We are proudly going further...

BNH

Annual Report 2014

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 and First Deputy Prime Minister of the Kingdom of Bahrain

Contents

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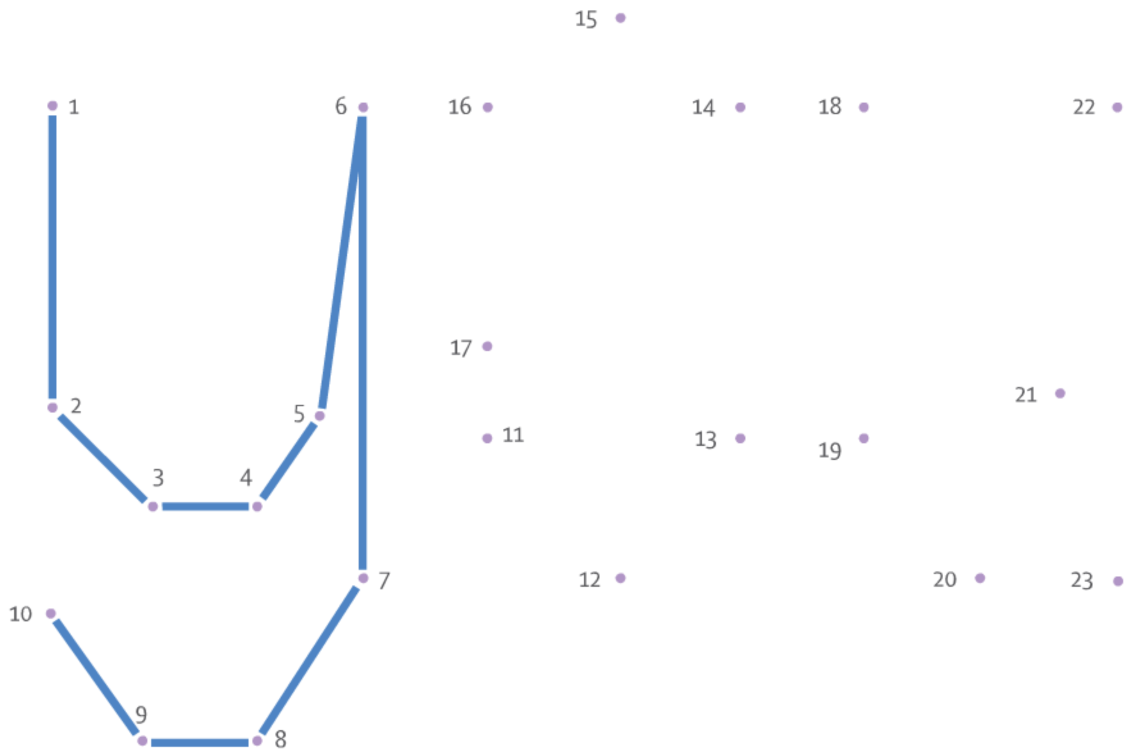
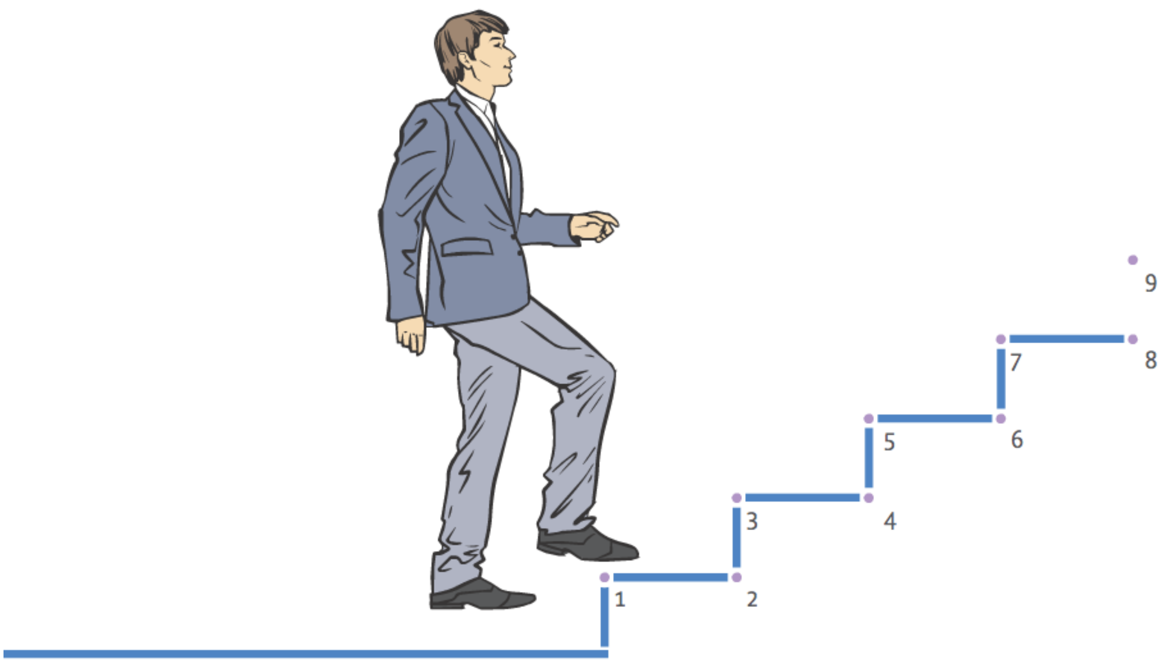




WE ARE PROUDLY GOING FURTHER WITH YOU

The Automatic Insurance Machine (AIM) features have been enhanced to accept cash, credit & debit card. This new generation of (AIM) machines will be installed in convenient locations. The Company is planning to introduce new packaged products with enhanced cover and develop the services available in branches.

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

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

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

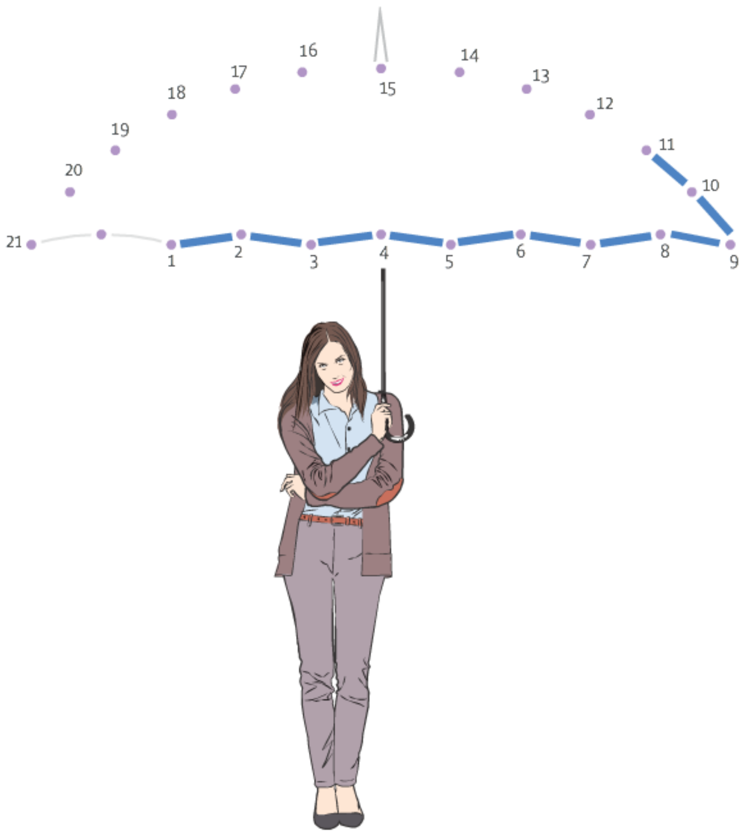
Our Mission

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

Reliable Protection

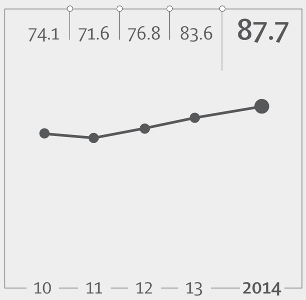


OFFERING A HIGH QUALITY SERVICE TO CUSTOMERS

As Bahrain's leading insurance and financial services group, Bahrain National Holding (BNH) has held its pioneering position since the merger of Bahrain National Insurance Company and National Insurance Company in 1998. 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.

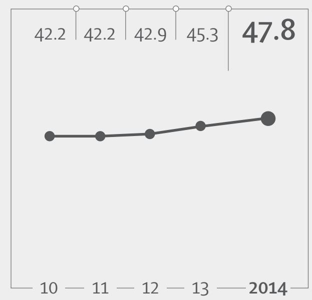
Financial Highlights

TOTAL ASSETS
(BHD MILLIONS)

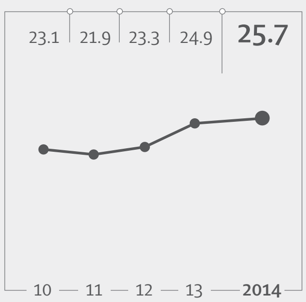


MARKET CAPITALISATION
(BHD MILLIONS)

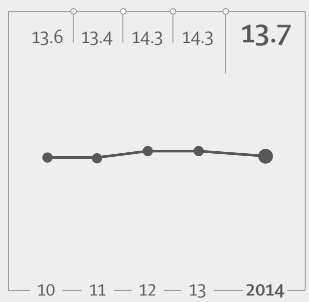
TOTAL EQUITY
(BHD MILLIONS)



GROSS PREMIUMS
(BHD MILLIONS)



NET EARNED PREMIUMS
(BHD MILLIONS)



NET PROFIT
(BHD MILLIONS)

(BHD MILLIONS)	2010	2011	2012	2013	2014
TOTAL ASSETS	74.1	71.6	76.8	83.6	**87.7**
MARKET CAPITALISATION	46.1	46.3	44.7	56.8	**49.0**
TOTAL EQUITY	42.2	42.2	42.9	45.3	**47.8**
GROSS PREMIUMS	23.1	21.9	23.3	24.9	**25.7**
NET EARNED PREMIUMS	13.6	13.4	14.3	14.3	**13.7**
NET PROFIT	3.8	3.3	2.3	3.0	**3.8**

Board of Directors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2


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4


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6


7


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10

Board of Directors Profiles

1. Farouk Yusuf Almoayyed

Chairman | Non-executive Director
Board Member since 2008
Chairman of NRCG Committee

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

Director:
- Investcorp Bank B.S.C., Bahrain

2. Abdulhussain Khalil Dawani

Vice Chairman | Non-executive Director
Board Member since 1999
Chairman of the Executive Committee
Vice Chairman of NRCG Committee
Chairman of Bahrain National Insurance Company B.S.C. (c)

Chairman:
- Deeko, Bahrain
- Dawanco, Bahrain
- Dawanco Industries, Bahrain
- Tomina Trading, Bahrain
- Bahrain Foundation Construction Company, Bahrain
- Al Jazira Group, Bahrain
- American Cultural & Educational Centre, Bahrain

Director:
- Delmon Poultry Company W.L.L, Bahrain
- National Institute of Industrial Training, Bahrain

3. Jehad Yusuf Amin

Director | Non-executive Director
Board Member since 1999
Member of Executive Committee
Member of NRCG Committee
Director, Bahrain National Insurance Company B.S.C. (c)

Vice-Chairman:
- Banader Hotels B.S.C., Bahrain
- General Poultry Company B.S.C. (c), Bahrain

Director:
- TRAFCO B.S.C., Bahrain
- Bahrain Cinema Company B.S.C., Bahrain
- Bahrain Livestock Company B.S.C., Bahrain
- United Insurance Company B.S.C., Bahrain
- BMMI B.S.C., Bahrain

Member of Audit Committee:
- TRAFCO B.S.C., Bahrain
- Bahrain Livestock Company B.S.C., Bahrain

Member Investment Committee:
- BMMI B.S.C., Bahrain
- United Insurance Company B.S.C., Bahrain

Member of Executive Committee:
- Bahrain Cinema Company B.S.C., Bahrain

Member of Market Committee:
- TRAFCO B.S.C., Bahrain

4. Abdulrahman Mohamed Juma

Director | Non-executive Director
Board Member since 1999.
Member of Bahrain National Holding Company Audit, Compliance and Risk Committee
Chairman, Bahrain National Life Insurance Company B.S.C (c)

President:
- Abdulrahman Bin Mohamed Juma & Sons, Bahrain.

Chairman & Managing Director:
- UNEECO Group of Companies, Bahrain.
- Prudent Solutions, Bahrain.

Vice Chairman:
- Prudent Saudi Arabia

5. Ghassan Qassim Fakhroo

Director | Non-executive Director
Board member since 2008
Member of the Executive Committee
Vice Chairman, Bahrain National Insurance Company B.S.C (c)

Chief Executive:
- Mohamed Fakhroo & Bros., Bahrain

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

Director and Partner:
- Qasim Mohamed Fakhroo & Sons, Bahrain

Board Member:
- Al Kindi Specialized Hospital
- National Institute for Industrial Training (NIIT)

6. Sami Mohamed Sharif Zainal

Director | Non-executive Director
Board Member since 2008
Member of the Executive Committee
Director, Bahrain National Insurance Company B.S.C. (c)
Member of Bahrain National Insurance Company Audit, Compliance and Risk Committee

Chairman:
- UltraTune Middle East WLL, Bahrain
- Arbitration & Trade Dispute Dispute Committee -Bahrain Chamber of Commerce & Industry

Director:
- Zainal Enterprises, Bahrain
- Tony Luke's, Bahrain
- Life Marketing SPC, Bahrain

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

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

7. Ali Hasan Mahmood

Director | Non-executive Director
Board Member since 1999 and Re-elected in 2011
Member of the Bahrain National Holding Company Audit, Compliance and Risk Committee

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

Director:
- Bahrain Specialist Hospital
- Bahrain Businessmen Association

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

8. Talal Fuad Kanoo

Director | Non-executive Director
Board Member since 2008
Member of the Executive Committee

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

Chairman:
- Al Ahli Club , Bahrain

9. Redha Abdulla Faraj

Director | Independent Non-executive Director
Board Member since 2014
Chairman of Bahrain National Holding Company Audit, Compliance and Risk Committee
Director, Bahrain National Insurance Company B.S.C. (c)
Chairman of Bahrain National Insurance Company Audit, Compliance and Risk Committee
Director, Bahrain National Life Assurance Company B.S.C (c)
Chairman of Bahrain National Life Assurance Company Audit, Compliance and Risk Committee

Board Member:
- BMMI
- Gulf Air
- Almoayyed International Group (AIG)
- Y.K. Almoayyed & Sons Group
- Almoayyed Contracting Group
- Bahrain Chamber for Dispute Resolution (BCDR)
- Mumtalakat
- Eskan Bank

Founder of:
Al Faraj Consulting W.L.L.

10. Ayad Saad Khalifa Algosaibi

Director | Independent Non-executive Director
Board Member since 2008
Vice Chairman Bahrain National Holding Company Audit, Compliance and Risk Committee
Director, Bahrain National Insurance Company B.S.C. (c)
Vice Chairman Bahrain National Insurance Company Audit, Compliance and Risk Committee
Director, Bahrain National Life Assurance Company B.S.C (c)
Vice Chairman Bahrain National Life Assurance Company Audit, Compliance and Risk Committee

Director:
- Ismailia Food Industries, Ismailia, Egypt
- Khalifa A. Algosaibi Holding, Dammam, Saudi Arabia
- Ultra Tune Middle East, Bahrain

FAROUK YUSUF ALMOAYYED
CHAIRMAN OF THE BOARD

On behalf of my colleagues the Board members, it is my pleasure to present to you the annual report of Bahrain National Holding Company BSC, for the year ended 31st December 2014. The Group achieved good results, both in its core insurance underwriting businesses and investments, and continued to build a balanced and profitable portfolio.

Chairman's Statement
→ continued next page

+26.5%

INCREASE IN NET PROFIT

"Although the year 2015 is expected to be a challenging one due to continued low oil prices and the dependency of the Government budget on oil revenues, the Group is looking forward to expanding its business and launching new value added products."

The net profit increased by 26.5 percent from BD 3.0 million in 2013 to BD 3.8 million in 2014. This increase was achieved despite being faced with a challenging and competitive environment, thanks to the guidance of the Board of Directors and the efforts of the management of the Group.

The net underwriting profit increased from BD 2.3 million in 2013 to BD 2.4 million in 2014, a growth of 3.3 percent. Net investment portfolio income went up by 16.9 percent from BD 2.9 million in 2013 to BD 3.4 million in 2014.

Total assets increased by 4.9 percent at the end of the year to reach BD 87.7 million compared to BD 83.6 million in 2013. The total shareholders' equity rose from BD 45.3 million in 2013 to BD 47.8 million in 2014.

The basic earnings per share increased from 27.8 Bahraini fils in 2013 to 33.6 Bahraini fils in 2014.

The growth in underwriting profitability was a result of the Group's efforts to increase its direct business in Bahrain. The Group has won a number of large businesses in 2014. The medical insurance underwent a turn around into a profitable line by improving claims control and efficiency.

The Group also reviewed some of its underperforming businesses and decided to exit them. This led to lower cost and an increase in the overall profitability of the Group.

BNH is committed to contributing to the social welfare & the economic prosperity of the Kingdom of Bahrain. During the year the Group contributed to selected organisations & supported humanitarian and social projects.

Although the year 2015 is expected to be a challenging one due to continued low oil prices and the dependency of the Government budget on oil revenues, the Group is looking forward to expanding its business and launching new value added products. The group will continue to focus on retaining and enhancing the confidence of all key stakeholders, including its clients and shareholders.

On behalf of the Board of Directors, I would like to express our appreciation and gratitude to His Majesty the King Hamad Bin Isa Al Khalifa, His Royal Highness Prince Khalifa Bin Salman Al Khalifa, the Prime Minister, and His Royal Highness Prince Salman Bin Hamad Al Khalifa, The Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister for their wise leadership and encouragement to the kingdom's financial sector. I would also like to thank all Government bodies, especially the Ministry of Industry and Commerce, the Central Bank of Bahrain, the Bahrain Bourse and the Ministry of Finance for their guidance and continued support to the Insurance Industry.

Finally, I would like to take this opportunity to express our thanks to all shareholders, clients, and our business partners for their unwavering confidence and loyalty. Our thanks also goes to all members of our executive and technical teams, and to all employees for their hard work and dedication during 2014.

Farouk Yusuf Almoayyed
Chairman of the Board

Executive Management


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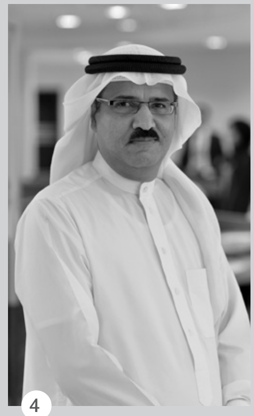
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Executive Management Profiles

1. Sameer AlWazzan

Chief Executive
Bahrain National Holding

Joined BNH in 2014. He is an internationally recognized veteran of Insurance Industry with over 32 years of experience in the same domain & held various senior management roles such as CEO of Al Khazna Insurance Company, CEO of Solidarity Group, General Manager of Bahrain Kuwait Insurance Company, General Manager of UNITAG Group and General Manager of National Insurance Company. He completed Management Studies from renowned institutions like Stanford University, California, USA, Manchester Business School – UK, University of Bahrain - Bahrain, Swansea Polytechnic - UK and Hudersfield Polytechnic - UK.

Director:
- Al Kindi Specialised Hospital W.L.L., Bahrain
- Ultra Tune Middle East, Bahrain

Director and Member of Executive Committee:
- National Finance House B.S.C., Bahrain
- Arabian Shield Cooperative Insurance Company, Saudi

Director and Member of Audit and Compliance Committee:
- United Insurance Company BSC, Bahrain
- Doha Bank Assurance Company LLC (DBAC), Qatar

2. Anand Subramaniam

Chief Financial Officer
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 18 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.

3. Joseph Rizzo

General Manager
Reinsurance, Risk Management & Strategy
Bahrain National Insurance

Joined bni in September 2007, an Associate of the Chartered Insurance Institute and a Chartered Insurer with more than 31 years' experience in insurance and reinsurance. Initially as a General Manager for corporate insurance accounts he has now taken the responsibility for risk management and strategy for the group whilst retaining the management of outward reinsurance protections. His previous position was that of General Manager in a leading listed insurance company in Malta and served on many boards of subsidiary companies and market associations.

4. 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.

5. Abdulla Al Suwaidi

General Manager
Bahrain National Insurance
(till 26th January 2015)

Joined bni in 2003, a Bachelor degree holder in Chemistry (special degree). Attended a number of development courses and seminars including Accelerated Development Program for Chief Executives at London Business School. Attained Diploma and Advance Diploma in Insurance as well as Diploma in Insurance Management. He has 31 years' experience working with various organisations.

6. Masood Bader

Deputy General Manager
General Insurance
Bahrain National Insurance

Joined bni in 2010 with 24 years of insurance and reinsurance experience. A graduate of accounting major he started his career as claim assistant with Arab Insurance Group (ARIG) and worked his way up to executive manager in charge of international portfolio of Marine and Energy. In the last six year prior to joining bni he worked as insurance and reinsurance broker first for Arthur J. Gallagher Middle East as regional director and for AON Middle East as Vice President.

7. Dilip Sinha

Assistant General Manager
General Insurance
Bahrain National Insurance

Joined BNH in 2014. His 29 years of general Insurance Managerial experience include working for New India Assurance and private sector General Insurance Companies of India, UK & UAE discharging various assignments including underwriting, claims and reinsurance. He has worked both at the operational as well at the Corporate Office level including being a part of the Hull and Energy Technical Department at New India Assurance Head Office. His experience is enriched with the exposure to the London market, having set up Reliance General Insurance's Representative Office at London. He was the Head of Technical at Al Khazna Insurance, UAE handling underwriting, Risk Management and Reinsurance functions. Dilip is an avid reader and sports aficionado. He is a Post Graduate in History and an Associate member of the Insurance Institutes of India, has a rich and varied experience in India, UK and UAE.

8. Eman Mujali

Assistant General Manager
Bahrain National Insurance

Joined bni in 1995 with over 20 years of experience in Insurance. Her technical skills and experience together with her talent at customer service, have placed Eman on a position at Business Development which she is managing as an Assistant General Manager. Her qualifications in Business Administration and Marketing from the University of Bahrain, Diploma and Advanced Diploma in Insurance and has also attended a number of technical, personal development and management courses.

9. Robert Grey

General Manager
Bahrain National Life

Joined bnl in 2011. A Fellow of the Chartered Insurance Institute, he holds a Law degree from Oxford University, UK. He has worked in insurance in the UK and Europe, and has spent the past 21 years in life and medical insurance. He is a Director of the Bahrain Insurance Association. Prior to joining bnl, he was Board Member and Director of Communications & Development at the American Mission Hospital, Bahrain. He was previously Head of Marketing at Arab Insurance Group (ARIG), Bahrain; and Pensions and Investment Manager at Eagle Star UK. He has also worked in international insurance with Generali Worldwide and Friends Provident International.

10. Sahar Al Ajjawi

Assistant General Manager
Bahrain National Life Assurance

Joined bnl in 2013. Holding MBA from Bahrain University and ACII from the chartered Insurance Institute. Has worked in medical and life insurance since 1997. Prior to joining bnl was Senior Manager Life & Medical at Al Ahlia Insurance company. She was previously Deputy Manager Medical at Arab Insurance Group (ARIG).

SAMEER ALWAZZAN
CHIEF EXECUTIVE

It gives me pleasure to present to you the performance and results of Bahrain National Holding Company during the year 2014. The Group made significant progress in its general insurance business while the profitability of the life and medical business made a substantial improvement. Our focused approach helped us to secure large government tenders and corporate businesses while maintaining steady growth in the SME business as well.

Chief Executive Officer's Report
→ continued next page

+16.9%

NET INVESTMENT INCOME

"Total premiums increased by 3.3pc to reach 25.7 million while net underwriting profit increased by 3.3pc reaching BD 2.4 million."

During the year, the Company improved internal processes and systems so as to enhance corporate governance, risk management and cost efficiency.

Financial Performance

The Group's financial results in 2014 showed significant improvement in its core business. Total premiums increased by 3.3 percent compared to 2013 to reach BD 25.7 million while net underwriting profit, increased by 3.3 percent reaching BD 2.4 million compared to BD 2.3 million in 2013. This performance must be considered in light of taking prudent additional provisions towards insurance technical reserves based on the advice of the independent actuary. The Group has also achieved 16.9 percent increase in total investment returns which reached BD 3.4 million in 2014 compared to BD 2.9 million in 2013. As a result, the Group's net profit rose from BD 3.0 million in 2013 to BD 3.8 million in 2014, a sharp increase of 26.5 percent.

Our general insurance subsidiary, Bahrain National Insurance (bni), made significant gains in 2014. The fire and general accidents insurance segment led growth by securing deals to insure large projects while motor insurance continued to grow at a steady pace. As a result total premiums jumped from BD 18.4 million in 2013 to BD 21.9 million in 2014. Overall underwriting profitability was marginally lower due to the impact of additional prudential reserving as well as conservative provisions for receivables. We are pleased to report that bni retained its financial strength rating of "B++" and issuer credit rating of "bbb+" by A. M. Best Agency.

Bahrain National Life (bnl) our life and medical insurance subsidiary showed improved profitability despite a decline in gross premiums thanks to a strategic focus on writing quality business and improved cost efficiency. The Life Insurance business showed a decline in total premiums coupled with a slight increase in claims as it was affected by soft business conditions and competition. However the focus on reducing costs, and write back of actuarial reserves coupled with strong investment performance helped boost overall bottom line.

As for the medical insurance businesses, the Group worked towards restructuring the portfolio by maintaining underwriting discipline and retaining quality businesses, which lead to a decrease in total premium from BD 4.5 million in 2013 to BD 2.1 million in 2014. The subsidiary also focused on claims control and improved re-insurance arrangements. As a result of the above strategy, underwriting loss of 2013 was turned around into a profit in 2014. This has lead the subsidiary, bnl to attain a net profit of BD 872 thousands in 2014 compared to BD 156 thousands in 2013.

Competitive Advantages

The development of the human resources was a top and the priority for the management throughout the year. This included preparing an appropriate training program and recruitment of qualified personnel to implement the plan. Management strongly believes in the importance of training and customer service as a key competitive differentiator. In this context, the development of a cadre of skilled executives is critical to lay the foundation for future succession. Towards the end of 2014, Management established an internal audit department to strengthen internal controls and governance in view of the growing complexity and transactions in the group.

The Group also reviewed and updated its underwriting policies and procedures in order to reflect changes in the operations, improve controls and streamline processes. The financial policies and procedures for the group was revamped and this should improve the operational efficiency of the group as well as compliance with regulations.

Corporate Governance

The Group complied with the requirements and rules of the Central Bank of Bahrain and the Corporate Governance issued by the Ministry of Commerce and Industry in Bahrain. Risk Management was improved further with changes to the risk register, a new liquidity contingency plan and refinement to the economic capital model.

Social Commitments

As part of its strong commitment to the society, the Company and its subsidiaries, continued their active contributions towards social welfare and the economic prosperity of the Kingdom of Bahrain. In this regard, financial contributions were made to charities in education, health, apart from sponsorship of cultural and sport events.

Going forward, we expect a relatively difficult environment in the region as a result of the sharp drop in the prices of oil. However, the group is well equipped to face the challenges. We shall continue to implement our strategy of customer retention and introducing innovative new products in line with market demand. We shall strive to use state of the art technology to reach our customers and be as close to them as possible so that we can fulfill their requirements and maximize their satisfaction.

Sameer AlWazzan
Chief Executive

SUBSIDIARY

bni

Your Insurance Partner

Bahrain National Insurance Company (bni)

bni is a leading insurer in Bahrain market with over 40 years of presence providing a wide range of insurance products and services bni offers best in class claims service at branches located in strategic areas throughout Bahrain. bni also offers its services via insurance machines, online and on mobile devices.

In 2014, A.M Best reaffirmed the company's Financial Strength rating of B++ (good) and issues credit rating of bbb+ with a stable outlook for both ratings which reflected the company's strong performance and capital position.

Due to improved economic climate, the company has registered a growth rate of 19% during 2014 compared to the previous year. The gross premium income rose to BD 21.9 in 2014 from BD 18.4 in 2013. The company maintained its track record profitable performance, and posted a profit of BD 3.3, which is 28% of net premium written during the year.

To consolidate effort, focus was placed on the Bahrain market and improving the cost structure, therefore, the process of bni Qatar branch closure was initiated in the 1st quarter of 2014.

MOTOR & PERSONAL LINES

Sanad branch moved to its new office situated in the BNH Building in early 2014 where it continued to offer its clients distinctive products and services in an efficient manner. The Quick Renewal Service (QRS) mobile app introduced in 2012, continues to receive high take-up by customers. The Automatic Insurance Machine (AIM) features have been enhanced to accept cash, credit & debit card. This new generation of (AIM) machines will be installed in convenient locations. bni also launched a unique motor insurance "Door to Door" service which features a number of pick up & delivery services and a bundle of Home Assistance services. The Company is planning to introduce new packaged products with enhanced cover and develop the services available in branches.

GENERAL INSURANCE

As the economic environment is showing improvement, General Insurance growth in premium has accelerated in 2014. bni completed comprehensive process improvements to enhance and stream line various processes by introducing work flow management software. Many initiatives were introduced to improve the insurance portfolio of business, including more selective refined measures to accept inward business and considering collateral reinsurance facilities to support the larger more complex risks. The company maintains substantial capacities with leading high-rated international reinsurers.

The company has entered into an annual agreement with an approved external actuary for testing the adequacy of its reserves.

As indicated by the rating agency, implemented a fairly robust of risk management framework. bni will continue to practice high standards in this area by further integrating this into the decision making process and management of the company.

SUBSIDIARY

Bahrain National Life Assurance Company (bnl)

This year was again challenging because of competition in a crowded market and customers seeking the best possible price for coverage. bnl's focus in 2014 was on improving bottom line profit particularly by ensuring an underwriting profit on the business. For medical, this demanded a focus on profitable accounts and charging the correct premium for risks written. As a result medical premiums fell by 53% but the underwriting loss from last year was significantly changed to a profit. On the life side of the business, while gross premiums overall fell by 14% due to competition, on the group side underwriting improved significantly over last year. The underwriting loss from 2013 was mostly reduced but there was still a small underwriting loss due to death claims on the group life side. Overall bnl reported an underwriting profit and that plus investment growth and actuarial release produced a record profit of BHD872 thousand. A key development this year was the appointment of a new Actuary to provide a fresh view on the life portfolio and the signing of an agreement with a leading international reinsurer to provide both improved quoting ability to grow bnl's group life portfolio and to provide additional reinsurance support. Also during the year, bnl increased the use of third party administrators (TPA's) for certain medical accounts. There was continued focus on reducing expenses wherever possible and on collection of premiums to minimise outstanding amounts during the year. The Central Bank of Bahrain inspection team made a visit during the year and we have responded to all points raised by them. We have also complied with the requirements of the Foreign Account Tax Compliance Act (FATCA).

MEDICAL INSURANCE

The demand for medical insurance continued to grow especially at a group level but was subject to severe competition. This trend was driven partly by further discussions on the introduction of compulsory medical insurance and more recognition by employers of medical insurance as an integral employee benefit. However bnl followed a strict approach of charging the right premium for the risks offered and this led to a decrease on gross premiums but an underwriting profit of BHD112 thousand, a reduction in loss ratio to 62% and an overall profit of BHD 312 thousand. During the year, bnl improved sales of its Essential Plan, for the lower end of the market, in anticipation of the proposed introduction of compulsory medical insurance. Business was highly competitive especially where public tenders are involved, with many companies seeking the lowest possible prices due to reduced operating budgets. In response, bnl continued its health awareness and education initiatives. These include providing corporate customers with advice and guidance on the best way to look after their staff.

LIFE ASSURANCE

This year bnl was successful in retaining existing customers despite increasing competition. We maintained individual business at the same premium level as last year through customer service and a disciplined approach to underwriting. Individual life showed an underwriting profit of BHD84 thousand and an overall profit. However group life premium decreased, due to competitive pressures bringing a reduction in rates on large schemes. Increasing reinsurance during the year helped to reduce the loss on the group portfolio compared to 2013. Overall life business profit was BHD560 thousand. Our focus this year on production of group business with support from our Reinsurers enabled us to add several new group policies to the portfolio. However there is still a reluctance among employers to provide group life cover for employees but there is a demand and we will continue to develop this approach. Bank lending activities produced a steady production of loan related term life insurance premiums.

Associates and Joint-Venture Companies

Al Kindi Specialised Hospital
Established: 2008
Paid-up capital: BD 2.2 million
BNH share: 25%
Al Kindi is a private specialist hospital offering high standards of primary and secondary medical care. Al Kindi Specialised Hospital is equipped with a 24-hour clinic, radiology unit, medical laboratory and pharmacy.

Website: www.alkindihospital.com

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

Website: www.der3.com

National Finance House
Established: 2005
Paid-up capital: BD 7.5 million
BNH share: 30%
National Finance House (NFH) specialises in providing consumer and corporate financing for the purchase of private, commercial and heavy vehicles.

Website: www.nfh.com.bh

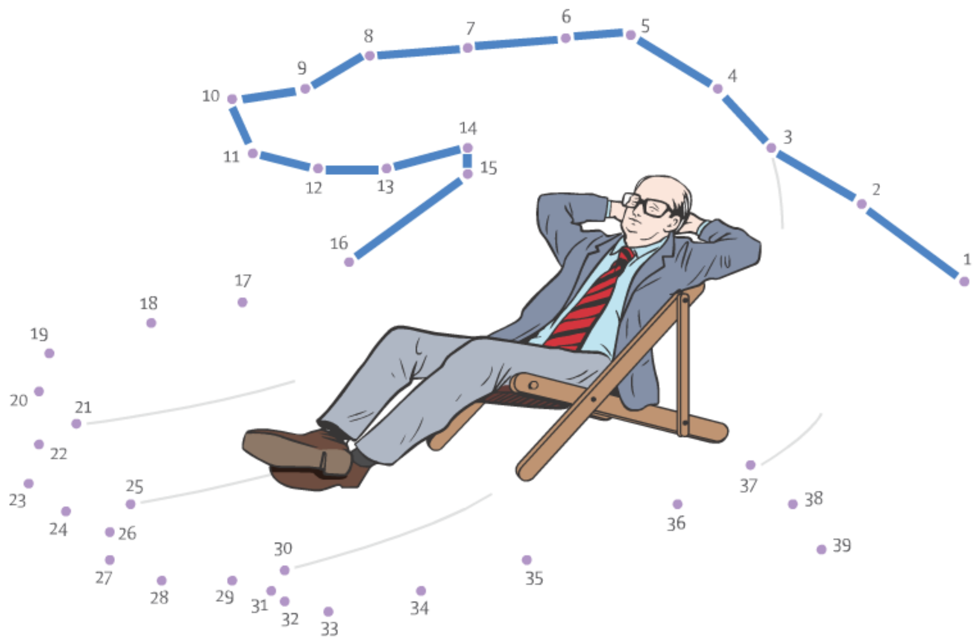
Ultra Tune Middle East
Established: 2009
Paid-up capital: BD 1.307 million
BNH share: 50%
Ultra Tune Middle East is a joint venture with Ultra Tune Australia. The Company provides roadside assistance, servicing, and car body shop repairs. A state-of-the-art BD 1.25 million repair facility at Salmabad was opened during 2013.

Website: www.ultratunebh.com

United Insurance Company
Established: 1986
Paid-up capital: BD 5 million
BNH share: 20%
The United Insurance Company (UIC) provides insurance cover for passengers and vehicles crossing the King Fahad Causeway linking the Kingdom of Bahrain and Saudi Arabia

Website: www.uic.bh

Reliable Support

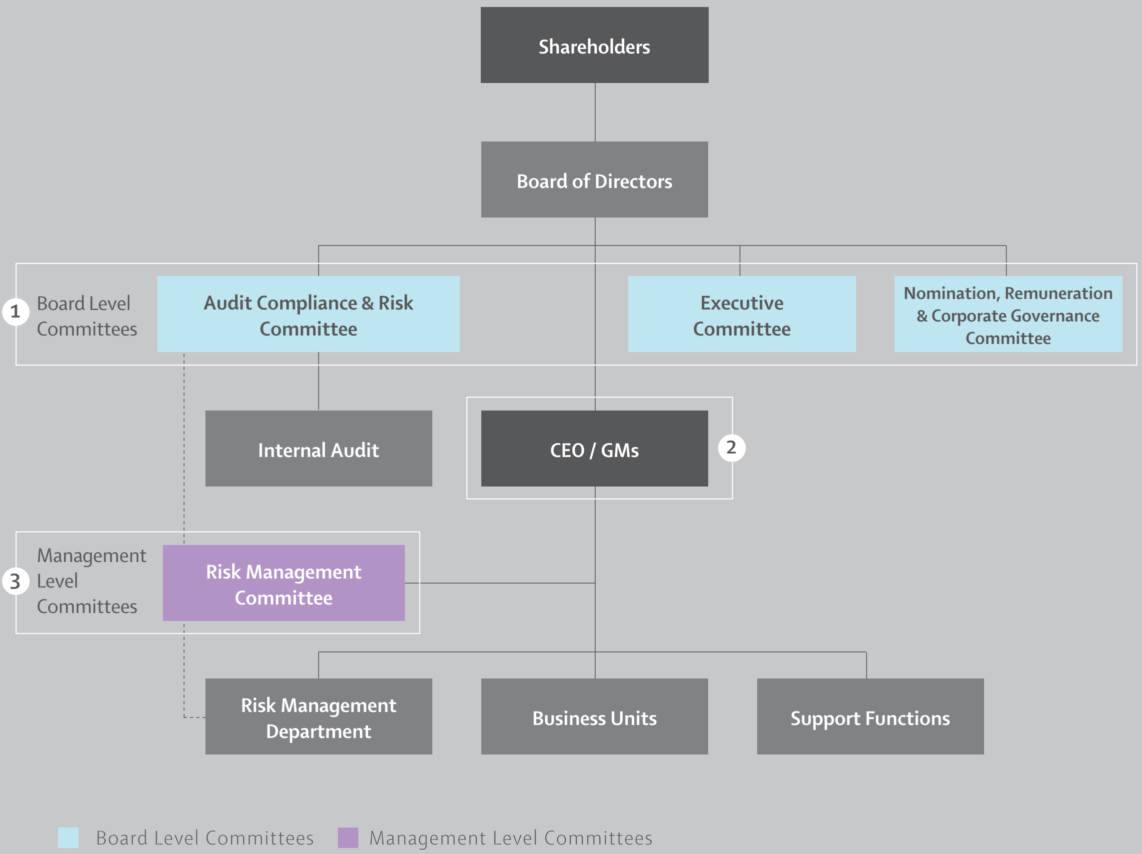


PROVIDING SUPPORT FOR THE LOCAL COMMUNITY

As a responsible corporate citizen, BNH is committed to supporting the Kingdom's national vision by aligning its community engagement activities with the hopes and aspirations of Bahrainis for a brighter and more secure future. To this end, the company and its subsidiaries continued their active contributions towards the welfare and economic prosperity of the society.

Group Governance and Organisation Structure

BNH and its Subsidiaries



Notes: 1. Board Committees of each respective Company; Executive Committee only for BNH
2. CEO for BNH; GM in the case of the Subsidiaries bni and bnl
3. The Management Committee is a joint committee

- Other units are for each respective company as applicable to the operations of that company.

Corporate Governance

BNH views its corporate governance as a system to direct and control its financial and business operations to align with the interests of its key stakeholders. The rights and responsibilities for the Board, committees, shareholders, managers and other stakeholders; are specified by the corporate governance structure. Furthermore, the rules and procedures for making decisions on corporate affairs and strategy are spelled out clearly. It also provides the structure through which the corporate objectives are set and the performance against the objectives, monitored.

The corporate governance model of BNH comprises three lines of defence. Firstly, the business unit implementing the Group's risk strategy according to identified risk appetite. Second, the integrated Risk Management function that takes responsibility, independent of line management (although working closely with line management) to identify, assess, mitigate and monitor risks; and the Risk Management Committee, which takes overall responsibility for ensuring these processes are in place. The third line of defence refers to the independent assurance and oversight provided by internal and external auditors through the Risk Committee, Audit Committee, and the Board of Directors.

In order to comply with the laws and regulations of the Central Bank of Bahrain and Ministry of Industry and Commerce, BNH is applying and practicing all the requirements of corporate governance code and related rules and regulations, in addition to its commitment to develop and implement best practice in corporate governance in all its operations.

The Board

BNH's board of directors consist of 10 members, 8 of them are non-executive directors and 2 independent non-executive directors. Following the election each director signed a Letter of Appointment, setting out the terms 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 shareholders value while protecting the rights and interests of other stakeholders; and maintaining high standards of transparency and accountability. The names and profiles of Directors are listed at the front of this annual report.

Directors' attendance at Board meetings in 2014

Board Members	18 Feb	13 Mar	13 May	22 June	23 July	10 Nov	9 Dec
Farouk Yusuf Almoayyed	✓	✓	✓	✓	×	✓	✓
Abdulhussain Khalil Dawani	×	✓	✓	✓	✓	✓	✓
Abdulrahman Mohamed Juma	✓	✓	✓	✓	✓	✓	✓
Jehad Yusuf Amin	✓	✓	✓	✓	✓	✓	✓
Sami Mohamed Sharif Zainal	✓	✓	✓	✓	✓	✓	✓
Ayad Saad Khalifa Algosaibi	✓	✓	✓	✓	✓	✓	✓
Ghassan Qassim Mohd Fakhroo	✓	✓	✓	✓	✓	✓	✓
Talal Fuad Kanoo	×	✓	✓	✓	×	✓	×
Ali Hassan Mahmood	✓	✓	✓	✓	✓	✓	✓
**Redha Abdulla Faraj	-	-	✓	✓	✓	✓	✓
* Jassim Hassan Abdulaal	✓	-	-	-	-	-	-

The Board of Directors was elected by the shareholders at the Annual General Meeting held in March 2014 for a term of 3 years.

- * Jassim Hasan Abdulaal membership expired in March 2014
- ** Redha Abdulla Faraj was appointed as a board independent director in March 2014.

- All board members are non-executive.
- Mr Ayad Saad Khalifa AlGosaibi and Mr Redha Abdulla Faraj are the independent directors on the board. An independent director is a director whom the board has specifically determined has no material relationship with the company which could affect his independence of judgment, taking into account of all known facts.
- The induction and orientation process for the Board of Directors is carried out with the assistance of the Chief Executive and the Company Secretary, by way of continuous meetings and discussions with the Senior Management, and external and internal auditors, in order to increase awareness of current issues and market trends.
- The Board of Directors is required to meet at least four times in a financial year, and Board members are expected to attend at least 75 per cent of meetings held during any twelve-month period.
- The remuneration for Directors is determined by the shareholders at the Annual General Meeting.

Board of Directors and Executive Management Interests – January to December 2013

Name of Shareholder	Number of Shares as at 01/01/2014	Number of Shares as at 31/12/2014	Changes
Directors			
Farouk Yusuf Almoayyed (Chairman)	1,234,088	1,234,088	-
Abdulhussain Khalil Dawani (Vice Chairman)	1,244,907	1,244,907	-
Abdulrahman Mohamed Juma	635,996	635,996	-
Jehad Yusuf Abdulla Amin	566,157	566,157	-
Ali Hassan Mahmood	505,601	505,601	-
Ayad Saad Algosaibi	100,000	100,000	-
Sami Mohammed Sharif Zainal	139,876	139,876	-
Talal Fuad Kanoo	144,798	144,798	-
Ghassan Qassim Fakhroo	100,000	100,000	-
Executive Management			
Sameer Al Wazzan (CEO)	109,278	109,278	-

Board Committees

Audit, Compliance & Risks Committee (ACRC)

Responsibilities

- Select external auditors and ensure their professional standards.
- Select internal auditors, and review and approve internal audit plan. The audit plan includes a review of internal control processes and procedures by the internal auditors.
- Review audited annual, quarterly and half-yearly financial statements, and discuss with the Board and obtain its approval.
- Assist in developing the risk management framework.
- Ensure compliance with all relevant regulatory and legal rules.
- Carry out the instructions of the Board for all investigations.

Directors' attendance at ACRC meetings in 2014

Members	16 Feb	4 May	21 July	28 Oct
Redha Abdulla Faraj *	-	✓	✓	✓
Jassim Hasan Abdulaal **	✓	-	-	-
Abdulrahman Mohamed Juma	✓	✓	✓	✓
Ayad Saad Khalifa Algosaibi	✓	✓	✓	✓
Ali Hassan Mahmood***	-	✓	✓	✓

* Mr Redha Abdulla Faraj is Chairman of the ACRC effective from March 2014. He and Mr Ayad Saad Khalifa Algosaibi are independent members.

** Jassim Hassan Abdulaal membership expired in March 2014.

*** Ali Hassan Mahmood is a member of ACRC effective from March 2014.

Executive Committee (EC)

Responsibilities

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

Directors' attendance at EC meetings in 2014

Members	13 Feb	7 May
Abdulhussain Khalil Dawani (Chairman)	✓	✓
Jehad Yusuf Amin	✓	✓
Ghassan Qassim Mohd Fakhroo	✓	✓
Talal Fuad Kanoo	✓	✓
Sami Mohamed Sharif Zainal	✓	✓

Nomination, Remuneration & Corporate Governance Committee (NRCG)

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.

Directors' attendance at NRCG meetings in 2014

Members	Status	15 Feb
Farouk Yusuf Almoayyed	-	✓
Abdulhussain Khalil Dawani	-	✓
Jehad Yusuf Amin	-	✓
Jassim Hasan Abdulaal *	Independent	×
Redha Abdulla Faraj **	Independent	-

Mr Farouk Yusuf Almoayyed is Chairman of the NRCG.

The NRCG members are required to meet when and as required.

* Jassim Hassan Abdulaal membership expired in March 2014

** Mr Redha Abdulla Faraj is a committee member effective from March 2014.

Board of Directors Training

In 2014 directors involved in a training session conducted in house, during which an explanation of the responsibilities and duties of the board members were highlighted in accordance with the prevailing rules and regulations, in addition to a presentation on the company's various lines of business delivered by senior management.

Management

The Board has delegated 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. The names and profiles of the CE and senior management team are listed at the front of this annual report.

Risk Management Committee

Objectives

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

Membership

- Joseph M. Rizzo, General Manager, Risk Management & Strategy - Chairman
- Anand Subramaniam, Chief Financial Officer - Member
- Abdulla Al Suwaidi, General Manager (bni) - Member
- Robert Grey, General Manager (bnl) - Member
- Mohammed Kadhim, Assistant General Manager (Legal & Compliance) - Member
- Bayan Jaberi, Assistant Manager- Enterprise Risk Management - 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 its Corporate Governance process guiding principles, the Group aims to maximize transparency and efficiency of the whole process for the benefit of all stakeholders, particularly in the areas of insider trading, anti-money laundering, information security and the sound management of financial assets.

Policies & Procedures

During 2014, BNH continued to regularly review and update all key policy and procedures manuals, covering critical operational areas in the Group's insurance subsidiaries and across all functions of the organisation.

Directors & 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 10 years.

Anti-Money Laundering (AML)

The Group has in place policies and procedures to handle all aspects of anti-money laundering activities in line with regulations of the Central Bank of Bahrain. 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 2014 in accordance with the requirement of the Central Bank of Bahrain.

Key Persons Trading

The Group's compliance with the latest Key Persons Trading regulations of the Central Bank of Bahrain is supervised by the Audit & Compliance Committee which reports to the Board of Directors. The Group has submitted its internal audit report for the year 2013 in accordance with the requirement of the Central Bank of Bahrain.

Code of Conduct

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

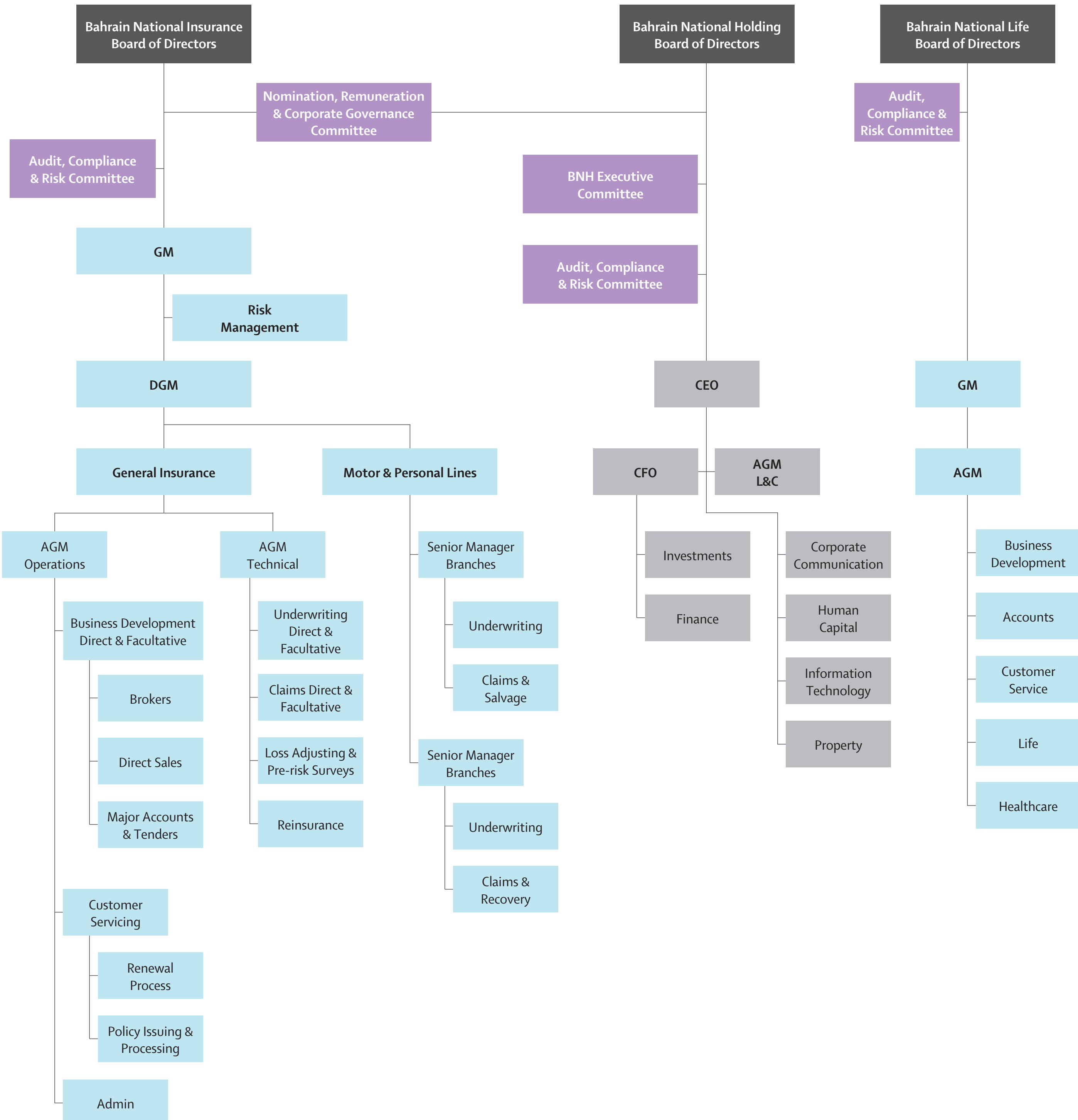
Penalties

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

Communications

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

Organisational Chart



Corporate Social Responsibility

As a leading Bahrain-based financial institution, we are committed to contributing to the social well-being and economic prosperity of the Kingdom. Throughout 2014, BNH and its subsidiaries – bni and bnl – continued to implement the group's wide-ranging corporate social responsibility (CSR) programmes.

Insurance

- Sponsored Insurance Awareness Week organized by the Bahrain Insurance Association
- Participated in a number of insurance industry conferences & seminar both local & international.

Education

- Sponsored the activities of Bahrain Chapter of the Global Chartered Financial Analyst (CFA) Institute in support of professional qualifications, education and networking
- Sponsored the International Leadership Conference (ILC 2014)
- Sponsored the BCICAI Annual International Conference
- Sponsored Thrissur Engineering College Alumni – Bahrain Chapter 15th Anniversary event. TECA is a group of students who passed out from Government Engineering College Thrissur, Kerala, who are working in Bahrain.
- Provided summer internships and work placements for Bahraini students

Staff Participation

- Entered a BNH team for the Bahrain Marathon Relay, a major annual fund-raising event that supports charitable organisations in the Kingdom
- Took part in the annual Rotary Club of Manama, 6-A-Side football tournament which aimed to raise funds for a "Hereditary Diseases" program.
- Engaged staff in internal activities to promote health awareness, including World Diabetes Day, World Heart Day, World Food Day and Cardiology Red Day
- Organised a blood donation drive for staff and customers
- Encouraged staff to recycle waste, conserve energy, and reduce the use of paper

Charities

- Donated electronics to Al Rashad Centre for Autistic Children
- Distributed 500 Caps to workers & labor who were working outdoors in summer
- Donated to Ayadi Relief Society, Baitkum Baitneh project, which works on renovating houses of needy families.
- Donated school bags and stationery supplies to Future Society for Youth as part of its "Smile" initiative to support children cancer patients and their families.
- Recycle your paper toward printing #quran in #Bahrain.Contributed to the 'Awraqi" (My Paper) campaign by donating unwanted waste paper, which is then recycled and used to print copies of the Quran that are then distributed worldwide.
- Supported the establishment of the Gulf Foundation For Youth and Women
- Donated Ramadan coupons for needy families
- Provided free insurance cover for charitable societies' vehicles

Contacts

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

bni Contacts
P.O. Box 843, BNH Tower,
Seef Business District,
Kingdom of Bahrain
Tel: 17 587444, 17 587400
Fax: 17 583477, 17 583299
Website: www.bnidirect.com

bnl Contacts
P.O. Box 843, BNH Tower,
Seef Business District,
Kingdom of Bahrain
Tel: 17 587333
Fax: 17 583277
Website: www.bnl4life.com

Listing
Bahrain Bourse

Auditors to the group
KPMG Fakhro, P.O. Box 710, Bahrain

Registrars to the group
Karvy Computershare W.L.L.

Actuaries
Lux Actuaries & Consultants
P.O. Box 50912
Al Hidd, Muharraq, Bahrain

Primary Bankers to the group
Ahli United Bank
National Bank of Bahrain
Bank of Bahrain & Kuwait

bni's branches and outlets:

Head office
BNH Tower,
Seef Business District
Tel: 17 587300, 17 587400
Fax: 17 583477, 17 583099

Sanad branch
BNH Buillding 1809
Block 646, Road 4634
Al Nuwaidrat
Tel: 17 627 050
Fax: 17 623771

Manama branch
Ground Floor,
City Centre 203,
Government Avenue, Manama
Tel: 17 501277
Fax: 17 216464

Muharraq branch
Shop. 1232,
Road 1535, Block 215, Muharraq
Tel: 17 351999
Fax: 17 336681

Budaiya branch
Najeebi Complex,
Shop No. 3,
Building No.3, Saar Avenue,
Block No.515, Saar
Tel: 17 797888
Fax: 17 797878

Hamad Town branch
Shop No. 255,
Road No. 305,
Block 1203, Hamad Town
Tel: 17 418100
Fax: 17 413227

Sitra branch
Building No. 946,
Road No. 115, Block 601, Sitra
Tel: 17 457800
Fax: 17 735801

Isa Town branch
Isa Town Mall,
Shop No. 16, Isa Town
Tel: 17 897200
Fax: 17 689101

Consolidated Financial Statements

Contents

Independent auditor's report to the shareholders

KPMG Fakhro
Audit
P.O. Box 710,
Manama, Kingdom of Bahrain

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Bahrain National Holding Company BSC ("the Company") [and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statements of profit or loss, 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 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 2014, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other regulatory requirements

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

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

KPMG Fakhro
Partner Registration No. 187
24 February 2015

Consolidated statement of financial position

As at 31 December 2014

(In thousands of Bahraini Dinars)

	Note	2014	2013
ASSETS			
Cash and balances with banks	3	9,216	10,422
Receivables	4	6,995	6,934
Investment securities	5	33,672	32,779
Equity accounted investees	8	13,415	12,001
Reinsurers' share of insurance technical reserves	9	17,379	14,296
Deferred acquisition cost	17	853	510
Investment properties	11	2,969	3,505
Intangible assets	12	330	425
Property and equipment	13	2,721	2,557
Statutory deposits	14	125	125
Total assets		**87,675**	83,554
LIABILITIES			
Insurance technical reserves	15	31,835	29,258
Insurance payables	19	3,785	4,503
Borrowings	20	500	1,000
Other liabilities	21	3,712	3,537
Total liabilities		**39,832**	38,298
Total net assets		**47,843**	45,256
EQUITY			
Share capital	23	11,350	11,350
Treasury shares	23 c)	(1,868)	(1,868)
Statutory reserve	24 a)	5,675	5,675
Share premium	24 b)	3,990	3,990
General reserve	24 c)	13,585	13,585
Investment fair value reserve	24 d)	4,512	3,747
Retained earnings		8,315	6,689
Equity attributable to shareholders of the parent company		**45,559**	43,168
Non-controlling interest	10	2,284	2,088
Total equity		**47,843**	45,256

The Board of Directors approved the consolidated financial statements consisting of pages 35 to 84 on 24 February 2015.

Farouk Yusuf Almoayyed	Abdul-Hussain Khalil Dawani	Sameer Al Wazzan
Chairman	Vice Chairman	Chief Executive

Consolidated statement of profit or loss

For the year ended 31 December 2014

(In thousands of Bahraini Dinars)

	Note	2014	2013
GROSS PREMIUMS	26	25,730	24,920
Reinsurance ceded		(12,357)	(10,642)
Retained premiums		13,373	14,278
Net unearned premiums adjustment	17 a)	319	55
Net premiums earned		**13,692**	14,333
Gross claims paid		(20,705)	(17,273)
Claims recoveries		11,862	8,090
Net outstanding claims adjustment	16	382	176
Net claims incurred		**(8,461)**	(9,007)
Gross underwriting profit		**5,231**	5,326
Other operating expenses	30 a)	(3,369)	(3,318)
Net commission income	27	362	494
Release / (charges) from life assurance actuarial reserve	18	178	(178)
Net underwriting profit		**2,402**	2,324
Net investment income from portfolio		2,703	2,494
Policyholder's share of investment income	18	(196)	(279)
Share of profit of equity accounted investees	8	1,012	677
Net (loss) / income from investment properties	29	(75)	53
Corporate and financial expenses	30 b)	(2,022)	(2,247)
Net Profit		**3,824**	3,022
Profit attributable to:			
Parent company		3,606	2,983
Non-controlling interest	10	218	39
Net Profit		**3,824**	3,022
Basic earnings per share (100 Fils each)	23 e)	**33.6 Fils**	27.8 Fils

The Board of Directors approved the consolidated financial statements consisting of pages 35 to 84 on 24 February 2015.

Farouk Yusuf Almoayyed
Chairman

Abdul-Hussain Khalil Dawani
Vice Chairman

Sameer Al Wazzan
Chief Executive

Consolidated statement of comprehensive income

For the year ended 31 December 2014

(In thousands of Bahraini Dinars)

	2014	2013
NET PROFIT	**3,824**	3,022
Other comprehensive income:		
Items that are or may be reclassified to profit or loss:		
Available-for-sale securities:		
- Change in fair value	1,608	1,591
- Impairment transferred to statement of profit or loss	187	154
- Transfer to statement of profit or loss on disposal of securities	(1,338)	(734)
Share of other comprehensive income of associates	286	125
Other comprehensive income	**743**	1,136
Total comprehensive income	**4,567**	4,158
Total comprehensive income attributable to :		
Parent company	4,371	4,057
Non-controlling interest	196	101
Total comprehensive income	**4,567**	4,158

The consolidated financial statements consist of pages 35 to 84.

Consolidated statement of changes in equity

For the year ended 31 December 2014

(In thousands of Bahraini Dinars)

2014	**Share capital**	**Treasury shares**	**Statutory reserve**	**Share premium**	**General reserve**	**Fair value reserve**	**Retained earnings**	**Total**	**Non-controlling Interest**	**Total Equity**
	Attributable to the shareholders of the parent company									
Balance at 1 January 2014	11,350	(1,868)	5,675	3,990	13,585	3,747	6,689	43,168	2,088	45,256
Net Profit	-	-	-	-	-	-	**3,606**	**3,606**	**218**	**3,824**
Other comprehensive income:										
Available for sale securities:										
- Change in fair value	-	-	-	-	-	1,569	-	1,569	39	1,608
- Impairment transferred to statement of profit or loss	-	-	-	-	-	181	-	181	6	187
- Transfer to statement of profit or loss on disposal of securities	-	-	-	-	-	(1,271)	-	(1,271)	(67)	(1,338)
Share of other comprehensive income of associates						286	-	286	-	286
Total other comprehensive income	-	-	-	-	-	**765**	-	**765**	**(22)**	**743**
Total comprehensive income	-	-	-	-	-	**765**	**3,606**	**4,371**	**196**	**4,567**
Dividends declared for 2013 for shareholders	-	-	-	-	-	-	(1,930)	(1,930)	-	(1,930)
Donations for 2013	-	-	-	-	-	-	(50)	(50)	-	(50)
Appropriations approved by shareholders	-	-	-	-	-	-	**(1,980)**	**(1,980)**	-	**(1,980)**
Balance at 31 December 2014	**11,350**	**(1,868)**	**5,675**	**3,990**	**13,585**	**4,512**	**8,315**	**45,559**	**2,284**	**47,843**

2013	Share capital	Treasury shares	Statutory reserve	Share premium	General reserve	Fair value reserve	Retained earnings	Total	Non-controlling Interest	Total Equity
	Attributable to the shareholders of the parent company									
Balance at 1 January 2013	11,350	(1,868)	5,675	3,990	13,585	2,673	5,365	40,770	2,093	42,863
Net profit	-	-	-	-	-	-	2,983	2,983	39	3,022
Other comprehensive income:										
Available for sale securities:										
- Change in fair value	-	-	-	-	-	1,501	-	1,501	90	1,591
- Impairment transferred to statement of profit or loss	-	-	-	-	-	152	-	152	2	154
- Transfer to statement of profit or loss on disposal of securities	-	-	-	-	-	(704)	-	(704)	(30)	(734)
Share of other comprehensive income of associate						125	-	125	-	125
Total other comprehensive income	-	-	-	-	-	1,074	-	1,074	62	1,136
Total comprehensive income	-	-	-	-	-	1,074	2,983	4,057	101	4,158
Dividends declared for 2012 for shareholders	-	-	-	-	-	-	(1,609)	(1,609)	-	(1,609)
Dividends declared to non-controlling interest	-	-	-	-	-	-	-	-	(106)	(106)
Donations for 2012	-	-	-	-	-	-	(50)	(50)	-	(50)
Appropriations approved by shareholders							(1,659)	(1,659)	(106)	(1,765)
Balance at 31 December 2013	11,350	(1,868)	5,675	3,990	13,585	3,747	6,689	43,168	2,088	45,256

The consolidated financial statements consist of pages 35 to 84.

Consolidated statement of cash flows

For the year ended 31 December 2014

(In thousands of Bahraini Dinars)

	Note	2014	2013 (Restated)
OPERATING ACTIVITIES			
Insurance operations (including life assurance)			
Premiums received net of acquisition costs		27,450	26,760
Payments to insurance and reinsurance companies		(14,930)	(10,271)
Claims paid to policyholders		(20,163)	(17,139)
Claims recovered from reinsurers and salvage recoveries		11,387	7,384
Cash flows from insurance operations		**3,744**	6,734
Investment operations			
Dividends and interest received		1,332	1,512
Proceeds from sale and redemptions of investment securities		17,109	9,544
Payments for purchases of investment securities		(16,054)	(11,884)
Bank deposits with maturities of more than three months		(3,845)	(6,786)
Proceeds from redemption of bank deposits with maturities of more than three months		6,786	6,135
Investment in associates and joint-venture		(406)	(144)
Proceeds from voluntary liquidation of associate		-	142
Dividends received from associates		290	413
Payments for development of investment property		-	(83)
Rents received		368	395
Cash flows from / (used in) investment operations		**5,580**	(756)
Other operating expenses paid		(4,892)	(5,660)
Cash flows from operating activities		**4,432**	318
INVESTMENT ACTIVITIES			
Purchase of property & equipment and intangible assets		(254)	(310)
Cash flows used in investment activities		**(254)**	(310)
FINANCING ACTIVITIES			
Proceeds from bank loan		-	340
Repayment of bank loan		(500)	(500)
Finance costs paid		(32)	(52)
Dividends paid to non-controlling interest		-	(106)
Dividends paid to shareholders		(1,895)	(1,659)
Donations paid		(17)	(47)
Cash flows used in financing activities		**(2,444)**	(2,024)
Total net cash flows during the year		**1,734**	(2,016)
Cash and cash equivalents at 1 January		3,636	5,652
Cash and cash equivalents at 31 December	3	**5,370**	3,636

The consolidated financial statements consist of pages 35 to 84.

Notes to the 2014 consolidated financial statements

For the year ended 31 December 2014

(In thousands of Bahraini Dinars)

1 STATUS AND OPERATIONS

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

2 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 2 h.

c. New standards, amendments and interpretations effective from 1 January 2014

The following standards, amendments and interpretations, which became effective as of 1 January 2014, are relevant to the Group:

(i) Amendments to IFRS 10, IFRS 12 and IAS 27 "Investment Entities"

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

The Group concluded that it does not meet the definition of an "investment entity" and hence the above amendments are not applicable to the Group.

(ii) Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

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

(iii) Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurement.

The application of these amendments at the Group level had no impact on the disclosures in the Group's financial statements.

(iv) IFRIC 21 Levies

IFRIC 21 on Levies (amendments to IAS 32) provide guidance on the accounting for levies in the financial statements of the entity that is paying the levy.

The Group is not expecting an impact from the adoption of this interpretation.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

d. New standards, amendments and interpretations issued but not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2015, and have not been applied in preparing these consolidated financial statements. Those which are relevant to the Group are set out below. The Group does not plan to early adopt these standards.

(i) IFRS 9 - Financial Instruments

IFRS 9 published in July 2014, replaces the existing IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

(ii) IFRS 15 – Revenue from Contracts with Customers

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

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

(iii) Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 prohibits entities from using a revenue based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted if the intangible asset is expressed as a measure of revenue or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016.

The above amendments does not have any impact on the financial statements of the Group.

(iv) Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

The amendments to IAS 19 clarify how an entity should account for contributions made by employees or third parties to define benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognize the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees periods of service using the project unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees periods of service.

The above amendments does not have any impact on the financial statements of the Group.

(v) Annual improvements to IFRSs 2010-2012 cycle and 2011-2013 cycle

The annual improvements to IFRSs to 2010-2012 and 2011 -2013 cycles include a number of amendments to various IFRSs. Most amendments will apply prospectively for annual periods beginning on or after 1 July 2014; earlier application is permitted (along with the special transitional requirement in each case), in which case the related consequential amendments to other IFRSs would also apply.

The amendments are not expected to have any material impact on the financial statements of the Group.

The following are the key amendments in brief:

- The amendments to IFRS 2 changes the definitions of "vesting condition" and "market condition" ; and add definitions for "performance condition" and "service condition" which were previously included in the definition of vesting condition.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

- The IASB has clarified that, in issuing IFRS 13 and making consequential amendments to IAS 39 and IFRS 9, it did not prevent entities from measuring short term receivables and payables that have no stated interest rate at their invoiced amounts without discounting, if the effect of not discounting is not material. IFRS 13 has also been amended to clarify that portfolio exception applies to contracts in the scope of IAS 39 and IFRS 9 regardless of whether they meet the definition of a financial asset or financial liability under IAS 32.

- The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses. The accumulated depreciation (amortization) is eliminated against the gross carrying amount of the asset.

- IFRS 8 has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. The disclosures include:

  * a brief description of the operating segments that have been aggregated; and

  * the economic indicators that have been assessed in determining that the operating segments share similar economic characteristics.

In addition, this amendment clarifies that a reconciliation of the total of the reportable segments assets to the entity's assets is required only if this information is regularly provided to the entity's chief operating decision maker.

- The amendments to IAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity.

  Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required. The reporting entity will also need to disclose other transactions with the management entity under the existing disclosure requirements of IAS 24.

- IAS 40 has been amended to clarify that an entity should:

* assess whether an acquired property is an investment property under IAS 40; and

* perform a separate assessment under IFRS 3 to determine whether the acquisition of the investment property constitutes a business combination.

Entities will still need to use judgement to determine whether the acquisition of an investment property is an acquisition of a business under IFRS 3.

e. Basis of consolidation

(i) Subsidiaries

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

(ii) Non-controlling interest (NCI)

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

(iii) Loss of control

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(iv) Interest in equity-accounted investee

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

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

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

(v) Transactions eliminated on consolidation

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

f. Basis of accounting

(i) 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.

(ii) General insurance business

Gross premiums

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.

Reinsurance ceded

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

Unearned premiums

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Claims settled

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

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

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

Commission income

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

Deferred commission and acquisition costs

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

Salvage and subrogation reimbursements

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

Other operating expenses

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

(iii) Life assurance business

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.

Gross premiums

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Reinsurance ceded

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

Claims

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.

Bonuses

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

Outstanding claims

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

Life assurance actuarial reserve

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

Surpluses, if any, are released to the statement of profit or loss 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.

Fee and commission income

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

(iv) Liability adequacy test

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

(v) Reinsurance contracts

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts in Note 2 f) (i) are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts. The benefits to which the Group is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consists of balances due from reinsurers on settlement of claims and other receivables such as profit commissions and reinsurers share of outstanding claims that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are recognized consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense when due.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(vi) Financial assets and financial liabilities

Classification

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

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

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

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

Recognition and de-recognition

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

Measurement

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

Gains and losses on subsequent measurement

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

Fair value basis

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

Gains or losses on disposal of investments

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

(vii) Receivables

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

(viii) Cash and cash equivalent

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ix) Intangible assets

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

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

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is three to five years.

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

(x) Property and equipment

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

Subsequent expenditure

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

Depreciation

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

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

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

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

(xi) Investment properties

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

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

(xii) Impairment of assets

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets carried at amortised cost

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

Impairment of Available-for-sale investments

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

Impairment losses recognised in the statement of profit or loss on AFS equity instruments are subsequently reversed through the statement of comprehensive income.

For available-for-sale investments carried at cost, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is assessed to be below the cost of the investment.

Non-financial assets

The carrying amount of the Group's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated or impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets of cash generating units (CGU's). The recoverable amount of an asset or a cash generating unit is the greater of its value in use or fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the assets or CGU. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

(xiii) Borrowings

Borrowings are recognised initially as proceeds are received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

(xiv) Employees' benefits

Bahraini employees

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

Expatriate employees

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

Employee savings scheme

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(xv) Share Capital

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

(xvi) Dividends

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

(xvii) Directors' remunerations

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

(xviii) Segment reporting

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

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

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

g. Foreign currency translation

(i) 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.

(ii) Transactions and balances

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

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

Other group companies

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

h. 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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 4.5% has been used. This has resulted in surplus generated in the past. For the accumulation products where the entire investments return less charge are given to the policyholders, there is no surplus from investment income.

For other plans such as yearly renewable plans where 1/24 method of reserving is used, the entire 3% income on reserves is contribution to surplus.

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

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

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

The Group determines that available-for-sale equity securities and managed funds are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgement. In the case of quoted equity securities in active markets, the Group considers a decline in value below cost of 30%, or a decline that persists for more than 270 days as an indicator of impairment. In the case where markets for the investment are assessed to be inactive, the Group determines impairment based on its assessment of the investee companies' financial health, industry and sector performance. At 31 December 2014, the Group had a decline in value of certain AFS securities below their cost by BD 585 thousand (2013: BD 359 thousand) of which BD 187 thousand (2013: BD 185 thousand) has been taken to the statement of profit or loss as impairment on investments and the balance amount of BD 399 thousand (2013: BD 174 thousand) is not considered to be impaired in accordance with the Group's impairment policy and accordingly is taken to investment fair value reserve.

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

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

(In thousands of Bahraini Dinars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(iv) Classification of investments

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

(v) Classification of UltraTune Middle East as a joint venture

Ultra Tune holds 50% of the voting rights of its joint arrangement. The group has joint control over this arrangement as under the contractual agreements, unanimous consent is required from all parties to the agreements for all relevant activities. The group's joint arrangement is structured as a limited company and provides the group and the parties to the agreements with rights to the net assets of the limited company under the arrangements. Therefore, this arrangement is classified as a joint venture.

3 CASH AND BALANCES WITH BANKS

	2014	2013
Cash and bank current accounts	4,651	3,636
Bank deposits with maturities of three months or less when acquired	719	-
Cash and cash equivalents	**5,370**	3,636
Bank deposits with maturities of more than three months when acquired	3,846	6,786
Cash and balances with banks	**9,216**	10,422

Information about the Group's exposure to interest rate risks are included in Note 7 and 32.

4 RECEIVABLES

	2014	2013
Insurance receivables		
Policyholders	2,376	2,608
Less: provision for impairment of receivables from policyholders	(301)	(275)
Insurance and reinsurance companies	4,188	3,575
Less: provision for impairment of receivables from insurance and reinsurance companies	(200)	(55)
Total insurance receivables	**6,063**	5,853
Other receivables		
Prepayments and advances	134	214
Accrued income	647	659
Others	151	208
Total other receivables	**932**	1,081
Total receivables	**6,995**	6,934

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

(In thousands of Bahraini Dinars)

4 RECEIVABLES (continued)

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

	2014	2013
Balance at beginning of the year	330	311
Additional amounts provided during the year	176	19
Balances recovered during the year	(5)	-
Balance at end of the year	**501**	330

5 INVESTMENT SECURITIES

	2014	2013
Securities carried at fair value through profit or loss	2,821	2,522
Available for sale securities	25,823	21,809
Held-to-maturity securities	5,028	8,448
Total	**33,672**	32,779

a. Securities carried at fair value through profit or loss

	2014	2013
Quoted, at fair value:		
Equities	867	982
Government bonds	81	79
Corporate bonds	231	39
Managed funds	1,642	1,422
Total	**2,821**	2,522

Movement during the year	2014	2013
Opening balance as at 1 January	2,522	2,346
Purchases	876	297
Sales	(810)	(420)
Valuation gains	233	299
Balance as at 31 December	**2,821**	2,522

Information about the Group's exposure to credit and market risk, and fair value measurement, is included in notes 32, 33, 34 and 36.

(In thousands of Bahraini Dinars)

5 INVESTMENT SECURITIES (continued)

b. Available-for-sale securities

	2014	2013
Quoted, at fair value:		
Equities	12,056	9,678
Government bonds	1,985	701
Corporate bonds	2,313	3,164
Managed funds	9,288	8,065
Unquoted equities & funds, at cost	181	201
Total	**25,823**	21,809

Movement during the year	2014	2013
Opening balance as at 1 January	21,809	16,468
Purchases	15,198	11,115
Sales	(11,574)	(7,208)
Fair value movement	577	1,619
	26,010	21,994
Impairments	(187)	(185)
Balance as at 31 December	**25,823**	21,809

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

Information about the Group's exposure to credit and market risk, and fair value measurement, is included in notes 32, 33, 34 and 36.

c. Held-to-maturity securities

	2014 Fair value	2013 Fair value	2014 Carrying value	2013 Carrying value
Government bonds	2,143	3,031	2,234	2,837
Corporate bonds	3,235	5,862	2,794	5,611
Total	**5,378**	8,893	**5,028**	8,448

Movement during the year	2014	2013
Opening balance as at 1 January	8,448	9,640
Purchases	-	453
Disposals on maturity	(3,411)	(1,579)
Exchange losses	(9)	(66)
Balance as at 31 December	**5,028**	8,448

Information about the Group's exposure to credit and market risk is included in notes 32, 33 and 34.

(In thousands of Bahraini Dinars)

6 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:

	2014	2013
Investments in securities	**2,771**	3,802
Life assurance actuarial reserve (note 18)	**3,219**	3,133

7 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:

	2014 Aggregate principal	**2014 Effective rate**	2013 Aggregate principal	2013 Effective rate
Cash and short-term deposits	9,341	1.48%	10,547	2.15%
Fixed rate bonds	9,368	6.55%	12,431	6.00%

8 EQUITY ACCOUNTED INVESTEES

a. Interests in joint arrangements and associates

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

Name of the entity	Place of business / country of incorporation	Proportion of ownership and voting power held by the Group 2014	2013		Principal activities
Ultra Tune Middle East Company W.L.L.	Kingdom of Bahrain	**50%**	50%	Joint-venture	Transact the business of automobile smash repairs, roadside assistance and automobile services
National Finance House BSC (c)	Kingdom of Bahrain	**34.9%**	30%	Associate	Engaged in consumer and auto finance business
Al Kindi Specialised Hospital W.L.L.	Kingdom of Bahrain	**25%**	25%	Associate	Engaged in providing private medical services
United Insurance Company BSC (c)	Kingdom of Bahrain	**20%**	20%	Associate	Primarily provides insurance coverage for motor vehicles
Arabian Shield Cooperative Insurance Company	Kingdom of Saudi Arabia	**15%**	15%	Associate	Transact various types of general insurance business
Gulf Insurance Institute	Kingdom of Bahrain	-	17.3%	Associate	Under voluntary liquidation

All of the above associates and joint ventures are accounted for using the equity method in these consolidated financial statements.

(In thousands of Bahraini Dinars)

8 EQUITY ACCOUNTED INVESTEES (continued)

b. The movements in the investment in associates and joint-venture account are as follows:

	2014	2013
Balance at beginning of the year	12,001	11,610
Proceeds on voluntary liquidation of an associate company	-	(142)
Payment for acquisition of shares	406	144
Share of profit	1,012	677
Dividends received	(290)	(413)
Share of other comprehensive income	286	125
Total (equity method)	**13,415**	12,001

Classification	2014	2013
Investment in associates	12,982	11,444
Investments in joint venture	433	557
Total	**13,415**	12,001

c. The following is summarized financial information for the Group's interest in immaterial associates and joint venture based on the amounts reported in the Group's financial statements:

	2014 Associates	2013 Associates	2014 Joint Venture	2013 Joint Venture
Group' share of:				
Profit/ (loss)	1,136	745	(124)	(68)
Other comprehensive income	286	125	-	-
Total other comprehensive income	**1,422**	870	**(124)**	(68)

9 REINSURERS' SHARES OF INSURANCE TECHNICAL RESERVES

	2014	2013
Outstanding claims recoverable from reinsurers (refer note 16)	11,696	9,852
Reinsurers' share of unearned premiums (refer note 17)	5,683	4,444
Total	**17,379**	14,296

As of 31 December 2014, the outstanding claims recoverable from reinsurers are related to a number of reinsurers for whom there is no recent history of default.

Amounts due from reinsurers in respect of claims already paid by the Group on the contracts that are reinsured are included in insurance receivables (Refer Note 4).

10 INVESTMENTS IN SUBSIDIARIES

Set out below are the Group's subsidiaries at 31 December 2014. Unless otherwise stated, the subsidiaries as listed below have share capital consisting solely of ordinary shares, which are held directly by the group and the proportion of ownership interests held equals to the voting rights held by group. The country of incorporation or registration is also their principal place of business:

Name of the entity	Country of incorporation	Date of incorporation	Proportion of ownership held by the Group	Proportion of ownership held by the NCI	Principal activities
Bahrain National Insurance Company BSC (c)	Bahrain	30 December 1998	100%	-	Transact various types of general insurance business
Bahrain National Life Assurance Company BSC (c)	Bahrain	4 October 2000	75%	25%	Transact the business of life assurance, medical insurance, retirement planning and savings.

(In thousands of Bahraini Dinars)

10 INVESTMENTS IN SUBSIDIARIES (continued)

Subsidiaries with material non-controlling interests

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

Bahrain National Life Assurance Company BSC (c)	2014	2013
Cash and balances with banks	2,563	788
Receivables	849	1,127
Reinsurers' share of insurance technical reserves	1,682	1,541
Deferred acquisition costs	65	16
Investment securities	10,590	11,829
Intangible assets	134	204
Property and equipment	10	14
Statutory deposits	50	50
Insurance technical reserves	(5,510)	(5,978)
Insurance payables	(978)	(1,006)
Other liabilities	(320)	(234)
Net assets (100%)	**9,135**	8,351
Carrying amount of NCI (25% of net assets)	**2,284**	2,088
Net premium earned	2,214	3,639
Net claims incurred	(1,323)	(2,760)
Other operating expenses	(791)	(988)
Net commission expenses	(75)	(59)
Release / (charge) from life assurance actuarial reserve	178	(178)
Net investment income	865	781
Policyholder's share of investment income	(197)	(279)
Net profit	**871**	156
Other comprehensive (loss) / income	(87)	245
Total comprehensive income	**784**	401
NCI's share of profit (25%)	**218**	39
NCI's share of total comprehensive income (25%)	**196**	101
Cash flows (used in) / generated from operating activities	(251)	522
Cash flows generated from / (used in) investing activities	1,505	(359)
Cash flows used in financing activities, before dividends to NCI	-	(317)
Cash flows used in financing activities, cash dividends to NCI	-	(106)
Net decrease in cash and cash equivalents	**1,254**	(260)

(In thousands of Bahraini Dinars)

11 INVESTMENT PROPERTIES

2014	BNH Tower in Seef	BNH Building in Sanad	Total
Cost			
At 1 January	2,087	2,318	4,405
Additions	-	-	-
Reclassified to Property & Equipment	-	(394)	(394)
At 31 December	**2,087**	**1,924**	**4,011**
Depreciation			
At 1 January	808	92	900
Charge for the year	81	76	157
Reclassified to Property & Equipment	-	(15)	(15)
At 31 December	**889**	**153**	**1,042**
Net book value at 31 December	**1,198**	**1,771**	**2,969**
Total fair value at 31 December 2014	**11,581**	**3,623**	**15,204**
This comprises:			
Investment properties	1,198	1,771	2,969
Owner occupied	1,953	340	2,293
Total net book value at 31 December 2014	**3,151**	**2,111**	**5,262**

2013	BNH Tower in Seef	BNH Building in Sanad	Total
Cost			
At 1 January	2,087	2,235	4,322
Additions	-	83	83
At 31 December	2,087	2,318	4,405
Depreciation			
At 1 January	720	-	720
Charge for the year	88	92	180
At 31 December	808	92	900
Net book value at 31 December	1,279	2,226	3,505
Total fair value at 31 December 2013	11,470	2,510	13,980
This comprises:			
Investment properties	1,279	2,226	3,505
Owner occupied	2,106	-	2,106
Total net book value at 31 December 2013	3,385	2,226	5,611

The fair value was determined by an external, independent property valuator, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The fair value measurement has been categorized as Level 3 fair value

(In thousands of Bahraini Dinars)

12 INTANGIBLE ASSETS

2014	**Software**	**Development cost**	**Total**
Cost			
At 1 January	1,826	8	1,834
Additions	37	44	81
Disposal / impairment	(87)	-	(87)
Transfers	8	(8)	-
At 31 December	**1,784**	**44**	**1,828**
Amortisation			
At 1 January	1,409	-	1,409
Charge for the year	163	-	163
Disposal / impairment	(74)	-	(74)
At 31 December	**1,498**	**-**	**1,498**
Net book value at 31 December	**286**	**44**	**330**

2013	Software	Development cost	Total
Cost			
At 1 January	1,723	15	1,738
Additions	84	12	96
Transfers	19	(19)	-
At 31 December	1,826	8	1,834
Amortisation			
At 1 January	1,214	-	1,214
Charge for the year	195	-	195
At 31 December	1,409	-	1,409
Net book value at 31 December	417	8	425

Notes to the 2014 consolidated financial statements

For the year ended 31 December 2014 (continued)

(In thousands of Bahraini Dinars)

13 PROPERTY AND EQUIPMENT

2014	**Land and building**	**Machinery**	**Furniture, equipment & other assets**	**Capital work-in-progress**	**2014 Total**
Cost					
At 1 January	3,205	370	1,520	134	5,229
Additions	-	-	172	-	172
Reclassified from Investment Properties	340	54	-	-	394
Transfers	-	-	134	(134)	-
At 31 December	**3,545**	**424**	**1,826**	**-**	**5,795**
Depreciation					
At 1 January	1,099	342	1,231	-	2,672
Charge for the year	143	33	211	-	387
Reclassified from Investment Properties	10	5	-	-	15
At 31 December	**1,252**	**380**	**1,442**	**-**	**3,074**
Net book value	**2,293**	**44**	**384**	**-**	**2,721**

2013	Land and building	Machinery	Furniture, equipment & other assets	Capital work-in-progress	2014 Total
Cost					
At 1 January	3,205	370	1,440	-	5,015
Additions	-	-	80	134	214
At 31 December	3,205	370	1,520	134	5,229
Depreciation					
At 1 January	965	305	1,043	-	2,313
Charge for the year	134	37	188	-	359
At 31 December	1,099	342	1,231	-	2,672
Net book value	2,106	28	289	134	2,557

The total value of land is BD 413 thousands which is not subject to depreciation.

14 STATUTORY DEPOSITS

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

(In thousands of Bahraini Dinars)

15 INSURANCE TECHNICAL RESERVES

	2014	2013
Outstanding claims - gross (refer Note 16)	16,623	15,161
Unearned gross premiums (refer Note 17 a)	11,519	10,599
Unearned commissions income (refer Note 17 b)	474	365
Life assurance actuarial reserve (refer Note 18)	3,219	3,133
Total	**31,835**	29,258

16 OUTSTANDING CLAIMS

a. 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.

(i) Insurance claims for general insurance business – Gross

Accident year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Estimate of ultimate claims costs:											
At end of reporting year	4,664	6,797	10,095	7,693	6,485	5,420	3,883	7,275	5,550	**8,850**	66,712
One year later	4,413	7,312	7,775	6,240	9,692	5,950	4,632	7,512	**7,510**		61,036
Two year later	4,591	6,836	9,334	6,598	9,658	6,074	5,140	**6,059**			54,290
Three year later	4,407	6,824	9,788	6,538	9,399	6,120	**4,970**				48,046
Four year later	4,482	7,283	9,656	6,311	9,573	**6,071**					43,376
Five year later	4,655	7,338	9,474	6,382	**10,442**						38,291
Six year later	4,779	7,254	9,286	**5,986**							27,305
Seven year later	4,587	7,231	**9,563**								21,381
Eight year later	4,582	**7,199**									11,781
Nine year later	**4,582**										4,582
Current estimate of cumulative claims **(A)**	4,582	7,199	9,563	5,986	10,442	6,071	4,970	6,059	7,510	8,850	71,232
Cumulative payments to date **(B)**	4,457	7,043	9,479	5,865	9,513	5,023	3,857	4,823	5,406		55,466
Total (A – B)	125	156	84	121	929	1,048	1,113	1,236	2,104	8,850	**15,766**
Reserve in respect of years prior to 2005											349
Total reserve included in the statement of financial position											**16,115**

Insurance claims (gross) for life and medical insurance business amounting to BD 484 thousand are pertaining to 2014 and the remaining BD 24 thousands are pertaining to prior years.

(In thousands of Bahraini Dinars)

16 OUTSTANDING CLAIMS (continued)

(ii) Insurance claims for general insurance business – Net

Accident year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Estimate of ultimate claims costs:											
At end of reporting year	2,301	3,321	5,049	4,890	3,908	1,986	1,949	3,409	2,281	**2,083**	31,177
One year later	1,585	3,664	2,584	2,707	4,046	2,383	2,259	3,356	**2,874**		25,458
Two year later	1,786	3,510	2,884	3,189	3,949	2,465	2,263	**3,279**			23,325
Three year later	1,276	3,590	3,394	3,001	3,729	2,590	**2,179**				19,759
Four year later	1,607	3,953	3,400	2,808	3,735	**2,602**					18,105
Five year later	1,730	4,005	3,126	2,878	**3,802**						15,541
Six year later	1,803	3,911	3,107	**2,871**							11,692
Seven year later	1,642	3,888	**3,115**								8,645
Eight year later	1,636	**3,876**									5,512
Nine year later	**1,615**										1,615
Current estimate of cumulative claims **(A)**	1,615	3,876	3,115	2,871	3,802	2,602	2,179	3,279	2,874	2,083	28,296
Cumulative payments to date **(B)**	1,592	3,791	3,088	2,799	3,553	2,301	1,854	2,509	2,163		23,650
Total (A – B)	23	85	27	72	249	301	325	770	711	2,083	**4,646**
Reserve in respect of years prior to 2005											45
Total reserve included in the statement of financial position											**4,691**

Insurance claims (net) for life and medical insurance business amounting to BD 226 thousand are pertaining to 2014 and the remaining BD 10 thousands are pertaining to prior years.

b. Changes in insurance assets and liabilities

	2014			2013		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Reported claims	14,746	9,852	4,894	12,974	7,929	5,045
IBNR	415	-	415	440	-	440
Total at beginning of the year	15,161	9,852	5,309	13,414	7,929	5,485
Change in liabilities	22,167	13,706	8,461	19,020	10,013	9,007
Claims settled	(20,705)	(11,862)	(8,843)	(17,273)	(8,090)	(9,183)
Total at end of the year	**16,623**	**11,696**	**4,927**	**15,161**	**9,852**	**5,309**
Reported claims	15,939	11,696	4,243	14,746	9,852	4,894
IBNR	684	-	684	415	-	415
Total at end of the year	**16,623**	**11,696**	**4,927**	**15,161**	**9,852**	**5,309**

(In thousands of Bahraini Dinars)

16 OUTSTANDING CLAIMS (continued)

c. Sensitivity analysis

The following tables provide an analysis of the sensitivity of profit or loss and total equity to changes in the assumptions used to measure 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.

	Statement of profit or loss & Equity	
General Insurance	**2014**	2013
EXPENSE RATE		
1 percent increase	(52)	(56)
1 percent decrease	52	56
EXPECTED LOSS RATIO		
1 percent increase	(80)	(85)
1 percent decrease	80	85

	Statement of profit or loss & Equity	
Life Assurance	**2014**	2013
Demographic assumptions		
10 percent increase in base mortality and morbidity rates	(33)	(41)
10 percent decrease in base mortality and morbidity rates	33	41
Expense assumptions		
1 percent increase	(4)	(5)
1 percent decrease	4	5
Expected loss ratio		
1 percent increase	(5)	(5)
1 percent decrease	5	5

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

d. Movements in outstanding claims

	Gross outstanding claims		Reinsurers' share		Net outstanding claims	
	2014	2013	**2014**	2013	**2014**	2013
At 1 January	15,161	13,414	9,852	7,929	5,309	5,485
Charge/(release) during the year	1,462	1,747	1,844	1,923	(382)	(176)
At 31 December	**16,623**	15,161	**11,696**	9,852	**4,927**	5,309

(In thousands of Bahraini Dinars)

17 UNEARNED PREMIUMS / UNEARNED COMMISSIONS

a. Movements in Unearned premiums

	Unearned Gross Premiums		Reinsurers' share		Net unearned Premiums	
	2014	2013	**2014**	2013	**2014**	2013
At 1 January	10,599	9,815	4,444	3,605	6,155	6,210
Charge/(release) during the year	920	784	1,239	839	(319)	(55)
At 31 December	**11,519**	10,599	**5,683**	4,444	**5,836**	6,155

b. Movements in unearned commissions income and deferred commissions expenses

	Unearned commissions income		Deferred commissions paid	
	2014	2013	**2014**	2013
At 1 January	365	409	510	460
Charge/(release) during the year	109	(44)	343	50
At 31 December	**474**	365	**853**	510

18 LIFE ASSURANCE ACTUARIAL RESERVE AND ACTUARIAL ASSUMPTIONS

	2014	2013
Balance at 1 January	3,133	2,517
Transfer of contributions	259	261
Payments of benefits	(191)	(102)
(Release) / charge to statement of profit or loss	(178)	178
Policyholder's share of net investment income	196	279
Balance at 31 December	**3,219**	3,133
Life assurance actuarial reserve per statement of financial position	**3,219**	3,133
Actuarial estimate of the present value of future benefit obligations at 31 December	**3,200**	3,133

The actuarial estimate has been prepared by independent actuaries, Lux Actuaries & Consultants, Bahrain (2013: Actuarial Partners Consulting Sdn. Bhd, Malaysia) the mortality and interest rate assumptions used were 100% of AM80 and 4.5% p.a. (2013: 60% of A4952 and 4.5% p.a) Allowances have been made for reinsurance, guaranteed bonuses, renewal expenses unexpired risks and contingencies where appropriate.

(In thousands of Bahraini Dinars)

19 INSURANCE PAYABLES

	2014	2013
Policyholders – Claims	840	218
Insurance and reinsurance companies	2,945	4,285
Total	**3,785**	4,503

20 BORROWINGS

During 2012, the Company had obtained a secured loan from a Bahraini bank for general corporate purposes. Of the total sanctioned amount of BD 1.50 million, an amount of BD 1.16 million was drawn on December 2012 and the balance of BD 0.34 million has been drawn on January 2013.

The loan amount is secured by a mortgage of the Company's title to its investment property in Sanad. The loan is repayable in 12 quarterly installments over a period of three years commenced from March 2013.

The interest rate on this loan is 2.75% plus bank offered BHIBOR rate.

21 OTHER LIABILITIES

	2014	2013
Premiums received in advance	406	355
Vehicle repairers and spare parts	1,282	1,361
Accrued expenses	117	110
Unclaimed dividends - prior years	221	186
Provision for employees' benefits	458	553
Provision for employees' leaving indemnities	314	325
Other	914	647
Total	**3,712**	3,537

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

	2014	2013
Balance at beginning of the year	553	569
Paid during the year	(539)	(432)
Additional amount provided during the year	444	416
Balance at end of the year	**458**	553

22 RETIREMENT BENEFITS COST

The Group employed 139 Bahrainis (2013: 142 Bahrainis) and 31 expatriates (2013: 33 expatriates) as at 31 December 2014.

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 2014 amounted to BD 210 thousand (2013: BD 254 thousand), which cover other benefits besides pension entitlements.

The Group also offers, on a voluntary basis, to its Bahraini employees, a defined contribution plan, which is determined by the annual contributions paid by the Group and the employees to a post-employment benefit plan, together with investment returns arising from the contributions. The Group's contributions in 2014 amounted to BD 77 thousand (2013: BD 86 thousand). The scheme is administered by Bahrain National Life Assurance Company on behalf of the group.

22 RETIREMENT BENEFITS COST (continued)

The liability towards the retirement plan as at 31 December 2014 amounted to BD 545 thousand (2013: BD 500 thousand) and is included in the Life assurance actuarial reserve (refer note 18). The liability is funded by way of contributions from the retirement scheme. The contributions received are invested as part of policyholders' investments (refer note 6).

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

Provision for employees' leaving indemnities

	2014	2013
At beginning of year	325	444
Indemnities and advances paid	(49)	(162)
Charge to statement of profit or loss	38	43
Balance at end of the year	**314**	325

23 SHARE CAPITAL

	Number 2014	**Amount 2014**	Number 2013	Amount 2013
a) Authorised: shares of 100 fils each	**200,000,000**	**20,000**	200,000,000	20,000
b) Issued and fully paid	**113,500,000**	**11,350**	113,500,000	11,350

c. Treasury shares:

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

	Number 2014	**Amount 2014**	Number 2013	Amount 2013
Balance at beginning of year	**6,253,816**	**1,868**	6,253,816	1,868
Balance at 31 December	**6,253,816**	**1,868**	6,253,816	1,868

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

	2014	2013
Basic earnings per share – fils	33.6	27.8
Proposed cash dividend – fils	20.0	18.0
Net asset value – fils	448.4	422.0
Stock Exchange price at 31 December – fils	432.0	500.0
Market capitalization at 31 December – in thousands of BD	49,032	56,750
Price/Earnings ratio at 31 December	12.0	18.0

e. Earnings per share

In accordance with IAS 33, the calculation of earnings per share is based on the net profit attributable to the shareholders for the year of BD 3,606 thousand (2013: BD 2,983 thousand), attributable to 107,246,184 (2013: 107,246,184) ordinary shares for basic earnings, being the weighted average number of ordinary shares outstanding during the year.

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

(In thousands of Bahraini Dinars)

23 SHARE CAPITAL (continued)

f. Major shareholders

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

	Nationality	No. of shares	Shareholding (%)
Yousif Abdulla Amin	Bahraini	12,475,180	10.99
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

g. Additional information on shareholding pattern:

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

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

Categories	Number of shareholders	Number of shares	% of total outstanding shares
Less than 1%	599	51,326,244	45.22
1% up to less than 5%	15	29,460,380	25.96
5% up to less than 10%	3	20,238,196	17.83
More than 10%	1	12,475,180	10.99
Total	**618**	**113,500,000**	**100.00**

24 RESERVES

a. 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.

b. Share premium

During the 2005 financial year, the Company issued 20,000,000 shares @ 300 fils (share premium 200 fils) per share on a rights basis. It also includes BD 29 thousand (2012: BD 29 thousand) being the share of the group in the share premium account of an associate.

c. General reserves

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

d. Investment fair value reserve

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

(In thousands of Bahraini Dinars)

25 PROPOSED APPROPRIATIONS AND DIRECTORS REMUNERATION:

	2014	2013
Profit as per statement of profit or loss	3,824	3,022
Net profit attributable to non-controlling interest	(218)	(39)
Net profit attributable to shareholders of parent company	**3,606**	2,983
Proposed appropriations:		
Dividend to shareholders	2,145	1,930
Donations	20	50
Retained earnings	1,441	1,003
Net profit attributable to shareholders of parent company	**3,606**	2,983

Proposed director's remuneration is BD 154 thousands (2013: BD 105 thousands). The appropriation of the 2014 profit is subject to approval by shareholders at the annual general meeting.

26 GROSS PREMIUMS

	2014	2013
Gross premiums - Direct Business	24,437	22,698
Gross premiums - Inward Business	1,293	2,222
Total	**25,730**	24,920

27 NET COMMISSIONS INCOME

	2014	2013
Commission income	1,809	1,741
Commission expenses	(1,447)	(1,247)
Net commission income	**362**	494

28 NET INVESTMENT INCOME FROM PORTFOLIO

	2014	2013
(Losses)/gains on disposal of available-for-sale securities	(29)	294
Transfer from other comprehensive income on disposal of available-for-sale securities	1,338	734
Valuation gains on trading securities	233	309
Foreign exchange losses	(2)	(16)
Amortisation of premiums on held-to-maturity securities	(8)	(57)
Interest income	779	987
Dividend income	669	529
Other income	-	5
Gross investment income	**2,980**	2,785
Provision for impairment on investment	(187)	(185)
Investment administration expenses	(90)	(106)
Total net investment income per statement of profit or loss	**2,703**	2,494

(In thousands of Bahraini Dinars)

28 NET INVESTMENT INCOME FROM PORTFOLIO (continued)

Gross investment income by segment

	2014	2013
Bahraini listed equities	967	379
Other equities	809	1,227
Government and corporate bonds	618	688
Managed funds	441	260
Cash and short-term deposits	145	226
Miscellaneous Income	-	5
Gross investment income	**2,980**	2,785

29 INCOME FROM INVESTMENT PROPERTIES

	2014	2013
Rental income	184	308
Depreciation charges	(157)	(180)
Buildings maintenance expenses	(102)	(75)
Total net (loss)/income per statement of profit or loss	**(75)**	53

30 EXPENSES

a) **Other operating expenses:**	2014	2013
Employee costs	1,812	1,913
Depreciation and amortisation	307	264
Other costs	1,250	1,141
Total	**3,369**	3,318

b) **Corporate and financial expenses:**	2014	2013
Employee costs	1,230	1,466
Depreciation and amortisation	243	290
Finance costs	32	52
Other costs	517	439
Total	**2,022**	2,247

31 SEGMENTAL INFORMATION

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

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

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

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

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

(In thousands of Bahraini Dinars)

31 SEGMENTAL INFORMATION (continued)

31 December 2014	Motor & General Insurance	Life Assurance and Medical	Corporate	Total
Gross premiums	**21,935**	**3,795**	**-**	**25,730**
Net premiums earned	**11,478**	**2,214**	**-**	**13,692**
Net claims incurred	(7,137)	(1,324)	-	(8,461)
Operating expenses	(2,758)	(611)	-	(3,369)
Net commission income/(expenses)	437	(75)	-	362
Charge from life actuarial reserve	-	178	-	178
Underwriting profits	**2,020**	**382**	**-**	**2,402**
Net investment income from portfolio	1,845	865	(7)	2,703
Policyholder's share of investment income	-	(196)	-	(196)
Share of profit of equity accounted investees	216	-	796	1,012
Net loss from investment properties	-	-	(75)	(75)
Corporate expenses	-	-	(2,022)	(2,022)
Segment Results	**4,081**	**1,051**	**(1,308)**	**3,824**

31 December 2014	Motor & General Insurance	Life Assurance and Medical	Corporate	Total
Cash and balances with banks	6,327	2,563	326	9,216
Receivables	6,080	842	73	6,995
Reinsurers' share of technical reserves	15,697	1,682	-	17,379
Deferred acquisition cost	788	65	-	853
Investment securities	23,081	10,590	1	33,672
Equity accounted investees	1,252	-	12,163	13,415
Investment property	-	-	2,969	2,969
Intangible assets	170	134	26	330
Property and equipment	310	10	2,401	2,721
Statutory deposits	75	50	-	125
Total Assets	**53,780**	**15,936**	**17,959**	**87,675**
Insurance technical reserves	26,325	5,510	-	31,835
Insurance payables	2,814	971	-	3,785
Borrowings	-	-	500	500
Other liabilities	2,270	320	1,122	3,712
Total Liabilities	**31,409**	**6,801**	**1,622**	**39,832**

(In thousands of Bahraini Dinars)

31 SEGMENTAL INFORMATION (continued)

31 December 2013	Motor & General Insurance	Life Assurance and Medical	Corporate	Total
Gross premiums	18,441	6,479	-	24,920
Net premiums earned	10,694	3,639	-	14,333
Net claims incurred	(6,247)	(2,760)	-	(9,007)
Operating expenses	(2,568)	(750)	-	(3,318)
Net commission income/(expenses)	553	(59)	-	494
Charge from life actuarial reserve	-	(178)	-	(178)
Underwriting profits	2,432	(108)	-	2,324
Net investment income from portfolio	1,710	781	3	2,494
Policyholder's share of investment income	-	(279)	-	(279)
Share of profit of equity accounted investees	184	-	493	677
Net income from investment properties	-	-	53	53
Corporate expenses	-	-	(2,247)	(2,247)
Segment Results	4,326	394	(1,698)	3,022

31 December 2013	Motor & General Insurance	Life Assurance and Medical	Corporate	Total
Cash and balances with banks	9,147	788	487	10,422
Receivables	5,627	1,127	180	6,934
Reinsurers' share of technical reserves	12,755	1,541	-	14,296
Deferred acquisition cost	494	16	-	510
Investment securities	20,947	11,829	3	32,779
Equity accounted investees	1,037	-	10,964	12,001
Investment property	-	-	3,505	3,505
Intangible assets	176	204	45	425
Property and equipment	322	14	2,221	2,557
Statutory deposits	75	50	-	125
Total Assets	50,580	15,569	17,405	83,554
Insurance technical reserves	23,280	5,978	-	29,258
Insurance payables	3,497	1,006	-	4,503
Borrowings	-	-	1,000	1,000
Other liabilities	2,183	234	1,120	3,537
Total Liabilities	28,960	7,218	2,120	38,298

(In thousands of Bahraini Dinars)

31 SEGMENTAL INFORMATION (continued)

Geographical information

31 December 2014	Bahrain	GCC	Other Countries	Total
Gross premiums	24,835	847	48	**25,730**
Non-current assets	24,609	11,883	12,829	**49,321**
31 December 2013				
Gross premiums	22,906	1,887	127	24,920
Non-current assets	22,088	10,746	12,287	45,121

The gross premiums information is based on the locations of the customers.

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

32 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a. Insurance Risk Management

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

(i) Underwriting Policy

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

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

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

(ii) Reinsurance Policy

As part of the underwriting process the next risk control measure in respect of the insurance risk is the transfer of the risks to third parties through a reinsurance contract or facility. The Company has in place proportional facilities, referred to as Treaties, which are used to transfer a proportion of the risks automatically subject to pre-agreed conditions with the reinsurers. The portion of the risk retained by the Company is also guided by a strict retention policy adopted by the company. Any claim will be recovered in the same proportion. Furthermore the company also has in place non-proportional treaties which pay a proportion of losses above a pre-agreed priority level for each loss or an aggregation of losses arising out

(In thousands of Bahraini Dinars)

32 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

of one event. The placements of reinsurance contracts are diversified with a panel of internationally reputed reinsurers so that the Company is not dependent on a single reinsurer or a reinsurance contract. The Company also transfers risk on a case by case basis referred to as facultative reinsurance. This is used in cases when the risk under consideration is either too large for the treaty capacities or else has risks which are excluded from the treaties. In this case the Company seeks internationally rated reinsurers but also places some small shares in the local markets as exchange of business.

Reinsurance is used to manage insurance risk. Although the 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. This review is performed by the Risk Management Committee which also monitors extent of single exposures.

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

(iii) 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 2014 **Geographical area**	**General Insurance**	**Life Assurance**	**Total**
Bahrain			
Gross	23,178	1,657	24,835
Retained	12,467	825	13,292
Other countries			
Gross	895	-	895
Retained	81	-	81
Total			
Gross	**24,073**	**1,657**	**25,730**
Retained	**12,548**	**825**	**13,373**

31 December 2013 Geographical area	General Insurance	Life Assurance	Total
Bahrain			
Gross	20,983	1,923	22,906
Retained	13,199	945	14,144
Other countries			
Gross	2,014	-	2,014
Retained	189	-	189
Total			
Gross	22,997	1,923	24,920
Retained	13,388	945	14,333

32 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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

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

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

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

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

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

(In thousands of Bahraini Dinars)

32 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(i) 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	2014	2013
Receivables:		
Policyholders	2,075	2,333
Insurance and reinsurance companies	3,988	3,520
Others	798	866
Investments:		
Securities carried at fair value through profit or loss	312	118
Available for sale securities	4,298	3,865
Held to maturity securities	5,028	8,448
Cash and cash equivalents	9,210	10,422
Statutory deposits	125	125
Total	**25,834**	29,697

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

(In thousands of Bahraini Dinars)

32 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 34. 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:

	2014	2013
Al-Salam Bank	1,494	1,134
Securities & Investment Company	1,201	892
National Bank of Bahrain	1,180	662
State Bank of India	1,000	-
BMI Bank	616	2,750
Ahli United Bank	628	2,486
United Bank Limited	809	1,758

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**		
31 December 2014	**Less than 90 days**	**91– 180 days**	**More than 180 days**	**Gross Amount**	**Provision for impairment**	**Total**
Receivables:						
- Policyholders	1,140	425	510	301	(301)	2,075
- Insurance and Reinsurance companies	819	475	2,694	200	(200)	3,988
- Others	798	-	-	-	-	798
Total	**2,757**	**900**	**3,204**	**501**	**(501)**	**6,861**

(In thousands of Bahraini Dinars)

32 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Financial assets	Neither past due nor impaired	Past due but not impaired		Individually impaired		
31 December 2013	Less than 90 days	91– 180 days	More than 180 days	Gross Amount	Provision for impairment	Total
Receivables:						
- Policyholders	1,364	559	410	275	(275)	2,333
- Insurance and Reinsurance companies	1,204	721	1,595	39	(39)	3,520
- Others	866	-	-	-	-	866
Total	3,434	1,280	2,005	314	(314)	6,719

(ii) 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 33.

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 funds required to meet such calls and on the minimum level of overdraft facilities that should be in place to cover maturities, claims and surrenders at unexpected levels of demand.

- Budgets are prepared annually and revised as required to predict cash inflows and outflows from insurance and investment contracts over the short, medium and long term.
- The Group purchases assets taking into consideration its insurance and investment contracts.
- Assets purchased by the Group are required to satisfy specified marketability limits set by the Board.
- The Group maintains cash and liquid assets to meet daily calls on its insurance and investment contracts.
- The Group has a board approved Liquidity Contingency Plan, that will be activated in the event of a liquidity event.

(In thousands of Bahraini Dinars)

32 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 2014	Contractual undiscounted cash flows				
Financial liabilities	**Carrying amount**	**Less than 1 year**	**1 – 2 years**	**2 – 5 years**	**More than 5 years**
Policyholders' liabilities	840	840	-	-	-
Insurance/reinsurance companies	2,945	2,945	-	-	-
Other payables	3,398	3,398	-	-	-
Borrowings	500	500	-	-	-

31 December 2013	Contractual undiscounted cash flows				
Financial liabilities	Carrying amount	Less than 1 year	1 – 2 years	2 – 5 years	More than 5 years
Policyholders' liabilities	218	218	-	-	-
Insurance/reinsurance companies	4,285	4,285	-	-	-
Other payables	3,212	3,212	-	-	-
Borrowings	1,000	500	500	-	-

(iii) Market risk

Market risk is the risk that the value of financial instrument will fluctuate as a result of changes in market prices on account of factors specific to the individual security or to its issuer or factors affecting the securities market. The Group is exposed to market risk with respect to its investments in securities. The Group manages market risk by maintaining a well-diversified portfolio and by continuous monitoring of pertinent developments in international securities markets. In addition, the Group actively monitors the key factors that are likely to affect the prices of securities, including operational and financial performance of investees. The geographical concentration of the Group's investments is set out in note 34.

Management of market risks

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

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

Interest rate risk

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

The Group's short-term deposits are at fixed interest rates and mature within one year. Investments in Government bonds are at fixed interest rates. Investment in corporate bonds consists of both fixed and floating rate instruments. The effective interest rates on deposits and bonds are set out in note 7.

The Group's bank loan has floating interest rate with 2.75% plus offered BHIBOR rate which is offered by the bank.

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.

32 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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	**2014**	2013
Euros	441	336
Pounds sterling	623	614
Other currencies	205	183
Total open foreign exchange position at 31 December currencies	**1,269**	1,133
United States dollars	24,306	25,233
GCC Currencies	10,879	9,181
Bahraini dinars	26,835	26,499
Total at 31 December	**63,289**	62,046
This comprises:		
Securities carried at fair value through profit or loss	2,821	2,522
Available-for-sale securities	25,823	21,809
Held-to-maturity securities	5,028	8,448
Equity accounted investees	13,415	12,001
Cash and Bank balances	9,216	10,422
Statutory deposits	125	125
Receivables:		
Policyholders	2,075	2,333
Insurance and reinsurance companies	3,988	3,520
Others	798	866
Total	**63,289**	62,046
Financial Liabilities		
United States dollars	706	1,029
GCC Currencies	139	206
Bahraini dinars	6,822	7,416
Other currencies	16	64
Total at 31 December	**7,683**	8,715
This comprises:		
Payables		
Policyholders Liabilities	840	218
Insurance/reinsurance companies payables	2,945	4,285
Other payables	3,398	3,212
Borrowings	500	1,000
Total	**7,683**	8,715

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

(In thousands of Bahraini Dinars)

32 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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

Sensitivity analysis – currency risk

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

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

	2014		2013	
Receivables, Investments & Cash	**Statement of profit or loss**	**Equity**	Statement of profit or loss	Equity
US Dollars	90	153	104	133
Euro	-	4	-	3
Pounds Sterling	-	6	-	6
GCC currencies	72	37	61	24
Other currencies	1	2	(1)	1

Sensitivity analysis to market risks

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

	2014		2013	
	Statement of profit or loss	**Equity**	Statement of profit or loss	Equity
Interest rate risk				
+ 1 percent shift in yield curves	18	313	4	169
- 1 percent shift in yield curves	(18)	(313)	(4)	(169)
Equity price risk				
+1 percent increases in equity prices	9	122	10	98
-1 percent decrease in equity prices	(9)	(122)	(10)	(98)

33 MATURITY PROFILE OF INVESTMENTS

2014	**Less than 1 year**	**1 - 5 years**	**5 - 10 years**	**Over 10 years / no maturity**	**Total 2014**
Equities	-	-	-	12,056	12,056
Government bonds	74	1,410	1,703	362	3,549
Corporate bonds	1,016	2,298	2,464	-	5,778
Managed funds	-	-	-	9,288	9,288
Unquoted equities & funds	-	-	-	180	180
Equity accounted investees	-	-	-	13,415	13,415
Total	**1,090**	**3,708**	**4,167**	**35,301**	**44,266**

(In thousands of Bahraini Dinars)

33 MATURITY PROFILE OF INVESTMENTS (continued)

This balance comprises:

	2014
Available-for-sale securities	25,823
Held-to-maturity securities	5,028
Equity accounted investees	13,415
Total	**44,266**

2013	Less than 1 year	1 - 5 years	5 - 10 years	Over 10 years / no maturity	Total 2013
Equities	-	-	-	9,678	9,678
Government bonds	1,071	1,483	985	-	3,539
Other bonds	2,678	4,683	1,413	-	8,774
Managed funds	-	-	-	8,065	8,065
Unquoted equities & funds	-	-	-	201	201
Equity accounted investees	-	-	-	12,001	12,001
Total	3,749	6,166	2,398	29,945	42,258

This balance comprises:

	2013
Available-for-sale securities	21,809
Held-to-maturity securities	8,448
Equity accounted investees	12,001
Total	42,258

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.

34 GEOGRAPHICAL CONCENTRATION OF INVESTMENTS

	2014	2013
Bahrain	20,618	17,627
Other GCC countries	12,719	12,903
North America	6,307	5,929
Europe	2,914	3,026
Japan and Korea	156	470
Other Asia/Oceania	954	750
Global/multi-regional	3,419	4,075
Total	**47,087**	44,780

(In thousands of Bahraini Dinars)

34 GEOGRAPHICAL CONCENTRATION OF INVESTMENTS (continued)

This comprises:

	2014	2013
Securities carried at fair value through profit or loss	2,821	2,522
Available-for-sale securities	25,823	21,809
Held-to-maturity securities	5,028	8,448
Equity accounted investees	13,415	12,001
Total	**47,087**	44,780

35 RELATED PARTIES

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

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

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

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

	2014	2013
a) Assets		
Receivables from companies in which directors are interested	107	410
Receivables from associates	309	232
b) Liabilities - payables		
Payables to companies in which directors are interested	704	715
Payables to associates and joint-venture	20	61
c) Income and expenses		
Gross premiums	2,010	2,312
Premiums ceded	385	320
Claims	1,808	1,302
Other income	-	14

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:

	2014	2013
Salaries and allowances	442	636
Terminal benefits	47	138
Other benefits	14	65
Board remuneration	154	105

(In thousands of Bahraini Dinars)

36 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.

2014	Fair value through the statement of profit or loss	Available-for- sale	Held-to-maturity	Loans and receivables	Total carrying value	Fair value
Cash and balances with banks	-	-	-	9,216	9,216	9,216
Receivables	-	-	-	6,861	6,861	6,861
Investment securities	2,821	25,642	5,028	-	33,491	33,841
Total financial assets	**2,821**	**25,642**	**5,028**	**16,077**	**49,568**	**49,918**
BORROWINGS	-	-	-	500	500	500
Insurance payables	-	-	-	3,785	3,785	3,785
Other liabilities	-	-	-	3,398	3,398	3,398
Total financial liabilities	**-**	**-**	**-**	**7,683**	**7,683**	**7,683**

2013	Fair value through the statement of profit or loss	Available-for- sale	Held-to-maturity	Loans and receivables	Total carrying value	Fair value
Cash and cash equivalents	-	-	-	10,422	10,422	10,422
Receivables	-	-	-	6,719	6,719	6,719
Investment securities	2,522	21,608	8,448	-	32,578	33,023
Total financial assets	2,522	21,608	8,448	17,141	49,719	50,164
Borrowings	-	-	-	1,000	1,000	1,000
Insurance payables	-	-	-	4,503	4,503	4,503
Other liabilities	-	-	-	3,212	3,212	3,212
Total financial liabilities	-	-	-	8,715	8,715	8,715

(In thousands of Bahraini Dinars)

36 FAIR VALUE MEASUREMENT (continued)

Fair value hierarchy

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

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

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

- **Level 1**

quoted prices (unadjusted) in active markets for identical assets and liabilities.

- **Level 2**

inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

- **Level 3**

inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

2014	**Level 1**	**Level 2**	**Level 3**	**Total**	**Carrying Value**
Securities carried at fair value through profit or loss	25,643	-	-	25,643	25,643
Available-for-sale investments	2,821	-	-	2,821	2,821
	28,464	**-**	**-**	**28,464**	**28,464**

2013	Level 1	Level 2	Level 3	Total	Carrying Value
Securities carried at fair value through profit or loss	2,522	-	-	2,522	2,522
Available-for-sale investments	21,608	-	-	21,608	21,608
	24,130	-	-	24,130	24,130

The fair value of other assets and liabilities approximate the carrying value at the reporting date.

(In thousands of Bahraini Dinars)

37 COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2014, the Group has commitments to make investments amounting to BD 103 thousand (2013: BD 406 thousand).

The Capital commitments as at the reporting date amounted to BD 112 thousands of which BD 78 thousand is related to development of new software and BD 34 thousand to purchase new equipment (2013: BD 64 thousand).

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

38 COMPARATIVES

The following comparative information has been reclassified to conform to the current year's presentation:

a. Cash and cash equivalents

Bank deposits with an original maturity of more than 3 months have been excluded from cash and cash equivalents. Accordingly the comparative information for the consolidated statement of cash flows have been reclassified as follows:

Consolidated Statement of Cash flows

	Reclassified	Previously reported
Cash and cash equivalents	3,636	10,422

b. Other operating expenses

Other operating expenses have been adjusted for elimination of subsidiaries' rental charges and corporate service fees paid to the parent company. Accordingly the comparative information for the consolidated statement of profit or loss have been reclassified as follows:

Consolidated Statement of profit or loss

	Reclassified	Previously reported
Net income from investment properties	53	128
Other operating expenses	(3,318)	(4,376)
Corporate and financial expenses	(2,247)	(1,264)

The above items did not affect previously reported total assets, total liabilities, equity and profit or comprehensive income.