Annual Report 2010

Walks of *life*

BNH

Contents

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

As the theme for this year's annual report, we feature a few "walks of life" that form part of the Kingdom of Bahrain's rich heritage: fishing, agriculture and trading of textiles and spices. Today, a small number of farmers, fishermen and merchants continue to adopt traditional methods of working, but these are increasingly threatened by the march of progress.

Agriculture & Fishing

For thousands of years, agriculture was a mainstay of Bahrain's economy. Flourishing date palm plantations and numerous small farms covered the northern part of the main island. These were watered by an innovative system of irrigation channels fed by an abundance of fresh water springs. Some farms exist today, providing local markets with fruits and vegetables, and other produce. However, salination of the water table and encroaching urbanization pose increasing threats to their future.

As an island state surrounded by the bountiful waters of the Gulf, Bahrain used to enjoy a vibrant fishing industry, with an abundant local supply of fish and crustaceans. Large fleets of fishing dhows were a common sight up and down the Persian Gulf. Some of these traditional dhows exist today, albeit powered by diesel engines.

Trading of Textiles & Spices

Bahrain has a long history as a bustling entrepôt. Conveniently located at the centre of the old Great Trade Routes, it provided traders and sailors with a safe haven and convenient stopover point. Two famous routes – the Silk Road and the Spice Route – carried much sought-after spices and fabrics from China and India to Europe. This burgeoning trade supported the growth of small merchants, who set up shops and stalls in the local souqs of Manama and Muharraq.

Some of these still e uture business viability of these local souqs and traditional merchants.

Preserving the past for future generations

As Bahrain's oldest insurance company, we take pride in our own heritage, and our enduring role in contributing to the prosperity and security of people and businesses across all walks of life. As a responsible corporate citizen, we are committed to supporting the local community and improving the quality of life for Bahraini citizens.

This commitment also extends to preserving Bahrain's rich heritage and traditional ways of life. We therefore actively support initiatives that seek to protect the environment, conserve energy, build sustainable communities, save historical architecture, and preserve local customs.

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

We are a widely-held public company listed on Bahrain Bourse.

Our Group operations are organized into 3 main business units:

BNH, the parent company, which is the asset management and corporate arm of our Group, and

Our wholly owned subsidiary, Bahrain National Insurance Company B.S.C. (c), which offers General Insurance and Motor & Personal Lines Insurance trades under bni brand;

Our 75% owned subsidiary, Bahrain National Life Assurance Company B.S.C. (c), which offers Life & Medical Insurance trades under the bnl brand.

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

Hassan Kadhem Mohammed

Fisherman
Sitra

I am a fisherman today because not only is it an additional source of income to my family but also because this profession and I are inseparable! I have practiced it for as long as I remember as my late uncle was a fisherman by profession and I used to join him in his fishing trips to assist. As years passed by I developed a great passion for fishing and learnt all about it; past the demise of my uncle - who trusted me with his business - I bought a 12 ft. boat, recruited an assistant and got new equipment to help me carry his legacy.

Mr. Farouk Yousif Almoayyed

Chairman

Board Member since 2008

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

Mr. Abdulhussain Khalil Dawani

Vice Chairman

Board Member since 1999
Member of the Investment Committee

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

Mr. Ali Rashid Al Amin

Director

Board Member since 1999

Chairman : Ali Rashid Al Amin Co. B.S.C.(c), Bahrain • Ramakaza Trading Co. W.L.L., Bahrain • Ramakaza Trading Co. W.L.L., Qatar • A&B Logistic Services W.L.L., Bahrain • Rawabi Al Amin Distribution Co. Ltd.,Saudi Arabia • A.R. Al Amin Industries, Qatar • A.R. Al Amin Industries, Bahrain
Vice Chairman : Bahrain National Insurance Company B.S.C.(c), Bahrain
Chairman of Board of Trustees : Ali Rashid Al Amin Charity Est., Bahrain

Mr. Jehad Yousif Amin

Director

Board Member since 1999
Member of the Executive Committee

Director : Banader Hotel Company, Bahrain • Bahrain Emirates Insurance Company B.S.C. (c), Bahrain
Director & Member of the Audit and Metro/Market Committees : General Company for Trading and Food Industries (TRAFCO), Bahrain
Director & Member of the Audit Committee : Bahrain Cinema Company, Bahrain • Bahrain Livestock, Bahrain
Director & Member of the Executive Committee : Bahrain Maritime and Mercantile Company (BMMI), Bahrain

Mr. Abdulrahman Moh'd Juma

Director

Board Member since 1999

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

Mr. Ahmed Ali Al A'ali

Director

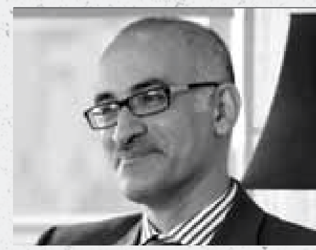
Board Member since 1999

Director: Haji Hassan Group, Bahrain • Bahrain Precast Concrete, Bahrain • Bahrain Bulk Trade, Bahrain • Bahrain Cement Company, Bahrain

Mr. Sami Mohamed Sharif Zainal

Director

Board Member since 2008



Director : UltraTune Middle East WLL, Bahrain • Zainal Enterprises, Bahrain
Marketing Director : MAZA, Bahrain
Member : Bahrain Chamber of Commerce & Industry (Food & Agriculture Committee), Bahrain

Mr. Ghassan Qassim Fakhroo

Director

Board Member since 2008
Member of the Audit & Compliance Committee

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

Mr. Talal Fuad Kanoo

Director

Board Member since 2008

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

Mr. Ayad Saad Khalifa Algosaibi

Independent Director

Board Member since 2008
Member of the Audit & Compliance Committee

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

Mr. Abdul Hakim Al Adhamy

Independent Director

Board Member since 2008

Director & Chairman of Audit Committee : Bahrain National Insurance Company B.S.C.(c), Bahrain • Bahrain National Life Assurance Company B.S.C.(c), Bahrain • Ebrahim Khalil Kanoo B.S.C.(c), Bahrain • Capital Management House B.S.C.(c), Bahrain • National Finance House B.S.C.(c), Bahrain
Member of the Audit, Risk, Corporate Governance & Compliance Committee : Kuwait Finance House B.S.C.(c), Bahrain
Member of the Audit Committee : Dubai Commercial Bank, UAE

Farouk Yousif Almoayyed | Chairman

As our successful achievements in recent years demonstrate, BNH has already adopted a proactive approach to these challenges and opportunities. **Strongly capitalized, highly liquid and not leveraged – and with a clear strategic focus – the Group is well positioned to take advantage of new business opportunities.**

Chairman's Statement

On behalf of the Board of Directors, it is my pleasure to present the annual report of Bahrain National Holding Company (BNH) for the year ended 31 December 2010. Given the ongoing aftermath of the global financial crisis and its continued impact on the MENA region, this proved to be another challenging year for the Group. However, I am delighted to report that BNH posted a strong performance in 2010, highlighted by positive financial results, significant strategic progress, new business initiatives and ongoing organizational developments.

BNH posted a positive financial performance in 2010. Total comprehensive income for the year increased by 14% to BD 4.25 million compared with 2009, while net profit of BD 3.81 million compared to the previous year's net profit of BD 4.07 million. Underwriting profit was BD 2.0 million compared with BD 2.5 million the previous year due to higher claims and less commission income. While gross premiums declined by 6.7% due to increased competition and softer rates, net earned premiums increased by 1.4% to BD 13.6 million, illustrating the success of the Group in increasing its retention of risk, which remains a cornerstone of our insurance risk management policy.

Following the recovery of global and regional financial markets, net investment income increased by 16.6% to BD 2.60 million against BD 2.23 million for the previous year, with investment returns across the Group of 7%. In line with our prudent approach to provisioning, we made an impairment charge of BD 235 thousand compared

14%

Total comprehensive income increase over last year

"During 2010, we advanced the Group's strategy to grow the business by investing in insurance and complimentary businesses and expanding its presence outside the Kingdom of Bahrain."

with BD 334 thousand in 2009. Total assets at the end of the year increased slightly to BD 74.13 million, while total equity grew by 4.9% to BD 42.16 million. Basic earnings per share were Bahraini fils 35.56 compared with Bahraini fils 37.74 in 2009. Accordingly, the Board of Directors is recommending a total cash dividend of BD 2.144 million (2009: BD 2.144 million), which is equivalent to 20 fils per share (2009: 20 fils) for the year 2010.

Given the continued global economic volatility, the increasingly competitive nature of the regional insurance market, and the further softening of rates during the year, these results constitute a significant achievement. They illustrate the validity of our diversified business model and consistent strategy, our prudent approach to underwriting and claims management and our adoption of sound governance practices. They also underline the ability of our two subsidiaries – Bahrain National Insurance (bni) and Bahrain National Life Assurance (bnl) – to maintain their net premium earned, market share and profitability, despite the intensely growing competition from existing local and regional players (both Conventional and Takaful) and new international entrants,

These achievements were further reinforced during the year by Standard & Poor's re-affirming bni's 'BBB+' long-term counterparty credit and insurer financial strength rating with a 'Stable' outlook, based on the Company's solid operating performance, sound capitalization and strong investments and liquidity. In addition, bni became the first insurance company in Bahrain to be assigned a 'gcAA' rating from Standard & Poor's, which is a newly-introduced credit rating specific to companies operating in the GCC, enabling them to benchmark themselves against their peers. This new rating analyses business risk, financial risk and other elements of operational risk, based on the same criteria used for global scale rating.

During 2010, we advanced the Group's strategy to grow the business by investing in insurance and complementary businesses and expanding its presence outside Bahrain. Key initiatives included the establishment of Bahrain Emirates Insurance Company, in which BNH holds a 30% stake; the launch of Ultra Tune Middle East, a 50-50 joint venture with an Australian partner; and completion of preparations to open a branch of bni in Qatar, subject to final regulatory approval. Through our 2 subsidiaries and 7 associate companies, the Group will have a presence in Saudi Arabia, Qatar and the UAE, in addition to Bahrain.

As a leading Bahrain-based financial institution, BNH is committed to contributing to the social and economic well-being of the Kingdom. Throughout 2010, we continued to implement the Group's comprehensive programme of corporate social responsibility. This comprises financial assistance for charitable, community, educational, medical, cultural and sporting organizations, as well as sponsorship of various activities and events that support the growth and development of the regional insurance industry.

Looking ahead, 2011 will undoubtedly be another challenging year with a continuation of soft market conditions and increasing competition. Nevertheless, we remain cautiously optimistic about the future outlook for the regional insurance industry, having weathered the worst of the global financial crisis and its potential for future growth is strong.

As our successful achievements in recent years demonstrate, BNH has already adopted a proactive approach to these challenges and opportunities. Strongly capitalized, highly liquid and not leveraged – and with a clear strategic focus – the Group is well positioned to take advantage of new business opportunities. We will continue to diversify our portfolio, develop our geographic network of partners and expand our presence in the GCC and wider MENA region; and also explore possibilities of investing outside the region to grow our international franchise.

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

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

Farouk Yousif Almoayyed
Chairman

Mahmood Al Soufi | Chief Executive

Our strong overall performance in 2010 reinforces the Group's robust underlying fundamentals that have helped BNH weather the impact of the global financial crisis over the past three years. **We have strengthened the balance sheet, maintained profitability, increased retentions and protected our dominant market share.**

Chief Executive's *Message*

In what proved to be yet another testing year for the regional insurance industry, I am pleased to report that BNH posted a strong overall performance in 2010. We continued to adopt a prudent and proactive approach to ensure the Group's strategic and business growth – expanding our insurance operations and geographic presence, further strengthening our organizational capability and posting another positive financial performance.

During 2010 we made excellent progress in implementing our strategy which entails growing the core insurance and associated business lines of BNH; introducing new related products and services; broadening the existing customer base and sector focus; and prudently expanding the Group's presence in the GCC region, either through alliances with local partners or by selective mergers and acquisitions. Our business plan incorporates ongoing analysis of the local and regional insurance market; identifying opportunities for further regional expansion, new strategic investments and potential business partnerships; maintaining our investment in human capital and information technology; and strengthening the Group's corporate governance and risk management framework.

A key strategic initiative in 2010 was the establishment of Bahrain Emirates Insurance Company (bei) with partners from the UAE in which BNH holds a 30% stake. Through its head office in Bahrain and branch in Abu Dhabi, bei underwrites general insurance business, seeking to leverage synergies between its founding partners. This investment supports the Group's regional expansion plans and also highlights the ability of BNH to realize the potential in the regional insurance industry and seize new business opportunities. Ultra Tune Middle East WLL, a 50-50 joint venture was established with an Australian company in 2009 to provide roadside assistance, service centres and smash repair facilities. This insurance-related strategic investment will help the Group's subsidiary, bni, to improve customer service while reducing the cost of claims. In addition, bni finalized preparations for the opening of a branch in Qatar which is awaiting final regulatory approval.

> "As a result of the many operational developments during the year, BNH is now better equipped to achieve its strategic and business goals and to face the challenges that lie ahead."

13.6 BD m

$ 36.04 m

Net earned premium income

These initiatives during the year illustrate the success of our strategy to develop BNH as a diversified, regional insurance holding company, in order to support the planned growth and sustainable profitability of the Group. With 9 insurance and complementary businesses, comprising subsidiaries, joint-ventures, associate companies and other related investments, BNH will have a presence in Bahrain, Saudi Arabia, Qatar and the UAE. A number of additional attractive investment opportunities across the region have been identified, with some of these expected to be implemented during 2011, in line with the Group's prudent business approach and depending on market conditions.

The numerous initiatives introduced in 2010, to build the Group's institutional capability, are detailed in the Review of Operations and Corporate Governance & Risk Management sections of this annual report, but I would like to highlight some of the more notable developments. During the year, BNH signed Service Level Agreements with its subsidiaries and some of its associates to provide administrative support services on a transparent, arms-length basis; and also provided human capital and IT consultancy services. These illustrate our ability to maximize synergies and economies of scale and implement uniform systems and best practices across the Group.

A major information and communications technology project, involving a full upgrade of the Group's IT infrastructure, was successfully completed in 2010. This will enable the introduction of state-of-the-art 'Cloud Computing' technology, which allows updating of the data centre on a seamless basis. In addition, the Group's new enterprise content management (ECM) system was implemented during the year, providing full automation of the claims workflow process through electronic files, with faster turnaround time for approvals. Also during the year, we continued to strengthen the Group's corporate governance, risk management and legal framework in order to ensure full compliance with latest regulatory requirements. As a result of the many operational developments during the year, BNH is now better equipped to achieve our strategic and business goals and to face the challenges that lie ahead.

During yet another year of turbulent market conditions – both globally and regionally – BNH once again demonstrated its resilience and strength in withstanding the worst effects of the financial crisis by maintaining profitability in 2010. Net profit was BD 3.81 million, slightly down on the BD 4.07 million reported for the previous year. A significant result was the growth in net premiums earned income to BD 13.6 million, underlining the Group's ability to increase retentions which remains a cornerstone of our insurance risk management policy.

While underwriting profit was impacted by higher & unexpected claims, reduced commission income and increased competition; investment income increased due to the turnaround in international and regional markets during the second half of the year. Our consistent portfolio management and diversified investment strategy resulted in investment returns on the Group's portfolio of 7% for the year. Another important achievement in 2010 was the re-affirmation by Standard & Poor's of bni's 'BBB+' credit rating with a 'Stable' outlook.' In addition, bni became the first insurance company in Bahrain to be assigned the new GCC-specific 'gcAA' rating from Standard & Poor's, which is further endorsement of our subsidiary's strong operating performance, capitalization, investments and liquidity. Total assets of the group grew 0.6% to BD 74.13 million.

Our strong overall performance in 2010 reinforces the Group's robust underlying fundamentals that have helped BNH weather the impact of the global financial crisis over the past 3 years. We have strengthened the balance sheet, maintained profitability, increased retentions and protected our dominant market share.

At the same time, we have expanded the Group's presence outside Bahrain, executed new strategic investments, launched innovative new products and services, broadened our distribution channels and continued to invest in human capital and information technology. BNH has a strong capital base, healthy liquidity, no leverage, a diversified and well-balanced investment portfolio and an experienced and stable management team.

We therefore enter 2011 with renewed confidence to continue the successful implementation of our strategy, maximize our pan-Group synergies and economies of scale to compete effectively and take early advantage of new business opportunities. Given the intensifying competition across the regional insurance industry, we will also continue to build the Group's expertise and competitive advantage in the key areas of product innovation, customer service, marketing and distribution, automation and claims management. In addition, we will continue to lobby for the standardization of insurance rules and regulations across the region and for a 'level playing field' to enable cross-border business; and support education and awareness initiatives to improve insurance penetration in the GCC and MENA.

In conclusion, I express my sincere appreciation to the Board of Directors for their steadfast support and guidance; to our customers for their continued loyalty and trust; and to our business partners for their ongoing encouragement and cooperation. I also pay tribute to the Group's management and staff for their dedication, professionalism and hard work. Together, all our stakeholders have helped to make 2010 another successful year for BNH and I earnestly thank them for their respective contributions and look forward to our continued mutual success and prosperity.

Mahmood Al Soufi
Chief Executive

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 UK. and attended a large number of professional courses, including IMD Geneva, the Chartered Institute of Marketing UK, Swiss Insurance Training Centre and World Economic Forum in Davos. He comes with approximately 35 years of experience, including 17 years as General Manager of Bahrain Saudi Marketing Company BALCO and BALEXCO. Currently Chairman of MASY Holding and Ultra Tune Middle East WLL. He is also Board Member of United Insurance Company, Gulf Insurance Institute, National Finance House, Bahrain Emirates Insurance Company (bei) and Al Kindi Specialised Hospital.

Mr. David Matthews

Chief Financial Officer

Bahrain National Holding

Joined BNH in 2008. He is a Fellow of the Institute of Chartered Accountants in England and Wales and has over 35 years experience in Finance, Audit and Systems Design and Implementation. He previously held the position of Group Financial Controller with RCR Tomlinson Ltd, an engineering company in Perth, Australia. Prior to that he has worked in Australia, England and Bahrain in various financial and administrative positions.

Mr. Abdulla Al Suwaidi

General Manager

Motor & Personal Lines 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 Management. He has 31 years' experience working with various organizations. Currently Board Member of Bahrain National Life Assurance Company and Ultra Tune Middle East WLL. He is also a Member of the Audit Committee of Bahrain National Life Assurance Company.

Mr. Joseph Rizzo

General Manager

General Insurance
Bahrain National Insurance

Joined bni in 2007, an Associate of the Chartered Insurance Institute and a Chartered Insurer with more than 29 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. Currently also Acting General Manager of Bahrain National Life Assurance Company. 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 and related companies. He formed part of the management team of a branch at the London Underwriting Centre writing treaty and facultative reinsurance business. He was involved in strategic development in new market initiatives such as branches and strategic partnerships in the Mediterranean region and responsible for setting up an operation in Gibraltar. He was active in the insurance industry by being a council member with the Malta Insurance Association and the Chamber of Commerce.

Mr. Mohammed Kadhim

Assistant General Manager
Legal & Compliance

Bahrain National Holding

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

Anand Subramaniam

Head of Investments & Projects

Bahrain National Holding

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

Mrs. Ebtisam Al Jowder

Assistant General Manager

Motor & Personal Lines Insurance
Bahrain National Insurance

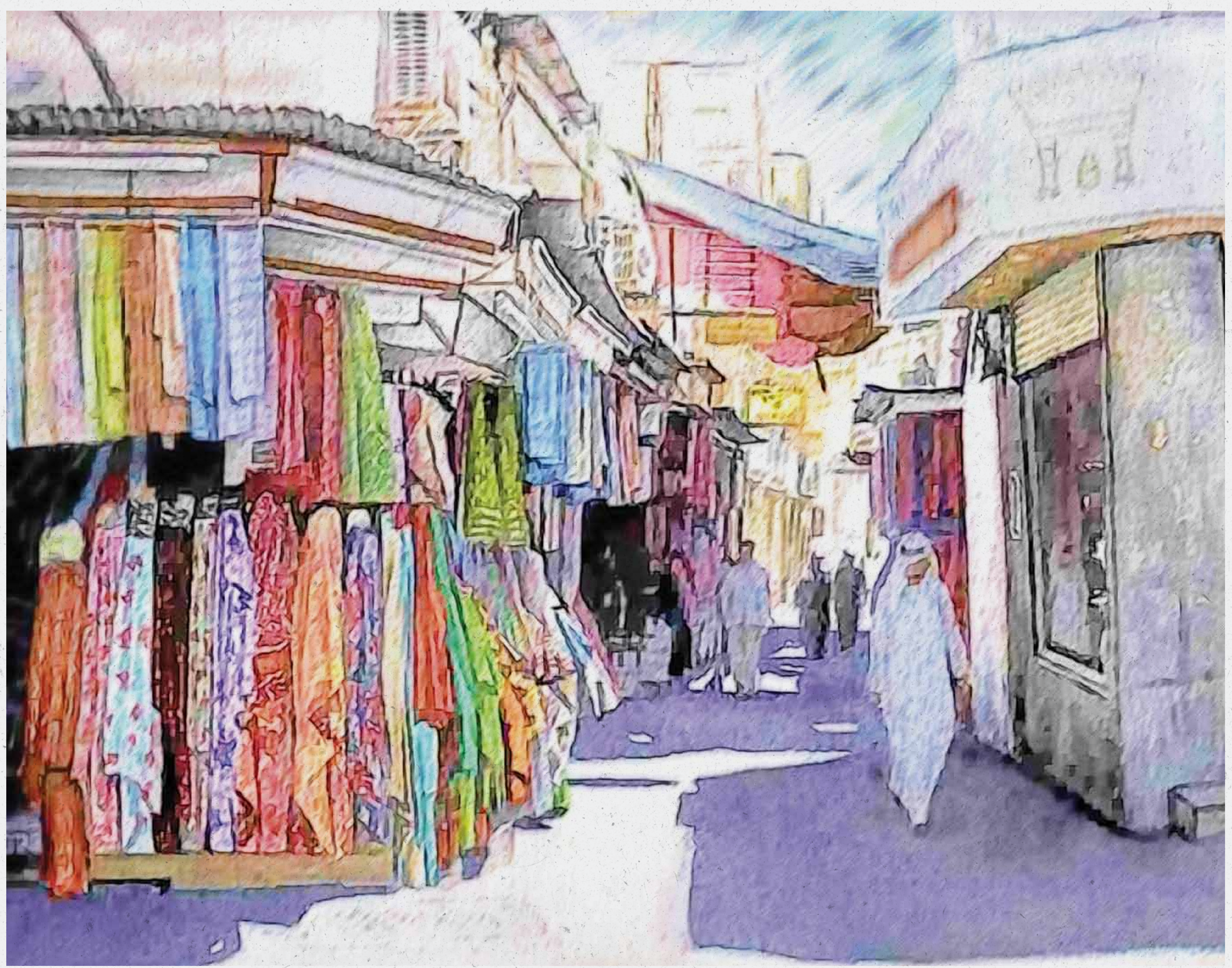
Joined bni in 1982. She has over 29 years of experience and holds a BIBF Diploma and Advanced Diploma in Insurance. She has also attended a number of Technical and Management courses.

Mr. Adrian Reid

Group IT Manager

Bahrain National Holding

Joined BNH in 2007. His IT career spans 41 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.



Mohammed Hassan Kadem

Textile Merchant
Souq Al Manama

My father started his business in the 1930's when he bought this little shop in Souq Al Manama. He used to import textiles from Japan, China and other neighboring countries; as a child, I had to support my father's growing business along with my other brothers. We used to return home from school, have lunch and finish our homework then joyfully run to assist our father in his shop.

When asked about the current demand for textiles he said people don't buy fabrics like they used to since the consumers are now influenced by the international fashion trends; yet business is usually good especially in some seasons including Eid & when students return to school.

Arabian Shield Cooperative Insurance Company

Paid-up capital: SR 200 million
BNH shareholding: 15%

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

Gulf Insurance Institute

Paid-up capital: BD 1.0 million
BNH shareholding: 24.25%

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

National Finance House

Paid-up capital: BD 7.5 million
BNH shareholding: 30%

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

United Insurance Company

Paid-up capital: BD 1.5 million
BNH shareholding: 20%

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

Al Kindi Specialised Hospital

Paid-up capital: BD 2.2 million
BNH shareholding: 25%

Established in 2008 in the Kingdom of Bahrain, Al Kindi is a private specialist hospital offering high standards of primary and secondary medical care. Staffed by a multinational team of 30 doctors, the hospital provides a comprehensive range of health services. With a female surgeon and anaesthesiologist, Al Kindi places special focus on women's healthcare. The hospital is equipped with a 24-hour clinic, radiology unit, medical laboratory and pharmacy.

Bahrain Emirates Insurance Company

Paid-up capital: BD 10.5 million
BNH shareholding: 30%

bei was established in the Kingdom of Bahrain in 2010 with partners from the UAE. Through its head office in Bahrain and branch in Abu Dhabi, the company underwrites general insurance business, seeking to leverage synergies between its founding partners. bei offers insurance cover for Accident & Liability, Fire & Engineering, Motor, Marine and Medical.

Ultra Tune Middle East

Paid-up capital: BD 0.7 million
BNH shareholding: 50%

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

Group Shared Services

Legal & Compliance

The Group's Customer Satisfaction & Legal Coordination Unit, the first of its kind to be established in Bahrain, continued to perform well in 2010 working closely with the insurance subsidiaries to resolve disputes. More than 95% of complaints are now resolved amicably, with a subsequent increase in customer satisfaction. There has been a steady reduction in the number of court cases since the Unit was formed and the number of complaints has decreased year-on-year. To further improve customer relations, a special workshop was conducted for Claims staff.

BNH continued to strengthen its corporate governance framework during the year, with particular emphasis on raising awareness among Board members and senior management. Following the introduction of the new Code of Corporate Governance for the Kingdom of Bahrain by the Ministry of Industry & Commerce and the Central Bank of Bahrain, which becomes effective on 1 January 2011, a gap analysis was prepared for the Board of Directors, highlighting potential areas of non-compliance to be addressed in 2011.

A new risk management framework was developed in 2010, and approved by the Audit & Compliance Committee. Development also commenced on a new enterprise risk management model, which is expected to be completed during 2011. As part of the upgrading of the Group's information technology architecture, a new disaster recovery site was established, and the first phase of testing commenced, with completion due in early 2011.

Investments

The Group's well-balanced investment portfolio had a total value of BD 55 million at the end of 2010. BNH continued to invest conservatively in 'A' rated corporate bonds and investment-grade equities. At the end of the year, the portfolio comprised 46% in cash and corporate bonds, 18% in equities and equity funds, 7% in land and buildings and 4% in hedge funds and alternative investments. The remaining 25% consisted of investments in associated companies. The Group continued to evaluate its equity holdings, particularly in the MENA region, to ensure diversity of risk. Net investment income increased by 16.6% in 2010 to BD 2.60 million compared with BD 2.23 million in 2009. This was due to the turnaround in international and regional markets during the year and the Group's consistent portfolio discipline and diversified investment strategy.

Human Capital

BNH increased its headcount from 198 to 209 during 2010, and maintained its level of Bahrainization at just under 80%. The Group continued to invest in training and development during the year, with over 50% of staff attending a variety of insurance and non-insurance courses. Key initiatives included an intensive five-day Leadership & Management training programme for the Group's senior managers; a core insurance workshop for both technical and non-technical executives; and sponsorship of staff to achieve Associate of the Gulf Insurance Institute certification. The BNH Executive Development Programme, which was introduced in 2009, progressed well during 2010 with 13 young Bahraini staff currently being groomed and developed for future executive roles.

During the year, the Group continued providing its subsidiaries and associates with human capital consultancy. Other developments include a revision of all human capital policies, processes and procedures; a new disciplinary action code; revised salary scales and job grades; and updated personnel forms. BNH also commenced development of an automated staff database and a new performance management system, both of which are planned to be completed during 2011.

Information Technology

During 2010, BNH completed a major six-month upgrade of its information technology infrastructure. This will enable the introduction of state-of-the-art 'Cloud Computing' technology, which allows updating of the data centre on a seamless basis. In addition, the Group's new Enterprise Content Management (ECM) system was implemented during the year, providing full automation of the claims workflow process through one electronic file, with faster turnaround time of approvals. A new Life &

Medical system for bnl was developed, while the different financial systems across the Group were fully integrated.

Other developments included enhancements to bnidirect and Intelligent Insurance services; the introduction of CPR scanners for data integrity; integrating vehicle registration renewals with motor insurance renewals through the e-Government payment gateway; upgrading the centralized IT help desk; and implementing an e-cargo portal for Marine clients and brokers. Development of a new ICT strategy was also completed during the year. Aligned to the Group's business plan, the new strategy will be implemented in 2011 and will include a platform to deliver Business Intelligence (BI), previously referred to as MIS or Management Information Systems.

Subsidiaries

Bahrain National Insurance Company (bni)

Motor & Personal Lines Insurance

Competition in the Bahrain market for Motor and Personal Lines intensified during 2010, fuelled by the growing number of new entrants, which pushed the total number of insurance companies to 79, including 9 Takaful firms and 2 captive companies. As a result, the division was forced to reduce premiums for its Motor business to protect market share, but without jeopardizing profitability, which increased slightly over 2009. Net earned premiums increased due to record retentions, while claims management improved over the previous year. For Personal Lines business, revenues of Home Contents cover decreased, due to a drop in new mortgages as a result of the downturn in the real estate sector.

The division enhanced its Intelligent Insurance service with the introduction of second-generation machines during the year. These now offer faster speed and functionality, accept debit as well as credit cards, and enable customers to renew vehicle registrations at the same time as motor insurance. Advanced third-generation machines, with additional features, are planned to be introduced in 2011. The division's bnidirect service, introduced in 2008, continued to attract new customers during the year, with overall customer usage of e-services having grown from 0.5% in 2009 to over 7.5% in 2010.

The provision of claims services was extended to more branches during the year, and these are now available at Sanad, Sitra, Manama and Muharraq. The Business Specialist Unit also continued to enhance its services; the use of advanced software for modelling and forecasting has enabled the unit's team of skilled specialists to react faster to market changes by adopting a more scientific approach. Plans for 2011 include the opening of new branches at Amwaj Islands in Bahrain, and in Doha, Qatar as well as enhancements to the NBB bancassurance service.

General Insurance

The Central Bank of Bahrain's insurance market review of 2009 indicates that on a gross premium written basis, Property and Casualty business in Bahrain declined slightly, while Marine, including Aviation, remained at the same level. Local conventional companies reduced their market share of this business to 62% in 2009 from 78% the previous year, mainly in the Engineering and Cargo business.

Market conditions for General Insurance continued to be challenging in 2010. Fire and Engineering witnessed a drop in gross written premiums, due mainly to extensive price competition on large accounts. Other factors included a lack of new construction projects and a decrease in sums insured in respect of stock and business interruption policies. During the year, the division focused on developing a commercial and industrial portfolio of small to medium businesses, which resulted in 14% of turnover from new business being secured from this sector. This involved a continuation of the strategy introduced last year to provide clients with a total solution for their insurance requirements, by packaging various covers under one umbrella at a single rate. In 2010, there was an increase in both the frequency and severity of claims from Fire and Engineering, but these classes still produced a rate of return of 5% after allocation of expenditure. Casualty business continued to increase by 15%, producing good net underwriting results, with a net loss ratio below 10%. Marine business showed a decline in turnover from Hull and Liability classes. This was mainly due to the loss of one account, but did not adversely affect net insurance revenue, which remained at the same level as for 2009.

In total, the net underwriting result before allocation of expenditure produced a rate of return to gross written premium of 20%, which was down on 2009. After allocation of expenditure and investment income, the net result of BD1.1million produced a rate of return of 13% to gross written premiums, and 63% of the retained insurance revenue. This was also the result of better investment income allocated to the operation.

The division will continue seeking to increase its market share, primarily within Bahrain, by quoting for risks that have the possibility of providing shareholders with an equitable return and also keeping the terms and conditions within market competition for the benefit of clients. It will also focus on prudent growth from its facultative inward business from outside Bahrain when the terms and conditions of that business permit. Valuing the contribution of business producers and market intermediaries, the division continued to pursue effective distribution channels. An e-cargo facility was launched in 2010, whereby clients with Marine open cover can issue and declare consignments through the internet. The division remains committed to making insurance more accessible to its clients and adding value through the expertise of its strong technical team.

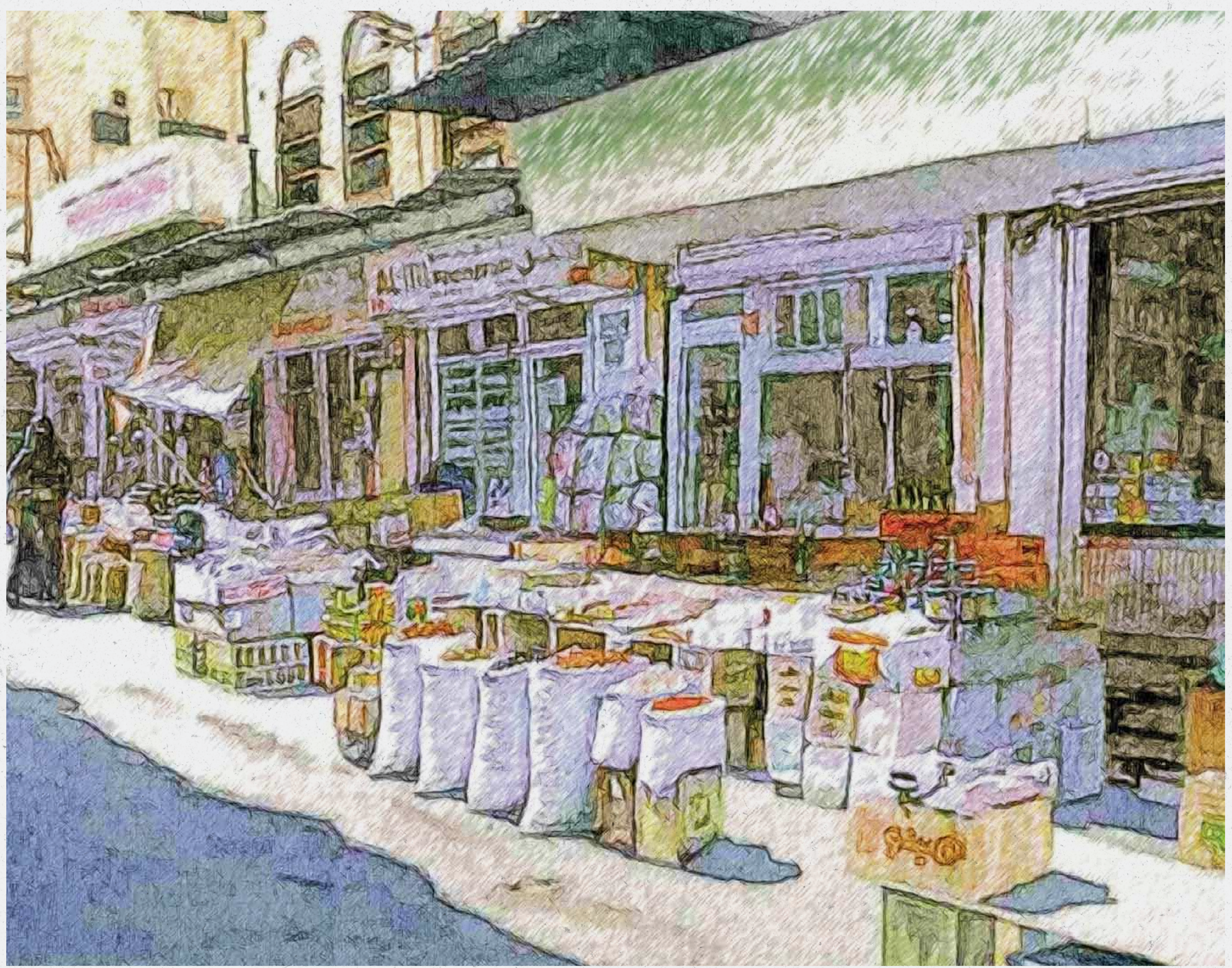
Bahrain National Life Assurance Company (bnl)

According to the Central Bank of Bahrain's insurance market review of 2009, the Life and Medical market increased by an average of 16%, with Medical growing by 27% and Life by 11%. The Life and Medical market accounted for 42% of total gross written premiums in 2009, compared with 39% the previous year. This rapid expansion in both lines of business presented bnl with a very promising opportunity for future growth in 2010.

Accordingly, bnl adopted a new strategic approach during the year to capitalize on this potential for growth. This involved a move from the traditional group policies, common in the region, to individual and family-related policies with new products developed for individual personal life and also individual and family medical cover. The range of new life products incorporates savings and investment plans with the opportunity to participate in local, regional and international investment funds. New medical products vary from schemes for low income wage earners, to family health plans and cash benefit schemes. This change in product range required the introduction of specialized distribution channels and, accordingly, bnl established a team of qualified and trained salespersons responsible for visiting clients. In order to support the sales team and future growth in business, bnl reviewed and updated its computer systems during the year.

The company's turnover grew by 5% in 2010 to just under BD 5 million. Life business achieved the largest increase of 21% in technical profits, after taking into account actuarial reserves and allocation of expenditure. Medical business witnessed a high frequency of claims, especially during the first half of the year. The company continued to strengthen its network of medical providers to obtain the best conditions and prices for its insured clients.

Net earned premiums of BD 3.27 million increased by 19%. Profit for the year was BD 0.38 million after investment income, resulting in a rate of return to net earned premiums of 11.5%, compared with 13.7% in 2009. The company remains committed to delivering an excellent range of comprehensive products in the most efficient way to its policyholders, while maintaining a respectable return for its shareholders. This will be achieved by a commitment to innovation, staff development, and customer service; and also by developing enduring relationships with clients, business producers, intermediaries, medical providers and reinsurers.



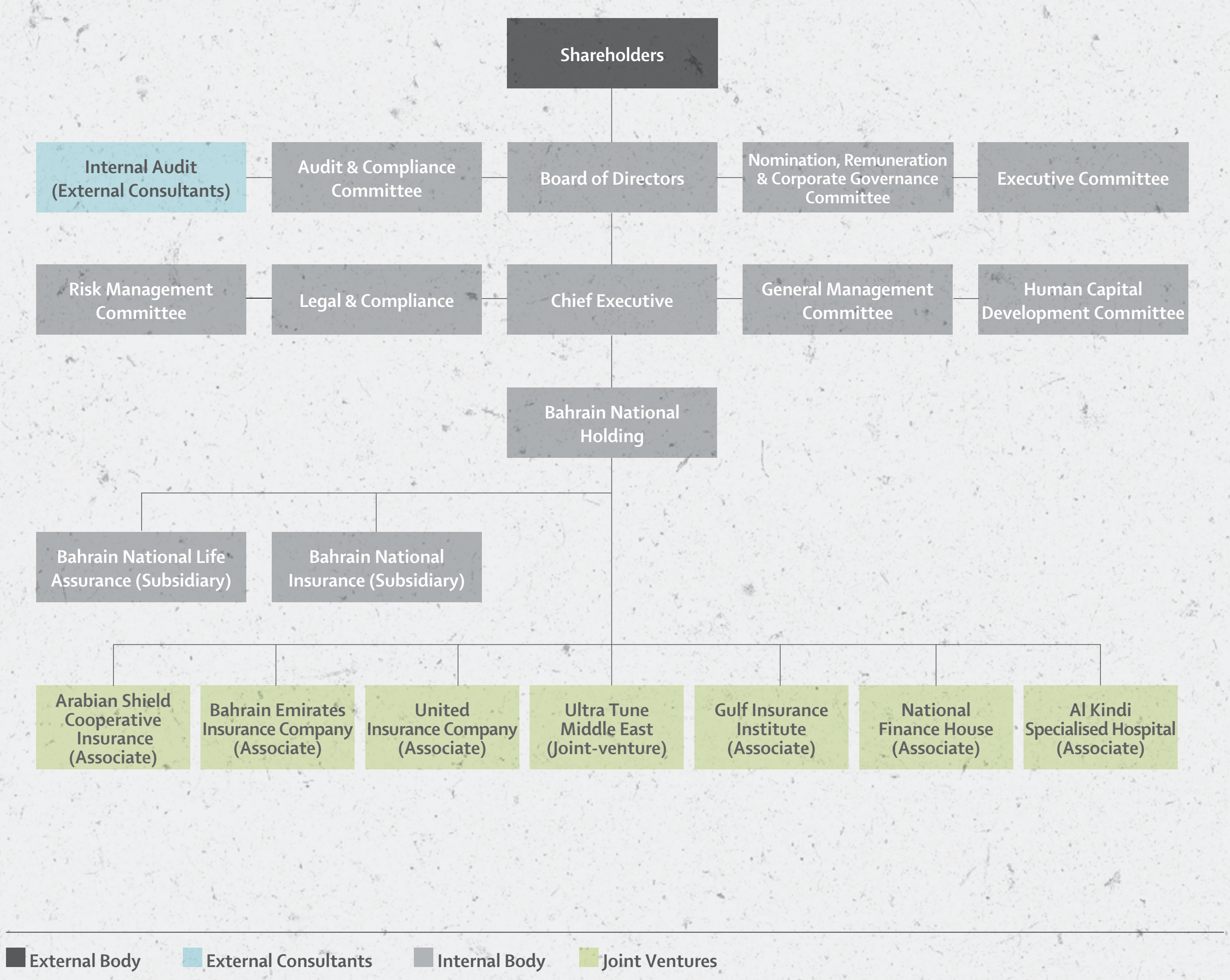
Mustafa Mohammed Taqi

Spice Merchant
Souq Al Manama

I inherited this business after my father's demise; he established it in the 1940's and it is still a successful business. I have been running this business for many years; my children now assist me too though each has a career of their own. The shop's location, since establishment has never changed; it remains in the spices market in Souq Al Manama which I'm proud of as it carries –still– the essence of old Bahrain.

People's demand remains on the spices and herbs, mostly, along with the varieties of the distilled herbal waters.

Corporate Governance Structure



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 Bahrain's rules and regulations of the Central Bank of Bahrain, BNH is committed to developing and implementing best practice in corporate governance in all areas of the group's operations and responsibilities.

The Board

The Board of BNH comprises 9 non-executive directors and 2 independent non-executive directors. Letters of Appointment have been 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 Board is responsible for the stewardship of the Group's business and affairs on behalf of the shareholders, with a view to enhancing long-term shareholder value while protecting the rights and interests of other stakeholders, and maintaining high standards of transparency and accountability.

Board Committees

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

Board of Directors & Executive Management Interest

For the period 01 January 2010 - 31 December 2010

Name of Shareholder	Number of Shares as of 01/01/2010	Number of Shares as of 31/12/2010	Changes
Directors			
Farouk Yousif Almoayyed (Chairman)	1,153,663	1,234,088	80,425
Abdulhussain Khalil Dawani (Vice Chairman)	1,244,907	1,244,907	-
Abdulrahman Moh'd Juma	635,996	635,996	-
Jehad Yousif Abdulla Amin	500,000	500,000	-
Ahmed Ali Al A'ali	100,000	100,000	-
Ali Rashid Al Amin	973,347	973,347	-
Ayad Saad K. Al Gosaibi	100,000	100,000	-
Sami Moh'd Sharif Zainal	139,876	139,876	-
Talal Fuad E. Kanoo	144,798	144,798	-
Ghassan Qassim Fakhroo	100,000	100,000	-
Executive Management			
Mahmood Al Soufi (CE)	104,046	114,046	10,000

- Carry instruction of the Board for all investigations

Members

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 2010.

Executive Committee

Responsibilities

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

Members

Abdulhussain Khalil Dawani – Chairman

Jehad Yousif Amin – Vice Chairman

Abdulrahman Mohamed Juma – Member

Talal Fuad Kanoo – Member

Sami Mohamed Sharif Zainal – Member

The Committee held 5 meetings during 2010.

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

Members

Farouk Yousif Almoayyed – Chairman

Abdulhussain Khalil Dawani – Vice Chairman

Abdul Hakim Al Adhamy – Member

The Committee held 2 meetings during 2010.

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.

Operational Committees

General Management Committee

Responsibilities

- 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

Members

Mahmood Al Soufi, Chief Executive – Chairman

David Matthews, Chief Financial Officer – Member

Abdulla Al Suwaidi, General Manager (bni - Motor & Personal Lines Insurance) – Member

Joseph Rizzo, General Manager (bni - General Insurance) – Member

Mohammed Kadhim, Assistant General Manager (Legal & Compliance) – Member

THE BNH GROUP EMBRACES A STRONG RISK MANAGEMENT CULTURE AT ALL LEVELS. UNDERWRITING AND CLAIMS PROCESSES ARE STANDARDIZED AND SYSTEMIZED AND AUDITED FREQUENTLY.

Risk Management Committee

Responsibilities

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

Membership

Joseph Rizzo, General Manager (bni - General Insurance) – Chairman

David Matthews, Chief Financial Officer – Member

Abdulla Al Suwaidi, General Manager (bni - Motor & Personal Lines Insurance) – Member

Mohammed Kadhim, Assistant General Manager (Legal & Compliance) – Member

Koluthumani Ramakrishnan, Senior Manager (Compliance) – Member

Human Capital Development Committee

Responsibilities

- 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

Members

Mahmood Al Soufi, Chief Executive – Chairman

David Matthews, Chief Financial Officer – Member

Jassim Al Hammadi, Human Capital Consultant – Member

Abdulla Al Suwaidi, General Manager (bni - Motor & Personal Lines Insurance) – Member

Joseph Rizzo, General Manager (bni - General Insurance) – 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 2010, we continued to regularly review and update our key policies and procedures manuals covering critical operational areas in our insurance subsidiaries and across all Group functions.

Directors & Officers (D & O) Policy

The Group is insured under a Directors & Officers insurance policy. The adequacy of the cover is measured in terms of size of the assets and future growth expectations of the Group. No claims have been reported during the last 8 years.

Anti-Money Laundering (AML)

The Group has in place policies and procedures to handle all aspects of anti-money laundering activities in line with regulations of the Central Bank of Bahrain. Each year the Group conducts a thorough review of its policies, procedures and internal directives to ensure ongoing compliance. The Group has submitted its external auditors report for the year 2009 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 2010 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, intranet, press releases and announcements in the local and regional media.

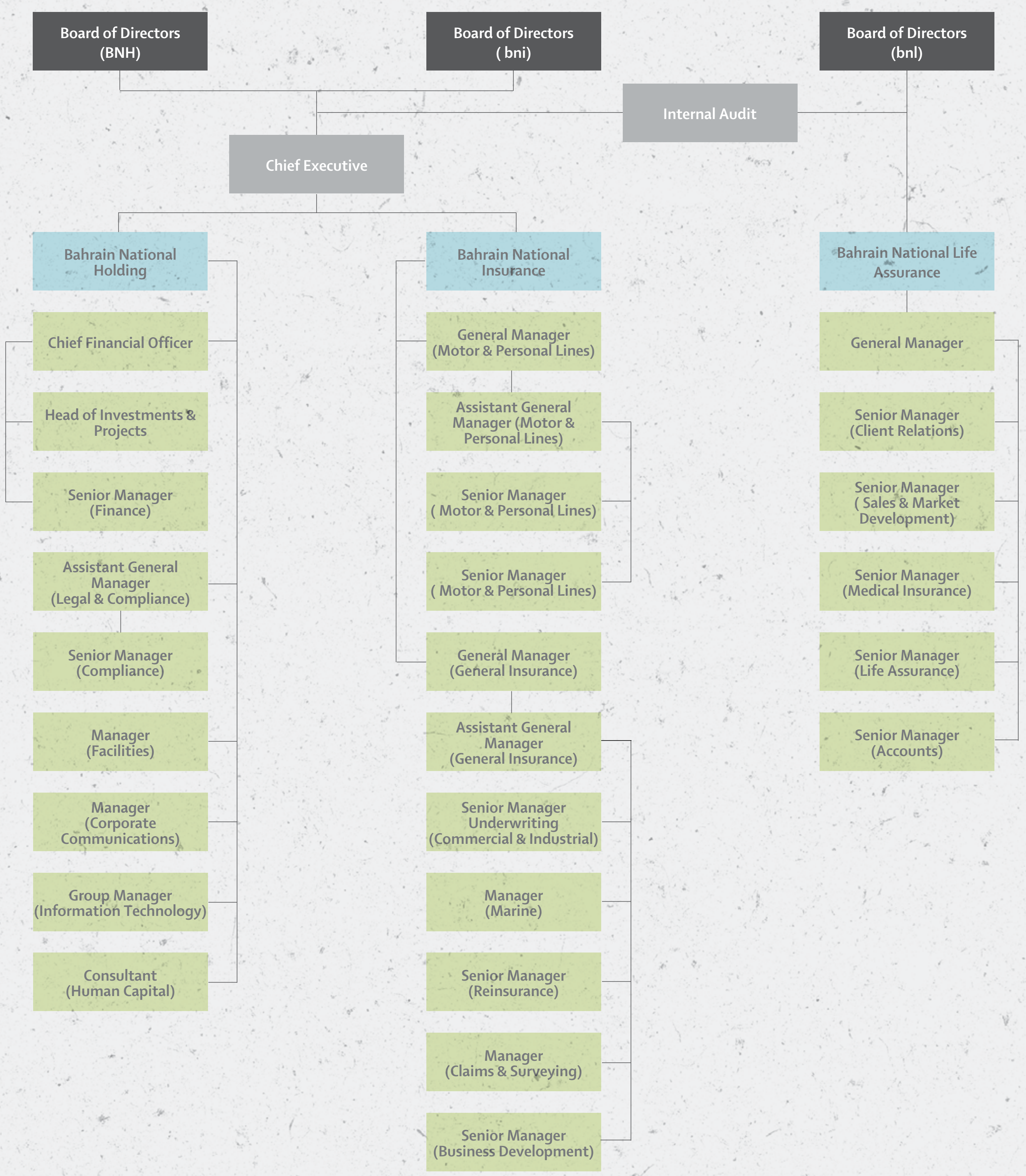
Risk Management Strategies & Practices

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 and Compliance Committee on all matters of internal controls. The internal audit, which is carried out by external consultants, ensures policies and procedures are well documented and adhered to. During 2010, no significant deviation from the policies and procedures has been reported.

Organization Structure



Abdulnabi Mansour Hassan

Farmer

Buri

I started farming when I was 10 years old; my father, grandfather and great grandfather were all farmers. Having this as my job gives me great pride as I carry on their legacy. Given the continuous & increasing demand on greens and vegetables in the Kingdom, I have invested in new agricultural devises & technologies to help me increase my harvests and also protect my fields from the fluctuating weather conditions.

As a leading Bahrain-based financial institution, BNH is committed to contributing to the social and economic well-being of the Kingdom. Throughout 2010, we continued to implement the Group's comprehensive programme of corporate social responsibility (CSR).

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

Healthcare

Provided financial assistance to the "Bahrain Association for Mental Retardation" to build a centre for autistic adults;

Donated medical equipment to the "Steps Rehabilitation Center", which specialises in rehabilitating children with cerebral palsy;

Supported the "Rotary Club of Manama's" fundraising campaign to build a counselling ward for diabetic children at Salmaniya Medical Centre.

Education

Supported the British Council "Chevening Scholarship Scheme";

Implemented the BNH "Executive Development Programme" to develop and groom young qualified Bahrainis for executive roles;

Participated in Tamkeen's "A9eel" Programme to promote professional work ethics.

Environment

Sponsored and participated in the annual Bahrain Treasure Hunt to raise funds for United Nations Environmental Protection (UNEP);

Maintained certification to FSC Mixed Sources as part of BNH's commitment to the highest social and environmental standards, including protection of the world's forests and timber resources;

Supported the "Bahrain Children and Mother Welfare Society" by using palm frond paper produced by the society members as the cover for the BNH annual report.

Insurance

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

Participated in a number of insurance industry conferences and seminars.

Economy

Sponsored the "Rotary International District 2450" Conference to present Bahrain as an attractive destination for investment and tourism;

Appointed as exclusive insurance partner for the Bahrain International Boat Show 2010.

Registered Office

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8th floor, Road 2832,
Seef Business District 428,
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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.
Bahrain Emirates Insurance Company B.S.C.(c)
Ultra Tune Middle East WLL

Listing

Bahrain Bourse

Auditors & Registrars to the Group

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

Actuaries

Actuarial Partners Consulting Sdn. Bhd,
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

Contents

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Audit
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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 2010, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Responsibility of the board of directors for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2010, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal & regulatory requirements

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

Manama, Kingdom of Bahrain
23 February 2011

Consolidated Statement Of Financial Position

As at 31 December 2010

(In thousands of Bahraini Dinars)

	Note	2010	2009
ASSETS			
Cash and cash equivalents		9,775	8,866
Statutory deposits	8	125	125
Receivables	9	5,432	5,652
Reinsurers' share of technical reserves	10	11,192	11,384
Investment securities	11	27,300	30,066
Investment in associates and joint-venture	14	13,761	9,401
Advance for investment in associate and joint-venture		-	1,650
Investment property	15	1,558	1,646
Property and equipment	16	4,984	4,882
TOTAL ASSETS		74,127	73,672
LIABILITIES			
Insurance technical reserves	17	25,454	27,211
Insurance payables	21	3,699	3,380
Other liabilities	22	2,817	2,886
TOTAL LIABILITIES		31,970	33,477
TOTAL NET ASSETS		42,157	40,195
EQUITY (page 43)			
Share capital	5	11,350	11,350
Treasury shares	5	(1,868)	(1,868)
Statutory reserve	6	5,348	4,967
Share premium	6	3,990	3,990
General reserve	6	13,585	13,585
Investment fair value reserve		3,206	2,779
Retained earnings	7	4,792	3,746
Equity attributable to shareholders of the parent company		40,403	38,549
Non-controlling interest		1,754	1,646
TOTAL EQUITY		42,157	40,195

The Board of Directors approved the consolidated financial statements consisting of pages 40 to 76 on 23 February 2011.

Farouk Yousif Almoayyed	Abdul-Hussain Khalil Dawani	Mahmood Al Soufi
Chairman	*Vice Chairman*	*Chief Executive*

Consolidated Income Statement

For the year ended 31 December 2010

(In thousands of Bahraini Dinars)

	Note	2010	2009
GROSS PREMIUMS	24	23,087	24,734
Reinsurance ceded		(9,817)	(11,135)
Retained premiums		13,270	13,599
Net unearned premiums adjustment	19	317	(204)
NET PREMIUMS EARNED		13,587	13,395
Gross claims paid		(16,213)	(16,025)
Claims recoveries		7,770	8,052
Net outstanding claims adjustment	18	616	136
NET CLAIMS INCURRED		(7,827)	(7,837)
Other operating expenses	28	(4,438)	(4,160)
Net commission income	25	546	905
Release from life assurance actuarial reserve	20	140	187
UNDERWRITING PROFIT FOR THE YEAR		2,008	2,490
Net investment income	27	2,603	2,230
Policyholder's share of investment income	20	(325)	(249)
Share of profit of associates and joint venture	14	649	315
Corporate and financial expenses	28	(1,121)	(717)
PROFIT FOR THE YEAR		3,814	4,069
profit attributable to :			
Parent company		3,720	3,974
Non-controlling interest		94	95
PROFIT FOR THE YEAR		3,814	4,069
Basic earnings per share (100 Fils each)		35.56 Fils	37.74 Fils

The Board of Directors approved the consolidated financial statements consisting of pages 40 to 76 on 23 February 2011.

Farouk Yousif Almoayyed	Abdul-Hussain Khalil Dawani	Mahmood Al Soufi
Chairman	*Vice Chairman*	*Chief Executive*

Consolidated Statement Of Comprehensive Income

For the year ended 31 December 2010
(In thousands of Bahraini Dinars)

	2010	2009
NET PROFIT FOR THE YEAR	3,814	4,069
Other comprehensive income:		
Available for sale securities:		
- Change in fair value	1,053	(139)
- Impairment transferred to income statement	235	334
- Transfer to income statement on disposal of securities	(847)	(536)
Group's share of share premium in associate	-	4
Other comprehensive income for the year	441	(337)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	4,255	3,732
Total comprehensive income attributable to :		
Parent company	4,147	3,592
Non-controlling interest	108	140
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	4,255	3,732

The consolidated financial statements consist of pages 40 to 76.

Consolidated Statement Of Changes In Equity

For the year ended 31 December 2010
(In thousands of Bahraini Dinars)

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

	Attributable to the shareholders of the parent company									
2009	Share capital	Treasury shares	Statutory reserve	Share premium	General reserve	Investment fair value reserve	Retained earnings	Total	Non-controlling Interest	Total Equity
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
Net 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

The consolidated financial statements consist of pages 40 to 76.

Consolidated Statement Of Cash Flows

For the year ended 31 December 2010
(In thousands of Bahraini Dinars)

	2010	2009
OPERATING ACTIVITIES		
Insurance operations (including life assurance)		
Premiums received net of acquisition costs	24,031	24,833
Payments to insurance and reinsurance companies	(8,585)	(10,601)
Claims paid to policyholders	(17,826)	(15,800)
Claims recovered from reinsurers and salvage recoveries	7,769	8,056
Cash flows from insurance operations	5,389	6,488
Investment operations		
Dividends and interest received	1,161	1,145
Proceeds from sale and redemptions	9,415	8,217
Payments for purchases	(5,035)	(11,452)
Investment in associates and joint-venture	(2,232)	(106)
Advance for investment in associate and joint-venture	-	(1,650)
Dividends received from an associate	255	225
Rents received	293	428
Cash flows from investment operations	3,857	(3,193)
Other operating expenses paid	(5,462)	(4,865)
Cash flows from operating activities	3,784	(1,570)
INVESTMENT ACTIVITIES		
Proceeds from sale of land	632	-
Purchase of property, plant and equipment	(1,294)	(1,131)
Cash flows from investment activities	(662)	(1,131)
FINANCING ACTIVITIES		
Payment for purchase of treasury stock	-	(439)
Dividends paid to shareholders	(2,177)	(1,596)
Donations paid	(36)	(56)
Cash flows from financing activities	(2,213)	(2,091)
TOTAL NET CASH FLOWS DURING THE YEAR	909	(4,792)
Cash and cash equivalents at 1 January	8,866	13,658
Cash and cash equivalents at 31 December	9,775	8,866
CASH AND CASH EQUIVALENTS at 31 December		
Cash and bank balances	3,990	1,500
Short-term deposits	5,785	7,366
Total as per statement of financial position	9,775	8,866

The consolidated financial statements consist of pages 40 to 76.

Notes to the 2010 Consolidated Financial Statements

For the year ended 31 December 2010
(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. *Subsidiaries*

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

3. *Associates and joint-venture*

The Group holds 20% (2009: 20%) of the equity share capital of the United Insurance Company BSC (closed), a Bahraini shareholding company (closed). United Insurance Company primarily provides insurance coverage for motor vehicles. (Refer note:14)

The Group holds 30% (2009: 25.9%) of the voting capital of National Finance House BSC (c), a closed Bahraini joint stock company, engaged in consumer and auto finance business. (Refer note: 14).

The Group holds 15% (2009:15%) of the voting capital of Arabian Shield Cooperative Insurance Company, Saudi Arabia, a Saudi Arabian Registered joint stock company, engaged in consumer and insurance business. (Refer note: 14).

The Group holds 24.25% (2009: 24.25%) of the voting capital of Gulf Insurance Institute BSC (c), a Bahraini shareholding company (closed), engaged in conducting training mainly in insurance related subjects. (Refer note: 14).

The Group holds 25% (2009: 25%) of the voting capital of Al Kindi Specialised Hospital W.L.L, a Bahraini with limited liability company, engaged in providing private medical services. (Refer note: 14).

The Group holds 30% (2009: 30%) of the voting capital of Bahrain Emirates Insurance Co. B.S.C. (c), a Bahraini shareholding company (closed), engaged in consumers and insurance business. (Refer note: 14).

The Group holds 50% (2009: 50%) of the voting capital of Ultra Tune Middle East Co. W.L.L., which carries out the business of automobile smash repairs, roadside assistance and automobile services, and other supporting business activities in the Kingdom of Bahrain. (Refer note: 14).

4. *Significant accounting policies*

a. Statement of compliance

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

b. Basis of preparation

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

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

c. Standards, amendments and interpretations

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

IAS 27 Consolidated and Separate Financial Statements (amended 2008)
The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost; any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (revised) prospectively from 1 January 2010 to transactions with non-controlling interests and for transactions resulting in loss of control. The change in accounting policy was applied prospectively and had no material impact on the financial statements.

4. Significant accounting policies (continued)

Improvements to IFRSs (2009)
Improvements to IFRS issued in April 2009 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments are effective for annual periods beginning on or after 1 January 2010 with earlier adoption permitted. There were no material changes to the current accounting policies of the Company as a result of these amendments.

ii. The following standards and interpretations have been issued and are expected to be relevant to the Group but not yet effective for the year ended 31 December 2010.

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

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

The Group is yet to assess IFRS9's full impact. However, initial indications are that it may affect the Group's accounting for its debt available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised in profit or loss.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. Prior periods need not be restated if an entity adopts the standard for reporting periods beginning before 1 January 2012.

IAS 24 (Revised) "related party disclosures"
It was issued in November 2009 and is mandatory for periods beginning on or after 1 January 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. When the revised standard will be applied, the Group and the parent will need to disclose transactions between its subsidiaries and its associates. The Group is currently putting systems in place to capture the necessary information.

Improvements to IFRSs (2010)
Improvements to IFRS issued in 2010 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments are effective for the Group's 2011 annual financial statements with earlier adoption permitted. No material changes to accounting policies are expected as a result of these amendments.

Early adoption of standards
The Group did not early-adopt new or amended standards in 2010.

d. Basis of consolidation

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

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

iii. Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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

e. Insurance

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

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

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

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

f. Liability adequacy test

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

g. Reinsurance contracts

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts in note 4 (e) are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards insurance) are included with insurance contracts. The benefits to which the Group is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consists of balances due from reinsurers on settlement of claims and other receivables such as profit commissions and reinsurers share of outstanding claims that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are recognized consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense when due.

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

4. Significant accounting policies (continued)

h. General insurance business

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

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

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

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

in order to spread the contributions earned over the tenure of the insurance contracts.

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

v. Outstanding claims
For general insurance contracts, estimates have to be made for both the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not reported (IBNR) at the reporting date. Provision for outstanding claims is based on estimates of the loss, which will eventually be payable on each unpaid claim, established by the management in the light of currently available information and past experience and modified for changes reflected in current conditions, increased exposure, rising claims costs and the severity and frequency of recent claims, as appropriate.

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

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

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

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

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

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

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

i. Life assurance business

i. Bahrain National Life Assurance Company, the life assurance subsidiary of the Group, underwrites two categories of policies:

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

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

Notes to the 2010 Consolidated Financial Statements contd...
For the year ended 31 December 2010
(In thousands of Bahraini Dinars)

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 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

4. Significant accounting policies (continued)

two stages. Estimates of future deaths, voluntary terminations, investment returns and administration expenses are made at the inception of the contract and from 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.

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 companie's financial health, industry and sector performance. At 31 December 2010, the Group had a decline in value of certain AFS securities below their cost by BD 479 (2009: BD 473) of which BD 235 (2009: BD 334) has been taken to the income statement as impairment on investments and the balance amount of BD 244 (2009: BD 139) 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 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.

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

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

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, plan 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.

v. Dividends

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

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w. Directors' remunerations

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

x. Employees benefits

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

ii. Expatriate employees
Expatriate employees on fixed contracts are entitled to leaving indemnities payable under the Bahraini Labour Law for the Private Sector of 1976, based on length of service and final remuneration. Provision for this unfunded commitment, , which is a "defined benefit scheme" in nature under IAS 19, has been made by calculating the notional liability had all employees left at the reporting date.

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

5. Share capital

	Number 2010	Amount 2010	Number 2009	Amount 2009
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 2010	Amount 2010	Number 2009	Amount 2009
Balance at beginning of year	6,253,816	1,868	5,217,263	1,430
Treasury stock purchases	-	-	1,036,553	438
BALANCE AT 31 DECEMBER	6,253,816	1,868	6,253,816	1,868

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

	2010	2009
Basic earnings per share – fils	35.56	37.74
Proposed cash dividend – fils	20.00	20.00
Net asset value – fils	393.08	368.98
Stock Exchange price at 31 December – fils	406.00	466.00
Market capitalisation at 31 December – in thousands of BD	46,081	52,891
Price/Earnings ratio at 31 December	11.42	12.75

In accordance with IAS 33, the calculation of **earnings per share** is based on the net profit for the year of BD 3,814 (2009: BD 4,069), attributable to 107,246,184 (2009: 107,807,747) 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.

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	12,263,458	10.80%
National Insurance Company	Iraqi	7,436,890	6.55%
Abdulhameed Zainal Mohamed Zainal	Bahraini	6,547,490	5.77%
Bahrain National Holding Co. (Treasury shares)	Bahraini	6,253,816	5.51%

(d) Additional information on shareholding pattern:

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

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

Categories	Number of shareholders	Number of shares	% of total outstanding shares
Less than 1 %	618	49,509,300	43.63
1 % up to less than 5 %	15	31,489,046	27.74
5 % up to less than 10 %	3	20,238,196	17.83
More than 10%	1	12,263,458	10.80
TOTAL	637	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 is also includes BD 29 (2009: 29) being the share of the group in the share of premium account of an associate.

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

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

7. Proposed appropriations and directors remuneration:

	2010	2009
Profit as per income statement	3,814	4,069
Net profit attributable to non-controlling interest	(94)	(95)
Net profit attributable to shareholders of parent company	3,720	3,974
Proposed appropriations:		
Statutory reserve	381	407
Dividend to shareholders	2,144	2,144
Directors' remuneration	-	99
Donations	50	50
Retained earnings	1,145	1,274
	3,720	3,974

The appropriation of the 2010 profit is subject to approval by shareholders at the annual general meeting.

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8. Statutory deposits

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

9. Receivables

	2010	2009
Policyholders	2,217	2,267
Insurance and reinsurance companies	2,685	3,073
Others	849	622
	5,751	5,962
Provision for impairment	(319)	(310)
TOTAL	5,432	5,652

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

	2010	2009
Balance at beginning of the year	310	366
Balances recovered during the year	-	(71)
Additional amounts provided during the year	9	15
Balance at end of the year	319	310

10. Reinsurers' shares of insurance technical reserves

	2010	2009
Outstanding claims recoverable from reinsurers (refer note 18)	7,902	7,187
Reinsurers' share of unearned premiums (refer note 19)	3,290	4,197
TOTAL	11,192	11,384

11. Investment securities

	2010	2009
Securities carried at fair value through profit or loss	1,906	2,308
Available for sale securities	15,190	17,372
Held-to-maturity securities	10,204	10,386
TOTAL	27,300	30,066

a) Securities carried at fair value through profit or loss

	2010	2009
Quoted:		
Equities	589	533
Government bonds	-	147
Other bonds	38	-
Managed funds	1,279	1,628
TOTAL	1,906	2,308

(In thousands of Bahraini Dinars)

11. Investment securities (continued)

Movement during the year	2010	2009
Opening balance as at 1 January	2,308	2,423
Purchases	224	174
Sales	(689)	(447)
Valuation gains	63	158
Balance as at 31 December	1,906	2,308

b) Available-for-sale securities

	2010	2009
Quoted		
Equities	6,659	7,133
Government bonds	944	697
Other bonds	1,481	938
Managed funds	5,513	7,261
Unquoted equities & funds	593	1,343
TOTAL	15,190	17,372

Movement during the year	2010	2009
Opening balance as at 1 January	17,372	18,740
Purchases	3,977	5,401
Sales	(6,571)	(5,791)
Valuation (losses)/gains	647	(644)
	15,425	17,706
Impairment provision	(235)	(334)
Balance as at 31 December	15,190	17,372

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:

	2010	2009
Balance at beginning of the year	1,988	2,385
Additional provision during the year	235	334
Release of provision during the year on sale of securities	(433)	(731)
BALANCE AT END OF THE YEAR	1,790	1,988

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 2010		31 December 2009	
	Carrying value	Fair value	Carrying value	Fair value
Trading securities reclassified to available-for-sale securities	3,242	3,242	5,357	5,357

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 2010		31 December 2009	
	Income Statement	Equity	Income Statement	Equity
Period after reclassification				
Profit / (loss) on sale of reclassified securities	448	-	147	-
Provision for impairment	(192)	-	(167)	-
Net change in fair value	-	(363)	-	(674)
	256	(363)	(20)	(674)

The amount of BD 363 (2009: BD 674) would have been recognised in the income statement in the period if reclassifications had not been made.

c) Held-to-maturity securities

	2010 Fair value	2009 Fair value	2010 Carrying value	2009 Carrying value
Government bonds	2,004	2,100	1,838	1,890
Other bonds	8,819	8,745	8,366	8,496
TOTAL	10,823	10,845	10,204	10,386

Movement during the year	2010 Carrying value	2009 Carrying value
Opening balance as at 1 January	10,386	5,028
Purchases	760	6,177
Disposals on maturity	(855)	(880)
Exchange (losses)/gains	(87)	61
Balance as at 31 December	10,204	10,386

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.

11. Investment securities (continued)

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

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

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:

	2010	2009
Investments in securities	4,025	4,232
Life assurance actuarial reserve (note 20)	2,899	3,506

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:

	2010 Aggregate principal	2010 Effective rate	2009 Aggregate principal	2009 Effective rate
Cash and short-term deposits	9,900	1.60%	8,991	1.60%
Fixed rate bonds	12,082	5.88%	8,706	6.80%
Floating rate bonds (repriced within 4-6 months)	585	1.90%	1,008	1.80%

14. Investments in associates and joint-venture

The Group's associates are as follows:

		Group interest	
Name	Country	2010	2009
Ultra Tune Middle East W.L.L.	Bahrain	50.0%	50.0%
Bahrain Emirates Insurance Company B.S.C. (c)	Bahrain	30.0%	30.0%
National Finance House B.S.C. (c)	Bahrain	30.0%	25.9%
Al Kindi Specialised Hospital W.L.L.	Bahrain	25.0%	25.0%
Gulf Insurance Institute B.S.C. (c).	Bahrain	24.2%	24.2%
United Insurance Company B.S.C. (c)	Bahrain	20.0%	20.0%
Arabian Shield Cooperative Insurance Company	Saudi Arabia	15.0%	15.0%

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The movements in the investment account are as follows:

	2010	2009
Balance at beginning of the year	9,401	9,108
Payment for acquisition of shares	3,882	106
Share of profit for the year	649	315
Share of share premium	-	4
Dividends received	(255)	(225)
Share of investment fair value reserve	84	93
TOTAL (equity method)	13,761	9,401

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

	2010	2009
Total assets	91,074	83,545
Total liabilities	53,980	43,630
Total revenue	11,994	26,437
Total profits	2,989	2,824

15. Investment property

	2010	2009
Balance at beginning of the year	1,646	1,734
Depreciation for the year	(88)	(88)
TOTAL	1,558	1,646

Investment property comprises of let out portion of the building situated in Seef Business District. The fair value of the Investment Property is BD 4,789 (2009: BD 4,709).

16. Property, plant and equipment

	Land and building	Plant & Machinery	Furniture, equipment & other assets	Capital work-in-progress	2010 Total	2009 Total
Cost						
At 1 January	4,178	367	2,057	223	6,825	5,661
Additions	133	-	492	670	1,295	1,164
Disposals	(632)	-	-	-	(632)	-
Transfer to/(from)	44	-	122	(166)	-	-
At 31 December	3,723	367	2,671	727	7,488	6,825
Depreciation						
At 1 January	667	193	1,083	-	1,943	1,400
Charge for the year	124	37	400	-	561	543
At 31 December	791	230	1,483	-	2,504	1,943
NET BOOK VALUE AT 31 DECEMBER	2,932	137	1,188	727	4,984	4,882

Capital commitments as at the reporting date amounted to BD 1,917 (2009: BD 241).

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17. *Insurance technical reserves*

	2010	2009
Outstanding claims - gross (refer Note 18)	13,245	13,146
Unearned gross premiums (refer Note 19)	9,289	10,513
Unearned commissions (refer Note 19)	21	46
Life assurance actuarial reserve (refer Note 20)	2,899	3,506
TOTAL	25,454	27,211

18. *Outstanding claims*

i. Claim Development

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

Insurance claims for general insurance business – Gross

Accident year	2006	2007	2008	2009	2010	Total
Estimate of ultimate claims costs:						
At end of reporting year	6,797	10,095	7,693	6,485	5,420	36,490
One year later	7,271	7,936	6,199	9,692	-	31,098
Two years later	6,896	9,429	6,598	-	-	22,923
Three years later	6,953	9,788	-	-	-	16,741
Four years later	7,283	-	-	-	-	7,283
Current estimate of cumulative claims (A)	7,283	9,788	6,598	9,692	5,420	38,781
Cumulative payments to date (B)	6,866	8,578	4,850	6,494	-	26,788
Total (A – B)	417	1,210	1,748	3,198	5,420	11,993
Reserve in respect of year prior to 2006						811
TOTAL RESERVE INCLUDED IN THE STATEMENT OF FINANCIAL POSITION						12,804

Insurance claims (gross) for life and medical insurance business amounting to BD 441 pertain to 2010.

Insurance claims for general insurance business – Net

Accident year	2006	2007	2008	2009	2010	Total
Estimate of ultimate claims costs:						
At end of reporting year	3,321	5,049	4,890	3,908	1,986	19,154
One year later	3,664	2,584	2,708	4,046	-	13,002
Two years later	3,510	2,884	3,189	-	-	9,583
Three years later	3,589	3,394	-	-	-	6,983
Four years later	3,953	-	-	-	-	3,953
Current estimate of cumulative claims (A)	3,953	3,394	3,189	4,046	1,986	16,568
Cumulative payments to date (B)	3,746	2,793	2,449	2,943	-	11,931
Total (A – B)	207	601	740	1,103	1,986	4,637
Reserve in respect of year prior to 2006						331
TOTAL RESERVE INCLUDED IN THE STATEMENT OF FINANCIAL POSITION						4,968

Insurance claims (net) for life and medical insurance business amounting to BD 375 pertain to 2010.

ii. Changes in insurance assets and liabilities

Movements in insurance liabilities and related reinsurance assets

	2010			2009		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Reported claims	12,323	7,187	5,136	11,563	6,524	5,039
IBNR	823	-	823	984	(72)	1,056
Total at beginning of the year	13,146	7,187	5,959	12,547	6,452	6,095
Change in liabilities	16,312	8,485	7,827	16,624	8,787	7,837
Claims settled	(16,213)	(7,770)	(8,443)	(16,025)	(8,052)	(7,973)
TOTAL AT END OF THE YEAR	13,245	7,902	5,343	13,146	7,187	5,959
Reported claims	12,805	7,902	4,903	12,323	7,187	5,136
IBNR	440	-	440	823	-	823
TOTAL AT END OF THE YEAR	13,245	7,902	5,343	13,146	7,187	5,959

iii. Sensitivity analysis

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

	Income Statement & Equity	
General Insurance	2010	2009
Expense rate		
1 percent increase	(38)	(38)
1 percent decrease	38	38
Expected loss ratio		
1 percent increase	(79)	(75)
1 percent decrease	79	75

	Income Statement & Equity	
Life Insurance	2010	2009
Demographic assumptions		
10 percent decrease in base mortality and morbidity rates	15	32
10 percent increase in base mortality and morbidity rates	(15)	(32)
Expense assumptions		
1 percent increase	(6)	(3)
1 percent decrease	6	3
Expected loss ratio		
1 percent increase	(3)	(3)
1 percent decrease	3	3

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

18. *Outstanding claims (continued)*

iv. Movements in outstanding claims

	Gross outstanding claims		Reinsurers' share		Net outstanding claims	
	2010	2009	2010	2009	2010	2009
At 1 January	13,146	12,547	7,187	6,452	5,959	6,095
Charge/ (release) during the year	99	599	715	735	(616)	(136)
AT 31 DECEMBER	13,245	13,146	7,902	7,187	5,343	5,959

19. *Unearned premiums / unearned commissions*

i. Movements in Unearned premiums

	Unearned Gross Premiums		Reinsurers' share		Net Unearned Premiums	
	2010	2009	2010	2009	2010	2009
At 1 January	10,513	12,070	4,197	5,958	6,316	6,112
Charge/(release) during the year	(1,224)	(1,557)	(907)	(1,761)	(317)	204
AT 31 DECEMBER	9,289	10,513	3,290	4,197	5,999	6,316

ii. Movements in Unearned commissions

	2010	2009
At 1 January	46	124
Release during the year	(25)	(78)
AT 31 DECEMBER	21	46

20. *Life assurance actuarial reserve and actuarial assumptions*

	2010	2009
Balance at 1 January	3,506	3,048
Transfer of contributions	128	396
Release to income statement	(140)	(187)
Termination of contribution retirement plan	(920)	-
Policyholder's share of investment income	325	249
BALANCE AT 31 DECEMBER	2,899	3,506

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*

	2010	2009
Policyholders - Claims	104	645
Insurance and reinsurance companies	3,595	2,735
TOTAL	3,699	3,380

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22. *Other liabilities*

	2010	2009
Premiums received in advance	323	330
Vehicle repairers and spare parts	555	698
Accrued expenses	88	81
Unclaimed dividends - prior years	121	154
Provision for employees' benefits	510	553
Provision for employees' leaving indemnities	365	334
Other liabilities	855	736
TOTAL	2,817	2,886

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

	2010	2009
Balance at beginning of the year	553	603
Paid during the year	(543)	(520)
Additional amount provided during the year	500	470
BALANCE AT END OF THE YEAR	510	553

23. *Retirement benefits cost*

The Company employed 162 Bahrainis (2009: 157 Bahrainis) and 44 expatriates (2009: 38 expatriates) as at 31 December 2010.

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 2010 amounted to BD 246 (2009: BD 253), 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 2010 amounted to BD 88 (2009: BD 81).

The liability towards the retirement plan as at 31 December 2010 amounted to BD 458 (2009: BD 326) 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

	2010	2009
At beginning of year	334	293
Indemnities and advances paid	(37)	(12)
Charge to income statement	68	53
BALANCE AT END OF THE YEAR	365	334

24. *Gross premiums*

	2010	2009
Gross premiums - Direct Business	20,832	21,747
Gross premiums - Inward Business	2,255	2,987
TOTAL	23,087	24,734

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25. Net commissions income

	2010	2009
Commission income	1,709	2,196
Commission expenses	(1,163)	(1,291)
NET COMMISSION INCOME	546	905

26. Segmental information

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

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

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

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

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

31 December 2010	Motor & General Insurance	Life Assurance and Medical	Corporate	Total
Gross premiums	18,101	4,986	-	23,087
Net premiums earned	10,312	3,275	-	13,587
Net claims incurred	(5,502)	(2,325)	-	(7,827)
Operating expenses	(3,462)	(976)	-	(4,438)
Net commission income/(expenses)	592	(46)	-	546
Release from life acturial reserve	-	140	-	140
UNDERWRITING PROFITS	1,940	68	-	2,008
Net investment income	1,581	634	388	2,603
Policyholder's share of investment income	-	(325)	-	(325)
Share of profit of associates & venture-capital	-	-	649	649
Corporate expenses	-	-	(1,121)	(1,121)
SEGMENT RESULTS	3,521	377	(84)	3,814
Cash and Cash equivalents	8,027	1,262	486	9,775
Statutory deposits	75	50	-	125
Receivables	3,978	1,302	152	5,432
Reinsurers' share of technical reserves	10,761	431	-	11,192
Investment securities	16,178	8,789	2,333	27,300
Investment in associates	-	-	13,761	13,761
Investment property	-	-	1,558	1,558
Property, plant & equipment	1,279	223	3,482	4,984
TOTAL ASSETS	40,298	12,057	21,772	74,127
Insurance technical reserves	20,674	4,780	-	25,454
Insurance payables	3,423	276	-	3,699
Other liabilities	1,508	157	1,152	2,817
TOTAL LIABILITIES	25,605	5,213	1,152	31,970

31 December 2009	Motor & General Insurance	Life Assurance and Medical	Corporate	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	(3,410)	(750)	-	(4,160)
Net commission income	902	3	-	905
Release from life acturial reserve	-	187	-	187
UNDERWRITING PROFITS	2,273	217	-	2,490
Net investment income	1,242	409	579	2,230
Policyholder's share of investment income	-	(249)	-	(249)
Share of profit of associates	-	-	315	315
Corporate expenses	-	-	(717)	(717)
SEGMENT RESULTS	3,515	377	177	4,069
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 & joint ventures	-	-	1,650	1,650
Investment property	-	-	1,646	1,646
Property, plant & equipment	970	156	3,756	4,882
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

Geographical information

31 December 2010	Bahrain	GCC	Other Countries	Total
Gross premiums	21,294	1,597	196	23,087
Non-current assets	22,056	9,838	12,576	44,470

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

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.

27. Net investment income

	2010	2009
Profit on sale of securities	453	563
Transfer from other comprehensive income on disposal of securities	847	536
Valuation gains	242	179
Foreign exchange (losses)/gains	(13)	139
Amortisation of premiums on held-to-maturity securities	(26)	(22)
Interest income	872	748
Dividend income	425	500
Other income	-	14
GROSS INVESTMENT INCOME	2,800	2,657
Provision for impairment on investment	(235)	(334)
Investment administration expenses	(71)	(328)
Investment property income	266	398
Investment property expenses	(157)	(163)
TOTAL NET INVESTMENT INCOME PER INCOME STATEMENT	2,603	2,230

Gross investment income by segment

	2010	2009
Shares in Bahraini public companies	932	691
Other equities	128	177
Government and other bonds	731	884
Managed funds	861	693
Cash and short-term deposits	148	198
Miscellaneous Income	-	14
GROSS INVESTMENT INCOME	2,800	2,657

28. Expenses

	2010	2009
Employee costs	3,482	3,165
Depreciation	561	355
Other costs	1,516	1,357
TOTAL EXPENSES	5,559	4,877
This comprises:		
Other operating expenses	4,438	4,160
Corporate and financial expenses	1,121	717
TOTAL EXPENSES	5,559	4,877

29. Insurance Contracts, Financial instruments and risk management

i INSURANCE RISK MANAGEMENT

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

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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.

31 December 2010	General Insurance	Life Assurance	Total
Geographical area			
Bahrain			
Gross	19,458	1,837	21,195
Retained	12,060	991	13,051
Other countries			
Gross	1,792	-	1,792
Retained	219	-	219
TOTAL			
Gross	21,250	1,837	23,087
RETAINED	12,279	991	13,270

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

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29. Insurance contracts, financial instruments and risk management (continued)

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. 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	2010	2009
Receivables		
Policyholders:	1,937	1,995
Insurance and reinsurance companies	2,646	3,034
Others	849	623
Outstanding claims recoverable from reinsurers	7,902	7,187
Investments:		
Securities carried at fair value through profit or loss	38	147
Available for sale securities	2,425	1,635
Held to maturity securities	10,204	10,386
Cash and cash equivalents	9,775	8,866
TOTAL	35,776	33,873

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

Concentrations of credit risk

The Group monitors concentrations of exposures by industry sector and geographic location of the counterparty as well as by individual counterparties. Counterparty concentration occurs mainly because of the investment management accounts maintained with the various investment bankers. Geographical concentrations at the reporting date have been presented in note 31. The specific concentration of risk from the top counterparties where receivables for any one counterparty or group of connected counterparties is BD 1 million or more at the year-end is as follows:

	2010	2009
Ahli United Bank	2,094	992
National Bank of Bahrain	1,412	2,026
CHASE Bank	1,105	111
Central Bank of Bahrain	1,042	588

(In thousands of Bahraini Dinars)

29. Insurance contracts, financial instruments and risk management (continued)

Assets that are past due

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

Financial assets	Neither past due nor impaired		Past due but not impaired		Individually impaired	Total
31 December 2010	Less than 90 days	91–180 days	More than 180 days	Gross Amount	Provision for impairment	
Receivables						
- Policyholders	833	591	513	280	(280)	1,937
- Insurance and Reinsurance companies	996	1,109	541	39	(39)	2,646
- Others	849	-	-	-	-	849
	2,678	1,700	1,054	319	(319)	5,432
Outstanding claims recoverable from reinsurers	370	407	7,125	-	-	7,902
TOTAL	3,048	2,107	8,179	319	(319)	13,334

Financial assets	Neither past due nor impaired		Past due but not impaired		Individually impaired	Total
31 December 2009	Less than 90 days	91–180 days	More than 180 days	Gross Amount	Provision for impairment	
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

Liquidity risk

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

Liquidity requirements are monitored on a daily basis and the management ensures that sufficient funds are available to meet any future commitments. In the normal course of business, the Group does not normally resort to borrowings but, given its gearing, has the ability to raise funds from banks at short notice. The maturity profile of the Group's investments is set out in note 30.

Management of liquidity risk

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

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

Exposure to liquidity risk

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

31 December 2010		Contractual undiscounted cash flows			
Financial liabilities	Carrying amount	Less than 1 year	1 – 2 years	2 – 5 years	More than 5 years
Policyholders' liabilities	104	101	3	-	-
Insurance/reinsurance companies	3,595	3,595	-	-	-
Outstanding Claims - Gross	13,245	5,748	3,312	3,415	770
Other payables	2,452	2,452	-	-	-

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	-	-	-

Market risk

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

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

The Group limits market risk by maintaining a well-diversified portfolio and by continuous monitoring of pertinent developments in international securities markets. In addition, the Group actively monitors the key factors that are likely to affect the prices of securities, including operational and financial performance of investees. The geographical concentration of the Group's investments is set out in note 31.

Management of market risks

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

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

29. Insurance contracts, financial instruments and risk management (continued)

Interest rate risk

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

The Group's short-term deposits are at fixed interest rates and mature within one year. Investments in Government bonds are at fixed interest rates. Investment in other bonds consists of both fixed and floating rate instruments. The effective interest rates on deposits and bonds are set out in note13.

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

Currency risk

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

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

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

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

Net currency-wise concentration in thousands of Bahraini dinar equivalents

Financial Assets	2010	2009
Euros	821	1,271
Pounds sterling	292	557
Other currencies	152	96
Total open foreign exchange position at 31 December	1,265	1,924
United States dollars	23,555	22,846
GCC Currencies	11,857	10,794
Bahraini dinars	27,493	25,608
TOTAL AT 31 DECEMBER	64,170	61,172

This comprises:	2010	2009
Securities carried at fair value through profit or loss	1,906	2,308
Available-for-sale securities	15,190	17,372
Held-to-maturity securities	10,204	10,386
Investment in associates	13,761	9,401
Cash and Bank balances	9,775	8,866
Receivables:		
Policyholders	1,937	1,995
Insurance and reinsurance companies	2,646	3,035
Others	849	622
Outstanding claims recoverable from reinsurers	7,902	7,187
TOTAL	64,170	61,172

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Financial Liabilities	2010	2009
United States dollars	685	136
GCC Currencies	5,086	2,928
Bahraini dinars	22,876	26,408
Other currencies	59	84
TOTAL AT 31 DECEMBER	28,706	29,556

This comprises:	2010	2009
Payables		
Policyholders Liabilities	104	645
Insurance/reinsurance companies payables	3,595	2,735
Outstanding claims	13,245	13,146
Unearned premiums	9,289	10,513
Unearned commissions	21	46
Others payables	2,452	2,471
TOTAL	28,706	29,556

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.

	2010		2009	
31 December	Income statement	Equity	Income statement	Equity
Interest rate risk				
+ 1 percent shift in yield curves	2	124	-	55
- 1 percent shift in yield curves	(2)	(124)	-	(55)
Equity price risk				
+1 percent increases in equity prices	6	68	5	72
-1 percent decrease in equity prices	(6)	(68)	(5)	(72)

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.

	2010		2009	
Receivables, Investments & Cash	Income Statement	Equity	Income Statement	Equity
US Dollars	137	92	136	91
Euro	7	1	10	3
Pounds Sterling	3	-	4	1
GCC currencies	57	11	56	22
Other currencies	-	1	(1)	1

(In thousands of Bahraini Dinars)

30. Maturity profile of investments

	Less than 1 year	1-5 years	5-10 years	Over 10 years / no maturity	Total 2010	Total 2009
Equities	-	-	-	6,659	6,659	7,134
Government bonds	38	1,671	574	499	2,782	2,587
Other bonds	1,189	7,642	941	75	9,847	9,434
Managed funds	-	-	-	5,513	5,513	7,261
Unquoted equities & funds	-	-	-	593	593	1,343
Investment in associates	-	-	-	13,761	13,761	9,401
TOTAL	1,227	9,313	1,515	27,100	39,155	37,160
2009	1,173	9,495	1,278	25,214	37,160	

This balance comprises:

	2010	2009
Available-for-sale securities	15,190	17,373
Held-to-maturity securities	10,204	10,386
Investment in associates	13,761	9,401
TOTAL	39,155	37,160

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.

31. Geographical concentration of investments

	2010	2009
Bahrain	16,333	11,932
Other GCC countries	10,000	9,559
Japan and Korea	37	156
Other Asia/Oceania	1,370	830
Europe	6,003	5,713
North America	4,965	10,925
Middle East and Africa	126	106
Global/multi-regional	2,227	246
TOTAL	41,061	39,467

This comprises:

	2010	2009
Securities carried at fair value through profit or loss	1,906	2,308
Available-for-sale securities	15,190	17,372
Held-to-maturity securities	10,204	10,386
Investment in associates	13,761	9,401
TOTAL	41,061	39,467

32. Related parties

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

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

Transactions with 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:

	2010	2009
Assets		
Receivables from companies in which directors are interested	465	197
Receivables from associates	205	107
Liabilities - payables		
Payables to companies in which directors are interested	236	328
Payables to associates and joint-venture	55	4
Income and expenses		
Gross premiums	1,803	842
Claims	578	540
Other income	30	-

Associates and joint-venture

Transactions with associates and joint-venture companies are on normal commercial terms. Balances as at the year-end are as follows:

	2010	2009
Assets – receivables		
United Insurance Company B.S.C. (c)	115	103
Bahrain Emirates Insurance Company B.S.C. (c)	86	-
National Finance House B.S.C. (c)	4	3
Gulf Insurance Institute BSC (c)	-	1
Liabilities - payables		
Ultra Tune Middle East W.L.L.	54	-
Gulf Insurance Institute BSC (c)	1	4

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:

	2010	2009
Salaries and benefits	557	620
Terminal benefits	100	36
Post employment benefits	43	49
Board remuneration	119	106
Board committee sitting fees	38	25

(In thousands of Bahraini Dinars)

33. Fair value measurement

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

2010	Fair value through the income statement	Available-for- sale	Held-to-maturity	Loans and receivables	Total carrying value	Fair value
Cash and cash equivalents	-	-	-	9,775	9,775	9,775
Receivables	-	-	-	5,432	5,432	5,432
Reinsurer's share of outstanding claims	-	-	-	7,902	7,902	7,902
Investment securities	1,906	15,190	10,204	-	27,300	27,919
TOTAL FINANCIAL ASSETS	1,906	15,190	10,204	23,109	50,409	51,028
Outstanding claims	-	-	-	13,245	13,245	13,245
Insurance payables	-	-	-	3,699	3,699	3,699
Other liabilities	-	-	-	2,452	2,452	2,452
TOTAL FINANCIAL LIABILITIES	-	-	-	19,396	19,396	19,396

2009	Fair value through the income statement	Available-for- sale	Held-to-maturity	Loans and receivables	Total carrying value	Fair value
Cash and cash equivalents	-	-	-	8,866	8,866	8,866
Receivables	-	-	-	5,652	5,652	5,652
Reinsurer's share of outstanding claims	-	-	-	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
Outstanding claims	-	-	-	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

34. Commitments and contingent liabilities

As at 31 December 2010, the Group has commitments to make investments amounting to BD 250 (2009: BD 2,050).

35. Comparatives

Certain corresponding figures of 2009 have been reclassified where necessary to conform to the current year's presentation.