

Caring for a Sustainable Future





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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
& Deputy Supreme Commander

Mission Statement

Our Vision

Creating prosperity through security

Our Mission

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

Our Values

Integrity, Excellence, Pioneering

Board of Directors



*Mr. Farouk Yousif
Almoayyed*
Chairman

Mr. Ahmed Ali Al A'ali
Director

Mr. Ali Rashid Al Amin
Director

*Mr. Sami Moh'd
Sharif Zainal*
Director

*Mr. Abdulhussain Khalil
Darwani*
Vice Chairman





Mr. Talal Fuad Kanoo
Director

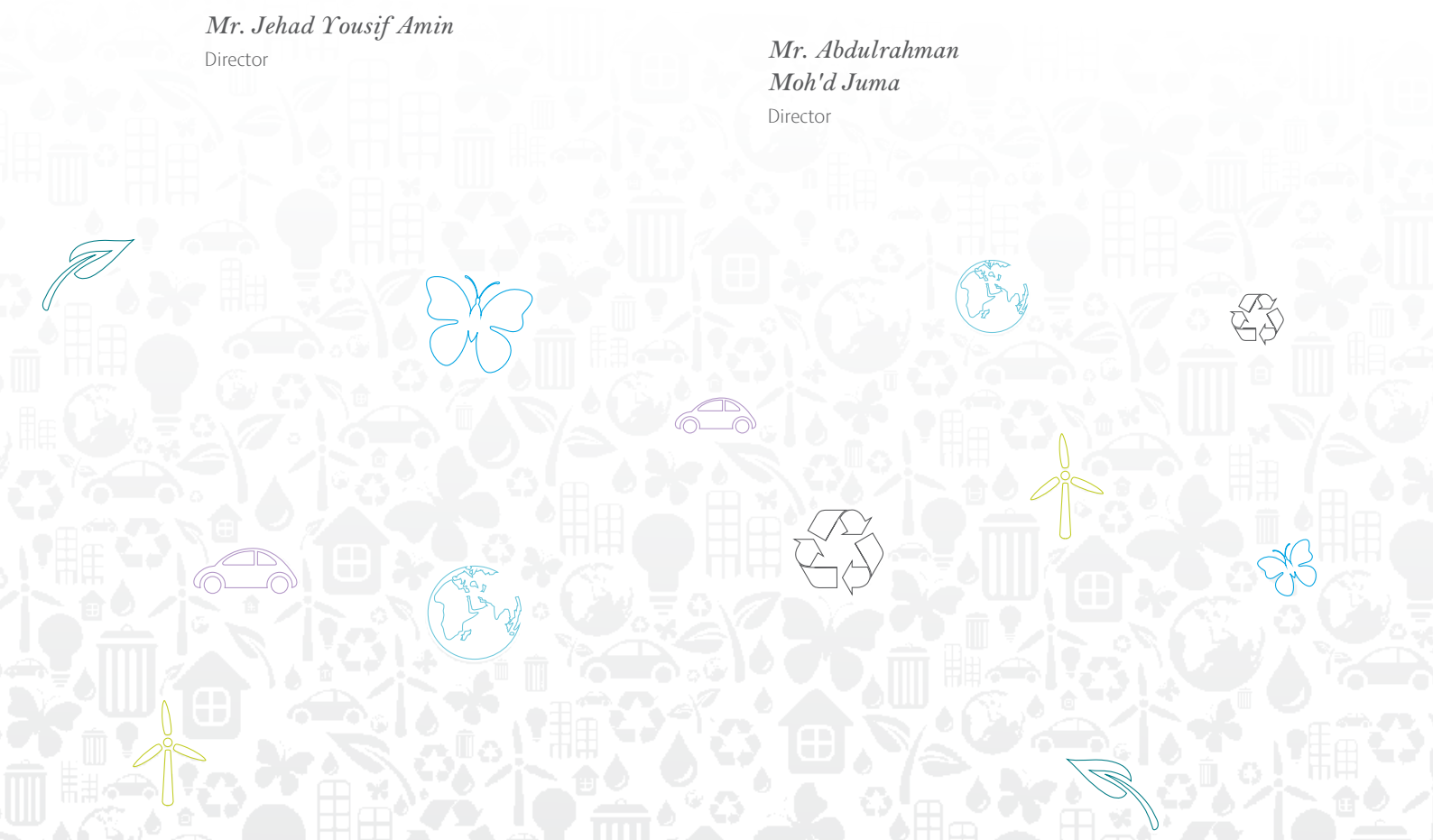
*Mr. Ayad Saad Khalifa
Algozaibi*
Director

*Mr. Abdul Hakim
Al Adhamy*
Director

*Mr. Ghassan Qassim
Moh'd Fakhroo*
Director

Mr. Jehad Yousif Amin
Director

*Mr. Abdulrahman
Moh'd Juma*
Director



Chairman's Statement

"During 40 years of our history we have demonstrated our ability to navigate business and economic cycles with consistency in operating performance. A stable management team is the cornerstone of BNH's ability to effectively manage unforeseen changes in business outlook, sentiment and markets."

On behalf of the Board of Directors, it gives me pleasure to present the Annual Report of Bahrain National Holding Company (BNH) for the period ended 31 December 2009. Notwithstanding the unprecedented economic and financial challenges during 2009, the year was characterized by BNH's stable performance while its subsidiaries and associated companies continued to achieve positive results and the Group continues strengthening its institutional capabilities.

Despite the continuing difficult economic conditions and operating environment which imposed a myriad of challenges during the year 2009, BNH continued its successful progress toward realization of its vision to become the preferred provider of financial protection and risk management. In the light of the negative consequences of the global financial downturn, BNH continued to embrace a conservative and balanced approach in its corporate investments and focused its attention on insurance business to ensure realization of its objective both from a financial perspective and its contribution to Bahrain's economic and social development.



BNH has entered the fifth decade of its operations as Bahrain National Insurance celebrates its 40th anniversary since its launch back in 1969 (known then as Bahrain Insurance Company). We are proud of the magnificent achievements which we have managed to attain during this long journey, during which we succeeded in assuming a leading position in the Bahrain insurance market and our determination remains undiminished to maintain this position over the next 40 years, God willing.

The most striking feature which characterizes our performance this year is that it is a collective representation of the solid strategic initiatives undertaken by the Company throughout the previous years which has contributed to our efficiency and effectiveness, especially in a period during which the global and regional markets faced major economic challenges that shook the performance and foundations of many well-established international financial institutions and insurance corporations. In spite of these conditions, BNH efforts have been successful in enhancing its activities and in preserving the consistency of its performance with flying colors and full merit.

Throughout the year, BNH maintained its focus on consistent growth, prudent risk management and solid governance practices. While no other insurance company was immune to the turbulent market consequences, their impact on BNH has been relatively limited as a result of our conservative business model, prudent risk management approach and total commitment to the best international practices.

One indicator which illustrates the strength the Group enjoys is the financial strength rating of our wholly owned subsidiary, Bahrain National Insurance (bni), by Standard and Poor's at BBB+, with a "Stable" outlook in the light of our strong operating performance, strong capitalization and strong investments and liquidity rates. Additionally the success of our two subsidiaries, Bahrain National Insurance (bni) and Bahrain National Life Assurance (BNL) in maintaining their market shares and positions, despite the intense and ever growing competition by local, regional and international insurance companies (conventional and Islamic).

During 2009, BNH managed to realize good and positive financial results in comparison with the prevailing market conditions. Net profits reached BD 4.1 million, an increase of 101% over last year. These results reflect the stable position of BNH and the commitment of our shareholders and customers to support our products and services which are designed to successfully navigate through such an economic crisis, thanks to the Board of Directors plan to deal with the downturn and its aftermath. These results are regarded as actual indicators that reveal the outstanding performance of the Group and its subsidiaries and associate companies.

The Company registered a net earned premium income of BD 13.4 million for the period in comparison to BD 12.9 million 2008, an increase of 4%. Additionally, being committed to our conservative approach, we have prudently charged our profit and loss account with an impairment charge of BD 334 thousand as a result of the decline in our investment portfolio largely in the first quarter of the year.

As a result of an improvement in global stock markets during the remainder of 2009, the investment income after impairment increased by 503% to reach BD 2.5 million. The insurance underwriting profits were slightly lower by 3% to BD 3.0 million (compared with BD 3.1 million) in 2008, while the shareholders' equity increased by 4% to BD 38.5 million (compared with BD 37.2 million in 2008) and earnings per share in fils reached 37.74, compared with 18.55 in 2008. Accordingly, the Board of Directors recommends the distribution of a total cash dividend of BD 2.1 million (2008: BD 1.6 million), which is equivalent to 20 fils per share for the year 2009 (2008: 15 fils).

Yet, we should not forget, after more than one year of the crisis, that the world is going through a very slow economic recovery phase. This leaves us with no option but to look forward to the near future with caution and wisdom in terms of investment diversification and scrutiny of the various business opportunities, since our objective is to protect the best interests of the shareholders and create an ideal work environment that will contribute to the economic development of our community by adding a new dimension to the insurance industry.

We applied a cost reduction policy and adopted a cautious policy in all our fields of operations, coupled with effective use of state-of-the-art technologies in facilitating and streamlining our processes and yet we maintained a similar level of workforce and an ever growing customer base. We also increased the training budget to reflect our ongoing commitment to the development of our employees.

On behalf of the Board of Directors, I would like to express my sincere gratitude and appreciation to His Majesty King Hamad bin Isa Al-Khalifa, King of Bahrain and His Royal Highness Prince Khalifa bin Salman Al-Khalifa, the Prime Minister and His Royal Highness Prince Salman bin Hamad Al-Khalifa, the Crown Prince and Deputy Supreme Commander, for their wise leadership and constant encouragement of the finance sector and the insurance industry in particular. My thanks also go to the Central Bank of Bahrain, Bahrain Stock Exchange, the Ministry of Finance, the Ministry of Industry and Commerce and other Government authorities for their continued guidance and support during the year 2009.

I wish also to extend my gratitude and thanks to the shareholders, customers and business partners for their unwavering loyalty and encouragement, as well as to the Executive Management and all members of the BNH team for their constant efforts and endeavours which enabled the Company to achieve good results in spite of the difficult global market conditions.

The year 2010 will be full of challenges and opportunities, especially in the light of economic changes and some positive indicators that are looming in the horizon. We are confident of the Company's ability to respond to the various challenges and take advantage of the opportunities arising from such challenges as a result of our corporate strategic plans which are characterized by flexibility and foresight.

Farouk Yousif Almoayyed
Chairman

Chief Executive's Message



"Despite the turbulence witnessed in the global economy, BNH demonstrated great resilience and fortitude in weathering the storm. We will therefore continue on our chosen path of prudent expansion and exemplary growth in tandem with astute investment strategies to continue our success story."

The most salient and distinguishing facet of the financial results achieved during the year ended on 31 December 2009 is that it constitutes an essential milestone in BNH's journey of growth, as such results came amid the backdrop of a financial turbulent and challenging year that has affected not only local markets, but also many prominent international markets. In this light, I would like to take this opportunity to express our optimism for the future, stemming from our pride and satisfaction in the Company's performance reflecting its solid approach.

During 2009, BNH's business model demonstrated once again its value and flexibility in dealing with various economic conditions. Throughout the year, we continued our journey of being an integrated, diversified and comprehensive insurance company whose activities are not confined to a specific workframe but seeks to enter new sectors in uncharted waters.

During 2009 BNH achieved positive financial results where the net profit reached BD 4.1 million (2008: BD 2 million), leading to realization of returns on shareholder's equity of 10%. The net insurance revenue reached BD 14.3 million (2008: BD 13.7 million), while the total shareholders' equity reached BD 38.5 million (2008: BD 37.2 million). The Company also boasts a strong balance sheet as well as healthy cash flows and liquidity levels and strong capacity to manage insurance and investment activities.

These financial results came in the shadow of a period where the global economy experienced the implications of the financial meltdown and economic decline which included countries all over the world. However, we, at BNH, embraced an income diversification policy and have been extremely selective in our business pursuits which are in the best interests of the shareholders. Based on this premise, the Company persisted in its efforts to build a strong insurance strategy, taking into consideration the highest possible professional standards and measures, in addition to adopting best practices in risk management and corporate governance. We further continued to enhance our corporate institutional capabilities to support the growth and development of our activities.

The growth in premiums and profits from our technical business lines resulted not only from prudent underwriting and claims management but also from the Group's ability to meet its planned increase in retentions which remain a cornerstone of our insurance risk management policy.

In late 2008, the Board of Directors approved the strategic plan of the Group for the next 3 years (2009 - 2011), which is designed to analyze local and regional insurance markets, define the Group's future expansion and investment plans and opportunities for new strategic partnerships and alliances.

In spite of the global financial crisis and its implications, the Group launched during the year a number of new products and initiatives. bni launched the "Liability Insurance for Professionals & Directors"; a suite of products designed to provide insurance protection to the professionals. The Company also launched the "Intelligent Insurance" service, an automated insurance renewal machine that allows bni customers to renew their motor, home and domestic servant insurance policies in an easy, quick and convenient manner, available in 5 of bni's branches in Seef District, Muharraq, Sanad, Isa Town and Manama.

bni also launched its "Traders' Combined Insurance Policy" targeted at small to medium sized traders. The purpose of this brand new policy is to encourage entrepreneurs to focus on running their business by providing straightforward insurance coverage at a competitive price. This insurance covers most of the risks the business is expected to face.

Continuing on its firm approach to reach out to its customers all over Bahrain, bni opened a new branch at Isa Town shopping mall, increasing bni's network to 10 branches across the Kingdom, in addition to its virtual branch www.bnidirect.com.

Although the financial crisis had a negative impact on all investment sectors, we spotted during the year several attractive investment

opportunities in the different GCC countries and currently the Company is studying a number of these opportunities and their compatibility with our investment standards and criteria and the prevailing market conditions.

In recognition of our efforts and leadership, the Group won several international awards during the year. bni's logo has won the "Best of Nation" award by the World Logo Design Awards wolda. The wolda awards are the most prestigious in the branding industry; recognizing excellence in brand concept and design. The Group's 2008 Annual Report also won the Midas Gold Award for its creative design. Later in 2009, BNH was awarded the "CIO 20" award for the Middle East Information Technology for the innovative "bnidirect" service which was launched by bni in early 2008.

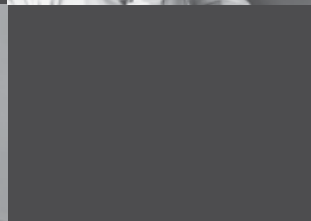
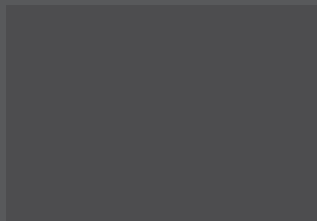
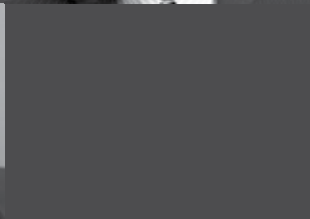
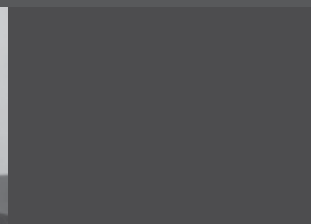
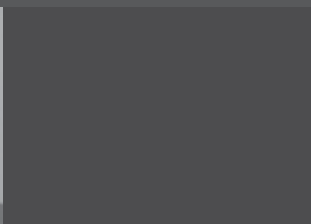
Being one of the oldest institutions in the country, BNH is aware of its social responsibilities and provides support to the community efforts in charitable, cultural, sporting and educational initiatives. In confirmation of this endeavour, the Group was ranked in first place among insurance companies in Bahrain in terms of participation in serving the local community, according to a comprehensive research conducted by Al Ekr Charity Fund, and seventh amongst the overall private companies registered in Bahrain and listed on the Bahrain Stock Exchange.

In conclusion, I wish to thank all the staff of the Group for their effort and hard work and I also wish to express my high appreciation to the Chairman, the Board of Directors, the shareholders and customers for their confidence and continuous encouragement. We look forward to more achievements and success in 2010.

Mahmood Al Soufi
Chief Executive



Executive Management



Mr. Mahmood Al Soufi
Chief Executive
BNH

Mr. David Matthews
Chief Financial Officer
BNH

Mr. Abdulla Khamis Al Surwaidi
General Manager
Motor & Personal Lines - bni

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

Mr. Joseph Rizzo
General Manager
General Insurance - bni





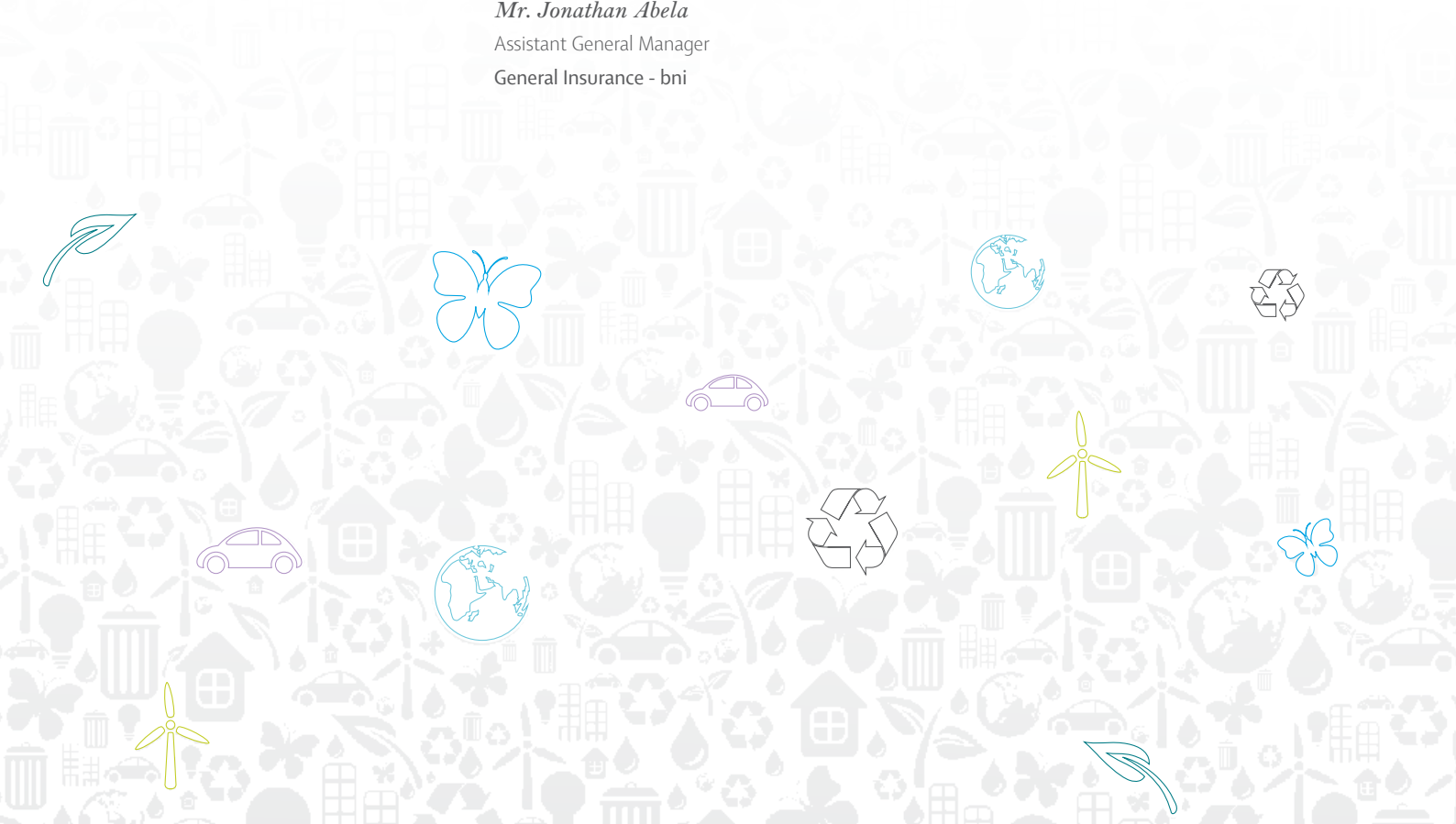
Mr. Mohammed Kadhim
Assistant General Manager
Legal & Compliance - BNH

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

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

Mr. Adrian Reid
Group IT Manager
BNH

Mr. Jonathan Abela
Assistant General Manager
General Insurance - bni



A Tribute to Quality

bni has won the “Best of Nation” award by the World Logo Design Awards wolda. The wolda awards are the most prestigious in the branding industry; recognizing excellence in brand concept and design. The “Best of Nation” award signifies the success of the bni branding strategy implemented since the introduction of the new logo in 2007 designed by Unisano and managed by the Group's Corporate Communications Department. The wolda awards are evaluated by a scoring system consisting of three panels of international judges including designers, clients and member of the public; resulting in a decision that encompasses a wide array of opinions.

In 2009 BNH's Annual Report 2008 'Spreading Prosperity' was announced the winner of the Midas Gold Award for its creative design and presentation in New York. The report was designed by Vahid Associates Brand Futurists. The Midas Awards is the only international competition to recognize excellence in financial services communications, providing a worldview of advertising and corporate communications in the international financial community.

Later that year, BNH was awarded the “CIO 20” award for the Middle East Information Technology for the innovative “bnidirect” service which was launched by bni early last year. BNH was amongst 20 organizations in the Middle East who were all recognized for their innovative contributions in the information technology industry to serve as an effective tool for improving relationships with customers.



Review of Operations

Group Shared Services

Investment Operations

Insurance is a long-term business and the growth of our financial strength upon which our clients rely, has been built up over time as a result of cautious, prudent and vigilant investment. It is therefore a key component of our corporate philosophy to build upon our solid domestic base in Bahrain while developing the BNH Group beyond those borders.

A critical success factor in our investment plans is the BNH Brand which is well respected and trusted locally and regionally. Our continuing adherence to good Corporate Governance and Risk Management standards will augment that reputation and image.

BNH invests primarily in international and regional funds, bonds and equities, with a core focus on regional equities, mostly in Bahrain. The GCC financial markets witnessed turbulence throughout the year, particularly in the last quarter with the Dubai Holding Company debt crisis rising to the surface. However, the Group's consistent portfolio discipline and diversified investment strategy helped to minimize the impact. Improvements in global and regional stock markets during 2009 contributed to relatively better results compared to 2008.

Customer Service

The Group considers clients to be its most important asset. It is the endorsement from this stakeholder that allows it to consolidate and increase its market standing over time. Therefore, maximizing customer satisfaction is one of the Group's top priorities which it pursues through increasingly high standards in the quality of services and products it provides. In this regard bni is the first insurance provider to establish branches in the Kingdom. Presently we have 10 branches that cater to the needs of our policy holders.

Maintaining our leadership position and improving upon our market share by an enhanced focus on customers' needs, promoting personal lines products, development of life and health solutions, expansion of online services and also via a wider network of branches are the key components of our customer care philosophy.

Human Resources

Human resources are a key element of the Group's strategic vision, which believes in the value of each individual's expertise and commitment. The Group has made good progress with its commitment to build a good human resources development capability. The Human Capital team reviewed and updated

related processes and procedures and implemented the new job evaluation and job-point system from the Hay Group.

The Group also established an HRD committee which meets regularly to ensure the continued specific training and development opportunities for staff to acquire specialist insurance skills, knowledge and qualifications through which to progress their career with the Group.

The Group has designed an Executive Development Programme (EDP) to develop young qualified Bahraini staff to attain executive levels in the Group. The programme embraces general business, professional and leadership skills as well as specialist areas as strategy development.

Information Technology

The Group considers the adoption of the latest information and communications technology (ICT) as a critical business enabler in supporting its current activities and future strategic direction. During 2009, BNH continued to review and revise its ICT strategy and continued implementation of the 3 year ICT plan that was introduced in 2007, designed to meet the ongoing requirements of the restructured business divisions.

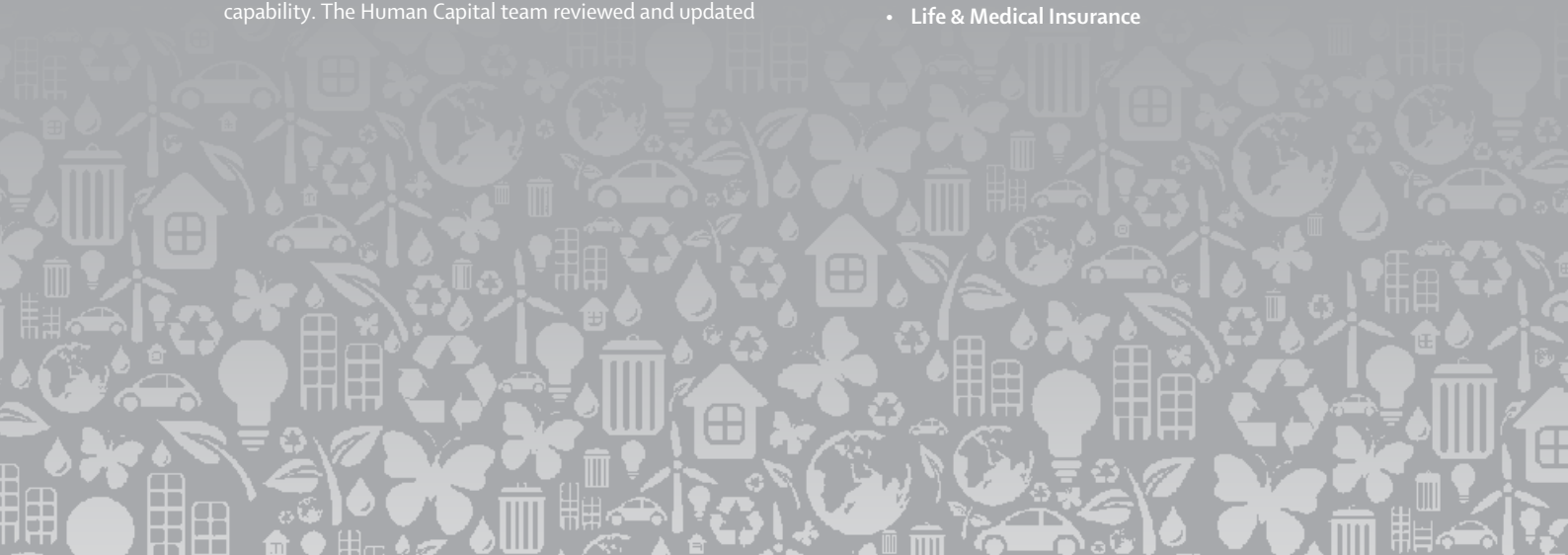
During the year, BNH implemented an advanced IT solution that has improved the quality of data in order to strengthen the compliance and risk management necessary in today's world.

Additionally, BNH is in the process of installing and implementing an Enterprise Content Management system which will significantly decrease the time required to process claims, leading to higher customer satisfaction and convenience.

Subsidiaries

The Group has under its umbrella 2 insurance subsidiaries. Bahrain National Insurance Company (bni) which provides a range of personal lines insurance solutions, comprising motor, home, travel, domestic servants and third party cover, as well as a comprehensive range of general insurance products and services. Bahrain National Life Assurance Company (BNL) specializes in life and medical insurance for individuals and businesses.

- **Bahrain National Insurance (bni)**
 - Motor & Personal Lines Insurance
 - General Insurance
- **Bahrain National Life Assurance (BNL)**
 - Life & Medical Insurance



Review of Operations contd...

Bahrain National Insurance

Motor & Personal Lines

The Group's dedicated Personal Lines division continued to streamline its processes and procedures during 2009. The division also maintained its focus on customer satisfaction, expanding its customer services unit, providing both underwriting and claims services at more branches and strengthening its claims unit to assist customers with progress on the status of their vehicle repairs with approved garages.

With an effort to improve customers' experience, "Intelligent Insurance" a new key initiative was launched during the year, it is the first of its kind in the local insurance market. The service is an automated insurance renewal machine that allows bni customers

to renew their motor, home and domestic servant insurance policies in an easy, quick and convenient manner. The service is available in 5 of bni's branches and marked as "Intelligent Insurance Zone" located in Seef District, Muharraq, Sanad, Isa Town and Manama.

On a similar note bni opened a new branch in Isa Town shopping mall. This branch increases the bni network to 10 branches across the Kingdom. The opening of this tenth branch is a strong testimony to bni's commitment to customer convenience by being closer to them.



The carbon dioxide emission of Bahrain in terms of quantity and percentage is only **0.1 %**, but it is the **6th** highest emitter per capita in the world.

High air pollution is putting people at risk of lung and heart problems and even premature death. About 71% of greenhouse gases in Bahrain come from energy production, followed by waste 12%, industries 10%, road transport 7%, and agriculture 0.3%

*Source: Engineer Rehan Ahmed, senior environmental specialist at the Public Commission for the Protection of Marine Resources, Environment & Wildlife.

Review of Operations *contd...*

General Insurance

The market for corporate general business has not shown any signs of hardening during 2009. The economic situation which manifested itself during the last quarter of 2008 has over-shadowed corporate development during 2009. Corporations and institutions were seeking to minimize and control their costs. Once again the insurance market played along as we saw new entrants struggling for market share, sometimes at any cost. In addition to this pressure on pricing the slow down of economic activity worldwide resulted in reduction of activity such as imports and exports from certain clients and delays or postponement of projected construction developments which normally fuel gross premiums written.

During this period bni's approach was one of consolidation and maintaining, although under very difficult conditions and considerable pressure, its prudent underwriting criteria without losing focus of its direction towards building a long term sustainable and profitable account. In real terms this implied pruning our portfolio and maintaining our terms for direct new and renewal business. This approach resulted in the loss of some major accounts, mainly those with minimal contribution towards bottom line profits. However the major impact on the gross premiums, when compared to last year, was the non-recurring income of about BD 3.2 million from one large single civil works construction project in the engineering class of business. Notwithstanding these differences, the general insurance division continued to improve its market penetration in the SME's business with an increase from new business in this area of around 7% of the present portfolio. This follows the strategy of building a homogenous account and reducing dependencies on the large highly competitive accounts.

The above has been achieved by the introduction of packaged insurance policies grouping the requirements of particular occupations and operations of our client base. An example of this is the Traders' Combined which was launched during the first part of the year. With this policy we bundled all the requirements of traders, retailers and small business to give them additional cover all in one rate. This is the first of a series and has proved to be a very popular product with the local brokers in the market and we will continue to develop this concept in other areas.

Another achievement was the launch and introduction in the market of a suite of specialized liability coverages for the professional and financial

clientele. This facility provides Professional Indemnity Insurance for all professions including medical malpractice; Directors and Officers liability including financial institutions and Bankers Blanket Bonds, Computer Crime and Computer Fraud covers. It is a pan-GCC facility in which bni is both ceding business and also acting as one of the reinsurers for business written to the facility from the other GCC partners. The facility is placed, underwritten and led by various Lloyds syndicates specialized in the various fields.

The division continued to expand its facultative reinsurance inward portfolio by 23% concentrating more on a smaller selection of cedants from the region including, this year, North Africa. This source of business is closely monitored and acceptance of lines are subject to strict guidelines to protect and control single risk exposures and territorial accumulations based on the concepts of full underwriting information. We are seeking to continue to improve our relationships with the carefully selected cedants to expand this source of business which gives us the added benefit of geographical spread, foreign market knowledge and less dependency on the highly competitive limited local market.

As has been our strategy we seek to continue to increase our retentions as we believe in the business that we write and this will safeguard the long term relationship with our strong reinsurers. Our net retained earned premiums have increased by 9% pushing our net insurance revenue before claims and expenses up by 7%. Our net underwriting result after taking into consideration claims incurred and expenses but before any allocation of investment income has remained the same at about 8% to written premiums. Our fire and engineering portfolios experienced two large losses during this year both of which were promptly settled and fell well within our protections. Although all classes produced a positive rate of return (net underwriting result as a percentage of written premium) the best achievement was from the casualty business which produced 16%.

The way forward is clearly marked by focusing on the right quality of business. bni will continue to train its staff and develop its executives. It has a commitment in the markets that it operates to provide technical assistance to its clients and the best security, in view of its strong balance sheet and reserves, its rating and contacts in the international reinsurance market.



The municipal waste disposal at Asker municipal landfill site was **659,847** tons in **2003** recording a **71%** increase in the past seven years...

and accommodating around 94% of the municipal waste generated in the country which consists of domestic, building, commercial, garden and industrial waste and carcasses.

Review of Operations contd...

Bahrain National Life Assurance

During 2009, the Group's Life and Medical Assurance Company continued to enhance its in-house specialist expertise, widening its client base, streamlining processes and systems and improving its reinsurance utilization. The division focused on marketing, product development and sales support, to reinforce the reputation of BNL as a specialist solutions provider, operating to the highest international standards.

In line with the Group's strategy of geographic expansion, BNL established new partnerships with leading international insurance and reinsurance companies.

The Company continues to benefit from having its own in-house team of actuaries, doctors and nurses which remain a

unique competency for a national insurance company. These specialists provide expertise in underwriting, diagnosis and claims settlement as well as assisting clients and providers in assessing and meeting their protection and management of risk requirements which is another unique differentiator of BNL.

Having already established itself as the preferred life and medical provider for corporate clients, in 2009 the Company focused on growing its individual client business while also serving the needs of the fast-growing small-to-medium enterprises (SME) sector.



Up to **90%** of all cancers are thought to be due to the effects of environmental carcinogens combined with deficiencies of the nutrients the body needs...

for proper functioning of the detoxification and immune systems.

Review of Operations contd...

Associate Companies



Arabian Shield Cooperative Insurance Company

Paid-up capital: SR 200 million, BNH share: 15%

Arabian Shield is a company established with local partners in the Kingdom of Saudi Arabia in 2006. Following its oversubscribed IPO in 2007 it was listed on the Saudi Stock Exchange. Through its head office in Riyadh and branches in Jeddah and Dammam, it provides general (commercial and industrial) and medical insurance cover.



National Finance House

Paid-up capital: BD 7.5 million, BNH share: 25.9%

Established in 2006, NFH provides financing for new vehicles and construction equipment. In a very short space of time it has built a strong market share in the Kingdom of Bahrain. The Company is currently reviewing plans to broaden its range of products and services and expand its operations to other GCC countries.



United Insurance Company

Paid-up capital: BD 1.5 million, BNH share: 20%

A long established company, UIC provides insurance cover for passengers and vehicles crossing the King Fahad causeway linking the Kingdoms of Bahrain and Saudi Arabia.



Gulf Insurance Institute

Paid-up capital: BD 1 million, BNH share: 25%

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



Al Kindi Specialised Hospital

Paid-up capital: BD 2.2 million, BNH share: 25%

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

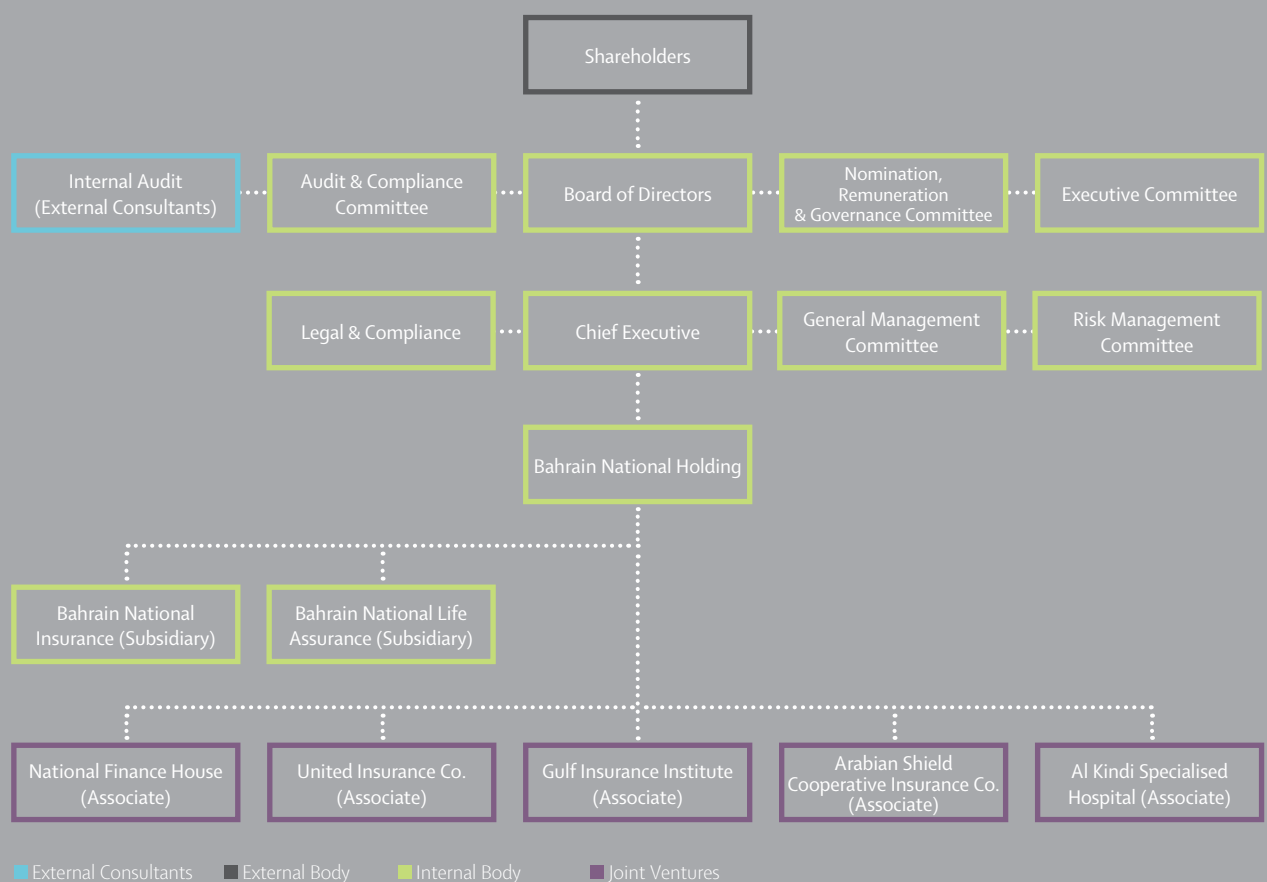
Corporate Governance & Risk Management

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

means of attaining those objectives and monitoring performance.

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

Corporate Governance Structure



Corporate Governance & Risk Management *contd...*

The Board

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

The Board is responsible for the stewardship of the Group's business and affairs on behalf of the shareholders with a view to enhancing long-term shareholder value while protecting the rights and interests of other stakeholders and maintaining high standards of transparency and accountability.

Board of Directors & Executive Management Interest

For the period 01 January 2009 - 31 December 2009

Name of Shareholder	Number of Shares as of 01/01/2009	Number of Shares as of 31/12/2009	Changes
<i>Directors</i>			
Farouk Yousif Almoayyed (Chairman)	1,153,663	1,153,663	-
Abdulhussain Khalil Dawani (Vice Chairman)	1,244,907	1,244,907	-
Abdulrahman Moh'd Juma	570,212	635,996	65,784
Jehad Yousif Amin	500,000	500,000	-
Ahmed Ali Al A'ali	100,000	100,000	-
Ali Rashid Al Amin	973,347	973,347	-
Ayad Saad Khalifa Algosaibi	100,000	100,000	-
Sami Moh'd Sharif Zainal	139,876	139,876	-
Talal Fuad Kanoo	144,798	144,798	-
Ghassan Qassim Fakhroo	100,000	100,000	-
<i>Executive Management</i>			
Mahmood Al Soufi (CE)	104,046	104,046	-

Board Committees

Audit & Compliance Committee

Responsibilities

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

Membership

Abdul Hakim Al Adhamy – Chairman
 Ahmed Ali Al A'ali – Vice Chairman
 Ayad Saad Algosaibi – Member
 Ghassan Qassim Fakhroo – Member

The Committee held 4 meetings during 2009.

Executive Committee

Responsibilities

- Monitor the development of the Group's strategy
- Guide, monitor and coordinate the management and

performance of the Group in line with approved strategies, business plan and budget

- Develop and monitor investment policy as part of the overall business plan
- Review and recommend business and investment opportunities
- Assist in maintaining oversight of the financial requirements of the Group

Membership

Abdulhussain Khalil Dawani – Chairman
 Jehad Yousif Amin – Vice Chairman
 Abdulrahman Moh'd Juma – Member
 Talal Fuad Kanoo – Member
 Sami Moh'd Sharif Zainal – Member

The Committee held 4 meetings during 2009.

Nomination, Remuneration & Governance Committee

Responsibilities

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

Membership

Farouk Yousif Almoayyed – Chairman
 Abdulhussain Khalil Dawani – Vice Chairman
 Abdul Hakim Al Adhamy – Member

The Committee held 2 meetings during 2009.

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 report.

Operational Committees

General Management Committee

Objectives

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

- Achieve standardization of policies and practices across the Group
- Exercise such financial authorities as the Board may grant and 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

Membership

Chief Executive – Chairman

Chief Financial Officer – Member

GM, bni Motor & Personal Lines Insurance – Member

GM, bni General Insurance – Member

AGM, Legal and Compliance – Member

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 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 CE and other concerned committees
- Monitor investment policy within and according to established mandates

Membership

GM, bni General Insurance – Chairman

Chief Financial Officer – Member

GM, bni Motor and Personal Lines Insurance – Member

GM, BNL – Member

AGM, Legal & Compliance – Member

Senior Manager, Compliance – Member

Human Capital Development Committee

Objectives

- Steer and implement all employee development programmes and other HC 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

Chief Executive – Chairman

Chief Financial Officer – Member

Manager, Human Capital – Member

Training Officer – Member

GM, bni Motor and Personal Lines Insurance – Member

GM, bni General Insurance – Member

GM, BNL – 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 2009, we reviewed and updated all our 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 7 years.

Corporate Governance & Risk Management *contd...*

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 2008 in accordance with the requirement of the Central Bank of Bahrain.

Insider Trading

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

The Group has submitted its internal audit report for the year 2009 in accordance with the requirement of the Central Bank of Bahrain.

Code of Conduct

The Group has developed a Code of Business Ethics that governs the behaviour and working practices of the Directors, Management and staff.

Penalties

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

Communications

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

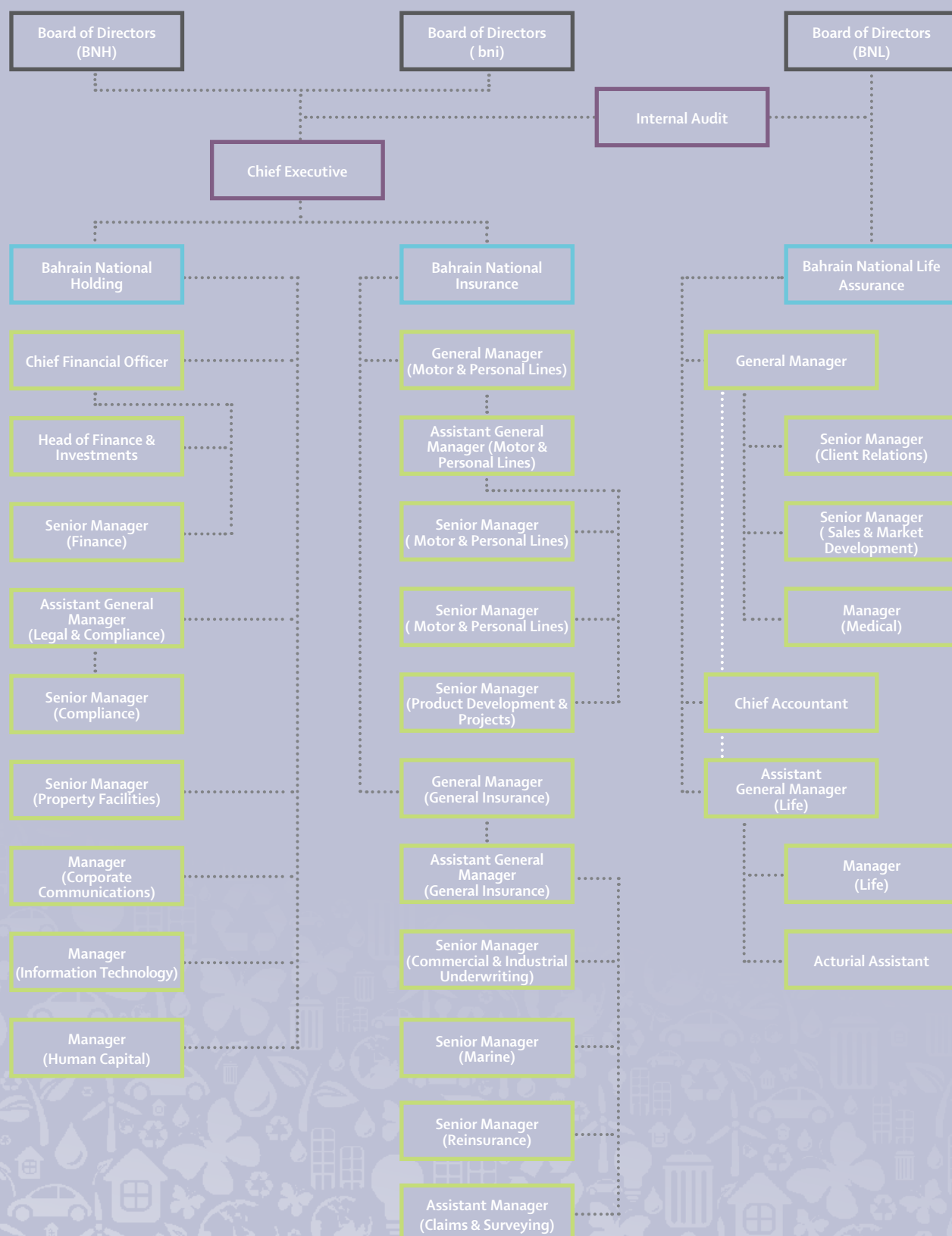
Risk Management Strategies & Practices

In line with latest developments in corporate governance practices, the Group takes a 'portfolio view' of its risk entities spanning our insurance, investment and corporate activities and covering both internal and external factors. 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 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 2009, no significant deviation from the policies and procedures has been reported.

Organization Structure



Corporate Governance & Risk Management *contd...*

Board of Directors' Profiles

Mr. Farouk Tousif Almoayyed

Chairman (Bahraini)

Non-executive director

Board Member since 2008

Chairman:

Y. K. Almoayyed & Sons, Bahrain

Y. K. Almoayyed & Sons Property Co., Bahrain

Almoayyed International Group, Bahrain

Bahrain Duty Free Shop Complex, Bahrain

Ashrafs, Bahrain

Gulf Hotels Group, Bahrain

Dar Alwasat for Publishing & Distribution, Bahrain

Ahlia University, Bahrain

National Finance House, Bahrain

Deputy Chairman:

National Bank of Bahrain, Bahrain

Labour Market Regulatory Authority, Bahrain

Director:

TAIB Bank, Bahrain

Investcorp Bank, Bahrain

Chairman of Board of Trustees:

Ibn Khuldoon National School, Bahrain

Mr. Abdulhussain Khalil Dawani

Vice Chairman (Bahraini)

Non-executive director

Board Member since 1999

Chairman:

Deeko Bahrain, 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, Bahrain

Dar Alwasat for Publishing & Distribution, Bahrain

National Institute of Industrial Training, Bahrain

Mr. Ahmed Ali Al A'ali

Member (Bahraini)

Non-executive director

Board Member since 1999

Director:

Haji Hassan Group

Bahrain Precast Concrete

Bahrain Bulk Trade

Bahrain Cement Company

Mr. Ali Rashid Al Amin

Member (Bahraini)

Non-executive director

Board Member since 1999

Chairman:

Ali Rashid Al Amin Co., Bahrain

The Exhibition, Bahrain

Midway Supermarket, Bahrain

Lulu Food Factory, Bahrain

All in One Pizza, Bahrain

Exhibition Construction, Bahrain

Al-Amin Fresh Fruits Co., Bahrain

Ramakaza Trading Co., Bahrain

Food Storage Co. Ltd., Saudi Arabia

Al Amin Garden, Bahrain

LILY Flower Shop, Bahrain

A.R. Al Amin Industries, Qatar

A.R. Al Amin Industries, Bahrain

Chairman of Board of Trustees:

Ali Rashid Al Amin Charity Establishment, Bahrain

Mr. Abdulrahman Moh'd Juma

Member (Bahraini)

Non-executive director

Board Member since 1999

Managing Director & Vice Chairman:

CELTEX Weaving Mills E.C., Bahrain

Managing Director:

UNEECO Group of Companies, Bahrain

Prudent Solutions, Bahrain

Abdulrahman bin Moh'd Juma & Sons, Bahrain

Board Member & Audit Committee

Member:

Bahrain Bayan School, Bahrain

Mr. Jihad Tousif Amin

Member (Bahraini)

Non-executive director

Board Member since 1999

Board Member:

Banader Hotel Company, Bahrain

General Company for Trading and Food

Industries, TRAFICO, Bahrain

Bahrain Cinema Company, Bahrain

United Insurance Company, Bahrain

Board Member & Member of the

Executive, Investment & Audit

Committees:

BMMI, Bahrain

Applebee's Committees of TRAFICO, Bahrain

Mr. Ayad Saad Khalifa Algosaibi

Member (Bahraini)

Non-executive director

Board Member since 2008

Chairman:

Columbus IT Middle East, Dubai, UAE

Columbus IT, Saudi Arabia

Director:

Columbus IT, India

Columbus IT, Qatar

Ismailia Food Industries, Ismailia, Egypt

Managing Director:

Algosaibi Information Systems Co., Bahrain

Mr. Ghassan Qassim Moh'd Fakhroo

Member (Bahraini)

Non-executive director

Board Member since 2008

Chief Executive:

Mohamed Fakhroo & Bros., Bahrain

Managing Director and Partner:

Fakhroo Information Technology Services, Bahrain

Mr. Talal Fuad Kanoo

Member (Bahraini)

Non-executive director

Board Member since 2008

Board Member:

Bahrain International Circuit, Bahrain

National Finance House, Bahrain

Al Ahli Football Club, Bahrain

Al Kindi Specialised Hospital W.L.L.

Associate Member:

American Chamber of Commerce, Bahrain

Strategic Planning Committee of Ebrahim

Khalil Kanoo, Bahrain

Mr. Sami Moh'd Sharif Zainal

Member (Bahraini)

Non-executive director

Board Member since 2008

Marketing Manager:

MAZA, Bahrain

Member:

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

Mr. Abdul Hakim Al Adhamy

Member (British)

Independent non-executive director

Board Member since 2008

Chairman:

Golden Light Company, Amman Jordan

Board Member and Chairman of Audit Committee:

Islamic Bank of Britain, UK

Ebrahim Khalil Kanoo, Bahrain

National Finance House, Bahrain

Member of the Audit, Risk, Corporate Governance & Compliance Committee:

Kuwait Finance House, Bahrain

Member of Audit & Risk Committee:

MERAAS Holding, Dubai, UAE

Member of Audit Committee:

Commercial Bank of Dubai, UAE

Executive Management Profiles

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 BALESCO. Currently Chairman of MASY Holding. Board Member and Chairman of Executive Committee of National Finance House. He is also a Board Member of Arabian Shield Insurance Company, Saudi Arabia, and Gulf Insurance Institute, Bahrain.

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 Khamis Al Surwaidi General Manager Motor & Personal Lines Insurance

Bahrain National Insurance

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

Mr. Joseph 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 more than 28 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. He previously held the position of General Manager and later Chief Operations Officer with Middlesea Insurance, Malta. He also served as a chairman and a board member in various insurance firms and companies. He formed part of the management team of a branch at the London Underwriting Centre writing treaty and facultative reinsurance business. He evaluated and developed new market initiatives such as branches and strategic partnerships in the Mediterranean region. He was very active at the Insurance Training Centre by chairing the Executive Committee and being a board member and council member with the Malta Insurance Association and the Chamber of Commerce.

Mr. Fathalla Ebrahim General Manager

Bahrain National Life Assurance

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

Mr. Mohammed Kadhim Assistant General Manager Legal & Compliance

Bahrain National Holding

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

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

Bahrain National Holding

Joined BNH in 2003. He is an associate

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

Mr. Jonathan Abela Assistant General Manager General Insurance

Bahrain National Insurance

Joined bni in 2006. He is an Associate of the Chartered Insurance Institute, a Chartered Insurer and an Associate of the Malta Institute of Management. Holder of the Applied Insurance Studies Diploma awarded by the Malta International Training Centre (MITC). Started his insurance career in 1991 and has derived his experience initially from the Maltese Insurance market in non-life claims, underwriting and product development as well as insurance broking. An insurance lecturer for a number of years on behalf of the MITC and the Gulf Insurance Institute (GII) having delivered various courses in Malta, Bahrain, Qatar and the UAE. Previously a member of the Executive Committees of the Malta Green Card Bureau and Motor Insurer's Bureau of the Malta Insurance Association.

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

Bahrain National Insurance

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

Mr. Adrian Reid Group IT Manager

Bahrain National Holding

Joined BNH in June 2007. His IT career spans for 40 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 where his responsibilities included the enhancement of IT strategies and systems to support the growing business needs of the various companies within the Group.

Corporate Social Responsibility

As concerned corporate citizens and a leading Bahrain-based insurance institution, we are committed to contributing to the social well-being of the local community, and to supporting the business and economic development of the Kingdom of Bahrain, in line with our corporate values and an ethical approach to business.

Throughout 2009, BNH continued to implement its comprehensive corporate social responsibility (CSR) programme comprising financial and practical support for numerous charitable, educational, medical, cultural, sporting and social organizations, and deserving causes. BNH also participated in and sponsored a number of major initiatives and events aimed at supporting the insurance industry and promoting business and economic development.

To validate our commitment, the Group was ranked in first place among insurance companies in Bahrain in terms of participation in serving the local community according to a comprehensive research conducted by Al Ekr Charity Fund, and seventh amongst the overall private companies registered in Bahrain and listed on the Bahrain Stock Exchange.

The Group donated approximately 2.5% of its 2009 profits to various charity organization and development initiatives. The Group has also set a side BD 50,000, towards donations to various charity associations and causes dealing with healthcare, culture and educational developments of Bahrain community.



Contacts

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8th floor, Road 2832,
Seef Business District 428,
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Kingdom of Bahrain
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E-mail: bnh@bnhgroup.com

www.bnhgroup.com

Subsidiaries

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

Associates

United Insurance Company B.S.C. (c)
National Finance House B.S.C. (c)
Gulf Insurance Institute B.S.C. (c)
Arabian Shield Cooperative Insurance Co
Al Kindi Specialised Hospital W.L.L.

Listing

Bahrain Stock Exchange

Auditors & Registrars to the Group

KPMG, P.O.Box 710, Kingdom of Bahrain

Actuaries

Mercer Zainal Consulting Sdn.
Bhd (35090-4)
Consulting Actuaries - Malaysia

Bankers to the Group

National Bank of Bahrain
Ahli United Bank
HSBC Bank
Bank of Bahrain & Kuwait
Standard Chartered Bank
ABN Amro Bank NV, UAE

bni Branches & Outlets

Seef District	Tel: +973 17 587 444	Fax: +973 17 583 477
Manama	Tel: +973 17 501 277	Fax: +973 17 216 464
Sanad	Tel: +973 17 627 050	Fax: +973 17 623 771
Muharraq	Tel: +973 17 351 999	Fax: +973 17 336 681
Budaiya	Tel: +973 17 797 888	Fax: +973 17 797 878
University of Bahrain	Tel: +973 17 449 000	Fax: +973 17 448 919
Hamad Town	Tel: +973 17 418 100	Fax: +973 17 413 227
Sitra	Tel: +973 17 457 800	Fax: +973 17 735 801
Isa Town	Tel: +973 17 897 200	Fax: +973 17 689 101

Consolidated Financial Statements

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Independent Auditors' Report to the Shareholders



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

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Bahrain National Holding Company B.S.C. ("the Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Responsibility of the directors for the consolidated financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of

the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2009, and its consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

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

Manama, Kingdom of Bahrain
17 February 2010



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 2009

(In thousands of Bahraini Dinars)

	Note	2009	2008
ASSETS			
Cash and cash equivalents		8,866	13,658
Statutory deposits	8	125	125
Receivables	9	5,652	5,622
Reinsurers' share of technical reserves	10	11,384	12,410
Investment securities	11	30,066	26,191
Investment in associates	14	9,401	9,108
Advance for investment in associate	3	1,500	-
Advance for investment in joint-venture	2	150	-
Investment property	15	1,645	1,733
Property, plant and equipment	16	4,883	4,262
TOTAL ASSETS		73,672	73,109
LIABILITIES			
Insurance technical reserves	17	27,211	27,790
Insurance payables	21	3,380	3,792
Other liabilities	22	2,886	2,842
TOTAL LIABILITIES		33,477	34,424
TOTAL NET ASSETS		40,195	38,685
EQUITY (page 35)			
Share capital	5	11,350	11,350
Treasury shares	5	(1,868)	(1,430)
Statutory reserve		4,967	4,560
Share premium		3,990	3,986
General reserve		13,585	13,585
Investment fair value reserve		2,779	3,165
Retained earnings		3,746	1,963
Equity attributable to shareholders of the parent company		38,549	37,179
Non-controlling interest		1,646	1,506
TOTAL EQUITY		40,195	38,685

The Board of Directors approved the consolidated financial statements consisting of pages 32 to 68 on 17 February 2010.

Farouk Yousif Almoayyed
Chairman

Abdulhussain Khalil Dawani
Vice Charman

Mahmood Al Soufi
Chief Executive

Consolidated Income Statement

For the year ended 31 December 2009

(In thousands of Bahraini Dinars)

	Note	2009	2008
GROSS PREMIUMS	25	24,734	28,031
Reinsurance ceded		(11,135)	(14,847)
Retained premiums		13,599	13,184
Unearned premiums – Gross		1,557	(579)
Unearned premiums – Reinsurance		(1,761)	295
NET PREMIUMS EARNED	25	13,395	12,900
Gross claims paid		(16,025)	(20,937)
Reinsurance recoveries		8,052	13,047
Outstanding claims adjustment – gross		(599)	4,470
Outstanding claims adjustment – recoveries		735	(3,598)
NET CLAIMS INCURRED	25	(7,837)	(7,018)
Other operating expenses	27	(3,677)	(3,446)
Commission income		2,196	1,983
Commission expense		(1,291)	(1,224)
Transfer from/(to) life assurance actuarial reserve	20	187	(144)
UNDERWRITING PROFIT FOR THE YEAR		2,973	3,051
Net Investment Income	26	2,564	433
Share of profit of associate companies	14	315	403
Gain on partial disposal of shares of subsidiary company	2	-	608
Policyholder's share of investment income	20	(249)	585
Corporate and financial expenses	27	(1,200)	(1,109)
PROFIT BEFORE IMPAIRMENT PROVISION		4,403	3,971
Provision for impairment on investment	11	(334)	(1,950)
PROFIT FOR THE YEAR		4,069	2,021
profit attributable to :			
Parent Company		3,974	2,068
Non-Controlling interest		95	(47)
PROFIT FOR THE YEAR		4,069	2,021
Basic earnings per share (100 Fils each)		37.74 Fils	18.55 Fils

The Board of Directors approved the consolidated financial statements consisting of pages 32 to 68 on 17 February 2010.

Farouk Yousif Almoayyed
Chairman

Abdulhussain Khalil Dawani
Vice Charman

Mahmood Al Soufi
Chief Executive

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

(In thousands of Bahraini Dinars)

	Note	2009	2008
PROFIT FOR THE YEAR		4,069	2,021
Other comprehensive income:			
Available for sale securities:			
Change in fair value		(139)	(4,883)
Impairment transferred to income statement		334	1,950
Transfer to income statement on disposal of securities		(536)	(39)
Group's share of share premium in associate		4	25
Other comprehensive income for the year		(337)	(2,947)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		3,732	(926)
Total comprehensive income attributable to :			
Parent Company		3,592	(832)
Non-Controlling interest		140	(94)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		3,732	(926)

The Board of Directors approved the consolidated financial statements consisting of pages 32 to 68 on 17 February 2010.

Farouk Yousif Almoayyed
Chairman

Abdulhussain Khalil Dawani
Vice Charman

Mahmood Al Soufi
Chief Executive

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

(In thousands of Bahraini Dinars)

2009	Attributable to the shareholders of the parent company							Total	Non-controlling Interest	Total Equity
	Share capital	Treasury shares	Statutory reserve	Share premium	General reserve	Investment fair value reserve	Retained earnings			
Balance at 1 January 2009	11,350	(1,430)	4,560	3,986	13,585	3,165	1,963	37,179	1,506	38,685
PROFIT FOR THE YEAR	-	-	-	-	-	-	3,974	3,974	95	4,069
Other comprehensive income:										
Available for sale securities:										
Change in fair value	-	-	-	-	-	(171)	-	(171)	32	(139)
Impairment transferred to income statement	-	-	-	-	-	327	-	327	7	334
Transfer to income statement on disposal of Securities	-	-	-	-	-	(542)	-	(542)	6	(536)
Group's share of share premium in associate	-	-	-	4	-	-	-	4	-	4
Other comprehensive income	-	-	-	4	-	(386)	-	(382)	45	(337)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	-	-	4	-	(386)	3,974	3,592	140	3,732
Treasury shares purchases	-	(438)	-	-	-	-	-	(438)	-	(438)
Transfer to statutory reserve	-	-	407	-	-	-	(407)	-	-	-
Dividends declared for 2008	-	-	-	-	-	-	(1,625)	(1,625)	-	(1,625)
Directors remuneration for 2008	-	-	-	-	-	-	(109)	(109)	-	(109)
Donations for 2008	-	-	-	-	-	-	(50)	(50)	-	(50)
BALANCE AT 31 DECEMBER 2009	11,350	(1,868)	4,967	3,990	13,585	2,779	3,746	38,549	1,646	40,195

2008	Attributable to the shareholders of the parent company							Total	Non-controlling Interest	Total Equity
	Share capital	Treasury shares	Statutory reserve	Share premium	General reserve	Investment fair value reserve	Retained earnings			
Balance at 1 January 2008	11,350	(758)	4,358	3,961	11,485	6,090	4,538	41,024	-	41,024
PROFIT FOR THE YEAR	-	-	-	-	-	-	2,068	2,068	(47)	2,021
Other comprehensive income:										
Available for sale securities:										
Change in fair value	-	-	-	-	-	(4,784)	-	(4,784)	(99)	(4,883)
Impairment transferred to income statement	-	-	-	-	-	1,898	-	1,898	52	1,950
Transfer to income statement on disposal of securities	-	-	-	-	-	(39)	-	(39)	-	(39)
Group's share of share premium in associate	-	-	-	25	-	-	-	25	-	25
Other comprehensive income	-	-	-	25	-	(2,925)	-	(2,900)	(47)	(2,947)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	-	-	25	-	(2,925)	2,068	(832)	(94)	(926)
Treasury shares purchases	-	(672)	-	-	-	-	-	(672)	-	(672)
Transfer to statutory reserve	-	-	202	-	-	-	(202)	-	-	-
Transfer to general reserves	-	-	-	-	2,100	-	(2,100)	-	-	-
Dividends declared for 2007	-	-	-	-	-	-	(2,191)	(2,191)	-	(2,191)
Directors remuneration for 2007	-	-	-	-	-	-	(100)	(100)	-	(100)
Donations for 2007	-	-	-	-	-	-	(50)	(50)	-	(50)
Non-controlling interest in Subsidiary's capital	-	-	-	-	-	-	-	-	1,600	1,600
BALANCE AT 31 DECEMBER 2008	11,350	(1,430)	4,560	3,986	13,585	3,165	1,963	37,179	1,506	38,685

The consolidated financial statements consist of pages 32 to 68.

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2009

(In thousands of Bahraini Dinars)

	2009	2008
OPERATING ACTIVITIES		
Insurance operations (including life assurance)		
Premiums received net of acquisition costs	24,437	28,459
Contribution received from policyholders	396	211
Payments to insurance and reinsurance companies	(10,601)	(14,221)
Claims paid to policyholders	(15,800)	(20,313)
Claims recovered from reinsurers and salvage recoveries	8,056	13,033
Cash flows from insurance operations	6,488	7,169
Investment operations		
Dividends and interest received	1,145	1,216
Proceeds from sale and redemptions	8,217	8,423
Payments for purchases	(11,452)	(9,881)
Investment in associates	(106)	(550)
Advance for investment in associate	(1,500)	-
Advance for investment in joint-venture	(150)	-
Proceeds from partial sale of shares in a subsidiary	-	2,212
Dividends received from an associate	225	300
Rent received	428	321
Cash flows from investment operations	(3,193)	2,041
Other operating expenses paid	(4,759)	(3,194)
Cash flows from operating activities	(1,464)	6,016
INVESTMENT ACTIVITIES		
Purchase of property, plant and equipment	(1,131)	(582)
Cash flows from investment activities	(1,131)	(582)
FINANCING ACTIVITIES		
Payment for purchase of treasury stock	(439)	(672)
Dividends paid to shareholders	(1,596)	(2,170)
Directors' remuneration paid	(106)	(99)
Donations paid	(56)	(61)
Cash flows from financing activities	(2,197)	(3,002)
TOTAL NET CASH FLOWS DURING THE YEAR	(4,792)	2,432
Cash and cash equivalents at 1 January	13,658	11,226
Cash and cash equivalents at 31 December	8,866	13,658
CASH AND CASH EQUIVALENTS at 31 December		
Cash and bank balances	1,500	2,264
Short-term deposits	7,366	11,394
Total as per statement of financial position	8,866	13,658

The consolidated financial statements consist of pages 32 to 68.

Notes to the 2009 Consolidated Financial Statements

(In thousands of Bahraini Dinars)

1. Status and operations

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

2. Subsidiary companies

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

During the last year of 2008, the group sold 25% ownership interest of its subsidiary, Bahrain National Life Assurance Company. The incoming shareholders interest in the subsidiary is shown under non-controlling interest. The Group's gain on disposal of 25% ownership interest of its subsidiary amounted to BD 608.

During the year the Group has made a Joint Venture agreement with Ultra Tune Australia Pty Ltd. to establish a new Bahraini limited liability company called "Ultra Tune Middle East Co. W.L.L." to carry out the business of automobile smash repairs, roadside assistance and automobile services, and other supporting business activities in the Kingdom of Bahrain. The Group's ownership interest of the new company is 50%.

3. Associates

The Group holds 20% (2008: 20%) of the equity share capital of the United Insurance Company BSC (closed), a Bahraini shareholding company (closed). United Insurance Company primarily provides insurance coverage for motor vehicles. (Refer note: 14)

The Group holds 25.9% (2008: 25.9%) of the voting capital of National Finance House BSC (c) (NFH), a closed Bahraini joint stock company, engaged in consumer and auto finance business. (Refer note: 14).

The Group holds 15% (2008:15%) of the voting capital of Arabian Shield Cooperative Insurance Company, Saudi Arabia (ASIC), a Saudi Arabian Registered joint stock company, engaged in consumer and Insurance business. (Refer note: 14).

The Group holds 25.0% (2008: 17.2%) of the voting capital of Gulf Insurance Institute BSC (c) (GII), a Bahraini shareholding company (closed), engaged in conducting training mainly in insurance related subjects. (Refer note: 14).

The Group holds 25% (2008: 25%) of the voting capital of Al Kindi Specialised Hospital W.L.L. (Al Kindi), a Bahraini with limited liability company, engaged in providing private medical services. (Refer note: 14).

During the year the Group has paid an advance to acquire a 30% ownership interest of Bahrain Emirates Insurance Co. B.S.C. (c) which is completing the incorporation process. The Bahrain Emirates Insurance Company is to be registered as a closed Bahraini shareholding company, and is to engaged in consumer and insurance business.

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 4 j.

c. Standards, amendments and interpretations effective on or after 1 January 2009

The following standards, amendments and interpretations, which became effective in 2009 are relevant to the Company:

IAS 1 (revised), 'Presentation of financial statements'

During the year, the Company adopted Revised IAS 1 "Presentation of Financial Statements" on its required application date of 1 January 2009. Revised IAS 1 introduces the term "total comprehensive income", which represents changes in equity during a period

Notes to the 2009 Consolidated Financial Statements *contd...*

(In thousands of Bahraini Dinars)

4. Significant accounting policies *contd...*

other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either 1) a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or 2) in an income statement and a separate statement of comprehensive income. The Company has opted to present separate statements – an income statement and a separate statement of comprehensive income.

The adoption of revised IAS 1 impacted the type and amount of disclosures made in the consolidated financial statements, but had no impact on the reported profits or the financial position of the Company. In accordance with the transitional requirements of the standard, the Company has provided full comparative information.

Amendments to IFRS 7, 'Financial instruments: Disclosures'

The amendment to IFRS 7 requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the Company.

IFRS 8, 'Operating segments'

IFRS 8 "Operating Segments" is applicable for periods beginning on or after 1 January 2009. This standard introduces the "management approach" to segment reporting which requires a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Group's General Management in order to assess each segment's performance and to allocate resources to them. The Group's current basis of segmentation is substantially in line with the requirements of the revised standard.

Improvements to IFRS

'Improvements to IFRS' issued in May 2008 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments effective for annual periods beginning on or after 1 January 2009 have been considered by the Company and there have been no material changes to accounting policies as a result of these amendments.

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.

Notes to the 2009 Consolidated Financial Statements *contd...*

(In thousands of Bahraini Dinars)

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.

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 consist 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. **Reinsuranceceded**, 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

Notes to the 2009 Consolidated Financial Statements *contd...*

(In thousands of Bahraini Dinars)

4. Significant accounting policies (continued)

management in the light of currently available information and past experience and modified for changes reflected in current conditions, increased exposure, rising claims costs and the severity and frequency of recent claims, as appropriate.

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

- unexpected and 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. Operating expenses include direct Operating expenses and apportioned overheads (based on staff costs). 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. **Acquisition** costs are written off when incurred.

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

vii. Outstanding claims

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

viii. Life assurance actuarial reserve

The life assurance actuarial reserve represents the present value of the future benefit obligations in respect of policies in force at the reporting date. The life assurance actuarial reserve is created by crediting the net investment income arising out of the investments made by the Company on behalf of the life assurance policyholders. At the reporting date, the net value of the life

Notes to the 2009 Consolidated Financial Statements *contd...*

(In thousands of Bahraini Dinars)

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.

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.

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

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 derecognised, while significant enough deterioration in estimates is immediately recognised to make the liabilities adequate.

Notes to the 2009 Consolidated Financial Statements *contd...*

(In thousands of Bahraini Dinars)

4. Significant accounting policies (continued)

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 2009, the Group had a decline in value of certain AFS securities below their cost by BD 473 (2008: BD 2,682) of which BD 334 (2008: BD 1,950) has been taken to the income statement as impairment on investments and the balance amount of BD 139 (2008: BD 732) is not considered to be impaired in accordance with the Group's impairment policy and accordingly is taken to investment fair value reserve.

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

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

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.

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

Notes to the 2009 Consolidated Financial Statements *contd...*

(In thousands of Bahraini Dinars)

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.

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.

The Group has adopted IFRS 8 "Operating Segments" with effect from 1 January 2009. IFRS 8 Operating Segments introduces the "management approach" to segment reporting which requires the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Group's General Management in order to assess each segment's performance and to allocate resources to them. The Group's current basis of segmentation is substantially in line with the requirements of the revised standard (refer Note 25).

Notes to the 2009 Consolidated Financial Statements *contd...*

(In thousands of Bahraini Dinars)

4. Significant accounting policies (continued)

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

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

r. Property, plant and equipment

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

i. Subsequent expenditure

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

ii. Depreciation

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

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

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

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 recognising an impairment loss. Impairment losses are charged to the income statement.

Notes to the 2009 Consolidated Financial Statements *contd...*

(In thousands of Bahraini Dinars)

v. Dividends & directors' remuneration

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

w. 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 2009	Amount 2009	Number 2008	Amount 2008
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 2009	Amount 2009	Number 2008	Amount 2008
Balance at beginning of year	5,217,263	1,430	3,916,037	758
Treasury stock purchases	1,036,553	438	1,301,226	672
BALANCE AT 31 DECEMBER	6,253,816	1,868	5,217,263	1,430

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

	2009	2008
Basic earnings per share – fils	37.74	18.55
Proposed cash dividend – fils	20.00	15.00
Net asset value – fils	371.11	355.11
Stock Exchange price at 31 December – fils	466.00	520.00
Market capitalisation at 31 December – in thousands of BD	52,891	59,020
Price/Earnings ratio at 31 December	12.35	28.03

In accordance with IAS 33, the calculation of earnings per share is based on the net profit for the year of BD 4,069 (2008: BD 2,021), attributable to 107,807,747 (2008: 108,936,433) ordinary shares for basic earnings, being the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share have not been presented separately because Group has no dilutive potential ordinary shares.

Notes to the 2009 Consolidated Financial Statements *contd...*

(In thousands of Bahraini Dinars)

5. Share Capital (continued)

- (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	11,409,275	10.05%
National Insurance Company	Iraqi	7,436,890	6.55%
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:

Categories	Number of shareholders	Number of shares	% of total outstanding shares
Less than 1 %	624	55,203,988	48.64
1 % up to less than 5 %	16	33,196,031	29.25
5 % up to less than 10 %	2	13,690,706	12.06
10% up to less than 20%	1	11,409,275	10.05
TOTAL	643	113,500,000	100.00

6. Reserves

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

Share premium: During the 2005 financial year, the Company issued 20,000,000 shares @ 300 fils (share premium 200 fils) per share on a rights basis. It also includes BD 29 (2008: 25) being the share of the group in the share of premium account of an associate.

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

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

7. Proposed appropriations

	2009	2008
Profit as per income statement	4,069	2,021
Profit attributable to non-controlling interest	(95)	47
Net profit attributable to shareholders of parent company	3,974	2,068
Proposed appropriations:		
Statutory reserve	407	202
Dividend to shareholders	2,145	1,624
Directors' remuneration	99	109
Donations	50	50
Retained earnings	1,273	83
	3,974	2,068

The appropriation of the 2009 profit is subject to approval by shareholders at the annual general meeting.

Notes to the 2009 Consolidated Financial Statements *contd...*

(In thousands of Bahraini Dinars)

8. *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*

	2009	2008
Policyholders	2,267	2,078
Insurance and reinsurance companies	3,073	3,541
Others	622	369
Provision for impairment	(310)	(366)
TOTAL	5,652	5,622

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

	2009	2008
Balance at beginning of the year	366	371
Balances recovered during the year	(71)	(15)
Additional amount provided during the year	15	10
BALANCE AT END OF THE YEAR	310	366

10. *Reinsurers' share of insurance technical reserves*

	2009	2008
Outstanding claims recoverable from reinsurers (refer note 18)	7,187	6,524
Reinsurers' share of unearned premiums (refer note 19)	4,197	5,957
Provision for impairment	-	(71)
TOTAL	11,384	12,410

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

	2009	2008
Balance at beginning of the year	71	175
Balances written off during the year	(71)	(104)
BALANCE AT END OF THE YEAR	-	71

11. *Investment securities*

	2009	2008
Securities carried at fair value through profit or loss	2,308	2,423
Available for sale securities	17,372	18,740
Held-to-maturity securities	10,386	5,028
TOTAL	30,066	26,191

Notes to the 2009 Consolidated Financial Statements *contd...*

(In thousands of Bahraini Dinars)

11. Investment securities (continued)

a. Securities carried at fair value through profit or loss

	2009	2008
Quoted:		
Equities	533	577
Government bonds	147	294
Other bonds	-	37
Managed funds	1,628	1,515
TOTAL	2,308	2,423

Movement during the year	2009	2008
Opening balance as at 1 January	2,423	14,547
Purchases	174	3,850
Sales	(447)	(3,082)
Valuation (losses)/gains	158	(813)
Transfer to available-for-sale securities	-	(12,079)
BALANCE AS AT 31 DECEMBER	2,308	2,423

b. Available-for-sale securities

	2009	2008
Quoted		
Equities	7,133	7,726
Government bonds	697	476
Other bonds	938	1,236
Managed funds	7,261	8,971
Unquoted equities & funds	1,343	331
TOTAL	17,372	18,740

Movement during the year	2009	2008
Opening balance as at 1 January	18,740	13,622
Purchases	5,401	1,555
Sales	(5,791)	(4,132)
Valuation (losses)/gains	(644)	(2,434)
Impairment provision	(334)	(1,950)
Transfer from trading securities	-	12,079
BALANCE AS AT 31 DECEMBER	17,372	18,740

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

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

Notes to the 2009 Consolidated Financial Statements *contd...*

(In thousands of Bahraini Dinars)

	2009	2008
Balance at beginning of the year	2,385	435
Additional provision during the year	334	1,950
Release of provision during the year on sale of securities	(731)	-
BALANCE AT END OF THE YEAR	1,988	2,385

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 2009 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 2009 at fair value at that date. The table below sets the financial asset reclassified and the carrying and fair value.

	31 December 2009		31 December 2008	
	Carrying value	Fair value	Carrying value	Fair value
Trading securities reclassified to available-for-sale securities	5,357	5,357	7,571	7,571

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 2009		31 December 2008	
	Income Statement	Equity	Income Statement	Equity
PERIOD BEFORE RECLASSIFICATION				
Net trading income	-	-	46	-
Dividend income	-	-	110	-
TOTAL	-	-	156	-
PERIOD AFTER RECLASSIFICATION				
Profit / (loss) on sale of reclassified securities	147	-	(172)	-
Provision for impairment	(167)	-	(1,481)	-
Net change in fair value	-	(674)	-	(391)
TOTAL	(20)	(674)	(1,653)	(391)

The amount of BD 674 (2008: BD 391) would have been recognised in the income statement in the period if reclassifications had not been made

c. Held-to-maturity securities

	2009 Fair value	2008 Fair value	2009 Carrying value	2008 Carrying value
Government bonds	2,100	428	1,890	425
Other bonds	8,745	4,550	8,496	4,603
TOTAL	10,845	4,978	10,386	5,028

Notes to the 2009 Consolidated Financial Statements *contd...*

(In thousands of Bahraini Dinars)

11. Investment securities (continued)

Movement during the year	2009 Carrying value	2008 Carrying value
Opening balance as at 1 January	5,028	2,794
Purchases	6,177	3,494
Disposals on maturity	(880)	(1,082)
Exchange (losses)/gains	61	(178)
BALANCE AS AT 31 DECEMBER	10,386	5,028

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.

2009	Level 1	Level 2	Level 3	Total
Securities carried at fair value through profit or loss	2,308	-	-	2,308
Available-for-sale investments	16,029	1,343	-	17,372
	18,337	1,343	-	19,680
2008	Level 1	Level 2	Level 3	Total
Securities carried at fair value through profit or loss	2,423	-	-	2,423
Available-for-sale investments	18,409	331	-	18,740
	20,832	331	-	21,163

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:

	2009	2008
Investments in securities	4,232	3,274
Life assurance actuarial reserve (note 20)	3,506	3,048

Notes to the 2009 Consolidated Financial Statements *contd...*

(In thousands of Bahraini Dinars)

13. Effective interest rates on cash and bonds

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

	2009 Aggregate principal	2009 Effective rate	2008 Aggregate principal	2008 Effective rate
Cash and short-term deposits	8,991	1.60%	11,394	3.20%
Fixed rate bonds	8,706	6.80%	6,252	2.90%
Floating rate bonds (repriced within 4-6 months)	1,008	1.80%	818	2.60%

14. Investments in associates

The Group's associates are as follows:

Name	Country	Group interest	
		2009	2008
United Insurance Company B.S.C. (c) (UIC)	Bahrain	20.0 %	20.0 %
National Finance House B.S.C. (c) (NFH)	Bahrain	25.9 %	25.9 %
Gulf Insurance Institute B.S.C. (c). (GII)	Bahrain	25.0 %	17.2 %
Arabian Shield Cooperative Insurance Co. (ASIC)	Saudi Arabia	15.0 %	15.0 %
Al Kindi Specialised Hospital W.L.L. (Al Kindi)	Bahrain	25.0 %	25.0 %

The movements in the investment account are as follows:

	2009	2008
Balance at beginning of the year	9,108	8,921
Payment for acquisition of shares	106	550
Share of profit for the year	315	403
Share of share premium	4	25
Dividends received	(225)	(300)
Share of investment fair value reserve	93	(491)
TOTAL (EQUITY METHOD)	9,401	9,108

This balance comprises:

	2009	2008
Investment at cost	7,760	7,653
Bonus shares issued by UIC in 2001	100	100
Share of reserves	1,541	1,355
TOTAL	9,401	9,108

The total assets, total liabilities, total revenue and total profits of Associates were:

	2009	2008
Total assets	83,545	64,626
Total liabilities	43,630	26,367
Total revenue	26,437	11,180
Total profits	2,824	2,506

Notes to the 2009 Consolidated Financial Statements *contd...*

(In thousands of Bahraini Dinars)

15. Investment property

	2009	2008
Balance at beginning of the year	1,733	1,821
Depreciation for the year	(88)	(88)
TOTAL	1,645	1,733

Investment property comprises of let out portion of the building situated in Seef District. The fair value of the Investment Property is BD 4,709 (2008: BD 5,380).

16. Property, plant and equipment

	Land and building	Plant & Machinery	Furniture, equipment & other assets	Capital Work-in-progress	2009 Total	2008 Total
Cost						
At 1 January	3,546	367	1,649	100	5,662	5,080
Additions	632	1	342	189	1,164	582
Transfer to/(from)	-	-	66	(66)	-	-
AT 31 DECEMBER	4,178	368	2,057	223	6,826	5,662
Depreciation						
At 1 January	501	156	743	-	1,400	953
Charge for the year	166	37	340	-	543	447
At 31 December	667	193	1,083	-	1,943	1,400
NET BOOK VALUE AT 31 DECEMBER	3,511	175	974	223	4,883	4,262

Capital commitments as at the reporting date amounted to BD 241 (2008: BD 38).

17. Insurance technical reserves

	2009	2008
Outstanding claims - gross (refer Note 18)	13,146	12,547
Unearned gross premiums (refer Note 19)	10,512	12,070
Unearned commissions (refer Note 19)	47	125
Life assurance actuarial reserve (refer Note 20)	3,506	3,048
TOTAL	27,211	27,790

18. Outstanding claims

Claim Development

The development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. The top half of each table below illustrates how the Group's estimate of total claims outstanding for each accident year has changed at successive year-ends, for motor and non-motor excluding life and medical businesses. Total estimation of the ultimate claim cost comprises estimated amount of claims outstanding and claims incurred but not reported (IBNR). The bottom half of the table reconciles the cumulative claims to the amount appearing in the statement of financial position, with the exception of life assurance and medical business.

Notes to the 2009 Consolidated Financial Statements *contd...*

(In thousands of Bahraini Dinars)

Insurance claims for general insurance business – Gross

Accident year	2005	2006	2007	2008	2009	Total
Estimate of ultimate claims costs:						
At end of reporting year	4,664	6,797	10,095	7,633	6,485	35,674
One year later	4,508	7,272	7,936	6,199	-	25,915
Two years later	4,682	6,896	9,429	-	-	21,007
Three years later	4,501	6,953	-	-	-	11,454
Four years later	4,554	-	-	-	-	4,554
Current estimate of cumulative claims (A)	4,554	6,953	9,429	6,199	6,485	33,620
Cumulative payments to date (B)	4,308	6,638	7,226	3,908	-	22,080
Total (A – B)	246	315	2,203	2,291	6,485	11,540
Reserve in respect of years prior to 2005						858
TOTAL RESERVE INCLUDED IN THE STATEMENT OF FINANCIAL POSITION						12,398

Insurance claims (gross) for life and medical insurance business amounting to BD 748 pertain to 2009.

Insurance claims for general insurance business – Net

Accident year	2005	2006	2007	2008	2009	Total
Estimate of ultimate claims costs:						
At end of reporting year	2,301	3,321	5,049	4,890	3,908	19,469
One year later	1,584	3,664	2,585	2,708	-	10,541
Two years later	1,758	3,510	2,884	-	-	8,152
Three years later	1,577	3,589	-	-	-	5,166
Four years later	1,608	-	-	-	-	1,608
Current estimate of cumulative claims (A)	1,608	3,589	2,884	2,708	3,908	14,697
Cumulative payments to date (B)	1,586	3,543	2,546	1,750	-	9,425
Total (A – B)	22	46	338	958	3,908	5,272
Reserve in respect of years prior to 2005						255
TOTAL RESERVE INCLUDED IN THE STATEMENT OF FINANCIAL POSITION						5,527

Insurance claims (net) for life and medical insurance business amounting to BD 432 pertain to 2009.

Movements in insurance liabilities and related reinsurance assets

	2009			2008		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Reported claims	11,563	6,524	5,039	15,595	10,226	5,369
IBNR	984	(71)	1,055	1,422	(175)	1,597
Total at beginning of the year	12,547	6,453	6,094	17,017	10,051	6,966
Change in liabilities	16,624	8,786	7,838	16,467	9,449	7,018
Claims settled	(16,025)	(8,052)	(7,973)	(20,937)	(13,047)	(7,890)
TOTAL AT END OF THE YEAR	13,146	7,187	5,959	12,547	6,453	6,094
Reported claims	12,323	7,187	5,136	11,563	6,524	5,039
IBNR	823	-	823	984	(71)	1,055
TOTAL AT END OF THE YEAR	13,146	7,187	5,959	12,547	6,453	6,094

Notes to the 2009 Consolidated Financial Statements *contd...*

(In thousands of Bahraini Dinars)

18. Outstanding claims (continued)

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.

General Insurance	Income Statement & Equity	
	2009	2008
Expense rate		
1 percent increase	(38)	(33)
1 percent decrease	38	33
Expected loss ratio		
1 percent increase	(75)	(56)
1 percent decrease	75	56

Life Insurance	Income Statement & Equity	
	2009	2008
Demographic assumptions		
10 percent decrease in base mortality and morbidity rates	32	58
10 percent increase in base mortality and morbidity rates	(32)	(58)
Expense assumptions		
1 percent increase	(3)	(7)
1 percent decrease	3	7
Expected loss ratio		
1 percent increase	(3)	(14)
1 percent decrease	3	14

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

19. Unearned premiums/ Unearned Commissions

a. Movements in Unearned premiums

	Reinsurers' share of Gross premiums		Unearned Gross Premiums	
	2009	2008	2009	2008
At 1 January	5,957	5,139	12,070	10,968
Charge during the year	(1,760)	818	(1,558)	1,102
AT 31 DECEMBER	4,197	5,957	10,512	12,070

b. Movements in Unearned commissions

	2009	2008
At 1 January	125	213
Charge/ (Release) during the year	(78)	(88)
AT 31 DECEMBER	47	125

Notes to the 2009 Consolidated Financial Statements *contd...*

(In thousands of Bahraini Dinars)

20. Life assurance actuarial reserve and actuarial assumptions

	2009	2008
Life assurance actuarial reserve		
Balance at 1 January	3,048	3,278
Transfer of contributions	396	211
Transfer from/(to) life assurance actuarial reserve	(187)	144
Policyholder's share of investment income	249	(585)
BALANCE AT 31 DECEMBER	3,506	3,048

The actuarial estimate has been prepared by independent actuaries, Mercer Zainal Consulting Sdn. Bld., 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

	2009	2008
Policyholders - Claims	645	363
Insurance and reinsurance companies	2,735	3,429
TOTAL	3,380	3,792

22. Other liabilities

	2009	2008
Premiums received in advance	330	290
Vehicle repairers and spare parts	698	755
Accrued expenses	81	184
Unclaimed dividends - prior years	154	126
Provision for employee benefits	553	603
Provision for employees' leaving indemnities	334	293
Other liabilities	736	591
TOTAL	2,886	2,842

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

	2009	2008
Balance at beginning of the year	603	568
Paid during the year	(520)	(457)
Additional amount provided during the year	470	492
BALANCE AT END OF THE YEAR	553	603

23. Retirement benefits cost

The Company employed 157 Bahrainis (2008: 165 Bahrainis) and 38 expatriates (2008: 37 expatriates) as at 31 December 2009.

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 2009 amounted to BD 253 (2008: BD 177), 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 2009 amounted to BD 81 (2008: BD 83). The scheme also has additional life insurance cover and is administered by Bahrain National Life Assurance Company on behalf of the group.

Notes to the 2009 Consolidated Financial Statements *contd...*

(In thousands of Bahraini Dinars)

23. Retirement benefits cost (continued)

The liability towards the retirement plan as at 31 December 2009 amounted to BD 326 (2008: BD 286) 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

	2009	2008
At beginning of year	293	209
Indemnities and advances paid	(12)	-
Charge to income statement	53	84
BALANCE AT END OF THE YEAR	334	293

24. Gross and Retained premiums

	2009			2008		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Written premiums:						
Direct	21,747	8,627	13,120	25,656	12,777	12,879
Inward	2,987	2,508	479	2,375	2,070	305
TOTAL	24,734	11,135	13,599	28,031	14,847	13,184

25. 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 "investment segment".

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

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

Investment segment comprises investment and cash management for the Group's own accounts.

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

31 December 2009	Motor & General Insurance	Life Assurance and Medical	Investment	Total
GROSS PREMIUMS	20,005	4,729	-	24,734
Net premiums earned	10,646	2,749	-	13,395
Net claims incurred	(5,865)	(1,972)	-	(7,837)
Operating expenses	(3,013)	(664)	-	(3,677)
Net commission income	902	3	-	905
Net transfer from/(to) life actuarial reserve	-	187	-	187
UNDERWRITING PROFITS	2,670	303	-	2,973
Net investment income	1,546	438	580	2,564
Share of profit of associates	-	-	315	315
Provision for impairment on investment	(304)	(29)	(1)	(334)
Policyholders' share of investment income	-	(249)	-	(249)
Corporate and financial expenses	(397)	(86)	-	(483)
Un-allocated corporate expenses	-	-	-	(717)
SEGMENT RESULTS	3,515	377	894	4,069

Notes to the 2009 Consolidated Financial Statements *contd...*

(In thousands of Bahraini Dinars)

31 December 2009	Motor & General Insurance	Life Assurance and Medical	Investment	Total
Cash and Cash equivalents	6,405	1,631	830	8,866
Statutory deposits	75	50	-	125
Receivables	4,548	1,016	88	5,652
Reinsurers' share of technical reserves	10,743	641	-	11,384
Investment securities	19,652	9,075	1,339	30,066
Investment in associates	-	-	9,401	9,401
Advance for investment in associate	-	-	1,500	1,500
Advance for investment in joint venture	-	-	150	150
Investment property	-	-	1,645	1,645
Property, plant & equipment	970	156	3,757	4,883
TOTAL ASSETS	42,393	12,569	18,710	73,672
Insurance technical reserves	21,639	5,572	-	27,211
Insurance payables	3,177	203	-	3,380
Other liabilities	2,050	136	700	2,886
TOTAL LIABILITIES	26,866	5,911	700	33,477

31 December 2008	Motor & General Insurance	Life Assurance and Medical	Investment	Total
GROSS PREMIUMS	23,789	4,242	-	28,031
Net premiums earned	10,475	2,425	-	12,900
Net claims incurred	(5,604)	(1,414)	-	(7,018)
Operating expenses	(2,811)	(635)	-	(3,446)
Net commission income	774	(15)	-	759
Net transfer from/(to) life actuarial reserve	-	(144)	-	(144)
UNDERWRITING PROFITS	2,834	217	-	3,051
Net investment income	562	(370)	241	433
Share of profit of associates	-	-	403	403
Gain on partial disposal of shares in subsidiary	-	-	608	608
Provision for impairment on investment	(1,582)	(207)	(161)	(1,950)
Policyholders' share of investment income	-	585	-	585
Corporate and financial expenses	(372)	(37)	-	(409)
Un-allocated corporate expenses	-	-	-	(700)
SEGMENT RESULTS	1,442	188	1,091	2,021
Cash and Cash equivalents	9,711	2,435	1,512	13,658
Statutory deposits	75	50	-	125
Receivables	4,853	744	25	5,622
Reinsurers' share of technical reserves	11,914	496	-	12,410
Investment securities	18,135	7,159	897	26,191
Investment in associates	-	-	9,108	9,108
Investment property	-	-	1,733	1,733
Property investment	953	98	3,211	4,262
TOTAL ASSETS	45,641	10,982	16,486	73,109
Insurance technical reserves	23,165	4,625	-	27,790
Insurance payables	3,656	136	-	3,792
Other liabilities	2,064	173	605	2,842
TOTAL LIABILITIES	28,885	4,934	605	34,424

Notes to the 2009 Consolidated Financial Statements *contd...*

(In thousands of Bahraini Dinars)

25. Segmental information (continued)

Geographical information

31 December 2009	Bahrain	GCC	Other Countries	Total
Gross premiums	22,235	2,320	179	24,734
Non-current assets	19,254	9,100	15,810	44,164

31 December 2008	Bahrain	GCC	Other Countries	Total
Gross premiums	26,063	1,886	82	28,031
Non-current assets	17,834	6,213	13,612	37,659

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, plant and equipment.

26. Net investment income

	2009	2008
Profit on sale of securities	563	26
Transfer from other comprehensive income on disposal of securities	536	39
Valuation gains / (losses)	179	(667)
Foreign exchange (losses)/gains	139	(117)
Amortisation of premiums on held-to-maturity securities	(22)	(8)
Interest income	748	683
Dividend income	500	595
Other income	14	20
GROSS INVESTMENT INCOME	2,657	571
Investment administration expenses	(328)	(301)
Investment property income	398	317
Investment property expenses	(163)	(154)
TOTAL NET INVESTMENT INCOME PER INCOME STATEMENT	2,564	433

Gross investment income by segment

	2009	2008
Shares in Bahraini public companies	691	733
Other equities	177	(209)
Government and other bonds	884	244
Managed funds	693	(562)
Cash and short-term deposits	198	345
Miscellaneous Income	14	20
GROSS INVESTMENT INCOME	2,657	571

Notes to the 2009 Consolidated Financial Statements *contd...*

(In thousands of Bahraini Dinars)

27. Expenses

	2009	2008
Employee costs	3,165	2,965
Depreciation	355	283
Other costs	1,357	1,307
TOTAL EXPENSES	4,877	4,555
This comprises:		
Other operating expenses	3,677	3,446
Corporate and financial expenses	1,200	1,109
TOTAL EXPENSES	4,877	4,555

28. Insurance Contracts, Financial instruments and risk management

i Insurance Risk Management

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

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

Underwriting and retention policies and procedures and limits precisely regulate who is authorized and accountable for concluding insurance and reinsurance contracts and at what conditions. Compliance with these guidelines is regularly checked and developments in the global, regional and local markets are closely observed, reacting where necessary with appropriate measures that are translated without delay into underwriting guidelines if required.

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

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

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 2009 Consolidated Financial Statements *contd...*

(In thousands of Bahraini Dinars)

28. Insurance Contracts, Financial instruments and risk management (continued)

31 December 2009	General Insurance	Life Assurance	Total
Geographical area			
Bahrain			
Gross	20,489	1,746	22,235
Retained	12,460	736	13,196
Other countries			
Gross	2,499	-	2,499
Retained	403	-	403
TOTAL			
Gross	22,988	1,746	24,734
RETAINED	12,863	736	13,599

31 December 2008	General Insurance	Life Assurance	Total
Geographical area			
Bahrain			
Gross	24,284	1,779	26,063
Retained	12,157	775	12,932
Other countries			
Gross	1,968	-	1,968
Retained	252	-	252
TOTAL			
Gross	26,252	1,779	28,031
RETAINED	12,409	775	13,184

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.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

Notes to the 2009 Consolidated Financial Statements *contd...*

(In thousands of Bahraini Dinars)

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:

Financial assets	2009	2008
Receivables		
Policyholders	1,995	1,813
Insurance and reinsurance companies	3,034	3,440
Others	623	369
Outstanding claims recoverable from reinsurers	7,187	6,453
Investments		
Securities carried at fair value through profit or loss	147	331
Available for sale securities	1,635	1,712
Held to maturity securities	10,386	5,027
Cash and cash equivalents	8,866	13,658
TOTAL	33,873	32,803

Notes to the 2009 Consolidated Financial Statements *contd...*

(In thousands of Bahraini Dinars)

28. Insurance Contracts, Financial instruments and risk management (continued)

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

Concentrations of credit risk

The Group monitors concentrations of exposures by industry sector and geographic location of the counterparty as well as by individual counterparties. Counterparty concentration occurs mainly because of the investment management accounts maintained with the various investment bankers. Geographical concentrations at the reporting date have been presented in note 30. The specific concentration of risk from the top 3 counterparties where receivables for any one counterparty or group of connected counterparties is BD 2 million or more at the year end is as follows:

	2009	2008
Berenberg Bank	8,799	6,714
JP Morgan Chase	3,407	2,890
National Bank of Bahrain	2,151	3,250

Assets that are past due

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

Financial assets	Neither past due nor impaired	Past due but not impaired			Individually impaired		Total
	Less than 90 days	91– 180 days	More than 180 days	Gross Amount	Provision for impairment		
31 December 2009							
Receivables							
Policyholders	1,063	437	495	272	(272)		1,995
Insurance and Reinsurance companies	1,060	1,008	967	38	(38)		3,035
Others	622	-	-	-	-		622
	2,745	1,445	1,462	310	(310)		5,652
Outstanding claims recoverable from reinsurers	956	565	5,666	-	-		7,187
TOTAL	3,701	2,010	7,128	310	(310)		12,839

Financial assets	Neither past due nor impaired	Past due but not impaired			Individually impaired		Total
	Less than 90 days	91– 180 days	More than 180 days	Gross Amount	Provision for impairment		
31 December 2008							
Receivables							
Policyholders	1,009	539	265	265	(265)		1,813
Insurance and Reinsurance companies	522	2,074	844	101	(101)		3,440
Others	369	-	-	-	-		369
	1,900	2,613	1,109	366	(366)		5,622
Outstanding claims recoverable from reinsurers	484	754	5,215	71	(71)		6,453
TOTAL	2,384	3,367	6,324	437	(437)		12,075

Notes to the 2009 Consolidated Financial Statements *contd...*

(In thousands of Bahraini Dinars)

Liquidity risk

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

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

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 2009	Contractual undiscounted cash flows				
Financial liabilities	Carrying amount	Less than 1 year	1 – 2 years	2 – 5 years	More than 5 years
Policyholders' liabilities	645	643	2	-	-
Insurance/reinsurance companies	2,734	2,721	13	-	-
Outstanding Claims - Gross	13,146	6,743	4,276	1,241	886
Other payables	2,471	2,471	-	-	-

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

Market risk

Market risk is the risk that the value of financial instrument will fluctuate as a result of changes in market prices on account of factors specific to the individual security or to its issuer or factors affecting the securities market.

The Group is exposed to market risk with respect to its investments in securities.

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

Management of market risks

All entities in the Group manage market risks locally in accordance with their asset/liability management framework. At Group level,

Notes to the 2009 Consolidated Financial Statements *contd...*

(In thousands of Bahraini Dinars)

28. Insurance Contracts, Financial instruments and risk management (continued)

the Executive Committee manages and monitors market risks. This committee was established by the Board of Directors and consists of both executive and non-executive members. The Committee reports regularly to the Board of Directors on its activities.

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

Interest rate risk

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

The Group's short-term deposits are at fixed interest rates and mature within one year. Investments in Government bonds are at fixed interest rates. Investment in other bonds consists of both fixed and floating rate instruments. The effective interest rates on deposits and bonds are set out in note 13.

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

Currency risk

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

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

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

The Group's exposure to currency risk as well as the currency-wise concentration of investments, expressed in the equivalent of Bahraini dinars is summarised below:

Net currency-wise concentration in thousands of Bahraini dinar equivalents

Financial Assets	2009	2008
Euros	1,271	1,498
Pounds sterling	557	603
Other currencies	96	332
Total open foreign exchange position at 31 December	1,924	2,433
United States dollars	22,846	21,303
GCC Currencies	10,794	8,633
Bahraini dinars	25,608	28,663
TOTAL AT 31 DECEMBER	61,172	61,032
This comprises:	2009	2008
Securities carried at fair value through profit or loss	2,308	2,423
Available-for-sale securities	17,372	18,740
Held-to-maturity securities	10,386	5,028
Investment in associates	9,401	9,108
Cash and Bank balances	8,866	13,658
Receivables:		
Policyholders	1,995	1,813
Insurance and reinsurance companies	3,035	3,440
Others	622	369
Outstanding claims recoverable from reinsurers	7,187	6,453
TOTAL	61,172	61,032

Notes to the 2009 Consolidated Financial Statements *contd...*

(In thousands of Bahraini Dinars)

Financial Liabilities	2009	2008
United States dollars	136	295
GCC Currencies	2,928	3,261
Bahraini dinars	26,407	27,317
Other currencies	84	26
TOTAL AT 31 DECEMBER	29,555	30,899
This comprises:	2009	2008
Payables		
Policyholders Liabilities	645	363
Insurance/reinsurance companies payables	2,734	3,429
Outstanding claims	13,146	12,547
Unearned premiums	10,512	12,070
Unearned commissions	47	125
Others payables	2,471	2,365
TOTAL	29,555	30,899

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.

31 December 2009	2009		2008	
	Income statement	Equity	Income statement	Equity
Interest rate risk				
+ 1 percent shift in yield curves	-	55	2	159
- 1 percent shift in yield curves	-	(55)	(2)	(159)
Equity price risk				
+1 percent increases in equity prices	5	72	6	77
-1 percent decrease in equity prices	(5)	(72)	(6)	(77)

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	2009		2008	
	Income Statement	Equity	Income Statement	Equity
US Dollars	136	91	98	112
Euro	10	3	11	4
Pounds Sterling	4	1	4	2
GCC currencies	56	22	5	6
Other currencies	(1)	1	1	2

Notes to the 2009 Consolidated Financial Statements *contd...*

(In thousands of Bahraini Dinars)

29. Maturity profile of investments

2009	Less than 1 year	1-5 years	5-10 years	Over 10 years / no maturity	Total 2009	Total 2008
Equities	-	-	-	7,134	7,134	7,915
Government bonds	342	1,670	575	-	2,587	828
Other bonds	831	7,825	703	75	9,434	5,911
Managed funds	-	-	-	7,261	7,261	8,783
Unquoted equities & funds	-	-	-	1,343	1,343	331
Investment in associates	-	-	-	9,401	9,401	9,108
TOTAL	1,173	9,495	1,278	25,214	37,160	32,876
2008	1,211	4,474	1,075	26,116	32,876	

This balance comprises:

	2009	2008
Available-for-sale securities	17,373	18,740
Held-to-maturity securities	10,386	5,028
Investment in associates	9,401	9,108
TOTAL	37,160	32,876

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

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

30. Geographical concentration of investments

	2009	2008
Bahrain	11,932	12,339
Other GCC countries	9,559	6,856
Japan and Korea	156	188
Other Asia/Oceania	830	667
Europe	5,713	2,040
North America	10,925	12,424
Middle East and Africa	106	144
Global/multi-regional	246	640
TOTAL	39,467	35,298

This comprises:

	2009	2008
Securities carried at fair value through profit or loss	2,308	2,423
Available-for-sale securities	17,372	18,740
Held-to-maturity securities	10,386	5,027
Investment in associates	9,401	9,108
TOTAL	39,467	35,298

Notes to the 2009 Consolidated Financial Statements *contd...*

(In thousands of Bahraini Dinars)

31. Related parties

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

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

Transactions with companies owned and controlled by the Directors are conducted on a normal commercial basis.

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

	2009	2008
Assets – receivables		
Receivable – policyholders	197	67
Receivable from associates	108	158
Liabilities - Payables		
Payable to associates	4	3
Income and expenses		
Gross premiums	842	474
Claims	540	103

Associates

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

	2009	2008
Assets – receivables		
United Insurance Company BSC (c)	104	148
National Finance House BSC (c)	3	10
Gulf Insurance Institute BSC (c)	1	-
Liabilities - payables		
Gulf Insurance Institute BSC (c)	4	3

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:

	2009	2008
Salaries and benefits	620	522
Terminal benefits	36	16
Post employment benefits	49	29
Board remuneration	106	100
Board committee sitting fees	25	17

Notes to the 2009 Consolidated Financial Statements *contd...*

(In thousands of Bahraini Dinars)

32. Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction. The table below sets out the group's classification of each class of financial assets and liabilities, and their fair values.

2009	Fair value through Profit or loss	Available-for-sale	Held-to-maturity	Loans and receivables	Total carrying value	Fair value
Cash and cash equivalents	-	-	-	8,866	8,866	8,866
Receivables	-	-	-	5,652	5,652	5,652
Reinsurer's share of technical reserves	-	-	-	7,187	7,187	7,187
Investment securities	2,308	17,372	10,386	-	30,066	30,525
TOTAL FINANCIAL ASSETS	2,308	17,372	10,386	21,705	51,771	52,230
Insurance reserves	-	-	-	13,146	13,146	13,146
Insurance payables	-	-	-	3,380	3,380	3,380
Other liabilities	-	-	-	2,365	2,365	2,365
TOTAL FINANCIAL LIABILITIES	-	-	-	18,891	18,891	18,891

2008	Fair value through Profit or loss	Available-for-sale	Held-to-maturity	Loans and receivables	Total carrying value	Fair value
Cash and cash equivalents	-	-	-	13,658	13,658	13,658
Receivables	-	-	-	5,622	5,622	5,622
Reinsurer's share of technical reserves	-	-	-	6,453	6,453	6,453
Investment securities	2,423	18,740	5,028	-	26,191	26,141
TOTAL FINANCIAL ASSETS	2,423	18,740	5,028	25,733	51,924	51,874
Insurance reserves	-	-	-	12,547	12,547	12,547
Insurance payables	-	-	-	3,792	3,792	3,792
Other liabilities	-	-	-	2,365	2,365	2,365
TOTAL FINANCIAL LIABILITIES	-	-	-	18,704	18,704	18,704

33. Commitments and contingent liabilities

As at 31 December 2009, the Group has commitments to make investments amounting to BD 2,050 (2008: BD 1,000).

34. New International Financial Reporting Standards and interpretations not yet adopted

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

- IFRS 9 - Financial Instruments (effective for financial periods beginning on or after 1 January 2013 but may be applied earlier).
- Revised IFRS 3 - Business Combinations (effective for financial periods beginning on or after 1 July 2009).
- Amended IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations as a result of Improvements to International Financial Reporting Standards 2008 (effective for financial periods beginning on or after 1 July 2009).
- Revised IAS 24 - Related Party Disclosures (effective for financial periods beginning on or after 1 January 2011).
- Amended IAS 27 - Consolidated and Separate Financial Statements (effective for financial periods beginning on or after 1 July 2009).

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

35. Comparatives

Certain corresponding figures of 2008 have been reclassified where necessary to conform to the current year's presentation.