday objects into toys and playthings, and invent their own games.

CORPORATE SOCIAL RESPONSIBILITY

As a leading Bahrain-based financial institution, BNH is committed to contributing to the social well-being and economic prosperity of the Kingdom. Throughout 2011, we continued to implement the Group's comprehensive programme of corporate social responsibility (CSR).

This comprises financial assistance and practical support for charitable, community, educational, medical, cultural and sporting organisations; plus sponsorship of various initiatives and events that support the growth and development of the regional insurance industry. BNH also encourages and sponsors staff to participate in community activities. Some examples of the Group's varied CSR activities during the year are listed below.

Healthcare

- In partnership with the Group's associate company – Al Kindi Specialised Hospital – supported the Rotary Club of Manama in establishing a Diabetic Mobile Unit that will visit schools and community centres to spread the message to parents and children about the prevention and treatment of diabetes
- Supported the 'Smile' initiative of the Future Society of Youth in establishing a community centre in Adliya where child cancer patients and their families can socialise, share experiences, and receive counselling, advice and support
- Supported the Bahrain Disabled Sports Federation's 5th GCC Football Championship for hearing-impaired people
- Donated clinical chemical analyzers for use in Ministry of Health medical centres

Education

- Sponsored the activities of the Bahrain Chapter of the Global Chartered Financial Analyst (CFA) Institute that supports professional qualifications, education and networking
- Sponsored the Tamkeen Ramadan Quiz Show
- Sponsored Delmon University's 'Financial Risk Management During Crisis' seminar
- Implemented the BNH Executive Development and Graduate Programme to develop and groom young qualified Bahrainis for executive roles
- Provided summer internships and work placements for Bahraini students and trainees

Environment

- Maintained certification to FSC Mixed Sources as part of BNH's commitment to the highest social and environmental standards, including protection of the world's forests and timber resources
- Encouraged BNH staff to recycle waste, conserve energy and reduce use of paper

Insurance

- Promoted the role of the Gulf Insurance Institute to provide internationally recognised and accredited professional development programmes and certification paths for insurance professionals in the GCC region

Participated in a number of insurance industry conferences and seminars

Economy

- Supported the Bahrain International Boat Show as exclusive insurance partner

Staff Participation

- Entered a BNH team for the Bahrain Marathon Relay, a major fund-raising event
- Sponsored and participated in the Mondial Hisham Fulath 2011 soccer tournament in support of raising awareness about breast cancer
- Engaged in a number of other charitable, sporting and community activities during the year

CONTACTS

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Listing

Bahrain Bourse

Auditors to the group

KPMG, P.O. Box 710, Bahrain

Registrars to the group

Bahrain Shares Registering Company W.L.L

Actuaries (Life Assurance)

Actuarial Partners Consulting Sdn. Bhd (35090-4)
50250 Kuala Lumpur
Malaysia

Actuaries (General Insurance)

Warren FAM Limited
Consulting Actuaries
Cyprus

Bankers to the group

Ahli United Bank
Bank of Bahrain & Kuwait
HSBC Bank
National Bank of Bahrain

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS



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Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of The Bahrain National Holding Company BSC ("the Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Responsibility of the board of directors for the consolidated financial statements

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

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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 policies 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 2011, 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 regulatory requirements

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

Manama, Kingdom of Bahrain
22 February 2011



KPMG Fakhro, a registered partnership under Bahrain law, is a member of KPMG International, a Swiss non-operating association.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011
(In thousands of Bahraini Dinars)

	Note	2011	2010
ASSETS			
Cash and cash equivalents		8,044	9,775
Receivables	9	5,718	5,432
Investment securities	11	27,115	27,300
Investment in associates and joint-venture	14	14,009	13,761
Investment property	15	1,455	1,542
Reinsurers' share of insurance technical reserves	10	9,425	11,192
Property and equipment	16	5,729	5,000
Statutory deposits	8	125	125
TOTAL ASSETS		71,620	74,127
LIABILITIES			
Insurance payables	21	2,766	3,699
Other liabilities	22	3,289	2,817
Insurance technical reserves	17	23,344	25,454
TOTAL LIABILITIES		29,399	31,970
TOTAL NET ASSETS		42,221	42,157
EQUITY (page 47)			
Share capital	5	11,350	11,350
Treasury shares	5	(1,868)	(1,868)
Statutory reserve	6	5,675	5,348
Share premium	6	3,990	3,990
General reserve	6	13,585	13,585
Investment fair value reserve		2,170	3,206
Retained earnings		5,402	4,792
Equity attributable to shareholders of the parent company		40,304	40,403
Non-controlling interest		1,917	1,754
TOTAL EQUITY		42,221	42,157

The Board of Directors approved the consolidated financial statements consisting of pages 44 to 80 on 22 February 2012.

Farouk Yousif Almoayyed
Chairman

Abdul-Hussain Khalil Dawani
Vice Chairman

Mahmood Al Soufi
Chief Executive

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011
(In thousands of Bahraini Dinars)

	Note	2011	2010
GROSS PREMIUMS			
Reinsurance ceded	24	(8,587)	(9,817)
Retained premiums		13,332	13,270
Net unearned premiums adjustment	19	25	317
NET PREMIUM EARNED		13,357	13,587
NET CLAIMS INCURRED			
Gross claims paid		(14,565)	(16,213)
Claims recoveries		6,821	7,770
Net outstanding claims adjustment	18	76	616
NET CLAIMS INCURRED		(7,668)	(7,827)
UNDERWRITING PROFIT FOR THE YEAR			
Other operating expenses	28	(4,258)	(4,438)
Net commission income	25	507	546
Release from life assurance actuarial reserve	20	294	140
UNDERWRITING PROFIT FOR THE YEAR		2,232	2,008
PROFIT FOR THE YEAR			
Net investment income	27	1,727	2,603
Policyholder's share of investment income	20	(17)	(325)
Share of profit of associates and joint venture	14	718	649
Corporate and financial expenses	28	(1,355)	(1,121)
PROFIT FOR THE YEAR		3,305	3,814
Profit attributable to:			
Parent company		3,132	3,720
Non-controlling interest		173	94
PROFIT FOR THE YEAR		3,305	3,814
Basic Earnings per share (100 fils each)		29.2 Fils	34.7 Fils

The Board of Directors approved the consolidated financial statements consisting of pages 44 to 80 on 22 February 2012.

Farouk Yousif Almoayyed
Chairman

Abdul-Hussain Khalil Dawani
Vice Chairman

Mahmood Al Soufi
Chief Executive

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011
(In thousands of Bahraini Dinars)

	2011	2010
NET PROFIT FOR THE YEAR	3,305	3,814
Other comprehensive income:		
Available for sale securities:		
- Change in fair value	(543)	1,053
- Impairment transferred to income statement	112	235
- Transfer to income statement on disposal of securities	(615)	(847)
Other comprehensive income for the year	(1,046)	441
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	2,259	4,255
Total comprehensive income attributable to :		
Parent company	2,096	4,147
Non-controlling interest	163	108
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	2,259	4,255

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011
(In thousands of Bahraini Dinars)

	Attributable to the shareholders of the parent company								Non-controlling Interest	Total Equity
	Share capital	Treasury shares	Statutory reserve	Share premium	General reserve	Investment fair value reserve	Retained earnings	Total		
2011										
Balance at 1 January 2011	11,350	(1,868)	5,348	3,990	13,585	3,206	4,792	40,403	1,754	42,157
Net profit for the year	-	-	-	-	-	-	3,132	3,132	173	3,305
Other comprehensive income:										
Available for sale securities:										
- Change in fair value	-	-	-	-	-	(546)	-	(546)	3	(543)
- Impairment transferred to income statement	-	-	-	-	-	104	-	104	8	112
- Transfer to income statement on disposal of securities	-	-	-	-	-	(594)	-	(594)	(21)	(615)
Other comprehensive income	-	-	-	-	-	(1,036)	-	(1,036)	(10)	(1,046)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	-	-	-	-	(1,036)	3,132	2,096	163	2,259
Transfer to statutory reserve	-	-	327	-	-	-	(327)	-	-	-
Dividends declared for 2010	-	-	-	-	-	-	(2,145)	(2,145)	-	(2,145)
Donations for 2010	-	-	-	-	-	-	(50)	(50)	-	(50)
BALANCE AT 31 DECEMBER 2011	11,350	(1,868)	5,675	3,990	13,585	2,170	5,402	40,304	1,917	42,221

	Attributable to the shareholders of the parent company								Non-controlling Interest	Total Equity
	Share capital	Treasury shares	Statutory reserve	Share premium	General reserve	Investment fair value reserve	Retained earnings	Total		
2010										
Balance at 1 January 2010	11,350	(1,868)	4,967	3,990	13,585	2,779	3,746	38,549	1,646	40,195
Net profit for the year	-	-	-	-	-	-	3,720	3,720	94	3,814
Other comprehensive income:										
Available for sale securities:										
- Change in fair value	-	-	-	-	-	1,033	-	1,033	20	1,053
- Impairment transferred to income statement	-	-	-	-	-	229	-	229	6	235
- Transfer to income statement on disposal of securities	-	-	-	-	-	(835)	-	(835)	(12)	(847)
Other comprehensive income	-	-	-	-	-	427	-	427	14	441
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	-	-	-	-	427	3,720	4,147	108	4,255
Transfer to statutory reserve	-	-	381	-	-	-	(381)	-	-	-
Dividends declared for 2009	-	-	-	-	-	-	(2,144)	(2,144)	-	(2,144)
Directors remuneration for 2009	-	-	-	-	-	-	(99)	(99)	-	(99)
Donations for 2009	-	-	-	-	-	-	(50)	(50)	-	(50)
BALANCE AT 31 DECEMBER 2010	11,350	(1,868)	5,348	3,990	13,585	3,206	4,792	40,403	1,754	42,157

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011
(In thousands of Bahraini Dinars)

	2011	2010
OPERATING ACTIVITIES		
Insurance operations (including life assurance)		
Premiums received net of acquisition costs	22,094	24,031
Payments to insurance and reinsurance companies	(9,191)	(8,585)
Claims paid to policyholders	(14,267)	(17,826)
Claims recovered from reinsurers and salvage recoveries	6,810	7,769
Cash flows from insurance operations	5,446	5,389
Investment operations		
Dividends and interest received	1,057	1,161
Proceeds from sale and redemptions	9,256	9,415
Payments for purchases	(9,530)	(5,035)
Investment in associates and joint-venture	-	(2,232)
Dividends received from associates	413	255
Rents received	310	293
Cash flows from investment operations	1,506	3,857
Other operating expenses paid	(5,246)	(5,462)
Cash flows from operating activities	1,706	3,784
INVESTMENT ACTIVITIES		
Proceeds from sale of land	-	632
Purchase of property and equipment	(1,294)	(1,294)
Cash flows from investment activities	(1,294)	(662)
FINANCING ACTIVITIES		
Dividends paid to shareholders	(2,086)	(2,177)
Donations paid	(57)	(36)
Cash flows from financing activities	(2,143)	(2,213)
TOTAL NET CASH FLOWS DURING THE YEAR	(1,731)	909
Cash and cash equivalents at 1 January	9,775	8,866
Cash and cash equivalents at 31 December	8,044	9,775
CASH AND CASH EQUIVALENTS at 31 December		
Cash and bank balances	2,503	3,990
Short-term deposits	5,541	5,785
Total as per consolidated statement of financial position	8,044	9,775

NOTES TO THE 2011 CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Bahraini Dinars)

1. Status and operations

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

2. Subsidiaries

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)	04 October 2000	75%	5,000

3. Associates and joint-venture

The Group holds 20% (2010: 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 30% (2010: 30%) of the voting capital of **National Finance House BSC (c)**, a closed Bahraini joint stock company, engaged in consumer and auto finance business. (Refer note: 14).

The Group holds 15% (2010:15%) of the voting capital of **Arabian Shield Cooperative Insurance Company, Saudi Arabia**, a Saudi Arabian Registered joint stock company, engaged in consumer and insurance business. (Refer note: 14).

The Group holds 24.25% (2010: 24.25%) of the voting capital of **Gulf Insurance Institute BSC (c)**, a Bahraini shareholding company (closed), engaged in conducting training mainly in insurance related subjects. (Refer note: 14).

The Group holds 25% (2010: 25%) of the voting capital of **Al Kindi Specialised Hospital W.L.L.**, a Bahraini with limited liability company, engaged in providing private medical services. (Refer note: 14).

The Group holds 30% (2010: 30%) of the voting capital of **Bahrain Emirates Insurance Co. B.S.C. (c)**, a Bahraini shareholding company (closed), engaged in consumer and insurance business. (Refer note: 14).

The Group holds 50% (2010: 50%) of the voting capital of **Ultra Tune Middle East Co. W.L.L.**, which carries out the business of automobile smash repairs, roadside assistance and automobile services, and other supporting business activities in the Kingdom of Bahrain. (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.

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 4j.

c. Standards, amendments and interpretations

i. The following standards, amendments and interpretations, which became effective in 2010, are relevant to the Group:

• Improvements to IFRSs (2010)

Improvements to IFRS issued in 2010 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. Except for the amendments

The consolidated financial statements consist of pages 44 to 80.

NOTES TO THE 2011 CONSOLIDATED FINANCIAL STATEMENTS (contd..)

(In thousands of Bahraini Dinars)

4. Significant accounting policies (contd..)

to IFRS 7, there were no significant changes to the current accounting policies of the Group as a result of these amendments.

• Improvements to IFRSs 2010 – IFRS 7 Financial Instruments: Disclosures

The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements.

ii. The following standards and interpretations have been issued and are expected to be relevant to the Group but not yet effective for the year ended 31 December 2011.

• IAS 1 (amendment) - Presentation of items of other comprehensive income

The amendments to IAS 1 require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendment is effective for annual periods beginning on or after 1 July 2012 with an option of early application. The application of this amendment has no significant impact on the consolidated financial statements of the Group.

• IFRS 7 (amendment) – Disclosures: Transfer of financial assets

The amendments to IFRS 7 introduce new disclosure requirements about transfers of financial assets including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement. The amendments are effective for annual periods beginning on or after 1 July 2011, but entities are not required to provide the disclosures for any period presented that begins before the date of initial application of the amendments. Early adoption is permitted. The application of this amendment has no significant impact on the consolidated financial statements of the Group.

• IFRS 9 - Financial Instruments Standard issued November 2009

IFRS 9 (2009) 'Financial Instruments' is the first standard issued as part of a wider project to replace IAS 39 'Financial instruments: recognition and measurement'. IFRS 9 (2009) retains and simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment and hedge accounting continues to apply. The 2009 standard did not address financial liabilities.

Standard issued October 2010

IFRS 9 (2010) adds the requirements related to the classification and measurement of financial liabilities, and de-recognition of financial assets and liabilities to the version issued in November 2009. It also includes those paragraphs of IAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of IFRIC 9 "reassessment of Embedded Derivatives".

The Group is considering the implications of the standard, the impact on the Group and timing of its adoption by the Group. While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. Prior periods need not be restated if an entity adopts the standard for reporting periods beginning before 1 January 2012. In its November 2011 meeting, the IASB tentatively decided to defer the mandatory effective date to 1 January 2015.

• IFRS 12 - Disclosures of interests in other entities

IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate the nature of, and risks associated with, an entity's interests in other entities; and the effects of those interests on the entity's financial position, financial performance and cash flows.

The Group is yet to assess IFRS 12's full impact. The standard is effective for annual periods beginning on or after 1 January 2013. Early adoption is permitted provided that the entire suite is adopted at the same time. Entities are encouraged to provide information required by IFRS 12 before the effective date, but this early disclosure would not compel the entity to apply either IFRS 12 in its entirety or the other new consolidation standards.

NOTES TO THE 2011 CONSOLIDATED FINANCIAL STATEMENTS (contd..)

(In thousands of Bahraini Dinars)

• IFRS 13 - Fair value measurement

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

The standard is effective for annual periods beginning on or after 1 January 2013 with an option of early adoption.

iii. Early adoption of standards

The Group did not early-adopt new or amended standards in 2011.

d. 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.

iv. Non-controlling interest

Non-controlling interest represent the portion of profit or loss and net assets not held by the Group and is presented separately in the consolidated income statement, statement of comprehensive income and within equity in the consolidated statement of financial position, separately from parent company shareholders' equity.

e. 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.

NOTES TO THE 2011 CONSOLIDATED FINANCIAL STATEMENTS (contd..)

(In thousands of Bahraini Dinars)

4. Significant accounting policies (contd..)

f. Liability adequacy test

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the insurance liabilities, net of related deferred acquisition costs using current estimates of future cash flows under insurance contracts. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used. Any deficiency is immediately charged to the income statement by establishing a provision for losses arising from liability adequacy tests.

g. 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 (e) 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.

h. 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 statement of financial position.

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 are 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.

iv. Claims settled

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

v. Outstanding claims

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

NOTES TO THE 2011 CONSOLIDATED FINANCIAL STATEMENTS (contd..)

(In thousands of Bahraini Dinars)

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

General insurance provisions are not discounted for time value of money.

vi. Commission income represents commissions received from reinsurers under the terms of ceding. Commission income is matched with premiums earned resulting in an element of unearned commission being carried forward at the reporting 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 statement of financial position.

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. Other operating expenses include direct operating expenses. All expenses are charged to the income statement in the year in which they are incurred.

i. 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 Assurance Company.

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

vi. 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.

vii. Life assurance actuarial reserve

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

NOTES TO THE 2011 CONSOLIDATED FINANCIAL STATEMENTS (contd..)

(In thousands of Bahraini Dinars)

4. Significant accounting policies (contd..)

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 reporting date and future allocations of which are at the discretion of the Group.

viii. 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.

j. 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. 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.

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.

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 Discretionary Participant Feature (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 derecognized, while significant enough deterioration in estimates is immediately recognized to make the liabilities adequate.

NOTES TO THE 2011 CONSOLIDATED FINANCIAL STATEMENTS (contd..)

(In thousands of Bahraini Dinars)

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 2011, the Group had a decline in value of certain AFS securities below their cost by BD 342 thousand (2010: BD 479 thousand) of which BD 112 thousand (2010: BD 235 thousand) has been taken to the income statement as impairment on investments and the balance amount of BD 230 thousand (2010: BD 244 thousand) 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 amortized 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 recognized 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.

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.

k. Share capital

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

l. Treasury shares

Where any Group entity purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to shareholders. Where such shares are subsequently sold, reissued or otherwise disposed of, any consideration received is included in equity attributable to shareholders, net of any directly attributable incremental transaction costs.

m. 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.

NOTES TO THE 2011 CONSOLIDATED FINANCIAL STATEMENTS (contd..)

(In thousands of Bahraini Dinars)

4. Significant accounting policies (contd..)

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.

n. 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. 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.

iii. 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.

iv. 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 other comprehensive income and when the investments are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the fair value reserve is transferred to the income statement. Gains or losses arising from re-measurement, at amortised cost, of held-to-maturity securities at each reporting date are transferred to investment income.

v. Fair value basis

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

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

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

NOTES TO THE 2011 CONSOLIDATED FINANCIAL STATEMENTS (contd..)

(In thousands of Bahraini Dinars)

o. Segment reporting

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

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

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

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

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

r. Property and equipment

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

i. Subsequent expenditure

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

ii. Depreciation

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

Building	25 years
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 and equipment is sold, transferred or otherwise permanently withdrawn from use, the cost and accumulated depreciation relating thereto are eliminated from the statement of financial position, the resulting gain or loss being recognized in the income statement.

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

s. Investment property

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

NOTES TO THE 2011 CONSOLIDATED FINANCIAL STATEMENTS (contd..)

(In thousands of Bahraini Dinars)

4. Significant accounting policies (contd..)

t. 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.

u. Impairment of assets

The carrying values of assets are assessed at each reporting 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 recognizing an impairment loss. Impairment losses are charged to the income statement.

v. Dividends

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

w. Directors' remunerations

Directors' remunerations are charged to the income statement in the year in which they are incurred.

x. Employees benefits

i. Bahraini employees

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

5. Share capital

	Number 2011	Amount 2011	Number 2010	Amount 2010
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 2011	Amount 2011	Number 2010	Amount 2010
Balance at beginning of year	6,253,816	1,868	6,253,816	1,868
BALANCE AT 31 DECEMBER	6,253,816	1,868	6,253,816	1,868

NOTES TO THE 2011 CONSOLIDATED FINANCIAL STATEMENTS (contd..)

(In thousands of Bahraini Dinars)

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

	2011	2010
Basic earnings per share – fils	29.2	34.7
Proposed cash dividend – fils	20.0	20.0
Net asset value – fils	393.6	393.1
Stock Exchange price at 31 December – fils	408.0	406.0
Market capitalisation at 31 December – in thousands of BD	46,308	46,081
Price/Earnings ratio at 31 December	14.0	11.7

In accordance with IAS 33, the calculation of earnings per share is based on the net profit for the year of BD 3,132 thousand (2010: BD 3,720 thousand), attributable to 107,246,184 (2010: 107,246,184) ordinary shares for basic earnings, being the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share have not been presented separately because Group has no dilutive potential ordinary shares.

(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
Yousif Abdulla Amin	Bahraini	12,253,458	10.80%
National Insurance Company	Iraqi	7,436,890	6.55%
Abdulhameed Zainal Mohamed Zainal	Bahraini	6,547,490	5.77%
Bahrain National Holding Co. (Treasury shares)	Bahraini	6,253,816	5.51%

(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:

	Number of shareholders	Number of shares	% of total outstanding shares
Less than 1 %	607	52,539,970	46.29
1 % up to less than 5 %	14	28,468,376	25.08
5 % up to less than 10 %	3	20,238,196	17.83
More than 10%	1	12,253,458	10.80
TOTAL	625	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. It also includes BD 29 thousand (2010: 29 thousand) being the share of the group in the share premium account of an associate.

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

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.

NOTES TO THE 2011 CONSOLIDATED FINANCIAL STATEMENTS (contd.)

(In thousands of Bahraini Dinars)

7. Proposed appropriations and directors remuneration

	2011	2010
Profit as per income statement	3,305	3,814
Net profit attributable to non-controlling interest	(173)	(94)
Net profit attributable to shareholders of parent company	3,132	3,720
Proposed appropriations:		
Statutory reserve	327	381
Dividend to shareholders	2,145	2,145
Donations	50	50
Retained earnings	610	4,144
TOTAL	3,132	3,720

Proposed director's remuneration is BD 120 thousand (2010: BD 119 thousand). The appropriation of the 2011 profit is subject to approval by shareholders at the annual general meeting.

8. Statutory deposits

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

9. Receivables

	2011	2010
Policyholders	2,523	2,217
Insurance and reinsurance companies	2,357	2,678
Others	1,143	849
	6,023	5,744
Provision for impairment	(305)	(312)
TOTAL	5,718	5,432

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

	2011	2010
Balance at beginning of the year	312	302
Balances recovered during the year	(18)	-
Additional amounts provided during the year	11	10
Balance at end of the year	305	312

10. Reinsurers' shares of insurance technical reserves

	2011	2010
Outstanding claims recoverable from reinsurers (refer note 18)	6,853	7,902
Reinsurers' share of unearned premiums (refer note 19)	2,572	3,290
TOTAL	9,425	11,192

11. Investment securities

	2011	2010
Securities carried at fair value through profit or loss	1,985	1,906
Available for sale securities	14,992	15,190
Held-to-maturity securities	10,138	10,204
TOTAL	27,115	27,300

NOTES TO THE 2011 CONSOLIDATED FINANCIAL STATEMENTS (contd.)

(In thousands of Bahraini Dinars)

a) Securities carried at fair value through profit or loss

	2011	2010
Quoted, at fair value:		
Equities	453	589
Government bonds	38	-
Other bonds	35	38
Managed funds	1,459	1,279
TOTAL	1,985	1,906

Movement during the year

	2011	2010
Opening balance as at 1 January	1,906	2,308
Purchases	547	224
Sales	(417)	(689)
Valuation (losses) / gains	(51)	63
Balance as at 31 December	1,985	1,906

b) Available-for-sale securities

	2011	2010
Quoted, at fair value:		
Equities	6,334	6,659
Government bonds	921	944
Other bonds	1,233	1,481
Managed funds	6,160	5,513
Unquoted equities & funds, at fair value	344	593
TOTAL	14,992	15,190

Movement during the year

	2011	2010
Opening balance as at 1 January	15,190	17,372
Purchases	6,881	3,977
Sales	(6,170)	(6,571)
Valuation (losses)/gains	(797)	647
	15,104	15,425
Impairment	(112)	(235)
Balance as at 31 December	14,992	15,190

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

Reclassification out of trading securities to Available-for-sale securities

Pursuant to the amendments to IAS 39 and IFRS 7, 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 out 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.

	31 December 2011		31 December 2010	
	Carrying value	Fair value	Carrying value	Fair value
Trading securities reclassified to available-for-sale securities	2,310	2,310	3,242	3,242

NOTES TO THE 2011 CONSOLIDATED FINANCIAL STATEMENTS (contd..)

(In thousands of Bahraini Dinars)

11. Investment securities (contd..)

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

	31 December 2011		31 December 2010	
	Income Statement	Equity	Income Statement	Equity
Profit / (loss) on sale of reclassified securities	(25)	-	448	-
Provision for impairment	(28)	-	(192)	-
Net change in fair value	-	(215)	-	(363)
	(53)	(215)	256	(363)

The amount of BD 215 thousand (2010: BD 363 thousand) would have been recognised in the income statement in the period if reclassifications had not been made.

c) Held-to-maturity securities

	2011		2010	
	Fair value	Fair value	Carrying value	Carrying value
Government bonds	2,428	2,004	2,257	1,838
Other bonds	8,193	8,819	7,881	8,366
TOTAL	10,621	10,823	10,138	10,204

Movement during the year

	2011	2010
Opening balance as at 1 January	10,204	10,386
Purchases	2,102	760
Disposals on maturity	(2,146)	(855)
Exchange losses	(22)	(87)
Balance as at 31 December	10,138	10,204

d) Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- **Level 1** – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities on exchanges.
- **Level 2** – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- **Level 3** – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments with significant unobservable components.

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

2011	Level 1	Level 2	Level 3	Level 4
Securities carried at fair value through profit or loss	1,985	-	-	1,985
Available-for-sale investments	14,648	344	-	14,992
TOTAL	16,633	344	-	16,977

2010	Level 1	Level 2	Level 3	Level 4
Securities carried at fair value through profit or loss	1,906	-	-	1,906
Available-for-sale investments	14,597	593	-	15,190
TOTAL	16,503	593	-	17,096

NOTES TO THE 2011 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 Group has adopted this step as a measure of protection for policyholders. Surpluses, if any, of these investments over the life assurance actuarial reserve may be dealt with at the discretion of the Group. The carrying value of the policyholders' investments (including investments of the staff retirement scheme) at the reporting date, included under "investments in securities" is as follows:

	2011	2010
Investments in securities	3,826	4,025
Life assurance actuarial reserve (note 20)	2,673	2,899

13. Effective interest rates on cash and bonds

	2011 Aggregate principal	2011 Effective rate	2010 Aggregate principal	2010 Effective rate
Cash and short-term deposits	8,169	1.40%	9,900	1.60%
Fixed rate bonds	11,781	5.79%	12,082	5.88%
Floating rate bonds (repriced within 4-6 months)	585	1.00%	585	1.90%

14. Investments in associates and joint-venture

The Group's associates and joint venture are as follows:

Name	Country	Group interest	
		2011	2010
Ultra Tune Middle East W.L.L.	Bahrain	50.0%	50.0%
Bahrain Emirates Insurance Company B.S.C. (c)	Bahrain	30.0%	30.0%
National Finance House B.S.C. (c)	Bahrain	30.0%	30.0%
Al Kindi Specialised Hospital W.L.L.	Bahrain	25.0%	25.0%
Gulf Insurance Institute B.S.C. (c)	Bahrain	24.2%	24.2%
United Insurance Company B.S.C. (c)	Bahrain	20.0%	20.0%
Arabian Shield Cooperative Insurance Company	Saudi Arabia	15.0%	15.0%

The movements in the investment account are as follows:

	2011	2010
Opening balance as at 1st January	13,761	9,401
Payment for acquisition of shares	-	3,882
Share of profit for the year	718	649
Dividends received	(413)	(255)
Share of investment fair value reserve	(57)	84
Total (equity method)	14,009	13,761

The total assets, Liabilities, revenue and profits of associates and joint-venture were:

	2011	2010
Total assets	124,191	91,074
Total liabilities	62,189	53,980
Total revenue	7,900	11,994
Total profits	2,774	2,989

NOTES TO THE 2011 CONSOLIDATED FINANCIAL STATEMENTS (contd..)
(In thousands of Bahraini Dinars)

15. Investment property

	2011	2010
Opening balance as at 1st January	1,542	1,629
Depreciation for the year	(87)	(87)
TOTAL	1,455	1,542

Investment property comprises of let out portion of the building situated in Seef Business District. The fair value of the Investment Property is BD 4,566 thousand (2010: BD 4,744 thousand).

16. Property, plant and equipment

	Land & building	Machinery	Furniture, equipment & other assets	Capital work-in-progress	2011 Total	2010 Total
Cost						
At 1 January	3,741	369	2,671	727	7,508	6,845
Additions	8	-	143	1,143	1,294	1,295
Disposals	-	-	-	-	-	(632)
Transfers	-	-	99	(99)	-	-
At 31 December	3,749	369	2,913	1,771	8,802	7,508
Depreciation						
At 1 January	795	230	1,483	-	2,508	1,946
Charge for the year	134	37	394	-	565	562
At 31 December	929	267	1,877	-	3,073	2,508
NET BOOK VALUE AT 31 DECEMBER	2,820	102	1,036	1,771	5,729	5,000

Capital commitments as at the reporting date amounted to BD 243 thousand (2010: BD 1,917 thousand).

17. Insurance technical reserves

	2011	2010
Outstanding claims - gross (refer Note 18)	12,120	13,245
Unearned gross premiums (refer Note 19)	8,547	9,290
Unearned commissions (refer Note 19)	4	20
Life assurance actuarial reserve (refer Note 20)	2,673	2,899
TOTAL	23,344	25,454

18. Outstanding claims

i. 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 statement of financial position, with the exception of life assurance and medical business.

NOTES TO THE 2011 CONSOLIDATED FINANCIAL STATEMENTS (contd..)
(In thousands of Bahraini Dinars)

Insurance claims for general insurance business - Gross

Accident year	2007	2008	2009	2010	2011	Total
Estimate of ultimate claims costs:						
At end of reporting year	10,095	7,693	6,485	5,420	3,883	33,576
One year later	7,936	6,199	9,692	5,950	-	29,777
Two years later	9,429	6,598	9,658	-	-	25,685
Three years later	9,788	6,539	-	-	-	16,327
Four years later	9,655	-	-	-	-	9,655
Current estimate of cumulative claims (A)	9,655	6,539	9,658	5,950	3,883	35,685
Cumulative payments to date (B)	8,957	5,285	7,235	3,917	-	25,394
Total (A - B)	698	1,254	2,423	2,033	3,883	10,291
Reserve in respect of years prior to 2007						1,234
TOTAL RESERVE INCLUDED IN THE STATEMENT OF FINANCIAL POSITION						11,525

Insurance claims (gross) for life and medical insurance business amounting to BD 595 thousand pertain to 2011.

Insurance claims for general insurance business - Net

Accident year	2007	2008	2009	2010	2011	Total
Estimate of ultimate claims costs:						
At end of reporting year	5,049	4,890	3,908	1,986	1,949	17,782
One year later	2,584	2,708	4,046	2,383	-	11,721
Two years later	2,884	3,189	3,949	-	-	10,022
Three years later	3,393	3,001	-	-	-	6,394
Four years later	3,400	-	-	-	-	3,400
Current estimate of cumulative claims (A)	3,400	3,001	3,949	2,383	1,949	14,682
Cumulative payments to date (B)	2,946	2,589	3,232	1,843	-	10,610
Total (A - B)	454	412	717	540	1,949	4,072
Reserve in respect of years prior to 2007						754
TOTAL RESERVE INCLUDED IN THE STATEMENT OF FINANCIAL POSITION						4,826

Insurance claims (net) for life and medical insurance business amounting to BD 441 thousand pertain to 2011.

ii. Changes in insurance assets and liabilities

	2011			2010		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Reported claims	12,805	7,902	4,903	12,323	7,187	5,136
IBNR	440	-	440	823	-	823
Total at beginning of the year	13,245	7,902	5,343	13,146	7,187	5,959
Change in liabilities	13,440	5,772	7,668	16,312	8,485	7,827
Claims settled	(14,565)	(6,821)	(7,744)	(16,213)	(7,770)	(8,443)
TOTAL AT END OF THE YEAR	12,120	6,853	5,267	13,245	7,902	5,343
Reported claims	11,680	6,853	4,827	12,805	7,902	4,903
IBNR	440	-	440	440	-	440
TOTAL AT END OF THE YEAR	12,120	6,853	5,267	13,245	7,902	5,343

NOTES TO THE 2011 CONSOLIDATED FINANCIAL STATEMENTS (contd..)

(In thousands of Bahraini Dinars)

18. Outstanding claims (contd..)

iii. 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	
	2011	2010
General Insurance		
Expense rate		
1 percent increase	(39)	(38)
1 percent decrease	39	38
Expected loss ratio		
1 percent increase	(72)	(79)
1 percent decrease	72	79

	Income Statement & Equity	
	2011	2010
Life Insurance		
Demographic assumptions		
10 percent decrease in base mortality and morbidity rates	16	15
10 percent increase in base mortality and morbidity rates	(16)	(15)
Expense assumptions		
1 percent increase	(4)	(6)
1 percent decrease	4	6
Expected loss ratio		
1 percent increase	(5)	(3)
1 percent decrease	5	3

The Group has certain single insurance contract which it considers as risks of high severity but very low frequency. The Group re-insures substantial part of these risks and its loss on any one single event is limited to a loss of BD 150 thousand whereas in case of marine and motor losses Company's exposure to single event is limited to BD 25 thousand.

iv. Movements in outstanding claims

	Gross outstanding claims		Reinsurers' share		Net outstanding claims	
	2011	2010	2011	2010	2011	2010
At 1 January	13,245	13,146	7,902	7,187	5,343	5,959
Charge/ (release) during the year	(1,125)	99	(1,049)	715	(76)	(616)
AT 31 DECEMBER	12,120	13,245	6,853	7,902	5,267	5,343

19. Unearned premiums / unearned commissions

i. Movements in Unearned premiums

	Unearned Gross Premiums		Reinsurers' share		Net Unearned Premiums	
	2011	2010	2011	2010	2011	2010
At 1 January	9,290	10,513	3,290	4,196	6,000	6,317
Release during the year	(743)	(1,223)	(718)	(906)	(25)	(317)
AT 31 DECEMBER	8,547	9,290	2,572	3,290	5,975	6,000

NOTES TO THE 2011 CONSOLIDATED FINANCIAL STATEMENTS (contd..)

(In thousands of Bahraini Dinars)

ii. Movements in Unearned commissions

	2011	2010
At 1 January	20	47
Release during the year	(16)	(27)
AT 31 DECEMBER	4	20

20. Life assurance actuarial reserve and actuarial assumptions

	2011	2010
Balance at 1 January	2,899	3,506
Transfer of contributions	51	128
Release to income statement	(294)	(140)
Termination of contribution retirement plan	-	(920)
Policyholder's share of investment income	17	325
BALANCE AT 31 DECEMBER	2,673	2,899

The actuarial estimate has been prepared by independent actuaries, Actuarial Partners Consulting Sdn. Bhd., Malaysia based on 75% of the 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

	2011	2010
Policyholders – Claims	97	104
Insurance and reinsurance companies	2,669	3,595
TOTAL	2,766	3,699

22. Other liabilities

	2011	2010
Premiums received in advance	326	323
Vehicle repairers and spare parts	868	555
Accrued expenses	72	88
Unclaimed dividends - prior years	180	121
Provision for employees' benefits	591	510
Provision for employees' leaving indemnities	410	365
Other liabilities	842	855
TOTAL	3,289	2,817

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

	2011	2010
Balance at beginning of the year	510	553
Paid during the year	(556)	(543)
Additional amount provided during the year	637	500
BALANCE AT END OF THE YEAR	591	510

NOTES TO THE 2011 CONSOLIDATED FINANCIAL STATEMENTS (contd..)

(In thousands of Bahraini Dinars)

23. Retirement benefits cost

The Group employed 158 Bahrainis (2010: 162 Bahrainis) and 42 expatriates (2010: 44 expatriates) as at 31 December 2011.

Bahraini employees are covered by the pension scheme of Social Insurance Organisation of the Government of Bahrain. Employees and the Group contribute monthly to this scheme on a fixed-percentage-of-salaries basis. The Group's contributions in respect of Bahraini employees for 2011 amounted to BD 254 thousand (2010: BD 246 thousand), which cover other benefits besides pension entitlements.

The Group also offers, on a voluntary basis, to its Bahraini employees, a defined contribution plan, which is determined by the annual contributions paid by the Group and the employees to a post employment benefit plan, together with investment returns arising from the contributions. The Group's contributions in 2011 amounted to BD 80 thousand (2010: BD 88 thousand). The scheme is administered by Bahrain National Life Assurance Company on behalf of the group.

The liability towards the retirement plan as at 31 December 2011 amounted to BD 407 thousand (2010: BD 458 thousand) 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 reporting date.

Provision for employees' leaving indemnities

	2011	2010
At beginning of year	365	334
Indemnities and advances paid	-	(37)
Charge to income statement	45	68
BALANCE AT END OF THE YEAR	410	365

24. Gross premiums

	2011	2010
Gross premiums - Direct Business	19,870	20,832
Gross premiums - Inward Business	2,049	2,255
TOTAL	21,919	23,087

25. Net commissions income

	2011	2010
Commission income	1,548	1,709
Commission expenses	(1,041)	(1,163)
NET COMMISSION INCOME	507	546

26. Segmental information

For operational and management reporting purposes, the Company is organised into three business segments: "Motor & General Insurance segment", "Life Assurance & Medical segment" and "corporate segment".

The Motor & General Insurance segment comprises motor, property, general accidents, engineering, marine and aviation.

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

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

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

NOTES TO THE 2011 CONSOLIDATED FINANCIAL STATEMENTS (contd..)

(In thousands of Bahraini Dinars)

31 December 2011	Motor & General Insurance	Life Assurance & Medical	Corporate	Total
Gross premiums	16,722	5,197	-	21,919
Net premiums earned	9,875	3,482	-	13,357
Net claims incurred	(5,220)	(2,448)	-	(7,668)
Operating expenses	(3,447)	(811)	-	(4,258)
Net commission income/(expenses)	596	(89)	-	507
Release from life actuarial reserve	-	294	-	294
UNDERWRITING PROFITS	1,804	428	-	2,232
Net investment income	1,157	281	289	1,727
Policyholder's share of investment income	-	(17)	-	(17)
Share of profit of associates & venture-capital	-	-	718	718
Corporate expenses	-	-	(1,355)	(1,355)
SEGMENT RESULTS	2,961	692	(348)	3,305
Cash and Cash equivalents	5,461	2,270	313	8,044
Statutory deposits	75	50	-	125
Receivables	4,270	1,273	175	5,718
Reinsurers' share of technical reserves	8,902	523	-	9,425
Investment securities	16,621	8,657	1,837	27,115
Investment in associates	-	-	14,009	14,009
Investment property	-	-	1,455	1,455
Property and equipment	2,077	292	3,360	5,729
TOTAL ASSETS	37,406	13,065	21,149	71,620
Insurance technical reserves	18,491	4,853	-	23,344
Insurance payables	2,375	391	-	2,766
Other liabilities	1,880	190	1,219	3,289
TOTAL LIABILITIES	22,746	5,434	1,219	29,399
31 December 2010	Motor & General Insurance	Life Assurance and Medical	Corporate	Total
Gross premiums	18,101	4,986	-	23,087
Net premiums earned	10,312	3,275	-	13,587
Net claims incurred	(5,502)	(2,325)	-	(7,827)
Operating expenses	(3,462)	(976)	-	(4,438)
Net commission income/(expenses)	592	(46)	-	546
Release from life actuarial reserve	-	140	-	140
Underwriting profits	1,940	68	-	2,008
Net investment income	1,581	634	388	2,603
Policyholder's share of investment income	-	(325)	-	(325)
Share of profit of associates & venture-capital	-	-	649	649
Corporate expenses	-	-	(1,121)	(1,121)
Segment Results	3,521	377	(84)	3,814
Cash and Cash equivalents	8,027	1,262	486	9,775
Statutory deposits	75	50	-	125
Receivables	3,978	1,302	152	5,432
Reinsurers' share of technical reserves	10,761	431	-	11,192
Investment securities	16,178	8,789	2,333	27,300
Investment in associates	-	-	13,761	13,761
Investment property	-	-	1,542	1,542
Property and equipment	1,279	223	3,498	5,000
Total Assets	40,298	12,057	21,772	74,127
Insurance technical reserves	20,674	4,780	-	25,454
Insurance payables	3,423	276	-	3,699
Other liabilities	1,508	157	1,152	2,817
Total Liabilities	25,605	5,213	1,152	31,970

NOTES TO THE 2011 CONSOLIDATED FINANCIAL STATEMENTS (contd..)
(In thousands of Bahraini Dinars)

26. Segmental information (contd..)

Geographical information

31 December 2011	Bahrain	GCC	Other Countries	Total
Gross premiums	19,986	1,549	384	21,919
Non-current assets	21,947	11,577	11,245	44,769
31 December 2010	Bahrain	GCC	Other Countries	Total
Gross premiums	21,295	1,596	196	23,087
Non-current assets	22,056	9,838	12,576	44,470

The gross premiums information is based on the location of the customer.

Non-current assets for this purpose consist of investment securities which are intended to be held for more than one year, investment in associates, property investment and property and equipment.

27. Net investment income

	2011	2010
Profit on sale of securities	(91)	453
Transfer from other comprehensive income on disposal of securities	615	847
Valuation gains	(43)	242
Foreign exchange gains / (losses)	71	(13)
Amortisation of premiums on held-to-maturity securities	(44)	(26)
Interest income	820	872
Dividend income	417	425
Other income	18	-
GROSS INVESTMENT INCOME	1,763	2,800
Provision for impairment on investment	(112)	(235)
Investment administration expenses	(93)	(71)
Investment property income	327	266
Depreciation on investment property	(87)	(87)
Other investment property expenses	(71)	(70)
TOTAL NET INVESTMENT INCOME AS PER INCOME STATEMENT	1,727	2,603

Gross investment income by segment

	2011	2010
Shares in Bahraini public companies	567	932
Other equities	94	128
Government and other bonds	777	731
Managed funds	182	861
Cash and short-term deposits	125	148
Miscellaneous Income	18	-
GROSS INVESTMENT INCOME	1,763	2,800

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28. Expenses

i. Other operating expenses:	2011	2010
Employee costs	2,153	2,281
Depreciation	291	349
Other costs	955	948
Service fees charged	859	860
TOTAL	4,258	4,438
ii. Corporate and financial expenses:	2011	2010
Employee costs	1,399	1,201
Depreciation	274	213
Other costs	541	567
Service fees recovered	(859)	(860)
TOTAL	1,355	1,121

29. 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 risks 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.

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.

NOTES TO THE 2011 CONSOLIDATED FINANCIAL STATEMENTS (contd..)

(In thousands of Bahraini Dinars)

29. Insurance Contracts, Financial instruments and risk management (contd..)

31 December 2011	General Insurance	Life Assurance	Total
Geographical area			
Bahrain			
Gross	18,255	1,731	19,986
Retained	12,025	1,011	13,036
Other countries			
Gross	1,793	140	1,933
Retained	215	81	296
TOTAL			
Gross	20,048	1,871	21,919
Retained	12,240	1,092	13,332
<hr/>			
31 December 2010	General Insurance	Life Assurance	Total
Geographical area			
Bahrain			
Gross	19,458	1,837	21,295
Retained	12,060	991	13,051
Other countries			
Gross	1,792	-	1,792
Retained	219	-	219
TOTAL			
Gross	21,250	1,837	23,087
RETAINED	12,279	991	13,270

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.

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.

NOTES TO THE 2011 CONSOLIDATED FINANCIAL STATEMENTS (contd..)

(In thousands of Bahraini Dinars)

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; and
- 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 is managed by the Group by monitoring credit exposures and continually assessing the creditworthiness of counterparties.

Management of credit risk

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

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

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

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:

NOTES TO THE 2011 CONSOLIDATED FINANCIAL STATEMENTS (contd..)

(In thousands of Bahraini Dinars)

29. Insurance Contracts, Financial instruments and risk management (contd..)

Financial assets	2011	2010
Receivables		
Policyholders:	2,249	1,937
Insurance and reinsurance companies	2,326	2,646
Others	898	644
Outstanding claims recoverable from reinsurers	6,853	7,902
Investment securities:		
Securities carried at fair value through profit or loss	73	38
Available for sale securities	2,154	2,425
Held to maturity securities	10,138	10,204
Cash and cash equivalents	8,044	9,775
Statutory deposits	125	125
TOTAL	32,860	35,696

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

	2011	2010
Ahli United Bank	2,536	2,094
BMI Bank	1,487	804
Bahraini Saudi Bank	1,481	524
National Bank of Bahrain	854	1,412
Central Bank of Bahrain	908	1,042
CHASE Bank	1	1,105

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	Past due but not impaired	Individually impaired	Individually impaired	Total
	Less than 90 days	91- 180 days	More than 180 days	Gross Amount	Provision for impairment	
31 December 2011						
Receivables						
- Policyholders:	1,090	815	344	274	(274)	2,249
- Insurance and reinsurance companies	655	1,237	434	31	(31)	2,326
- Others	898	-	-	-	-	898
	2,647	2,066	760	305	(305)	5,473
Outstanding claims recoverable from reinsurers	541	801	5,511	-	-	6,853
TOTAL	3,188	2,867	6,271	305	(305)	12,326

NOTES TO THE 2011 CONSOLIDATED FINANCIAL STATEMENTS (contd..)

(In thousands of Bahraini Dinars)

Financial assets	Neither past due nor impaired	Past due but not impaired	Past due but not impaired	Individually impaired	Individually impaired	Total
	Less than 90 days	91- 180 days	More than 180 days	Gross Amount	Provision for impairment	
31 December 2010						
Receivables						
- Policyholders:	833	591	513	280	(280)	1,937
- Insurance and reinsurance companies	996	1,109	541	32	(32)	2,646
- Others	644	-	-	-	-	644
	2,473	1,700	1,054	312	(312)	5,227
Outstanding claims recoverable from reinsurers	370	407	7,125	-	-	7,902
TOTAL	3,843	2,107	8,179	312	(312)	13,129

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 30.

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 2011	Contractual undiscounted cash flows				
Financial liabilities	Carrying amount	Less than 1 year	1 - 2 years	2 - 5 years	More than 5 years
Policyholders' liabilities	97	97	-	-	-
Insurance/reinsurance companies	2,669	2,669	-	-	-
Outstanding Claims - Gross	12,120	4,417	2,911	4,164	628
Other payables	2,216	2,216	-	-	-
31 December 2010	Contractual undiscounted cash flows				
Financial liabilities	Carrying amount	Less than 1 year	1 - 2 years	2 - 5 years	More than 5 years
Policyholders' liabilities	104	104	-	-	-
Insurance/reinsurance companies	3,595	3,595	-	-	-
Outstanding Claims - Gross	13,245	5,748	3,312	3,415	770
Other payables	1,854	1,854	-	-	-

NOTES TO THE 2011 CONSOLIDATED FINANCIAL STATEMENTS (contd..)

(In thousands of Bahraini Dinars)

29. 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 31.

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 Executive committee monitors the asset allocation and investment strategy. 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 note13.

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:

Net currency-wise concentration in thousands of Bahraini dinar equivalents

Financial Assets	2011	2010
Euros	123	821
Pounds sterling	116	292
Other currencies	262	152
Total open foreign exchange position at 31 December	501	1,265
United States dollars	23,147	23,555
GCC Currencies	11,682	11,857
Bahraini dinars	26,289	27,413
TOTAL AT 31 DECEMBER	61,619	64,090

NOTES TO THE 2011 CONSOLIDATED FINANCIAL STATEMENTS (contd..)

(In thousands of Bahraini Dinars)

This comprises:	2011	2010
Securities carried at fair value through profit or loss	1,985	1,906
Available-for-sale securities	14,992	15,190
Held-to-maturity securities	10,138	10,204
Investment in associates	14,009	13,761
Cash and Bank balances	8,044	9,775
Statutory deposits	125	125
Receivables:		
Policyholders	2,249	1,937
Insurance and reinsurance companies	2,326	2,646
Others	898	644
Outstanding claims recoverable from reinsurers	6,853	7,902
TOTAL	61,619	64,090

Financial Liabilities	2011	2010
United States dollars	546	685
GCC Currencies	4,727	5,086
Bahraini dinars	20,151	22,278
Other currencies	229	59
Total at 31 December	25,653	28,108

This comprises:	2011	2010
Payables		
Policyholders Liabilities	97	104
Insurance/reinsurance companies payables	2,669	3,595
Outstanding claims	12,120	13,245
Unearned premiums	8,547	9,290
Unearned commissions	4	20
Others payables	2,216	1,854
TOTAL	25,653	28,108

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.

NOTES TO THE 2011 CONSOLIDATED FINANCIAL STATEMENTS (contd..)

(In thousands of Bahraini Dinars)

29. Insurance Contracts, Financial instruments and risk management (contd..)

31 December	2011		2010	
	Income statement	Equity	Income statement	Equity
Interest rate risk				
+ 1 percent shift in yield curves	3	91	2	124
- 1 percent shift in yield curves	(3)	(91)	(2)	(124)
Equity price risk				
+1 percent increases in equity prices	5	65	6	68
-1 percent decrease in equity prices	(5)	(65)	(6)	(68)

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.

Receivables, Investments & Cash	2011		2010	
	Income statement	Equity	Income statement	Equity
US Dollars	134	92	137	92
Euro	-	1	7	1
Pounds Sterling	1	-	3	-
GCC currencies	59	11	57	11
Other currencies	-	1	-	1

30. Maturity profile of investments

	Less than		5-10 years	Over 10 years / no maturity	Total 2011	Total 2010
	1 year	1-5 years				
Equities	-	-	-	6,333	6,333	6,659
Government bonds	311	1,612	1,256	-	3,179	2,782
Other bonds	1,242	7,189	683	-	9,114	9,847
Managed funds	-	-	-	6,160	6,160	5,513
Unquoted equities & funds	-	-	-	344	344	593
Investment in associates	-	-	-	14,009	14,009	13,761
TOTAL	1,553	8,801	1,939	26,846	39,139	39,155
2010	1,227	9,313	1,515	27,100	39,155	

This balance comprises:

	2011	2010
Available-for-sale securities	14,992	15,190
Held-to-maturity securities	10,138	10,204
Investment in associates	14,009	13,761
TOTAL	39,139	39,155

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

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

NOTES TO THE 2011 CONSOLIDATED FINANCIAL STATEMENTS (contd..)

(In thousands of Bahraini Dinars)

31. Geographical concentration of investments

	2011	2010
Bahrain	15,851	16,333
Other GCC countries	12,051	10,000
Japan and Korea	605	37
Other Asia/Oceania	723	1,370
Europe	2,671	6,003
North America	6,723	4,965
Middle East and Africa	-	126
Global/multi-regional	2,500	2,227
TOTAL	41,124	41,061

This comprises:

	2011	2010
Securities carried at fair value through profit or loss	1,985	1,906
Available-for-sale securities	14,992	15,190
Held-to-maturity securities	10,138	10,204
Investment in associates	14,009	13,761
TOTAL	41,124	41,061

32. Related parties

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

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

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

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

	2011	2010
Assets		
Receivables from companies in which directors are interested	718	465
Receivables from associates	328	255
Liabilities - payables		
Payables to companies in which directors are interested	554	236
Payables to associates and joint-venture	14	55
Income and expenses		
Gross premiums	2,519	1,803
Claims	206	578
Other income	18	30

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:

NOTES TO THE 2011 CONSOLIDATED FINANCIAL STATEMENTS (contd..)

(In thousands of Bahraini Dinars)

32. Related parties (contd..)

	2011	2010
Salaries and benefits	547	557
Terminal benefits	118	100
Post employment benefits	41	43
Board remuneration	120	119
Board committee sitting fees	60	38

33. 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.

2011	Fair value through the income statement	Available-for-sale	Held-to-maturity	Loans and receivables	Total carrying value	Fair value
Cash and cash equivalents	-	-	-	8,044	8,044	8,044
Receivables	-	-	-	5,473	5,473	5,473
Reinsurer's share of outstanding claims	-	-	-	6,853	6,853	6,853
Investment securities	1,985	14,992	10,138	-	27,115	27,598
TOTAL FINANCIAL ASSETS	1,985	14,992	10,138	20,370	47,485	47,968
Outstanding claims	-	-	-	12,210	12,210	12,210
Insurance payables	-	-	-	2,766	2,766	2,766
Other liabilities	-	-	-	2,216	2,216	2,216
TOTAL FINANCIAL LIABILITIES	-	-	-	17,192	17,192	17,192

2010	Fair value through the income statement	Available-for-sale	Held-to-maturity	Loans and receivables	Total carrying value	Fair value
Cash and cash equivalents	-	-	-	9,775	9,775	9,775
Receivables	-	-	-	5,227	5,227	5,227
Reinsurer's share of outstanding claims	-	-	-	7,902	7,902	7,902
Investment securities	1,906	15,190	10,204	-	27,300	27,919
TOTAL FINANCIAL ASSETS	1,906	15,190	10,204	22,904	50,204	50,823
Outstanding claims	-	-	-	13,245	13,245	13,245
Insurance payables	-	-	-	3,699	3,699	3,699
Other liabilities	-	-	-	1,854	1,854	1,854
TOTAL FINANCIAL LIABILITIES	-	-	-	18,798	18,798	18,798

34. Commitments and contingent liabilities

As at 31 December 2011, the Group has commitments to make investments amounting to BD 310 thousand (2010: BD 250 thousand).

35. Comparatives

Certain corresponding figures of 2010 have been reclassified where necessary to conform to the current year's presentation. Such reclassification did not affect previously reported total assets, total liabilities, equity, profit or comprehensive income.

FORMING PART OF THE CORPORATE GOVERNANCE & RISK MANAGEMENT DISCLOSURES Bahrain National Holding Company

Board of Directors & Executive Management interests

For the Period 01 January 2011 - 31 December 2011

Name of Shareholder	Number of Shares as of 01/01/2011	Number of Shares as of 31/12/2011	Changes
Directors			
Mr. Farouk Yousif Almoayyed (Chairman)	1,234,088	1,234,088	-
Mr. Abdul Hussain Khalil Dawani (Vice Chairman)	1,244,907	1,244,907	-
Mr. Abdul Rahman Mohamed Juma	635,996	635,996	-
Mr. Jehad Yousif Abdulla Amin	500,000	500,000	-
Mr. Ali Hassan Mahmood	505,601	505,601	-
Mr. Ali Rashid Al Amin	973,347	1,034,265	60,918
Mr. Ayad Saad K. Algosaibi	100,000	100,000	-
Mr. Sami Mohammed Sharif Zainal	139,876	139,876	-
Mr. Talal Fouad E. Kanoo	144,798	144,798	-
Mr. Ghassan Qassim Fakhroo	100,000	100,000	-
Executive Management			
Mr. Mahmood Al Soufi (Chief Executive)	114,046	114,046	-