A PROGRESSIVE PATH

Annual Report 2012

BNH

www.bnhgroup.com

CONTENTS

4	GROUP OVERVIEW
6	FINANCIAL HIGHLIGHTS
8	BOARD OF DIRECTORS
10	CHAIRMAN'S STATEMENT
14	EXECUTIVE MANAGEMENT
16	CHIEF EXECUTIVE'S MESSAGE
22	REVIEW OF OPERATIONS
26	ASSOCIATES
30	CORPORATE GOVERNANCE & RISK MANAGEMENT
42	CORPORATE SOCIAL RESPONSIBILITY
43	CONTACTS
45	FINANCIAL STATEMENTS

His Royal Highness
Prince Khalifa Bin Salman
Al Khalifa

The Prime Minister

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 Premier

A PROGRESSIVE PATH

Across the MENA region, citizens are seeking a progressive path towards greater social well-being and prosperity for their families and future generations, with a particular focus on education, healthcare and employment. These constitute three of the key pillars of economic development for developing nations. Some examples of how BNH has aligned its community engagement activities with the hopes and aspirations of Bahraini citizens in these areas, are illustrated in this year's annual report.

GROUP OVERVIEW

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

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

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

Mission Statement

Our Vision

Creating prosperity through security

Our Mission

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

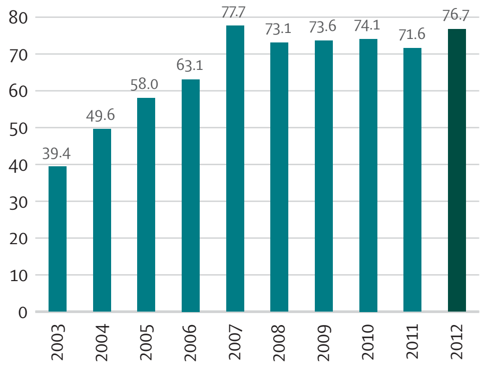
Our Values

Integrity, Excellence, Pioneering

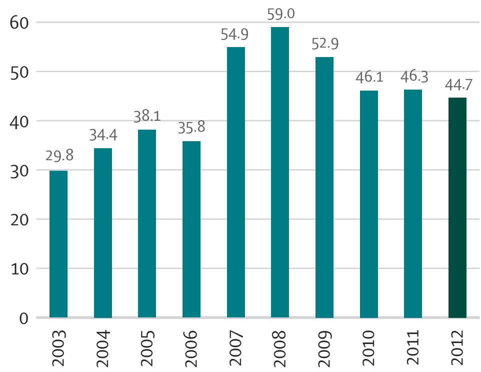
FINANCIAL HIGHLIGHTS

The Kingdom of Bahrain is a regional pioneer in the provision of public education and healthcare, and in forming partnerships with the private sector to generate meaningful employment opportunities for its citizens. This enduring commitment is enshrined in the social agenda of the Kingdom's Economic Vision 2030, which sets out a progressive path leading to the greater social well-being and prosperity of all its citizens. As a responsible corporate citizen, BNH is committed to supporting this national vision by aligning its community engagement activities with the hopes and aspirations of Bahrainis for a brighter and more secure future.

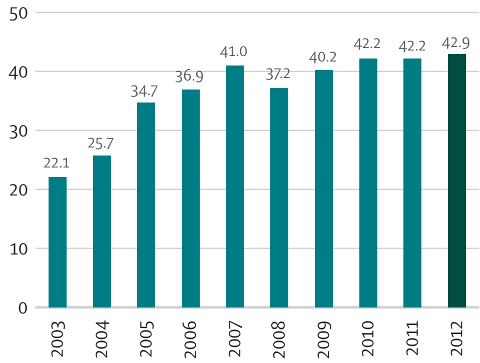
TOTAL ASSETS (BHD MILLIONS)



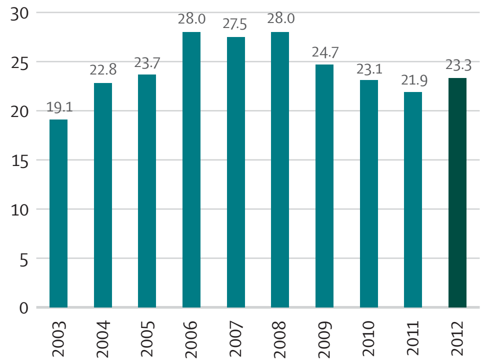
MARKET CAPITALISATION (BHD MILLIONS)



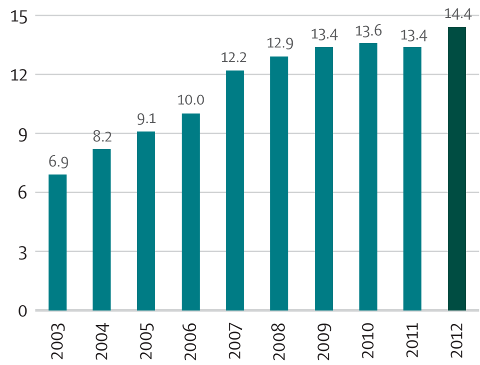
TOTAL EQUITY (BHD MILLIONS)



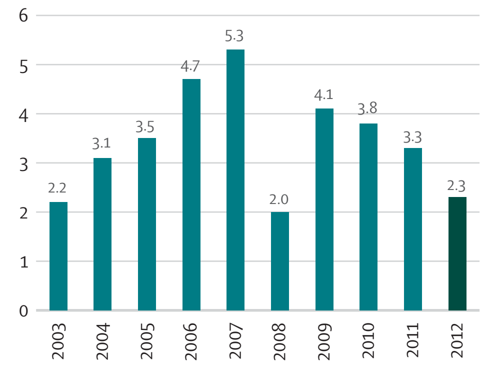
GROSS PREMIUMS (BHD MILLIONS)



NET EARNED PREMIUMS (BHD MILLIONS)



NET PROFIT (BHD MILLIONS)



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total Assets	39.4	49.6	58.0	63.1	77.7	73.1	73.6	74.1	71.6	76.7
Market Capitalisation	29.8	34.4	38.1	35.8	54.9	59.0	52.9	46.1	46.3	44.7
Total Equity	22.1	25.7	34.7	36.9	41.0	37.2	40.2	42.2	42.2	42.9
Gross Premiums	19.1	22.8	23.7	28.0	27.5	28.0	24.7	23.1	21.9	23.3
Net Earned Premiums	6.9	8.2	9.1	10.0	12.2	12.9	13.4	13.6	13.4	14.4
Net Profit	2.2	3.1	3.5	4.7	5.3	2.0	4.1	3.8	3.3	2.3

BOARD OF DIRECTORS

Farouk Yousif Almoayyed | Chairman

Board Member since 2008

Chairman of the Nomination, Remuneration & Corporate Governance Committee

Chairman: Y. K. Almoayyed & Sons B.S.C. (c), Bahrain • Y. K. Almoayyed & Sons Property Co, Bahrain • Ashrafs, Bahrain • Almoayyed International Group, Bahrain • National Bank of Bahrain B.S.C., Bahrain • Bahrain Duty Free Shop Complex, Bahrain • Gulf Hotels Group, Bahrain • Ahlia University, Bahrain • National Finance House B.S.C. (c), Bahrain

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

Chairman of Board of Trustees: Ibn Khuldoon National School, Bahrain

Abdulhussain Khalil Dawani | Vice Chairman

Board Member since 1999, Chairman of the Executive Committee, Vice Chairman of the Nomination, Remuneration & Corporate Governance Committee

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

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

Jehad Yousif Amin | Director

Board Member since 1999, Vice Chairman of the Executive Committee, Member of the Nomination, Remuneration & Corporate Governance Committee

Vice-Chairman: Banader Hotel Company, Bahrain

Director & Member of the Audit and Metro/Market Committees: General Company for Trading and Food Industries (TRAFCO), Bahrain

Director & Member of the Audit Committee: Bahrain Cinema Company, Bahrain; Bahrain Livestock, Bahrain

Director & Member of the Executive Committee: Bahrain Maritime and Mercantile Company (BMMI)

Director & Member of the Investment Committee: United Insurance Company, Bahrain

Director: Bahrain National Insurance Company B.S.C. (c), Bahrain

Ghassan Qassim Fakhroo | Director

Board member since 2008, Member of the Executive Committee

Vice Chairman: Bahrain National Insurance Company B.S.C (c), Bahrain

Chief Executive: Mohamed Fakhroo & Bros., Bahrain

Managing Director and Partner: Fakhroo Information Technology Services, Bahrain

Abdulrahman Mohamed Juma | Director

Board Member since 1999, Member of the Audit & Compliance Committee

Chairman: Bahrain National Life Assurance Company B.S.C. (c), Bahrain • Abdulrahman bin Mohamed Juma & Sons, Bahrain

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

Vice Chairman: Prudent, Saudi Arabia

Vice Chairman & Managing Director: Caltex Weaving Mills, Bahrain

Ali Hasan Mahmood | Director

Board Member since 1999 and Re-elected in 2011

Chairman: Hasan & Habib s/o Mahmood Group of Companies, Bahrain • United Marketing International Co. W.L.L., Bahrain • Bed Center, Bahrain • Euro Gulf Co. W.L.L., Bahrain • United Decor International, Bahrain

Director: Bahrain Specialist Hospital, Bahrain • Bahrain Businessmen Association, Bahrain

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

Ayad Saad Algosaibi | Director

Board member since 2008 (Independent), Vice Chairman of the Audit & Compliance Committee

Chairman: Columbus IT Middle East, Dubai, UAE

Director: Bahrain National Insurance Company B.S.C. (c), Bahrain • Ismailia Food Industries, Ismailia, Egypt • Khalifa A. Algosaibi Holding, Dammam, Saudi Arabia

Managing Director: Polaris International W.L.L , Bahrain

Talal Fuad Kanoo | Director

Board member since 2008, Member of the Executive Committee

Chairman: Al Ahli Club , Bahrain

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

Sami Mohamed Zainal | Director

Board member since 2008, Member of the Executive Committee

Director: Bahrain National Insurance Company B.S.C. (c), Bahrain • UltraTune Middle East WLL, Bahrain • Zainal Enterprises, Bahrain • Life Marketing, Bahrain

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

Member: Bahrain Chamber of Commerce & Industry (Food & Agriculture Committee)

Jassim Hasan Abdulaal | Director

Board Member since 2011 (Independent), Chairman of the Audit & Compliance Committee, Member of the Nomination, Remuneration & Corporate Governance Committee

Director and Chairman of Audit Committee: Gulf Hotels Group, Bahrain

Chairman of the Audit & Compliance Committee: Bahrain National Life Assurance Company B.S.C (c)

Director: Bahrain National Insurance Company B.S.C (c), Bahrain • Bahrain National Life Assurance Company B.S.C (c), Bahrain • Minors Estate Directorate, Bahrain

Managing Partner: Grant Thornton-Abdulaal, Bahrain

Member of Audit Committee: Labour Market Regulatory Authority (LMRA), Bahrain

Member of Advisory Board: The Institute of Chartered Accountants in England and Wales (ICAEW), Middle East

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, it is my privilege to present the annual report of Bahrain National Holding Company (BNH) for the year ended 31 December 2012. Yet again, this proved to be an extremely challenging year, with the predicted global economic upturn failing to materialise, and market conditions remaining volatile. Despite this, we continued along our progressive path, and achieved a positive performance in 2012.

Farouk Yousif Almoayyed
Chairman

The ongoing global financial crisis and economic downturn had a knock-on effect on the GCC, with geo-political tensions in the Middle East remaining a cause for concern. This seriously impacted business sentiment and investor confidence, with a consequent reduction in commercial activity. In addition, the increasingly competitive nature of the insurance market in Bahrain resulted in a further softening of rates and erosion of margins.

Against this challenging background, I am pleased to report that BNH posted a commendable financial performance in 2012, with total comprehensive income for the year rising to BD 2.84 million compared with BD 2.26 million in 2011. Expenses increased to BD 5.87 million from BD 5.61 million the previous year, due mainly to one-off exceptional costs. (As a result, net profit for 2012 declined to BD 2.33 million against BD 3.31 million for the previous year). Underwriting profit dropped to BD 1.49 million from BD 2.23 million in 2011, reflecting the increase in claims. Gross premiums grew by a robust 6 per cent of BD 23.31 million while net premiums grew by 8 per cent to BD 14.37 million.

Net investment income from portfolio decreased by 5 per cent to BD 1.49 million against BD 1.56 million for the previous year. This was primarily due to lower profit from sale of securities compared to 2011. We did not realize profits on our investment portfolio due to our long-term investment philosophy. The overall blended return for the investment portfolio in 2012 was 6 per cent, which compares favourably with 4 per cent in 2011 and with benchmark indices. In line with our prudent approach to provisioning, we made an impairment charge of BD 148 thousand against BD 112 thousand in 2011. Total assets at the end of the year increased to BD 76.74 million (2011: BD 71.62 million), while total equity increased to BD 42.86 million (2011: BD 42.22 million). Basic earnings per share was Bahraini fils 20.1 compared with Bahraini fils 29.2 in 2011.

In line with our conservative but consistent dividends policy and taking into account the performance of the Group for 2012, the Board of Directors is recommending a dividend of 15 per cent.

Given the challenging conditions in 2012, our financial results represent a commendable achievement. They underline the validity of our diversified business model and consistent strategy; our prudent approach to underwriting and claims management; and our adoption of sound corporate governance and risk management practices. They also reflect our substantial investment in product innovation, customer service, human capital, information

CHAIRMAN'S STATEMENT

technology and branding, which serves as a unique competitive advantage and a significant barrier to entry. In addition, they illustrate the continued success of our two insurance subsidiaries in maintaining their market share and profitability; and the encouraging progress of our insurance-related associate companies.

These achievements were further reinforced during the year by A.M. Best assigning Bahrain National Insurance Company (bni) a financial strength rating of B++ (Good) and an issuer rating of bbb+, with a stable outlook for both rating. According to A.M Best, "the ratings reflect bni's excellent prospective risk-adjusted capitalisation, robust underwriting performance, and good Enterprise Risk Management (ERM) relative to regional peers."

A key development during 2012 was our success in expanding the Group's regional footprint with the opening of a branch office in Qatar. On the business development front, we are actively pursuing a number of new opportunities in discussion with potential strategic partners. These include further extending our geographic presence into emerging and frontier markets, growing our core insurance business, and entering the fast-growing Takaful sector.

To support our growth strategy, the Board has approved the addition of new strategic investors in order to raise capital to fund expansion, and add value in terms of experience and business relationships. Another significant development in 2012 was Board approval for the establishment of a new division that will be responsible for risk management and strategic oversight. This will provide a framework for assisting the Board and management to monitor the development of the Group, and establish the required technical infrastructure and actuarial assistance for further growth.

Throughout 2012, we continued to implement the Group's comprehensive programme of corporate social responsibility, through which we contribute to the social well-being and economic prosperity of the Kingdom of Bahrain. This comprises financial assistance for charitable, community, educational, medical, cultural and sporting organisations; support for Tamkeen's training and career development initiatives; and sponsorship of various activities and events that support the growth and development of the regional insurance industry.

Looking ahead, 2013 will undoubtedly be another challenging year, with a continuation of soft market conditions and increasing competition. However, given the strong underlying economic fundamentals of the GCC, we remain cautiously optimistic about the future outlook for the regional insurance industry, and its potential for growth and increased penetration. Based on the Group's successful achievements to date, we remain confident and optimistic about our business and strategic prospects for 2013.

It is with regret that I announce the resignation of Mr. Ali Rashid Al Amin from the Board of Directors during the year. I take this opportunity to thank him for his support and contribution to the Board during his long tenure as a director since 1999. We will miss greatly his humanity and wisdom, his acumen and foresight, and his valuable advice and counsel.

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

Finally, I take this opportunity to acknowledge the unwavering confidence and loyalty of our shareholders, customers and business partners; and the hard work, professionalism and dedication of our management team and staff during 2012.

Farouk Yousif Almoayyed
Chairman

EXECUTIVE MANAGEMENT

Mahmood Al Soufi | Chief Executive

Bahrain National Holding

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

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 17 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.

Abdulla Al Suwaidi | General Manager

Bahrain National Insurance

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 organizations. Currently Board Member of Bahrain National Line Assurance Company (bnl) and a Member of Audit Committee for BNL.

Robert Grey | General Manager

Bahrain National Life Assurance

Joined bnl in 2011. A Fellow of the Chartered Insurance Institute, he holds a Law degree from Oxford University, UK. He has worked in insurance in the UK and Europe, and has spent the past 20 years in life and medical insurance. Prior to joining 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.

Joseph Rizzo | General Manager

Reinsurance, Risk Management & Strategy
Bahrain National Insurance

Joined bni in 2007, an Associate of the Chartered Insurance Institute and a Chartered Insurer with more than 30 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. He is a board director and a member of the executive committees of Arabian Shield Insurance Corporation in Saudi Arabia and Bahrain National Life in Bahrain. 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.

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.

Ebtisam Al Jowder | Assistant General Manager

Motor & Personal Lines Insurance
Bahrain National Insurance

Joined bni in 1982. She has over 31 years of experience in Insurance and has Diploma and Advanced Diploma in Insurance. She has also attended a number of Technical, personal development and Management courses.

Masood Bader | Assistant General Manager

General Insurance
Bahrain National Insurance

Joined bni in 2010 with 23 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 years 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. He provided risk solutions for his various corporate clients by arranging appropriate covers and/or management for their various exposures.

Adrian Reid | Group IT Manager

Bahrain National Holding

Joined BNH in 2007. His IT career spans for 43 years focusing on application development and business consulting; he spent 8 years with Ernst & Young as a Principal Consultant before specializing in the insurance industry in 1996, implementing IT systems and running projects. His other international insurance consulting experiences include UAE, South Africa, United Kingdom, Egypt and Malta. His responsibilities include the enhancement of IT strategies and systems to support the growing business needs of the various companies within the Group.

Fareed Amin | Human Capital Manager

Bahrain National Holding

Joined BNH in 2011. Fareed has a diverse exposure in the field of Human Resources across different industries such as telecommunications, FMCG, Oil & Gas and Investment Management. He was associated with big names namely Batelco, Almarai Company in KSA, Saudi Aramco Total. He holds a Diploma in Electronics Engineering from James Watt College, Scotland, UK and started his career as an Information Systems Analyst at Batelco in 2000. There he realized that dealing with people intrigued him more than dealing with machines and led to him making a daring switch to become a Management Analyst with HR at Batelco. His development as an HR specialist prompted Almarai Company in Riyadh, KSA to hire him as the Organization & Job Analysis Manager in 2008.

CHIEF EXECUTIVE'S MESSAGE

In yet another year of volatility and uncertainty, marked by ongoing economic, financial and political challenges, I am pleased to report that BNH achieved a strong overall performance in 2012.

Mahmood Al Soufi
Chief Executive

We posted commendable financial results, but given the exceptional situation in Bahrain last year, reviewing our 2012 financial results against 2011 is not a fair comparison. It is more meaningful to look at how BNH has grown over the past three years. We have also achieved exceptional progress in other key business and support areas.

For example, we have made excellent strategic progress, expanding the Group's operational presence outside Bahrain and identifying new strategic investments. At the same time, we have launched pioneering new products and services, and increased customer satisfaction; continued to invest in human capital and information technology; and strengthened our corporate governance and risk management framework. Such achievements have helped us to maintain our competitive advantage and protect our dominant market share in a growing and increasingly competitive insurance market.

Our investment portfolio performed very well in 2012 and is one of our key competitive advantages. The portfolio is well diversified, fairly liquid and is based on our long term investment philosophy.

Reinforcing such achievements, the Group's subsidiary Bahrain National Insurance Company (bni) was assigned high ratings of B++ (Stable Outlook) for its Financial Strength Rating (FSR), and BBB+ (Stable) for its Issuer Credit Rating (ICR) by A.M. Best in 2012. In its rating report, the rating agency highlighted the Company's excellent prospective risk-adjusted capitalisation, robust underwriting performance, and good Enterprise Risk Management (ERM) relative to regional peers.

A.M. Best also pointed out bni's good track record of technical profitability with consistently strong performance. The Company has achieved a five-year weighted average combined ratio of 79 per cent, demonstrating strong pricing ability and underwriting controls. The agency noted that bni performed well ahead of the local market in 2010 and 2011, with all lines of business achieving a technical profit. Importantly, A.M. Best also reported that due to the Company's good ERM, management has a better understanding and control over its risks than regional direct insurance peers. bni has calibrated its own capital model and is able to use it to understand capital allocation across the business.

Customer Service

BNH has consistently pioneered numerous customer service initiatives that have set a benchmark for Bahrain's insurance industry. During 2012, the Group continued to respond to customers' needs, with a particular focus on expanding the

CHIEF EXECUTIVE'S MESSAGE

range of e-services. Key developments include Quick Renew, which allows customers to renew motor policies on smart phone devices; new 3G Intelligent Insurance Kiosks that can issue Personal Line policies, with payment by debit or credit card; and customers being able to make claims via mobile phones. In addition, new interactive websites were developed for BNH and its two subsidiaries, with customers in mind.

Technology

BNH has also led the industry in the utilisation of cutting-edge information and communications technology (ICT). Key developments in 2012 include the successful implementation of an Enterprise Risk Management (ERM) system; the use of internal cloud computing, with over 80 per cent of the Group's environment now in a 'private cloud'; and further enhancement of the Enterprise Content Management (ECM) system. ICT also lies behind the development of new e-services launched in 2012.

People

The Group is committed to developing young Bahrainis, and providing them with every opportunity to enhance their professional skills and progress their careers. During 2012, the Group introduced a number of initiatives aimed at addressing the challenges of recruitment, motivation, retention and productivity, which are common to the insurance industry. These included the development of a new succession planning policy and procedures; and the introduction of a new performance appraisal system, including the implementation of a comprehensive training needs analysis exercise.

Staff training is provided locally at the Gulf Insurance Institute and the Bahrain Institute of Banking & Finance, and also at specialist institutions abroad; and staff are sponsored to achieve Associate of the Gulf Insurance Institute accreditation, and other relevant professional qualifications. The staff training focus in 2012 was on the areas of customer service and satisfaction, with special interactive workshops conducted by the Bahrain International Retail Development Centre. The BNH Executive Development Programme focuses on grooming selected staff for future executive roles; while the Graduate Development Programme funded and supported fully or partially by Tamkeen reached the final stages of development during the year, and will be piloted in 2013.

These programmes benefit not only BNH in terms of building a strong cadre of professionals and supporting succession planning; but also contribute to the development of the local insurance industry, and the skills base of the Kingdom of Bahrain, which is an important factor in attracting foreign direct investment.

Governance

BNH continued to strengthen its corporate governance and risk management framework during 2012. Quarterly revisions to the Insurance Handbook by the Central Bank of Bahrain (CBB) were closely reviewed and discussed with management and all departments to ensure continued compliance.

In an important development, a new division was created that will have responsibility for risk management and strategic oversight. This will provide a framework for assisting the Board and management to monitor the development of the Group; ensure that all risks are identified and quantified, and that control mechanisms are in place with enough capital available for any downside risks effects on the financial position; and establish the required technical infrastructure and actuarial assistance for further growth.

The Group's risk management framework was further enhanced by the implementation of a full-fledged Enterprise Risk Management (ERM) system in 2012. In addition, to support the Group's business continuity plan, the new remote disaster recovery site was successfully tested.

Strategy

During the year, we were successful in implementing the Group's new three-year strategy and business plan for 2012 to 2014. Our strategy entails developing BNH as a diversified insurance holding company, with a core focus on the MENA region, and selective international presence. Key high-level objectives of the new strategy include growing the core insurance business lines of BNH;

pioneering the introduction of innovative products and services; broadening the existing customer base and sector focus; and prudently expanding the Group's presence in MENA and Europe, either through alliances with local partners or by selective acquisitions. Our business plan incorporates ongoing analysis of the local and regional insurance market; identifying opportunities for further regional expansion, new strategic investments, and potential business partnerships; maintaining our substantial investment in human capital and information technology; strengthening the Group's corporate governance and risk management framework; and adopting an enlightened approach to corporate social responsibility.

This annual report contains numerous examples of how we have already implemented many of the strategic and business objectives outlined above. They include the key strategic development of the year, which involved the commencement of operations by our new branch in Qatar, marking the Group's first operational presence outside Bahrain. Also during the year, we actively pursued a number of investment and business opportunities across the region, in discussion with potential strategic partners.

The Group's six insurance-related associate companies performed well in 2012. Underlying the successful progress of such investments was the purchase of a majority stake in the Gulf Insurance Institute (GII) by Al Khaleej Training & Education Company of Saudi Arabia, who also increased GII's share capital to fund its expansion plans in the Middle East.

Looking ahead

Based on the successful performance of BNH during the year, our outlook for the future is positive and we look forward to 2013 with renewed confidence. We will continue with the successful implementation of our strategy of expanding geographically, applying innovation, technology and our people's expertise to maintain our leadership status. We have put in place strong foundations on which to build our future growth and development, maximise our pan-Group synergies and economies of scale to compete effectively, and take early advantage of new business opportunities.

In this respect, we are happy to receive the 'Best Insurance Company in 2012' award from the UK-based financial magazine World Finance; while we also received an international award for the design and innovative socially-oriented theming of the Group's 2011 annual report, which follows previous awards won by BNH for its annual reports in 2011 and 2010.

Acknowledgements

In conclusion, I express my sincere appreciation to the Board of Directors for their steadfast support and guidance; to our customers for their continued loyalty and trust; and to our business partners for their ongoing encouragement and cooperation. I also pay tribute to the Group's management and staff for their dedication, professionalism and hard work. All our stakeholders have helped to make 2012 another successful year for BNH, and I look forward to working with them in 2013 to ensure our continued mutual success and prosperity, and to continuing along our progressive path.

Mahmood Al Soufi
Chief Executive Officer

Better Education Opportunities

BNH actively supports the professional training and development of Bahrainis employed in the insurance industry. The Group continues to be a driving force behind the development of the Gulf Insurance Institute, which provides internationally-accredited qualifications. BNH supports training programmes sponsored by Tamkeen, as well as conducting its own development programmes for staff, graduates and trainees. The Group also offers valuable work experience for Bahraini students through summer internships and in-term placements. Through its educational savings plans, BNH helps parents plan ahead for their children's higher education; and also provides special cover for students studying abroad.

REVIEW OF OPERATIONS

SUBSIDIARIES

Bahrain National Insurance Company (bni)

With its roots going back more than 40 years, bni is one of Bahrain's longest-established and leading insurance providers. A.M. Best has assigned the Company a financial strength rating of B++ (Good) and an issuer credit rating of bbb+. The outlook for both ratings is stable.

MOTOR & PERSONAL LINES

The Motor business performed well in 2012 compared with 2011, with gross premiums growing by 7 per cent. The Personal Lines business, which includes cover for home contents, travel and domestic servants, witnessed a 7 per cent decrease in gross premiums. The number of claims for Motor increased by over 20 per cent, while claims for Personal Lines decreased by just under 14 per cent.

In a key development during the year, bni expanded its regional footprint with the opening of a new branch in Qatar. The branch is in the process of building its staff resources, but has already started to generate business for Motor and Personal Lines insurance. bni Qatar also issues medical policies on behalf of its sister company – Bahrain National Life Assurance Company (bnl). This major development is in line with the Group's strategy to expand operations outside Bahrain to other key regional markets.

bni introduced a number of innovative new customer service initiatives during 2012, which include three new industry 'firsts', underlining bni's commitment to innovation and convenience. Quick Renew allows customers to renew motor policies on smart phone devices; new 3G Intelligent Insurance Kiosks (AIM) can now issue Personal Line policies, with payment by debit or credit card; and claims can now be made via mobile phones. In addition, the printing of barcodes on insurance certificates saves customers the hassle of having to type in details when using the AIM kiosks; while a new agreement with Aramex facilitates the delivery of documents for electronically-issued policies. A new product was also launched – bni PLUS – which provides comprehensive motor insurance cover including an extension for Saudi Arabia, personal accident and windscreen replacement.

Also during the year, the Company further enhanced its Enterprise Content Management (ECM) system to incorporate underwriting; centralize the processing of local purchase orders and work orders in the Claims department; and automate the reinsurance allocation of Personal Lines policies. In addition, the Business Specialist Unit, which embraces a spectrum of advances analysis tools, introduced new analytical techniques to improve processing capabilities, and aid pricing and decision-making.

GENERAL INSURANCE

The majority of the business lines covered by General Insurance were impacted by the continuation of sluggish global economic growth and volatile market conditions during the year. These include a fall in international trade; and subdued economic activity in the Kingdom of Bahrain, which saw the cancellation of some projects. In addition, increased competition affected the pricing for commercial business.

Gross premiums for Engineering, Financial Liability, Financial Risk, General Accident and Marine Hull decreased; but there was an increase in gross premiums for Property, which covers fire, special perils and business interruption. As a result, total average premiums for 2012 declined by 13 per cent, while gross claim severity increased by 20 per cent, and the claims ratio jumped to 65 per cent from 38 per cent in 2011.

bni's net retention continues to increase as it seeks to underwrite more selectively. Underwriting standards are primarily concerned with pre-risk inspections, occupancy, and the nature of risk with suggested risk improvement, since price is more an issue of market pressures. The Company considers that the solution for sustainable growth lies in consistency, focus and technical competence in order to provide excellent service and advice to clients. bni also maintains substantial capacities secured by the leading high-rated securities in the international reinsurance market. It is committed to continuing this line of growth since it provides a superior, consistent and manageable long-term bottom line expectation.

During 2012, the Company continued to enhance the systemization of its approvals and processing, in order to support sales and marketing staff, and improve customer service.

Bahrain National Life Assurance Company (bnl)

LIFE & MEDICAL INSURANCE

bnl was established in 2000 as the first dedicated local life and healthcare assurance company in Bahrain. It is the only life assurance company in the Kingdom specializing in both group and individual cover.

Both lines of business performed well in 2012 compared with the previous year, with the Company achieving top line growth of 18.4 per cent. Net profit was 3.6 per cent lower than 2011 as a result of claims and exceptional consultancy charges for the implementation of the new Enterprise Risk Management (ERM) system. The direct healthcare business grew by 2 per cent, group life business by 9.8 per cent, and individual life business by 62 per cent. Claims for direct medical business increased by 22 per cent over 2011.

Gross premiums for the life business increased by 13.5 per cent over 2011. The life business recorded a technical underwriting profit of BD 356 thousand for 2012. Medical gross premiums increased by 21.2 per cent over the previous year. The medical business reported a technical underwriting loss of BD 34 thousand for the year. bnl adopted a number of measures during the year to mitigate claims. These include imposing co-insurance on high charging hospitals, plus removing some physicians from our lists of providers, and encouraging the use of generic medicines.

New product developments in 2012 included the launch of the revised LMRA Healthcare Plan – renamed Ta'asheera – which provides basic medical cover to meet visa requirements. The Essential Health Plan was introduced for the lower end of the market to provide basic health cover in anticipation of the proposed introduction of compulsory medical insurance in Bahrain.

The Company's delivery channels were extended during the year with the signing of an agreement with National Finance House, a subsidiary of BNH, to distribute life and medical products. In addition, bnl commenced issuing medical policies from the new branch in Qatar which was opened by its sister company – Bahrain National Insurance Company (bni) – during 2012.

Excellent progress was made in enhancing customer service levels during the year. The findings of the latest annual customer survey showed a substantial increase in customers' satisfaction with the levels of service received, and the attitude of bnl staff. A survey of health providers was carried for the first time, with 80 per cent of respondents confirming that they would recommend bnl. The new dedicated customer service and hospitality centre at the main branch, which was opened in 2012, has proved to be extremely popular, with over 1,500 customers visiting the centre to take out new life term policies and health policies, or to renew their cover. The healthcare hotline functioned well during the year, while the Company's rigorous complaints procedure is in full compliance with latest CBB requirements. A key development during the year was the launch of bnl's new website – www.bnl4life.com. Completely re-engineered and redesigned, this interactive site features improved navigation and enhanced information, including health and medical advice and news; while an online application facility is under construction.

The Company continued its support to the CSR programs initiated by the Group. It also maintained its service of providing corporate customers with advice and guidance on the best way to look after themselves and their staff.

GROUP SHARED SERVICES

Legal & Compliance

The Group's Legal & Compliance (L&C) division provides legal counsel for BNH and its subsidiaries and associates. During 2012, it continued to work closely with the subsidiaries' Complaints Units to resolve customer disputes, which helped reaching amicable settlements for a number of complaints in ways that were satisfactory to customers and enhance the company's reputation.

The division is responsible for BNH and its subsidiaries litigation in coordination with the company's lawyers and maintains records for the cases filed by and against the company. The division also ensures Group's compliance with all applicable laws and regulatory requirements in the Kingdom of Bahrain, as well as monitoring compliance in other jurisdictions where BNH operates. During 2012, L&C continued to monitor and review all revisions of the CBB Insurance Rulebook and advise management and concerned departments accordingly. The division also prepared a gap analysis on the Group's compliance with the Corporate Governance Code of the Kingdom of Bahrain issued by the Ministry of Industry & Commerce, and prepared proposals for review and approval by the Board of Directors. Developments during 2012 to the Group's corporate governance framework are covered separately in this annual report.

In addition to above responsibilities, the L&C division is also responsible for BNH and its subsidiaries boards' for all matters pertaining to the boards. In 2012 the division performed these responsibilities effectively and according to applicable administrative standards.

Investments & Treasury

International markets and risk assets in particular did very well in 2012 as developed market central banks came to the rescue with unconventional monetary interventions serving as a backstop against any weakness in economic performance. However the year was marked by volatility as market sentiment swung between

REVIEW OF OPERATIONS

"risk-on" and "risk–off" depending on statements from politicians and central banks. Against this backdrop, BNH maintained its prudent and cautious approach to investments. Deployment into bonds was constrained by the very low yields on offer, especially among higher rated and lower duration bond issues. We are wary about increasing bond duration given the record low interest rate environment, and prefer to maintain a healthy cash allocation as the yields are similar to bonds. On the equities side, we continue to focus on income generating equities. The Group's well-balanced and diversified investment portfolio, with a total value of BD 56 million (2011: BD 51 million) comprises equities, bonds and alternative investments; cash and equivalents; land and buildings; and subsidiaries and associates. At the end of 2012, the marketable investment portfolio, valued at BD 40 million (2011: BD 35 million) consisted of 35 per cent in bonds, 30 per cent in equities, 31 per cent in cash and equivalents, and 4 per cent in alternative investments.

Net investment income from marketable investment portfolio in 2012 totaled BD 1.49 million compared with BD 1.56 million in 2011. Including the unrealized gains on the portfolio, net investment income amounted to BD 2.14 million compared to BD 1.07 million in 2011.The share of profits from associates increased to BD 0.76 million compared to BD 0.72 million the previous year. The overall blended return for investment income was 6 per cent, which compares very favorably with the performance of benchmark indices in 2012.

During the year, the department added a Research Analyst to its investment team to increase the depth of our fundamental research. The department continued improving the existing accounting software for investments and has fine-tuned the investment process so as to be more pro-active in identifying trends and opportunities in the market.

Human Capital

During 2012, the Group introduced a number of initiatives aimed at addressing the challenges of recruitment, motivation, retention and productivity, which are common to the insurance industry. They included the development of a new Succession Planning policy and procedures; and the introduction of a new Performance Appraisal System, including the implementation of a comprehensive training needs analysis exercise.

The Group is committed to developing young Bahrainis and providing them with every opportunity to enhance their professional skills and progress their careers. Training is provided locally at the Gulf Insurance Institute and the Bahrain Institute of Banking & Finance, and also at selected specialist institutions abroad; with staff being sponsored to achieve Associate of the Gulf Insurance Institute accreditation. The BNH Executive Development Programme focuses on grooming selected staff for future executive roles; while the Graduate Development Programme – funded and supported by Tamkeen – reached the final stages of development during the year, and will be piloted in 2013. The staff training focus in 2012 was on the areas of customer service and satisfaction, with special interactive workshops conducted by the Bahrain International Retail Development Centre.

A new HR System was commissioned, automating and integrating all aspects of HR activities previously handled by separate systems, such as payroll administration and staff records. The new system incorporates an Employee Self Service feature – enabling staff to submit leave requests, and check salary and savings scheme details online. It also includes finger scanning and face recognition to log attendance and monitor time-keeping, and improve security. Also during the year, the Human Capital Policies & Procedures Manual was fully revised in the light of changes to the Bahrain Labour Law.

New and vacant positions arising from Group restructuring were successfully filled from within the organization. BNH ended the year with a headcount of 197 Bahraini nationals employed across BNH and its subsidiaries comprised over 78 per cent of the total workforce at the end of 2012.

Information & Communications Technology

During 2012, BNH continued its pioneering investment in the utilization of cutting-edge Information and Communications Technology (ICT). As a result, the hardware environment and core insurance applications are more than sufficient to support the business in the foreseeable future. The Group's ICT investment not only improves business efficiency and customer service, but also provides BNH with a distinct competitive advantage through raising the barriers to entry.

The application of cloud computing, which was introduced in 2011, progressed well during the year. This enables fast and seamless updating of the Data Centre to support current business activities, and facilitate future upgrades and expansion with minimal disruption. Over 80 per cent of the Group's environment is now in a 'private cloud', and plans are in place to expand this technology to incorporate some of its services in a 'public cloud' once the service in the GCC region is more mature secure and mature.

In another industry first for the Group, the ability to renew motor policies on smart phone devices – through Quick Renew – was introduced in 2012. Equally pioneering, all Personal Line policies can now be issued through Intelligent Insurance Kiosks (AIM). Excellent productivity has been achieved to date in the Motor division of Bahrain National Insurance (bnl) through the implementation of an Enterprise Content Management (ECM) system that was introduced last year. This is now being extended into other divisions, with the initial implementation of new document management and workflow processes.

In support of the Group's business continuity plan, a successful Disaster Recovery Site (DRS) simulation exercise was performed, with no loss of data during the failover and failback process. Also during the year, the ICT policy and procedures were substantially updated to incorporate the mobile devices due to the increasing exposure of bring-your-own-device (BYOD); while the rationalization of telecommunications links between head office, branches and the disaster recovery site have saved 40 per cent in recurring telecom costs.

Corporate Communications

At the beginning of 2012, the Group embarked upon a major exercise to re-engineer and redesign the BNH corporate website, and also the websites of the two insurance subsidiaries bni & bnl. The new sites include the latest social media tools, and feature easier navigation and enhanced information.

The BNH website complies with CBB recommendations, and provides details of the Group's investment portfolio plus information about subsidiaries and associates. The subsidiary websites are fully interactive, offering online quotations to save customers' time and effort, together with news updates about product and services. The bnl site offers health and medical advice and news. Future enhancements will enable online transactions. The bnl site was launched in December 2012, and the other sites will go live in early 2013.

As a Group shared services division, Corporate Communications assists the subsidiaries with product and services promotions and advertising campaigns; design revamps of branch offices, including signage and uniforms; and public relations activities. It also provides consultancy services for associate companies. In 2012, BNH received an international design award for its annual report for the third consecutive year.

ASSOCIATES

Al Kindi Specialised Hospital

Paid-up capital: BD 2.2 million

BNH share: 25%

Established in 2008 in the Kingdom of Bahrain, Al Kindi is a private specialist hospital offering high standards of primary and secondary medical care. Staffed by a multinational team of 30 doctors, the hospital provides a comprehensive range of health services. The hospital is equipped with a 24-hour clinic, radiology unit, medical laboratory and pharmacy.

Gulf Insurance Institute

Paid-up capital: BD 1 million

BNH share: 24.2%

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

In the month of December 2012, GII announced that Al Khaleej Training and Education Company of Saudi Arabia have purchased a majority of its shares and increased its share capital to fund its expansion plans in the Middle East. (Refer Note 14)

National Finance House

Paid-up capital: BD 7.5 million

BNH share: 30%

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

United Insurance Company

Paid-up capital: BD 1.5 million

BNH share: 20%

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

Arabian Shield Cooperative Insurance Company

Paid-up capital: SR 200 million

BNH share: 15%

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

Ultra Tune Middle East

Paid-up capital: BD 1.02 million

BNH share: 50%

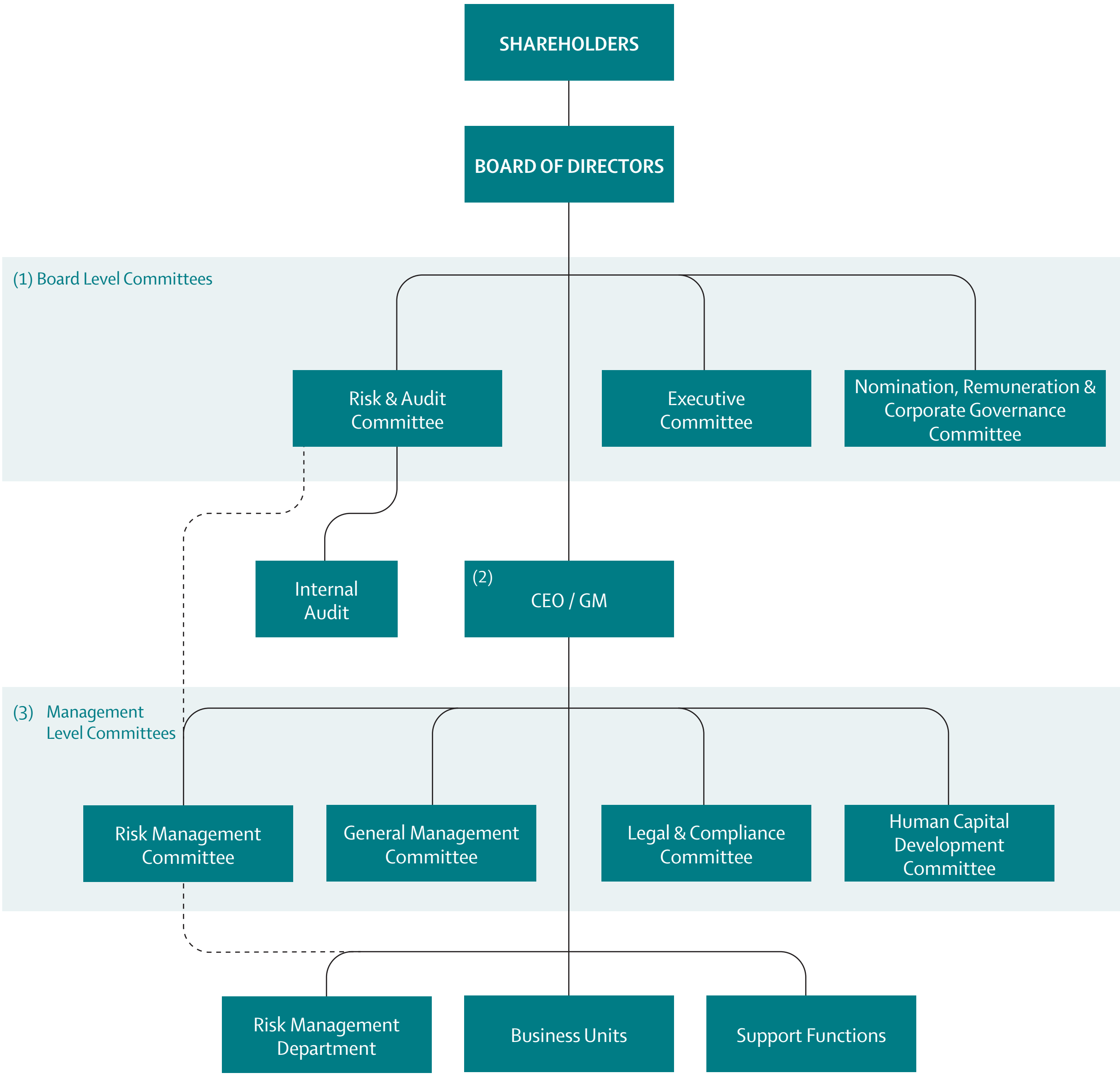
Established in 2009 in the Kingdom of Bahrain, UTME is a joint venture with Ultra Tune Australia. The company was set up to provide roadside assistance, service centres and a smash repair facility for vehicles.

Better Employment Opportunities

Through its holding company, subsidiaries and associates, BNH provides employment and career opportunities for Bahraini nationals, who currently comprise around 80 per cent of the total workforce of 200 people. The Group's strategic investments in local insurance-related companies also help to drive job creation schemes that generate additional employment opportunities. BNH is active in helping to develop the local and regional insurance industry, thereby offering secure and meaningful careers for more Bahrainis. The Group's insurance plans help provide security and prosperity for companies and their employees, which in turn benefits the local economy.

CORPORATE GOVERNANCE & RISK MANAGEMENT

GROUP GOVERNANCE AND ORGANISATION STRUCTURE



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) Management Committees are joint committees and included in the services provided by the holding company BNH

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

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

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 & Audit Committee, and the Board of Directors.

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

THE BOARD

The Board of BNH comprises of 8 non-executive directors and 2 independent non-executive directors. Letters of Appointment have been issued to all Directors, setting out the term of their tenure, duties and responsibilities, remuneration and attendance fees, and code of conduct and confidentiality.

The Board is responsible for the stewardship of the Group's business and affairs on behalf of the shareholders, with a view to enhancing long-term shareholder value while protecting the rights and interests of other stakeholders; and maintaining high standards of transparency and accountability. The names and profiles of Directors are listed at the front of this annual report.

Directors' attendance at Board meetings in 2012

Board members	22 Feb	14 May	13 Nov	13 Dec
Farouk Yousif Almoayyed	✓	✓	✓	✓
Abdulhussain Khalil Dawani	✓	✓	✓	✓
Ali Rashid Al-Amin (resigned in July 2012)	✓	×	–	–
Abdulrahman Mohamed Juma	✓	✓	✓	✓
Sami Mohamed Sharif Zainal	✓	✓	✓	✓
Jehad Yousif Amin	✓	✓	✓	✓
Ayad Saad Khalifa Algosaibi	✓	✓	✓	✓
Ghassan Qassim Mohd Fakhroo	×	✓	✓	✓
Talal Fuad Kanoo	✓	✓	✓	✓
Jassim Hasan Abdulaal	✓	✓	✓	✓
Ali Hassan Mahmood	✓	✓	✓	✓

CORPORATE GOVERNANCE & RISK MANAGEMENT

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

- All board members are non-executive.
- Mr Ayad Saad Khalifa Algosaibi and Mr Jassim Hasan Abdulaal are the independent directors on the board. An independent director is a director whom the board has specifically determined has no material relationship with the company which could affect his independence of judgement, 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 policy for Directors is determined by the shareholders at the Annual General Meeting.

Board of Directors & Executive Management Interests – January to December 2012

Name of Shareholder	Number of Shares as at 01/01/2012	Number of Shares as at 31/12/2012	Changes
Directors			
Farouk Yousif 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 Yousif Abdulla Amin	500,000	523,181	23,181
Ali Hassan Mahmood	505,601	505,601	-
Ali Rashid Al Amin	1,034,265	(Resigned 31 July 2012)	
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			
Mahmood Al Soufi (CEO)	114,046	114,046	-

BOARD COMMITTEES

Audit & Compliance Committee (ACC)

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, half-yearly and quarterly 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 ACC meetings in 2012

Members	16 Feb	10 May	29 Jul	4 Nov	31 Dec
Jassim Hasan Abdulaal	✓	✓	✓	✓	✓
Abdulrahman Mohamed Juma	✓	✕	✓	✓	✓
Ayad Saad Khalifa Algosaibi	✓	✓	✕	✓	✕

- Mr. Jassim Hassan Abdulaal is the Chairman of the ACC.
- The ACC members are required to meet at least four times in a financial year.

Executive Committee (EC)

Responsibilities

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

Directors' attendance at EC meetings in 2012

Members	9 Feb	7 May	18 Jul	1 Nov	5 Dec
Abdulhussain Khalil Dawani	✓	✓	✓	✓	✓
Jehad Yousif Amin	✓	✓	✓	✓	✓
Ghassan Qassim Mohd Fakhroo	✓	✓	✓	✓	✓
Talal Fuad Kanoo	✓	✕	✕	✓	✕
Sami Mohamed Sharif Zainal	✓	✓	✓	✓	✓

- Mr Abdulhussain Khalil Dawani is Chairman of the EC.
- The EC members are required to meet at least four times in a financial year.

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.

CORPORATE GOVERNANCE & RISK MANAGEMENT

Directors' attendance at NRCG meetings in 2012

Members	Status	22 Feb	13 Dec
Farouk Yousif Almoayyed	-	✓	✓
Abdulhussain Khalil Dawani	-	✓	✓
Jehad Yousif Amin	-	✓	✓
Jassim Hasan Abdulaal	Independent	✓	✓

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

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 and a number of Operational Committees. The names and profiles of the CE and Senior Management team are listed at the front of this annual report.

OPERATIONAL COMMITTEES

General Management Committee

Objectives

- Provide a forum by which the ideas and opinions of the Senior Management team are considered in issues relating to Group policy and strategy, and for exchanging inter- departmental information.
- Provide assurance to the Board that the affairs of the Group are overseen by a team of senior managers.
- Achieve standardisation of policies and practices across the Group.
- Exercise such financial authorities as the Board may grant, and achieve dispersion of financial authority.
- Provide a forum by which future general management talent within the Group can be exposed to cross-functional / general managerial issues.
- Ensure that all Board decisions are complied with.
- Inculcate a team culture within the Group.

Members

- Mahmood Al Soufi, Chief Executive – Chairman
- Anand Subramaniam, Chief Financial Officer – Member
- Abdulla Al Suwaidi, General Manager (bni) – Member
- Joseph Rizzo, General Manager, Risk Management & Strategy – Member
- Mohammed Kadhim, Assistant General Manager (Legal & Compliance) – Member
- Anantha Ramani, Senior Manager-Finance – Committee Secretary

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
- Koluthumani Ramakrishnan, Senior Manager (Compliance) - Member

Human Capital Development Committee

Objectives

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

Membership

- Mahmood Al Soufi, Chief Executive – Chairman
- Anand Subramaniam, Chief Financial Officer – Member
- Abdulla Al Suwaidi, General Manager (bni) – Member
- Joseph Rizzo, General Manager, Risk Management & Strategy – Member
- Robert Grey, General Manager (bnl)
- Fareed Hasan Amin, Manager-Human Capital – 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 maximise 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 2012, 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 9 years.

Anti-Money Laundering (AML)

The Group has in place policies and procedures to handle all aspects of anti-money laundering activities in line with regulations of the Central Bank of Bahrain. Each year, the Group conducts a thorough review of its policies, procedures and internal directives to ensure ongoing compliance. The Group has submitted its external auditors report for the year 2011 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 2012 in accordance with the requirement of the Central Bank of Bahrain.

Code of Conduct

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

CORPORATE GOVERNANCE & RISK MANAGEMENT

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.

RISK MANAGEMENT REVIEW

Risk Management Strategies & Practices

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

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

Internal control risks are mitigated by putting in place adequate internal control systems and testing them on a frequent basis.

The Group's Internal Audit function reports to the Audit & Compliance Committee on all matters of internal controls. The internal audit, which is carried out by external consultants, ensures policies and procedures are well documented and adhered to. During 2012, no significant deviation from the policies and procedures has been reported.

Enterprise Risk Management Framework

In 2011, the Board approved the introduction of an Enterprise Risk Management (ERM) framework at a group and subsidiary level. The Group is the first in the region to adopt such a detailed and complete approach to ERM. The objective is for the Group to be in a position to continuously monitor and calculate its risk based economic capital requirement for its growth and expansion plans. The framework will clearly articulate the risk strategy and appetite of the Group and its subsidiaries. It will address and continuously test business performance, capital management, governance, organisation and policy. It will also create management performance benchmarks which will assist in the decision making process for the strategy of the Group.

The prime drivers can be summarized as follows:

- Reviewing regularly the level of risk;
- Ensuring risk mitigation and strengthening controls;
- More informed decision-making and better management of extreme case scenarios;
- Minimising strategic risk management failures and therefore protecting future sustainability;
- More effective use and allocation of capital, assisting in the Group's expansion strategy;
- Embedding risk management into strategic planning as a critical success factor;
- Responding to increasing pressure from regulators and ratings agencies to demonstrate that ERM is firmly embedded within the organization;

Management, in conjunction with external consultants, initiated the study and implementation of the ERM framework during 2012. The Board has approved the Risk Strategy and Risk Appetite Statement, and the proposed ERM framework. Implementation of the framework will continue throughout 2013, and involve changes to the terms of reference of certain Board and Management Committees, in order to streamline reporting and accountability, creating mainly three lines of defence.

The first line of defence is the running of the business by management in a risk-aware manner. Management is aware of the Group's risk appetite, and ensures that appropriate risks are undertaken, and that appropriate risk mitigation techniques are put in place. The second line of defence is a formal risk management function that takes responsibility, independent of line managers (although working closely with them) to identify, assess, mitigate and monitor risks. The Risk Management Committee takes overall responsibility for ensuring these processes are in place through the newly established Risk Management Department (RMD). The third line of defence refers to the independent assurance and oversight provided by internal and external auditors, and the Board of Directors.

Risk Management Department

In 2012, as part of the ERM process, the Board approved the establishment of a formal Risk Management Department (RMD) under the responsibility of a General Manager. The RMD is responsible for the implementation of enterprise risk management and strategy oversight. It assists the Board and Management in monitoring the development of the Group, ensuring that all risks are identified and quantified, and that control mechanisms are in place, with sufficient capital available for any downside risk effects on the balance sheet. The establishment of the RMD is of long-term significance, since this will provide the Group with the technical infrastructure and actuarial assistance for further growth.

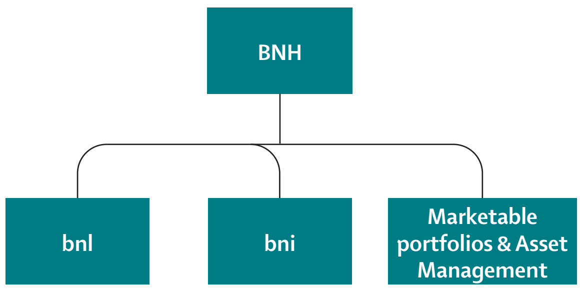
The RMD takes on a centralised monitoring and risk management role. Responsibilities include:

- Devise the risk methodology defining how the company manages and measures risk exposure;
- Develop limits and a set of risk metrics to monitor exposure on an on-going basis and cascade these across the company and its subsidiaries;
- Devise a series of stress and scenario analyses to better understand the nature and volatility of the risk and aggregate risk profile;
- Measure and monitor the management of risk in accordance with the risk management framework, methodology, systems and controls;
- Ensure policies and committees terms of reference are appropriate, effectively communicated, continuously reviewed and updated to reflect internal/external change;
- Monitor risk exposure against risk appetite;
- Determine initiatives to improve optimisation of the company's risk exposure;
- Continual monitoring of the financial impact of changes to market values through economic capital or sensitivities to key performance indicators;
- Conducts compliance reviews of specific risks - information security, fraud, business continuity and insurance;
- Oversee the execution of all change initiatives across the risk function;

Risk Management Framework

The primary objective and design of the framework at Group level is to:

- Manage risks in a holistic manner and measure risks on a consolidated basis taking into consideration the interdependencies of risk, as appropriate;
- Ensure that risk management is aligned to BNH's strategic objectives and its strategic capital planning objectives;
- Promote a strong understanding of risks within the Group and aid in its identification and management;
- Improve the quality of earnings through the use of risk adjusted performance measures and risk based approaches to monitor business activities and thereby earn superior returns for its shareholders;
- The ERM Framework is designed to meet BNH's business objectives (including that of its subsidiaries operating in the core business of insurance), current regulatory requirements (taking into considerations the territories in which operations are on-going and established) and foreseeable risk and capital management developments.
- The ERM Framework shall be embedded within the Group's operating model and shall play a key role in day to day decision-making.
- BNH manages risk and capital at a Group level, however, the approach is tailored for each of the key areas which are illustrated by the diagram below:



The components of the framework are described as :

- Risk Strategy and Appetite - providing the direction of its risk taking and operations and describes the risk carrying capacity determining its structure;
- Governance, organization and policy – outlining the role, authorities, responsibilities in relation to material and operational risks;
- Risk and Capital Assessment – understanding all material risks and processes and hence establishing management benchmarks for capital adequacy;
- Capital Management and Stress Testing – assessing present and future capital requirements in various scenarios;
- Risk Systems – Core technological support, data quality and integrity;
- Risk Reporting – adequate and timely management information at all levels within the authorities for decision support;

CORPORATE GOVERNANCE & RISK MANAGEMENT

- People and Reward – People behavior aligned with risk, capital, performance through balanced key performance indicators;
- Stakeholders and external communications – actively managing expectation of all business partners in order to yield shareholders values.

Immediate Impact

In 2012, A.M. Best assigned the Group's subsidiary – Bahrain National Insurance Company (bni) – a financial strength rating of B++ (Good) and an issuer rating of bbb+, with a stable outlook for both ratings. This pre-eminent international insurance rating agency highlighted the Company's good enterprise risk management (ERM) relative to regional peers:

"Due to the Company's good ERM, management has a better understanding and control over its risks than regional direct insurance peers. bni has calibrated its own capital model and is able to use it to understand capital allocation across the business."

Risk Exposure

We categorise our risk exposures according to the following Risk Taxonomy.

- **Insurance risk**

  Insurance risk is the risk of loss from greater than expected claims frequency or severity, mortality and morbidity. This risk arises primarily through our directly written insurance policies, but also through inwards reinsurance from other insurers. We do not include insurance risk of our strategic associates as part of insurance risk.

  Accepting and managing insurance risks is our primary business and we seek opportunities to generate shareholder wealth by increasing our insurance risk and retention within our risk appetite. We believe BNH can generate good risk-adjusted returns in our key business area of insurance risk management.

- **Market risk**

  Market risk is the risk of loss from adverse changes in the market value of our investments, including our strategic associates. Causes of adverse changes in market values can be from a change in equity prices, government bond yields, property prices, foreign exchange rates, credit and illiquidity spreads, a combination of the above and losses arising from concentration of investment risk exposures to individual companies, counterparties, industries and geographic areas. We include the market risk arising from unlisted instruments where changes in the value of the holding may not be apparent on a day-to-day basis.

  We accept avoidable and unavoidable market risk in order to generate shareholder returns on a risk-adjusted basis while maintaining a moderate risk profile and operating within our risk appetite.

- **Counterparty default risk**

  Counterparty default risk is the risk of loss from default or partial default of a counterparty to any transaction or contract. Our biggest counterparty default risk exposures arise from our reinsurance programme.

  We do not actively seek to accept counterparty default risk, but carefully weigh the costs of decreasing counterparty default risk and the dangers of increased concentration of exposures when determining appropriate levels of counterparty default risk to accept.

- **Operational risk**

  Operational risk is the risk of loss from the failure of systems, processes or people. We are exposed to operational risk through our day-to-day business. We recognise that operational risk does not generate additional reward as market risk and insurance risk are expected to do. As part of our focus on technology and systems development, we aim for high efficiency, high service, and low risk platforms to manage operational risk.

- **Strategic, business and reputational risk**

  Strategic, business and reputational risk are critical to the success of BNH. However, these items cannot be usefully measured and thus do not form part of our Risk Appetite Statement and do not contribute to our Economic Capital Requirements. We manage these risks through our Enterprise Risk Management System.

  Specific risk tolerances for these risk exposures and within operating companies will be set in line with this Risk Appetite Statement and reviewed by management regularly.

Strategy

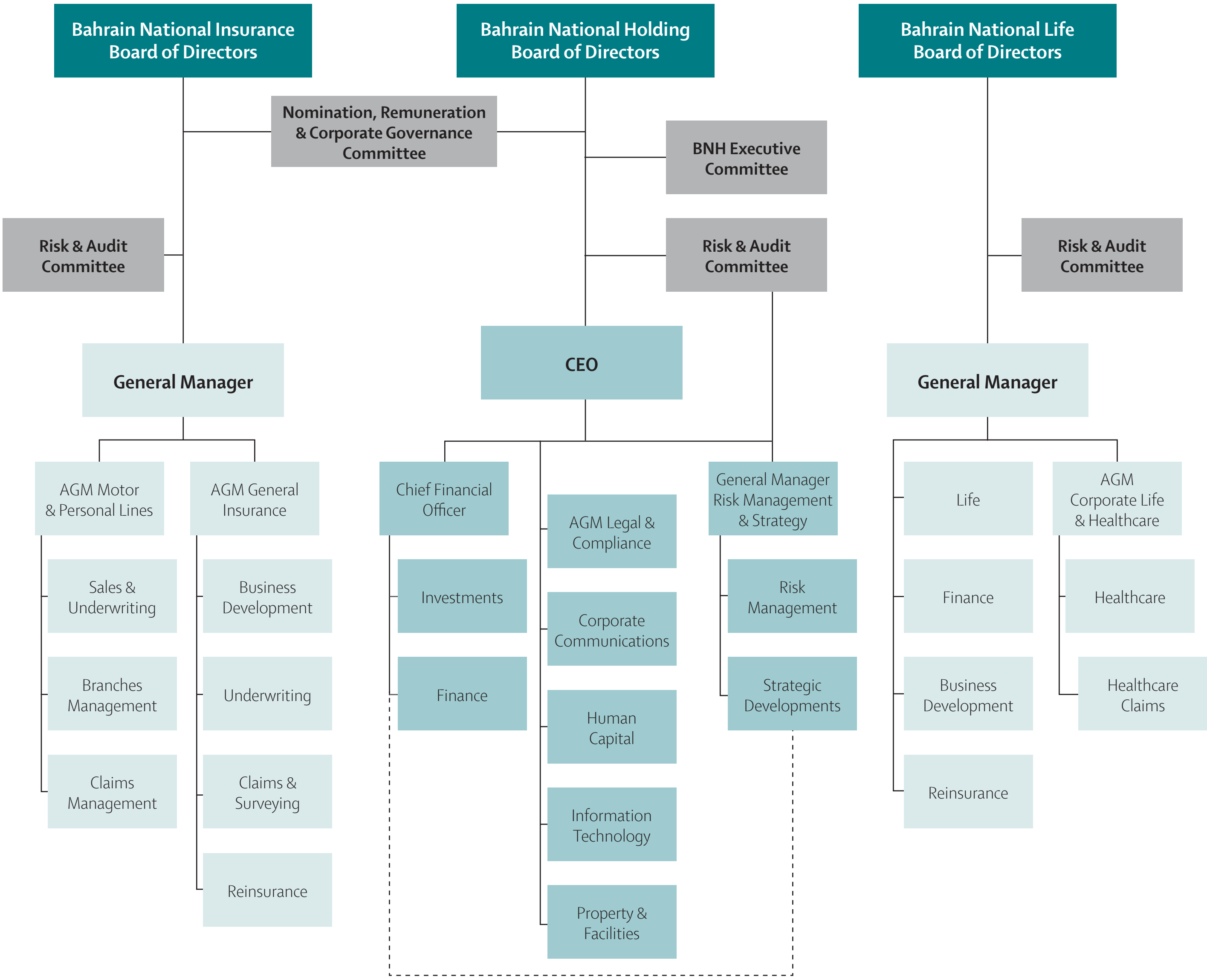
In 2011, the Board approved a new three-year strategy for the Group. Key high-level objectives of the new strategy include focusing on the core insurance business lines of BNH, and growing both organically and via acquisitions; prudently expanding the Group's overseas presence in MENA and Europe, while maintaining market share in Bahrain; and developing the non-core activities of the Group's insurance-related associate companies on a regional basis.

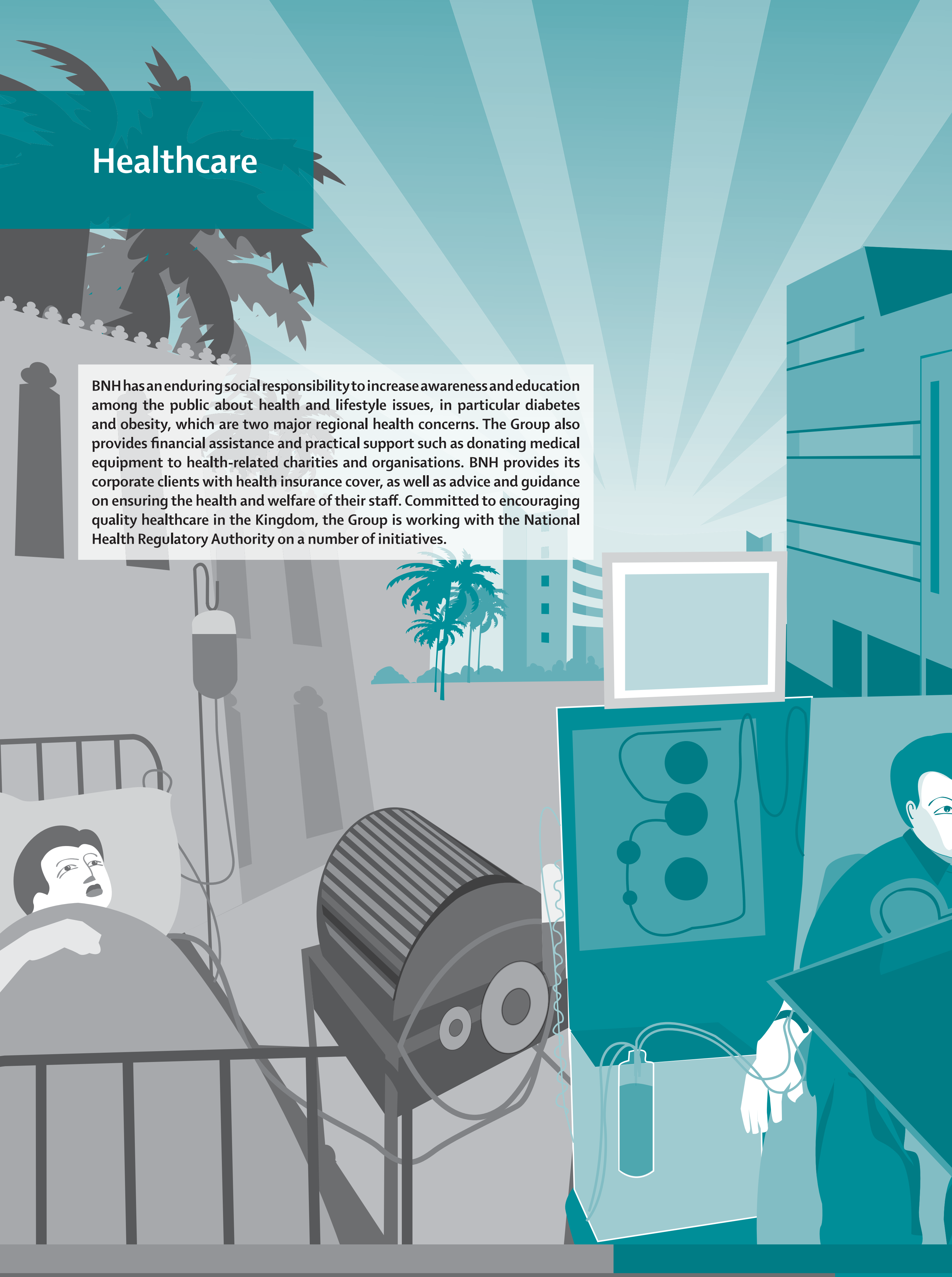
The Group's business plan incorporates ongoing analysis of the local and regional insurance market; identifying opportunities for further regional expansion, new strategic investments, and potential business partnerships; pioneering the introduction of innovative products and services; broadening the existing customer base and sector focus; maintaining a substantial investment in human capital and information technology; strengthening the corporate governance and risk management framework; and adopting an enlightened approach to corporate social responsibility.

The Group will continue to seek opportunities of growth to ensure its long-term sustainable profitability. This will be achieved through selective underwriting of risks concentrating on quality; pursuing a prudent investment policy; entering emerging and frontier markets where the Group can demonstrate added value; maintaining sufficient capital to allow for growth, and absorb losses of a certain magnitude as defined by the Group's rating expectations; and achieving a return on economic capital reasonably in excess of the GCC average bank rate per annum.

The above are well defined and quantified in the Board approved Risk Strategy of the Group and measured within internationally accepted standards of level of confidence.

ORGANISATION STRUCTURE





Healthcare

BNH has an enduring social responsibility to increase awareness and education among the public about health and lifestyle issues, in particular diabetes and obesity, which are two major regional health concerns. The Group also provides financial assistance and practical support such as donating medical equipment to health-related charities and organisations. BNH provides its corporate clients with health insurance cover, as well as advice and guidance on ensuring the health and welfare of their staff. Committed to encouraging quality healthcare in the Kingdom, the Group is working with the National Health Regulatory Authority on a number of initiatives.

CORPORATE SOCIAL RESPONSIBILITY

As a leading Bahrain-based financial institution, BNH is committed to contributing to the social well-being and economic prosperity of the Kingdom. Throughout 2012, the Group continued to implement its wide-ranging corporate social responsibility (CSR) programme.

This comprises financial assistance and practical support for charitable, community, educational, medical, cultural and sporting organisations; plus sponsorship of various initiatives and events that support the growth and development of the regional insurance industry. BNH also encourages and sponsors staff to participate in community activities. Some examples of the Group's varied CSR activities during 2012 are listed below.

Healthcare

- In partnership with the Group's associate company – Al Kindi Specialised Hospital – continued to support the Rotary Club of Manama in the Diabetes program that was initiated 2 years ago aiming to spread awareness to parents and children about the prevention and treatment of diabetes
- Donated special 'cruiser' wheelchairs to the Bahrain Association for Parents and Friends of the Disabled
- Donated a vein-viewing system to the Rotary Club of Salmaniya
- Funded sickle cell patient treatment in Germany

Education

- Sponsored the activities of Bahrain Chapter of the Global Chartered Financial Analyst (CFA) Institute in support of professional qualifications, education and networking
- Joined hands with inJAz Bahrain, a non-profit organization, to support its efforts towards educating and preparing young Bahrainis to succeed in a global economy
- Supported the annual Tamkeen Quiz Show as Gold sponsors
- Implemented the BNH Executive Development Programme to develop and groom high-calibre Bahraini graduates for future executive positions
- Provided summer internships and work placements for Bahraini students and trainees

Environment

- Supported the Ministry of Electricity & Water conservation awareness campaign by donating informative gift items.
- Encouraged BNH staff to recycle waste, conserve energy and reduce use of paper
- Donated recycled waste to charities

Insurance

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

Economy

- Supported the Bahrain Exponent Management Forum as Bronze sponsor
- Supported The Bahrain Chapter of the Entrepreneurs' Organisation [EO Bahrain] as its Diamond Sponsor

Staff Participation

- Entered a BNH team for the Bahrain Marathon Relay, a major annual fund-raising event that supports charities in the Kingdom
- Organized a Blood Donation drive as part of its CSR initiative & to support the Blood Donation Centre of BDF Hospital
- Engaged staff in external activities to promote health awareness, including World Diabetes Day, World Heart Day and Cardiology Red Day
- Supported staff to participate in a range of charitable, sporting and community activities

CONTACTS

Registered office

P.O. Box 843, 8th floor, BNH Tower,
Seef Business District,
KINGDOM OF BAHRAIN

Telephone: 17 587300, 17 587400
Fax: 17 583299, 17 583099

e-mail: ce@bnhgroup.com
website(s): www.bnhgroup.com
www.bnidirect.com
www.bnl4life.com

Listing

Bahrain Bourse

Auditors to the group

KPMG, P.O. Box 710, Bahrain

Registrars to the group

Fakhro Karvy Computershare W.L.L

Actuaries

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

Bankers to the group

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

Branches and Outlets

Seef: BNH Tower,
Seef Business District

Telephone: 17587444
Fax: 17583477

Manama: Ground Floor, City Centre, 203,
Government Avenue, Manama

Telephone: 17501277
Fax: 17216464

Muharraq: Shop. 1232,
Road 1535, Block 215

Telephone: 17351999
Fax: 17336681

Sanad: Sanad Market Complex,
Al Estiglal Highway,
Road 4571, Block 745

Telephone: 17627050
Fax: 17623771

Budaiya: Najeebi Complex,
Shop No. 106 & 108,
Building No.3, Saar Ave.,
Block No.515

Telephone: 17797888
Fax: 17797878

University of Bahrain: Food Court,
University of Bahrain, Sakhir

Telephone: 17449000
Fax: 17448919

Hamad Town: Shop No. 255,
Road No. 305, Block 1203,
Hamad Town

Telephone: 17418100
Fax: 17413227

Sitra: Bldg No. 946, Road No. 115
Sitra 601

Telephone: 17457800
Fax: 17735801

Isa Town: Isa Town Mall,
Shop No. 16,
Isa Town

Telephone: 17897200
Fax: 17689101

Amwaj Islands: Al Osra Complex,
Shop No. 16,
Amwaj Islands

Telephone: 16030400
Fax: 16030404

FINANCIAL STATMENTS

CONTENTS

47	INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS
48	CONSOLIDATED STATEMENT OF FINANCIAL POSITION
49	CONSOLIDATED INCOME STATEMENT
50	CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
51	CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
53	CONSOLIDATED STATEMENT OF CASH FLOWS
54-98	NOTES TO THE 2012 CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

KPMG Fakhro
Audit
5th floor, Chamber of Commerce Building
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 The Bahrain National Holding Company BSC ("the Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Responsibility of the board of directors for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2012, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other regulatory requirements

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

Manama, Kingdom of Bahrain
27 February 2013

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012 (In thousands of Bahraini Dinars)

	Note	2012	2011
ASSETS			
Cash and cash equivalents		11,787	8,044
Receivables	9	6,400	5,718
Investment securities	11	28,454	27,115
Investment in associates and joint-venture	14	11,610	14,009
Investment properties	15	3,602	1,455
Reinsurers' share of insurance technical reserves	10	11,534	9,425
Property and equipment	16	3,226	5,729
Statutory deposits	8	125	125
TOTAL ASSETS		**76,738**	71,620
LIABILITIES			
Insurance payables	21	3,299	2,766
Other liabilities	22	3,722	3,289
Insurance technical reserves	17	25,694	23,344
Bank loan	23	1,160	-
TOTAL LIABILITIES		**33,875**	29,399
TOTAL NET ASSETS		**42,863**	42,221
EQUITY			
Share capital	5	11,350	11,350
Treasury shares	5	(1,868)	(1,868)
Statutory reserve	6	5,675	5,675
Share premium	6	3,990	3,990
General reserve	6	13,585	13,585
Investment fair value reserve		2,673	2,170
Retained earnings		5,365	5,402
Equity attributable to shareholders of the parent company		**40,770**	40,304
Non-controlling interest		2,093	1,917
TOTAL EQUITY		**42,863**	42,221

The Board of Directors approved the consolidated financial statements consisting of pages 48 to 98 on 27 February 2013.

Farouk Yousif Almoayyed
Chairman

Abdul-Hussain Khalil Dawani
Vice Chairman

Mahmood Al Soufi
Chief Executive

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012 (In thousands of Bahraini Dinars)

	Note	2012	2011
GROSS PREMIUMS	25	23,308	21,919
Reinsurance ceded		(8,704)	(8,587)
Retained premiums		14,604	13,332
Net unearned premiums adjustment	19	(235)	25
NET PREMIUMS EARNED		**14,369**	13,357
Gross claims paid		(17,172)	(14,565)
Claims recoveries		8,314	6,821
Net outstanding claims adjustment	18	(218)	76
NET CLAIMS INCURRED		**(9,076)**	(7,668)
Other operating expenses	30	(4,531)	(4,258)
Net commission income	26	479	507
Release from life assurance actuarial reserve	20	244	294
UNDERWRITING PROFIT FOR THE YEAR		**1,485**	2,232
Net investment income from portfolio	28	1,486	1,558
Policyholders' share of investment income	20	(181)	(17)
Share of profit of associates and joint venture	14	762	718
Net income from investment properties	29	134	169
Corporate and financial expenses	30	(1,361)	(1,355)
PROFIT FOR THE YEAR		**2,325**	3,305
Profit attributable to:			
Parent company		2,158	3,132
Non-controlling interest		167	173
PROFIT FOR THE YEAR		**2,325**	3,305
Basic earnings per share (100 Fils each)		**20.1 Fils**	29.2 Fils

The Board of Directors approved the consolidated financial statements consisting of pages 48 to 98 on 27 February 2013.

Farouk Yousif Almoayyed
Chairman

Abdul-Hussain Khalil Dawani
Vice Chairman

Mahmood Al Soufi
Chief Executive

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012 (In thousands of Bahraini Dinars)

	2012	2011
NET PROFIT FOR THE YEAR	**2,325**	3,305
Other comprehensive income:		
Available for sale securities:		
- Change in fair value	673	(486)
- Impairment transferred to income statement	25	112
- Transfer to income statement on disposal of securities	(189)	(615)
Share of other comprehensive income of associate	3	(57)
Other comprehensive income / (loss) for the year	**512**	(1,046)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**2,837**	2,259
Total comprehensive income attributable to :		
Parent company	2,661	2,096
Non-controlling interest	176	163
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**2,837**	2,259

The consolidated financial statements consist of pages 48 to 98.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012 (In thousands of Bahraini Dinars)

	Attributable to the shareholders of the parent company									
2012	**Share capital**	**Treasury shares**	**Statutory reserve**	**Share premium**	**General reserve**	**Investment fair value reserve**	**Retained earnings**	**Total**	**Non-controlling Interest**	**Total Equity**
Balance at 1 January 2012	**11,350**	**(1,868)**	**5,675**	**3,990**	**13,585**	**2,170**	**5,402**	**40,304**	**1,917**	**42,221**
Net profit for the year	-	-	-	-	-	-	**2,158**	**2,158**	**167**	**2,325**
Other comprehensive income:										
Available for sale securities:										
- Change in fair value	-	-	-	-	-	650	-	650	23	673
- Impairment transferred to income statement	-	-	-	-	-	24	-	24	1	25
- Transfer to income statement on disposal of Securities	-	-	-	-	-	(174)	-	(174)	(15)	(189)
Share of other comprehensive income of associate						3	-	3	-	3
Total other comprehensive income	-	-	-	-	-	**503**	-	**503**	**9**	**512**
Total comprehensive income for the year	-	-	-	-	-	**503**	**2,158**	**2,661**	**176**	**2,837**
Dividends declared for 2011	-	-	-	-	-	-	(2,145)	(2,145)	-	(2,145)
Donations for 2011	-	-	-	-	-	-	(50)	(50)	-	(50)
Balance at 31 December 2012	**11,350**	**(1,868)**	**5,675**	**3,990**	**13,585**	**2,673**	**5,365**	**40,770**	**2,093**	**42,863**

The consolidated financial statements consist of pages 48 to 98.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

(In thousands of Bahraini Dinars)

	Attributable to the shareholders of the parent company									
2011	Share capital	Treasury shares	Statutory reserve	Share premium	General reserve	Investment fair value reserve	Retained earnings	Total	Non-controlling Interest	Total Equity
Balance at 1 January 2011	11,350	(1,868)	5,348	3,990	13,585	3,206	4,792	40,403	1,754	42,157
Net profit for the year	-	-	-	-	-	-	3,132	3,132	173	3,305
Other comprehensive income:										
Available for sale securities:										
- Change in fair value	-	-	-	-	-	(489)	-	(489)	3	(486)
- Impairment transferred to income statement	-	-	-	-	-	104	-	104	8	112
- Transfer to income statement on disposal of Securities	-	-	-	-	-	(594)	-	(594)	(21)	(615)
Share of other comprehensive income of associate	-	-	-	-	-	(57)	-	(57)	-	(57)
Total other comprehensive income	-	-	-	-	-	(1,036)	-	(1,036)	(10)	(1,046)
Total comprehensive income for the year	-	-	-	-	-	(1,036)	3,132	2,096	163	2,259
Transfer to statutory reserve	-	-	327	-	-	-	(327)	-	-	-
Dividends declared for 2010	-	-	-	-	-	-	(2,145)	(2,145)	-	(2,145)
Donations for 2010	-	-	-	-	-	-	(50)	(50)	-	(50)
Balance at 31 December 2011	11,350	(1,868)	5,675	3,990	13,585	2,170	5,402	40,304	1,917	42,221

The consolidated financial statements consist of pages 48 to 98.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012 (In thousands of Bahraini Dinars)

	2012	2011
OPERATING ACTIVITIES		
Insurance operations (including life assurance)		
Premiums received net of acquisition costs	22,936	22,094
Payments to insurance and reinsurance companies	(8,906)	(9,191)
Claims paid to policyholders	(16,691)	(14,267)
Claims recovered from reinsurers and salvage recoveries	8,284	6,810
Cash flows from insurance operations	**5,623**	5,446
Investment operations		
Dividends and interest received	1,273	1,057
Proceeds from sale and redemptions	8,085	9,256
Payments for purchases	(8,666)	(9,530)
Investment in associates and joint-venture	(226)	-
Proceeds from voluntary liquidation of associate	2,940	-
Dividends received from associates	450	413
Payments for development of investment property	(209)	(953)
Rents received	282	310
Cash flows from investment operations	**3,929**	553
Other operating expenses paid	(4,708)	(5,246)
Cash flows from operating activities	**4,844**	753
INVESTMENT ACTIVITIES		
Purchase of property and equipment	(141)	(341)
Cash flows from investment activities	**(141)**	(341)
FINANCING ACTIVITIES		
Proceeds from bank loan	1,160	-
Dividends paid to shareholders	(2,089)	(2,086)
Donations paid	(31)	(57)
Cash flows from financing activities	**(960)**	(2,143)
TOTAL NET CASH FLOWS DURING THE YEAR	**3,743**	(1,731)
Cash and cash equivalents at 1 January	8,044	9,775
Cash and cash equivalents at 31 December	**11,787**	8,044
CASH AND CASH EQUIVALENTS at 31 December		
Cash and bank balances	2,237	2,503
Short-term deposits	9,550	5,541
Total as per statement of financial position	**11,787**	8,044

The consolidated financial statements consist of pages 48 to 98.

NOTES TO THE 2012 CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Bahraini Dinars)

1. Status and operations

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

2. Subsidiaries

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

3. Associates and joint-venture

The Group holds 20% (2011: 20%) of the equity share capital of the **United Insurance Company BSC (closed),** a Bahraini shareholding company (closed). United Insurance Company primarily provides insurance coverage for motor vehicles. (Refer Note:14)

The Group holds 30% (2011: 30%) of the voting capital of **National Finance House BSC (c),** a closed Bahraini joint stock company, engaged in consumer and auto finance business. (Refer Note: 14).

The Group holds 15% (2011:15%) of the voting capital of **Arabian Shield Cooperative Insurance Company, Saudi Arabia,** a Saudi Arabian Registered joint stock company, engaged in consumer and insurance business. (Refer Note: 14).

The Group holds 24.25% (2011: 24.25%) of the voting capital of **Gulf Insurance Institute BSC (c),** a Bahraini shareholding company (closed), engaged in conducting training mainly in insurance related subjects. On December 2012, GII announced that Al Khaleej Training and Education Company of Saudi Arabia have purchased a majority of its shares and increased its share capital to fund its expansion plans in the Middle East. (Refer Note 14)

The Group holds 25% (2011: 25%) of the voting capital of **Al Kindi Specialised Hospital W.L.L,** a Bahraini with limited liability company, engaged in providing private medical services. (Refer Note: 14).

The Group holds 50% (2011: 50%) of the voting capital of **Ultra Tune Middle East Co. W.L.L.,** which carries out the business of automobile smash repairs, roadside assistance and automobile services, and other supporting business activities in the Kingdom of Bahrain. (Refer Note: 14).

4. Significant accounting policies

a. Statement of compliance

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

b. Basis of preparation

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

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

4. Significant accounting policies (contd...)

c. Standards, amendments and interpretations

i. New standards, amendments and interpretations effective from 1 January 2012

The following standards, amendments and interpretations, which became effective as of 1 January 2012, are relevant to the Group:

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

  The amendments to IFRS 7 introduce new disclosure requirements about transfers of financial assets including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement.

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

- **Improvements to IFRSs (2011)**

  Improvements to IFRS issued in 2011 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. There were no significant changes to the current accounting policies of the Company as a result of these amendments.

ii. 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 2012, 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.

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

  The amendments to IAS 1 require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendment is effective for annual periods beginning after 1 July 2012 with an option of early application.

  The Group is not expecting a significant impact from the adoption of this amendment.

- **IAS 19 – Employee benefits (2011)**

  IAS 19 (2011) changes the definition of short-term and other long-term employee benefits to clarify the distinction between the two. For defined benefit plans, removal of the accounting policy choice for recognition of actuarial gains and losses is not expected to have any impact on the Group. However, the Group may need to assess the impact of the change in measurement principles of the expected return on plan assets. IAS 19 (2011) is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

  The Group is not expecting a significant impact from the adoption of this amendment.

4. Significant accounting policies (contd...)

- **IAS 28 (2011) – Investment in Associates and Joint ventures**

  IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the following amendments:

  - Associates held for sale: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the entity applies the equity method until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture, and

  - On cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or vice versa, the entity does not re-measure the retained interest.

  The standard is effective for annual periods beginning on or after 1 January 2013 and is applied retrospectively.

  The Group is not expecting a significant impact from the adoption of this amendment.

- **Amendments to IFRS 7 and IAS 32 on offsetting financial assets and financial liabilities (2011)**

  Disclosures – Offsetting Financial Assets and Financial Liabilities (amendments to IFRS 7) introduces disclosures about the impact of netting arrangements on an entity's financial position. The amendments are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. Based on the new disclosure requirements the Group will have to provide information about what amounts have been offset in the statement of financial position and the nature and extent of rights of set off under master netting arrangements or similar arrangements.

  Offsetting Financial Assets and Financial Liabilities (amendments to IAS 32) clarify the offsetting criteria IAS 32 by explaining when an entity currently has a legally enforceable right to set off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Earlier application is permitted.

  The Group is not expecting a significant impact from the adoption of these amendments.

- **IFRS 9 - Financial Instruments**

  IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions to the standard relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

  The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables.

4. Significant accounting policies (contd...)

For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss.

The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The IASB decided to consider making limited amendments to IFRS 9 to address practice and other issues. The Group has commenced the process of evaluating the potential effect of this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed.

Given the nature of the Group's operations, this standard is expected to have a significant impact on the Group's financial statements.

- **IFRS 10 - Consolidated financial statements and IAS 27 Separate Financial Statements (2011)**

  IFRS 10 introduces a single control model to determine whether an investee should be consolidated. As a result, the Group may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees (see Note 4-d).

  The standard is effective for annual periods beginning on or after 1 January 2013.

  The IASB published Investment Entities (Amendments to IFRS 10 and IFRS 12), which grants certain relief from consolidation to investment entities. It requires qualifying investment entities to account for investment in controlled investees on a fair value basis. The effective date is annual periods beginning on or after 1 January 2014, but early adoption is permitted to enable alignment with the adoption of IFRS 10.

- **IFRS 12 - Disclosures of interests in other entities**

  IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. It requires the disclosure of information about the nature, risks and financial effects of these interests.

  The standard is effective for annual periods beginning on or after 1 January 2013. The Group is currently assessing the disclosure requirements for interests in subsidiaries and unconsolidated unstructured entities in comparison with existing disclosures.

4. Significant accounting policies (contd...)

- **IFRS 13 - Fair value measurement**

  IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. Although many of the IFRS 13 disclosure requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require the Group to provide additional disclosures. These include fair value hierarchy disclosures for non-financial assets/liabilities and disclosures on fair value measurements that are categorised in Level 3.

  IFRS 13 is effective for annual periods beginning on or after 1 January 2013. The Group is currently reviewing its methodologies for determining fair values.

d. Basis of consolidation

i. Subsidiaries

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

ii. Associates

Associates are those enterprises in which the Company holds, directly or indirectly, more than 20% of the voting power or exercises significant influence, but not control, over the financial and operating policies.

The investments are initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's equity. When the Company's share of losses exceeds its interest in an associate, the Company's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the income statement. The same policy is followed for any incremental stake acquired while maintaining significant influence.

iii. Transactions eliminated on consolidation

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

iv. Non-controlling interest

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

4. Significant accounting policies (contd...)

e. Insurance

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

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

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

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

f. Liability adequacy test

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

g. Reinsurance contracts

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts in note 0 (e) are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards insurance) are included with insurance contracts. The benefits to which the Group is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consists of balances due from reinsurers on settlement of claims and other receivables such as profit commissions and reinsurers share of outstanding claims that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are recognized consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense when due.

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

NOTES TO THE 2012 CONSOLIDATED FINANCIAL STATEMENTS

4. Significant accounting policies (contd...)

h. General insurance business

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

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

iii. **Unearned premiums:**

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

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

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

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

v. **Outstanding claims**

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

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

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

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

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

4. Significant accounting policies (contd...)

vii. Deferred commission and acquisition costs

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

viii. Salvage and subrogation reimbursements

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

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

i. Life assurance business

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

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

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

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

iv. **Claims** arising on maturity are recognized when the claim becomes due for payment under the policy terms. Death claims and surrenders under participating contracts are accounted for on the date of notification. Annuity payments are recorded when due.

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

vi. Outstanding claims

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

NOTES TO THE 2012 CONSOLIDATED FINANCIAL STATEMENTS

4. Significant accounting policies (contd...)

vii. Life assurance actuarial reserve

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

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

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

j. Critical accounting estimates and judgments in applying accounting policies

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

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

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

ii. Life assurance actuarial reserve estimation

The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the Group. Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to risk. The Group bases these estimates on standard industry and comparable mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the Group's own experience. For contracts that insure the risk of longevity, appropriate but not excessively prudent allowance is made for expected mortality improvements. The estimated number of deaths determines the value of the benefit payments and the value of the valuation premiums. However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Group is exposed to longevity risk.

For contracts without fixed terms, it is assumed that the Group will be able to increase mortality risk charges in future years in line with emerging mortality experience. Under certain contracts, the Group has offered guaranteed annuity options. In determining the value of these options, estimates have been made as to the percentage of contract holders that will exercise them.

4. Significant accounting policies (contd...)

Changes in investment conditions could result in significantly more contract holders exercising their options than has been assumed. With respect to changes in policyholder options, reserves do not take into account lapsation. Thus there is no effect of changes in policyholder options.

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

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

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

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 2012, the Group had a decline in value of certain AFS securities below their cost by BD 460 thousand (2011: BD 342 thousand) of which BD 148 thousand (2011: BD 112 thousand) has been taken to the income statement as impairment on investments and the balance amount of BD 312 thousand (2011: BD 230 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 income statement and reflected in an allowance against the investment. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the income statement.

NOTES TO THE 2012 CONSOLIDATED FINANCIAL STATEMENTS

4. Significant accounting policies (contd...)

iv. Classification of investments

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

k. Borrowing Costs

Borrowing costs are recognised on a time apportioned basis in the period in which they incurred.

l. Share capital

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

m. Treasury shares

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

n. Financial assets and liabilities

i. Recognition and de-recognition

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

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

The Group derecognises a financial asset when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership. The Group writes off certain financial assets when they are determined uncollectible. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

ii. Measurement principles

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

iii. Fair value measurement

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

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. In the absence of active markets or other appropriate methods from which to derive reliable fair values, the unquoted securities are stated at cost less impairment.

4. Significant accounting policies (contd...)

iv. Amortised cost measurement

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

o. Investments

i. Classification

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

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

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

ii. Recognition and de-recognition

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

iii. Measurement

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

iv. Gains and losses on subsequent measurement

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

v. Fair value basis

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

NOTES TO THE 2012 CONSOLIDATED FINANCIAL STATEMENTS

4. Significant accounting policies (contd...)

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

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

p. 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, Group's Executive Committee and General Management Committee to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

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

q. Foreign currency translation

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items classified as available-for-sale financial assets are included in investments fair value reserve.

r. Receivables

Trade receivables are initially measured at invoiced amount, being the fair value of the customer receivables and subsequently carried at amortised cost less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company 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. A provision is made when the carrying amount of the asset exceeds the present value of the estimated future cash flows, discounted at the effective interest rate. This assessment is carried out for each customer.

s. 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.

4. Significant accounting policies (contd...)

i. Subsequent expenditure

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

ii. Depreciation

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

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

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

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

t. Investment property

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

u. Cash and cash equivalents

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

v. Impairment of assets

The carrying amount of the Company's assets or its cash generating unit, other than financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other asset and groups. If any such indication exists, the asset's recoverable amount is estimated. 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. 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.

w. Dividends

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

x. Directors' remunerations

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

4. Significant accounting policies (contd...)

y. Employees benefits

i. Bahraini employees

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

ii. Expatriate employees

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

iii. Employee savings scheme

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

5. Share capital

	Number 2012	**Amount 2012**	Number 2011	Amount 2011
Authorised: shares of 100 fils each	200,000,000	20,000	200,000,000	20,000
Issued and fully paid	113,500,000	11,350	113,500,000	11,350

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

	Number 2012	**Amount 2012**	Number 2011	Amount 2011
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

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

	2012	2011
Basic earnings per share – fils	20.1	29.2
Proposed cash dividend – fils	15.0	20.0
Net asset value – fils	400.0	393.6
Stock Exchange price at 31 December – fils	394.0	408.0
Market capitalization at 31 December – in thousands of BD	44,719	46,308
Price/Earnings ratio at 31 December	19.6	14.0

5. Share capital (contd...)

In accordance with IAS 33, the calculation of **earnings per share** is based on the net profit for the year of BD 2,158 thousand (2011: BD 3,132 thousand), attributable to 107,246,184 (2011: 107,246,184) ordinary shares for basic earnings, being the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share have not been presented separately because Group has no dilutive potential ordinary shares.

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

	Nationality	No. of shares	% holding
Yousif Abdulla Amin	Bahraini	12,383,033	10.91
National Insurance Company	Iraqi	7,436,890	6.55
Abdulhameed Zainal Mohamed Zainal	Bahraini	6,547,490	5.77
Bahrain National Holding Co. (Treasury shares)	Bahraini	6,253,816	5.51

(d) Additional information on shareholding pattern:

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

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

Categories	Number of shareholders	Number of shares	% of total outstanding shares
Less than 1 %	616	51,723,125	45.58
1 % up to less than 5 %	14	29,155,646	25.68
5 % up to less than 10 %	3	20,238,196	17.83
More than 10%	1	12,383,033	10.91
TOTAL	**634**	**113,500,000**	**100.00**

6. Reserves

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

Share premium: During the 2005 financial year, the Company issued 20,000,000 shares @ 300 fils (share premium 200 fils) per share on a rights basis. It also includes BD 29 thousand (2011: 29 thousand) being the share of the group in the share premium account of an associate.

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

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

NOTES TO THE 2012 CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Bahraini Dinars)

7. Proposed appropriations and directors remuneration:

	2012	2011
Profit as per income statement	2,325	3,305
Net profit attributable to non-controlling interest	(167)	(173)
Net profit attributable to shareholders of parent company	**2,158**	3,132
Proposed appropriations:		
Statutory reserve	-	327
Dividend to shareholders	1,608	2,145
Donations	50	50
Retained earnings	500	610
	2,158	3,132

Proposed director's remuneration is BD 121 thousand (2011: BD 120 thousand). The appropriation of the 2012 profit is subject to approval by shareholders at the annual general meeting.

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

9. Receivables

	2012	2011
Policyholders	2,957	2,523
Insurance and reinsurance companies	2,853	2,357
Others	885	1,143
	6,695	6,023
Provision for impairment	(295)	(305)
Total	**6,400**	5,718

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

	2012	2011
Balance at beginning of the year	305	312
Balances recovered during the year	(18)	(18)
Additional amounts provided during the year	8	11
Balance at end of the year	**295**	305

10. Reinsurers' shares of insurance technical reserves

	2012	2011
Outstanding claims recoverable from reinsurers (refer note 18)	7,929	6,853
Reinsurers' share of unearned premiums (refer note 19)	3,605	2,572
Total	**11,534**	9,425

11. Investment securities

	2012	2011
Securities carried at fair value through profit or loss	2,346	1,985
Available for sale securities	16,468	14,992
Held-to-maturity securities	9,640	10,138
Total	**28,454**	27,115

a) Securities carried at fair value through profit or loss

	2012	2011
Quoted, at fair value:		
Equities	877	453
Government bonds	81	38
Other bonds	38	35
Managed funds	1,350	1,459
Total	**2,346**	1,985

Movement during the year	2012	2011
Opening balance as at 1 January	1,985	1,906
Purchases	851	547
Sales	(572)	(417)
Valuation gains / (losses)	82	(51)
Balance as at 31 December	**2,346**	1,985

b) Available-for-sale securities

	2012	2011
Quoted, at fair value:		
Equities	8,439	6,334
Government bonds	730	921
Other bonds	1,656	1,233
Managed funds	5,300	6,160
Unquoted equities & funds, at fair value	343	344
Total	**16,468**	14,992

Movement during the year	2012	2011
Opening balance as at 1 January	14,992	15,190
Purchases	6,677	6,881
Sales	(5,621)	(6,170)
Valuation gains / (losses)	568	(797)
	16,616	15,104
Impairment	(148)	(112)
Balance as at 31 December	**16,468**	14,992

NOTES TO THE 2012 CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Bahraini Dinars)

11. Investment securities (contd...)

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

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

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

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

	31 December 2012		31 December 2011	
	Carrying value	Fair value	Carrying value	Fair value
Trading securities reclassified to available-for-sale securities	2,717	2,717	2,310	2,310

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

	31 December 2012		31 December 2011	
	Income Statement	Equity	Income Statement	Equity
Period after reclassification				
Loss on sale of reclassified securities	(13)	-	(25)	-
Impairment	-	-	(28)	-
Net change in fair value	-	691	-	(215)
	(13)	**691**	**(53)**	**(215)**

The gain amount of BD 691 thousand (2011: loss amount of BD 215 thousand) would have been recognised in the income statement in the period if reclassifications had not been made.

c) Held-to-maturity securities

	2012 Fair value	2011 Fair value	2012 Carrying value	2011 Carrying value
Government bonds	2,685	2,428	2,408	2,257
Other bonds	7,650	8,193	7,232	7,881
Total	**10,335**	10,621	**9,640**	10,138

11. Investment securities (contd...)

Movement during the year	**2012**	2011
Opening balance as at 1 January	10,138	10,204
Purchases	1,137	2,102
Disposals on maturity	(1,626)	(2,146)
Exchange losses	(9)	(22)
Balance as at 31 December	**9,640**	**10,138**

d) Fair value hierarchy

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

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

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

2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Securities carried at fair value through profit or loss	2,346	-	-	2,346
Available-for-sale investments	16,125	343	-	16,468
	18,471	**343**	**-**	**18,814**

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

12. Policyholders' investments

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

	2012	2011
Investments in securities	**3,968**	3,826
Life assurance actuarial reserve (note 20)	**2,517**	2,673

NOTES TO THE 2012 CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Bahraini Dinars)

13. Effective interest rates on cash and bonds

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

	2012 Aggregate principal	**2012 Effective rate**	2011 Aggregate principal	2011 Effective rate
Cash and short-term deposits	11,914	1.64%	8,169	1.40%
Fixed rate bonds	12,071	5.65%	11,781	5.79%
Floating rate bonds (repriced within 4-6 months)	75	4.00%	585	1.00%

14. Investments in associates and joint-venture

The Group's associates are as follows:

		Group interest	
Name	**Country**	**2012**	2011
Ultra Tune Middle East W.L.L.	Bahrain	50.0%	50.0%
National Finance House BSC. (c)	Bahrain	30.0%	30.0%
Al Kindi Specialised Hospital W.L.L.	Bahrain	25.0%	25.0%
United Insurance Company BSC (c)	Bahrain	20.0%	20.0%
Arabian Shield Cooperative Insurance Company	Saudi Arabia	15.0%	15.0%
Gulf Insurance Institute BSC (c) (under capital restructuring)*	Bahrain	24.3%	24.3%
Bahrain Emirates Insurance Company (voluntary liquidated)**	Bahrain	30.0%	30.0%

* Gulf Insurance Institute (GII), an associate of the Group, is currently undergoing capital restructuring.

On December 2012, GII announced that Al Khaleej Training and Education Company of Saudi Arabia have purchased a majority of its shares and increased its share capital to fund its expansion plans in the Middle East. Following this new strategic partnership the Group share in GII is expected to be 17.19%.

** Bahrain Emirates Insurance Company, an associate of the Group, terminated its operations on 20 May 2012, and has ceased all its activities. On 17 October 2012 the process of voluntary liquidation by the company's shareholders ended with the first tranche amount of BD 2,940 thousands to the Group. The final liquidation process is in-progress by the liquidator and it is expected to receive the final liquidation proceeds by the first quarter of 2013.

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

	2012	2011
Balance at beginning of the year	14,009	13,761
Proceeds on voluntary liquidation of an associate company	(2,940)	-
Payment for acquisition of shares	226	-
Share of profit for the year	762	718
Dividends received	(450)	(413)
Share of investment fair value reserve	3	(57)
Total (equity method)	**11,610**	14,009

14. Investments in associates and joint-venture (contd...)

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

	2012	2011
Total assets	120,162	124,191
Total liabilities	39,681	62,189
Total revenue	26,409	7,900
Total profits	3,212	2,774

15. Investment properties

	BNH Headquarter in Seef	BNH Building in Sanad	2012 Total	2011 Total
Cost				
At 1 January	2,087	-	2,087	2,087
Additions	-	209	209	-
Transfers from Property and Equipment (note no. 16)	-	2,026	2,026	-
At 31 December	**2,087**	**2,235**	**4,322**	2,087
Depreciation				
At 1 January	632	-	632	544
Charge for the year	88	-	88	88
At 31 December	**720**	**-**	**720**	632
Net book value at 31 December	**1,367**	**2,235**	**3,602**	1,455
Fair value at 31 December	**4,566**	**3,466**	**8,032**	4,566

Capital commitments as at the reporting date amounted to BD 84 thousand (2011: BD 243 thousand).

NOTES TO THE 2012 CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Bahraini Dinars)

16. Property and equipment

	Land and building	Machinery	Furniture, equipment & other assets	Capital work-in-progress	2012 Total	2011 Total
Cost						
At 1 January	3,694	370	2,713	1,845	8,643	7,349
Additions	-	-	128	13	141	1,294
Disposals	-	-	-	(5)	(5)	-
Transfers to Investment Properties (note no. 15)	(489)	-	-	(1,537)	(2,026)	-
Other transfers	-	-	301	(301)	-	-
At 31 December	**3,205**	**370**	**3,163**	**15**	**6,753**	8,643
Depreciation						
At 1 January	818	268	1,828	-	2,914	2,349
Charge for the year	147	37	429	-	613	565
At 31 December	**965**	**305**	**2,257**	**-**	**3,527**	2,914
Net book value at 31 December	**2,240**	**65**	**906**	**15**	**3,226**	5,729

17. Insurance technical reserves

	2012	2011
Outstanding claims - gross (refer Note 18)	13,414	12,120
Unearned gross premiums (refer Note 19)	9,815	8,547
Net unearned commissions (refer Note 19)	(52)	4
Life assurance actuarial reserve (refer Note 20)	2,517	2,673
Total	**25,694**	23,344

18. Outstanding claims

i. Claim Development

The development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims.

The top half of each table below illustrates how the Group's estimate of total claims outstanding for each accident year has changed at successive year-ends, for motor and non-motor excluding life and medical businesses.

Total estimation of the ultimate claim cost comprises estimated amount of claims outstanding and claims incurred but not reported (IBNR).

The bottom half of the table reconciles the cumulative claims to the amount appearing in the statement of financial position, with the exception of life assurance and medical business.

18. Outstanding claims (contd...)

Insurance claims for general insurance business – Gross

Accident year	2008	2009	2010	2011	2012	Total
Estimate of ultimate claims costs:						
At end of reporting year	7,693	6,485	5,420	3,883	**7,275**	30,756
One year later	6,199	9,692	5,950	**4,632**		26,473
Two years later	6,598	9,658	**6,074**	-		22,330
Three years later	6,539	**9,398**	-	-		15,937
Four years later	**6,311**	-	-	-		6,311
Current estimate of cumulative claims (A)	6,311	9,398	6,074	4,632	7,275	33,690
Cumulative payments to date (B)	5,487	8,412	4,794	3,191	-	21,884
Total (A – B)	**824**	**986**	**1,280**	**1,441**	**7,275**	**11,806**

Reserve in respect of years prior to 2008	1,078
Total reserve included in the statement of financial position	**12,884**

Insurance claims (gross) for life and medical insurance business amounting to BD 530 thousand pertaining to 2012.

Insurance claims for general insurance business – Net

Accident year	2008	2009	2010	2011	2012	Total
Estimate of ultimate claims costs:						
At end of reporting year	4,890	3,908	1,986	1,949	**3,409**	16,142
One year later	2,708	4,046	2,383	**2,259**	-	11,396
Two years later	3,189	3,949	**2,465**	-	-	9,603
Three years later	3,001	**3,729**	-	-	-	6,730
Four years later	**2,808**	-	-	-	-	2,808
Current estimate of cumulative claims (A)	2,808	3,729	2,465	2,259	3,409	14,670
Cumulative payments to date (B)	2,671	3,503	2,134	1,695	-	10,003
Total (A – B)	**137**	**226**	**331**	**564**	**3,409**	**4,667**

Reserve in respect of years prior to 2008	350
Total reserve included in the statement of financial position	**5,017**

Insurance claims (net) for life and medical insurance business amounting to BD 468 thousand pertaining to 2012.

NOTES TO THE 2012 CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Bahraini Dinars)

18. Outstanding claims (contd...)

ii. Changes in insurance assets and liabilities

	2012			2011		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Reported claims	11,680	6,853	4,827	12,805	7,902	4,903
IBNR	440	-	440	440	-	440
Total at beginning of the year	12,120	6,853	5,267	13,245	7,902	5,343
Change in liabilities	18,466	9,390	9,076	13,440	5,772	7,668
Claims settled	(17,172)	(8,314)	(8,858)	(14,565)	(6,821)	(7,744)
Total at end of the year	**13,414**	**7,929**	**5,485**	12,120	6,853	5,267
Reported claims	12,974	7,929	5,045	11,680	6,853	4,827
IBNR	440	-	440	440	-	440
Total at end of the year	**13,414**	**7,929**	**5,485**	12,120	6,853	5,267

iii. Sensitivity analysis

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

	Income Statement & Equity	
General Insurance	**2012**	2011
Expense rate		
1 percent increase	(45)	(39)
1 percent decrease	45	39
Expected loss ratio		
1 percent increase	(91)	(72)
1 percent decrease	91	72

	Income Statement & Equity	
Life Insurance	**2012**	2011
Demographic assumptions		
10 percent decrease in base mortality and morbidity rates	20	16
10 percent increase in base mortality and morbidity rates	(20)	(16)
Expense assumptions		
1 percent increase	(4)	(4)
1 percent decrease	4	4
Expected loss ratio		
1 percent increase	(5)	(5)
1 percent decrease	5	5

18. Outstanding claims (contd...)

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

iv. Movements in outstanding claims

	Gross outstanding claims		Reinsurers' share		Net outstanding claims	
	2012	2011	**2012**	2011	**2012**	2011
At 1 January	12,120	13,245	6,853	7,902	5,267	5,343
Charge/(release) during the year	1,294	(1,125)	1,076	(1,049)	218	(76)
At 31 December	**13,414**	12,120	**7,929**	6,853	**5,485**	5,267

19. Unearned premiums / unearned commissions

i. Movements in Unearned premiums

	Unearned gross premiums		Reinsurers' share		Net unearned premiums	
	2012	2011	**2012**	2011	**2012**	2011
At 1 January	8,547	9,290	2,572	3,290	5,975	6,000
Charge/(release) during the year	1,268	(743)	1,033	(718)	235	(25)
At 31 December	**9,815**	8,547	**3,605**	2,572	**6,210**	5,975

ii. Movements in Net unearned commissions

	Unearned commissions income		Deferred commissions paid		Net unearned commission income	
	2012	2011	**2012**	2011	**2012**	2011
At 1 January	475	496	471	476	4	20
Release during the year	(67)	(21)	(11)	(5)	(56)	(16)
At 31 December	**408**	475	**460**	471	**(52)**	4

20. Life assurance actuarial reserve and actuarial assumptions

	2012	2011
Balance at 1 January	2,673	2,899
Transfer of contributions	264	305
Payments of termination benefits	(357)	(254)
Release to income statement	(244)	(294)
Policyholder's share of investment income	181	17
Balance at 31 December	**2,517**	**2,673**

NOTES TO THE 2012 CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Bahraini Dinars)

20. Life assurance actuarial reserve and actuarial assumptions (contd...)

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

21. Insurance payables

	2012	2011
Policyholders – Claims	316	97
Insurance and reinsurance companies	2,983	2,669
Total	**3,299**	2,766

22. Other liabilities

	2012	2011
Premiums received in advance	363	326
Vehicle repairers and spare parts	1,129	868
Accrued expenses	140	72
Unclaimed dividends - prior years	372	180
Provision for employees› benefits	569	591
Provision for employees' leaving indemnities	444	410
Other liabilities	705	842
Total	**3,722**	3,289

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

	2012	2011
Balance at beginning of the year	591	510
Paid during the year	(550)	(556)
Additional amount provided during the year	528	637
Balance at end of the year	**569**	**591**

23. Bank loan

During the year, 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 has been drawn till the year end.

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 commencing from March 2013.

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

24. Retirement benefits cost

The Group employed 154 Bahrainis (2011: 158 Bahrainis) and 43 expatriates (2011: 42 expatriates) as at 31 December 2012.

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 2012 amounted to BD 256 thousand (2011: 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 2012 amounted to BD 80 thousand (2011: BD 80 thousand). The scheme is administered by Bahrain National Life Assurance Company on behalf of the group.

The liability towards the retirement plan as at 31 December 2012 amounted to BD 435 thousand (2011: BD 407 thousand) and is included in the Life assurance actuarial reserve (refer Note 20). The liability is funded by way of contributions from the retirement scheme. The contributions received are invested as part of policyholders' investments (refer Note 12).

Expatriate employees on limited-term contracts are entitled to leaving indemnities payable under the Bahrain Labour Law for the Private Sector, 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 :

	2012	2011
At beginning of year	410	365
Indemnities and advances paid	(30)	-
Charge to income statement	64	45
Balance at end of the year	**444**	410

25. Gross premiums

	2012	2011
Gross premiums - Direct Business	21,056	19,870
Gross premiums - Inward Business	2,252	2,049
Total	**23,308**	21,919

26. Net commissions income

	2012	2011
Commission income	1,638	1,548
Commission expenses	(1,159)	(1,041)
Net commission income	**479**	507

NOTES TO THE 2012 CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Bahraini Dinars)

27. 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.

31 December 2012	Motor & General Insurance	Life Assurance and Medical	Corporate	Total
Gross premiums	**17,154**	**6,154**	**-**	**23,308**
Net premiums earned	**10,267**	**4,102**	**-**	**14,369**
Net claims incurred	(6,157)	(2,919)	-	(9,076)
Operating expenses	(3,567)	(964)	-	(4,531)
Net commission income/(expenses)	620	(141)	-	479
Release from life actuarial reserve	-	244	-	244
Underwriting profits	**1,163**	**322**	**-**	**1,485**
Net investment income from portfolio	867	526	93	1,486
Policyholder's share of investment income	-	(181)	-	(181)
Share of profit of associates & venture-capital	190	-	572	762
Net income from investment properties	-	-	134	134
Corporate expenses	-	-	(1,361)	(1,361)
Segment Results	**2,220**	**667**	**(562)**	**2,325**
Cash and Cash equivalents	9,232	2,081	474	11,787
Receivables	4,593	1,742	65	6,400
Investment securities	19,022	9,427	5	28,454
Investment in associates & joint venture	941	-	10,669	11,610
Investment property	-	-	3,602	3,602
Reinsurers' share of technical reserves	10,918	616	-	11,534
Property and equipment	407	284	2,535	3,226
Statutory deposits	75	50	-	125
Total Assets	**45,188**	**14,200**	**17,350**	**76,738**
Insurance payables	2,767	532	-	3,299
Other liabilities	2,162	307	1,253	3,722
Insurance technical reserves	20,706	4,988	-	25,694
Bank loan	-	-	1,160	1,160
Total Liabilities	**25,635**	**5,827**	**2,413**	**33,875**

27. Segmental information (contd...)

31 December 2011	Motor & General Insurance	Life Assurance and Medical	Corporate	Total
Gross premiums	16,722	5,197	-	21,919
Net premiums earned	9,875	3,482	-	13,357
Net claims incurred	(5,220)	(2,448)	-	(7,668)
Operating expenses	(3,447)	(811)	-	(4,258)
Net commission income/(expenses)	596	(89)	-	507
Release from life actuarial reserve	-	294	-	294
Underwriting profits	1,804	428	-	2,232
Net investment income from portfolio	1,007	281	270	1,558
Policyholder's share of investment income	-	(17)	-	(17)
Share of profit of associates & venture-capital	206	-	512	718
Net income from investment properties	-	-	169	169
Corporate expenses	-	-	(1,355)	(1,355)
Segment Results	3,017	692	(404)	3,305
Cash and Cash equivalents	5,461	2,270	313	8,044
Receivables	4,270	1,273	175	5,718
Investment securities	16,621	8,657	1,837	27,115
Investment in associates	974	-	13,035	14,009
Investment property	-	-	1,455	1,455
Reinsurers' share of technical reserves	8,902	523	-	9,425
Property and equipment	2,077	292	3,360	5,729
Statutory deposits	75	50	-	125
Total Assets	38,380	13,065	20,175	71,620
Insurance payables	2,375	391	-	2,766
Other liabilities	1,880	190	1,219	3,289
Insurance technical reserves	18,491	4,853	-	23,344
Total Liabilities	22,746	5,434	1,219	29,399

Geographical information

31 December 2012	**Bahrain**	**Other GCC**	**Other Countries**	**Total**
Gross premiums	21,361	1,794	153	**23,308**
Non-current assets	20,105	12,096	10,675	**42,876**

31 December 2011	Bahrain	Other GCC	Other Countries	Total
Gross premiums	19,986	1,549	384	21,919
Non-current assets	21,947	11,577	11,245	44,769

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

NOTES TO THE 2012 CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Bahraini Dinars)

27. Segmental information (contd...)

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

28. Net investment income from portfolio

	2012	2011
Profit on disposal of securities	76	(91)
Transfer from other comprehensive income on disposal of securities	189	615
Valuation gains / (losses)	65	(43)
Foreign exchange gains	1	71
Amortisation of premiums on held-to-maturity securities	(4)	(44)
Interest income	862	820
Dividend income	508	417
Other income	38	18
Gross investment income	**1,735**	1,763
Provision for impairment on investment	(148)	(112)
Investment administration expenses	(101)	(93)
Total net investment income per income statement	**1,486**	1,558

Gross investment income by segment

	2012	2011
Shares in Bahraini public companies	374	567
Other equities	243	94
Government and other bonds	687	777
Managed funds	228	182
Cash and short-term deposits	165	125
Miscellaneous Income	38	18
Gross investment income	**1,735**	1,763

29. Income from investment properties

	2012	2011
Investment property income	291	327
Depreciation charges on investment property	(88)	(88)
Investment property expenses	(69)	(70)
Total net income per income statement	**134**	169

30. Expenses

i. Other operating expenses:

	2012	2011
Employee costs	2,200	2,153
Depreciation	332	291
Other costs	1,147	955
Service fees charged	852	859
Total	**4,531**	4,258

ii. Corporate and financial expenses:

	2012	2011
Employee costs	1,280	1,399
Depreciation	281	274
Other costs	652	541
Service fees recovered	(852)	(859)
Total	**1,361**	1,355

31. Insurance Contracts, Financial instruments and risk management

i. 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.

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 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.

NOTES TO THE 2012 CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Bahraini Dinars)

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

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.

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 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.

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 2012 Geographical area	General Insurance	Life Assurance	Total
Bahrain			
Gross	19,254	2,107	21,361
Retained	13,161	1,222	14,383
Other countries			
Gross	1,931	16	1,947
Retained	212	9	221
Total			
Gross	**21,185**	**2,123**	**23,308**
Retained	**13,373**	**1,231**	**14,604**

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

31 December 2011 Geographical area	General Insurance	Life Assurance	Total
Bahrain			
Gross	18,255	1,731	19,986
Retained	12,025	1,011	13,036
Other countries			
Gross	1,793	140	1,933
Retained	215	81	296
Total			
Gross	20,048	1,871	21,919
Retained	12,240	1,092	13,332

ii. CAPITAL MANAGEMENT

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

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

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

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

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.

iii. FINANCIAL RISK MANAGEMENT

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

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

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

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

Credit risk

Credit risk is the risk that one party to an insurance contract will fail to discharge its obligations causing the other party to incur a financial loss. Key areas where the Group is exposed to credit risk as a part of its insurance operations are:

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders; and
- amounts due from insurance intermediaries.

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

Group cash is largely placed with national and international banks. Credit risk on receivables is limited to local policyholders, which are carried, net of provision for bad and doubtful receivables, and to insurance and reinsurance companies, local and foreign. The Group monitors its credit risk with respect to receivables from policyholders in accordance with defined policies and procedures. Credit risk in respect of dues from insurance and reinsurance companies is sought to be minimised by ceding business only to companies with good credit rating in the London, European and Middle Eastern markets. Credit risk in respect of investments is managed by the Group by monitoring credit exposures and continually assessing the creditworthiness of counterparties.

Management of credit risk

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

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

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

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

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	2012	2011
Receivables:		
Policyholders	2,701	2,249
Insurance and reinsurance companies	2,814	2,326
Others	885	898
Outstanding claims recoverable from reinsurers	7,929	6,853
Investments:		
Securities carried at fair value through profit or loss	119	73
Available for sale securities	2,386	2,154
Held to maturity securities	9,640	10,138
Cash and cash equivalents	11,787	8,044
Statutory deposits	125	125
	38,386	32,860

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

Concentrations of credit risk

The Group monitors concentrations of exposures by industry sector and geographic location of the counterparty as well as by individual counterparties. Counterparty concentration occurs mainly because of the investment management accounts maintained with the various investment bankers. Geographical concentrations at the reporting date have been presented in note 33. 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:

	2012	2011
Ahli United Bank	4,027	2,536
BMI Bank	3,016	1,487
United Bank Limited	1,936	998
National Bank of Bahrain	1,083	854
Al-Salam Bank	-	1,481

NOTES TO THE 2012 CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Bahraini Dinars)

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

Assets that are past due

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

Financial assets	**Neither past due nor impaired**	**Past due but not impaired**		**Individually impaired**		
31 December 2012	**Less than 90 days**	**91–180 days**	**More than 180 days**	**Gross Amount**	**Provision for impairment**	**Total**
Receivables:						
- Policyholders	1,382	896	423	256	(256)	2,701
- Insurance and Reinsurance companies	1,230	787	797	39	(39)	2,814
- Others	885	-	-	-	-	885
	3,497	**1,683**	**1,220**	**295**	**(295)**	**6,400**
Outstanding claims recoverable from reinsurers	1,604	332	5,993	-	-	7,929
Total	**5,101**	**2,015**	**7,213**	**295**	**(295)**	**14,329**

Financial assets	Neither past due nor impaired	Past due but not impaired		Individually impaired		
31 December 2011	Less than 90 days	91–180 days	More than 180 days	Gross Amount	Provision for impairment	Total
Receivables						
- Policyholders	1,090	815	344	274	(274)	2,249
- Insurance and Reinsurance companies	655	1,237	434	31	(31)	2,326
- Others	898	-	-	-	-	898
	2,643	2,052	778	305	(305)	5,473
Outstanding claims recoverable from reinsurers	541	801	5,511	-	-	6,853
Total	3,184	2,853	6,289	305	(305)	12,326

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.

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

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 32.

Management of liquidity risk

The Group limits liquidity risks by continually reconciling the cash flows and assets of the Group with payment liabilities. Methodologies adopted for Group assets and liabilities valuation have been discussed and disclosed earlier in significant accounting policies. The Group is exposed to daily calls on its available cash resources mainly from claims arising from short-term insurance contracts.

The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover maturities, claims and surrenders at unexpected levels of demand.

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

Exposure to liquidity risk

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

31 December 2012	**Contractual undiscounted cash flows**				
Financial liabilities	**Carrying amount**	**Less than 1 year**	**1 – 2 years**	**2 – 5 years**	**More than 5 years**
Policyholders' liabilities	316	316	-	-	-
Insurance/reinsurance companies	2,983	2,983	-	-	-
Outstanding Claims - Gross	13,414	7,193	2,219	3,290	712
Other payables	2,641	2,641	-	-	-
Bank loan	1,160	387	387	386	-

31 December 2011	Contractual undiscounted cash flows				
Financial liabilities	Carrying amount	Less than 1 year	1 – 2 years	2 – 5 years	More than 5 years
Policyholders' liabilities	97	97	-	-	-
Insurance/reinsurance companies	2,669	2,669	-	-	-
Outstanding Claims - Gross	12,120	4,417	2,911	4,164	628
Other payables	2,216	2,216	-	-	-

NOTES TO THE 2012 CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Bahraini Dinars)

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

Market risk

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

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

The Group limits market risk by maintaining a well-diversified portfolio and by continuous monitoring of pertinent developments in international securities markets. In addition, the Group actively monitors the key factors that are likely to affect the prices of securities, including operational and financial performance of investees. The geographical concentration of the Group's investments is set out in note 33.

Management of market risks

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

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

Interest rate risk

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

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

The Group's bank loan is variable 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.

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.

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

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	**2012**	2011
Euros	190	123
Pounds sterling	144	116
Other currencies	171	262
Total open foreign exchange position at 31 December	**505**	501
United States dollars	24,632	23,147
GCC Currencies	11,001	11,682
Bahraini dinars	30,167	26,289
Total at 31 December	**66,305**	61,619

This comprises:	**2012**	2011
Securities carried at fair value through profit or loss	2,346	1,985
Available-for-sale securities	16,468	14,992
Held-to-maturity securities	9,640	10,138
Investment in associates	11,610	14,009
Cash and Bank balances	11,787	8,044
Statutory deposits	125	125
Receivables:		
Policyholders	2,701	2,249
Insurance and reinsurance companies	2,814	2,326
Others	885	898
Outstanding claims recoverable from reinsurers	7,929	6,853
Total	**66,305**	61,619

NOTES TO THE 2012 CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Bahraini Dinars)

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

Financial Liabilities	**2012**	2011
United States dollars	1,090	546
GCC Currencies	3,083	4,727
Bahraini dinars	26,000	20,151
Other currencies	104	229
Total at 31 December	**30,277**	25,653

This comprises:	**2012**	2011
Payables		
Policyholders Liabilities	316	97
Insurance/reinsurance companies payables	2,983	2,669
Outstanding claims	13,414	12,120
Unearned premiums	9,815	8,547
Unearned commissions	(52)	4
Other payables	2,641	2,216
Bank loan	1,160	-
Total	**30,277**	25,653

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

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

Sensitivity analysis to market risks

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

	2012		2011	
31 December	**Income statement**	**Equity**	Income statement	Equity
Interest rate risk				
+ 1 percent shift in yield curves	5	97	3	91
- 1 percent shift in yield curves	(5)	(97)	(3)	(91)
Equity price risk				
+1 percent increases in equity prices	9	86	5	65
-1 percent decrease in equity prices	(9)	(86)	(5)	(65)

Sensitivity analysis – currency risk

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.

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

	2012		2011	
Receivables, Investments & Cash	**Income Statement**	**Equity**	Income Statement	Equity
US Dollars	141	94	134	92
Euro	-	1	-	1
Pounds Sterling	-	1	1	-
GCC currencies	55	25	59	11
Other currencies	-	68	-	1

32. Maturity profile of investments

	Less than 1 year	**1-5 years**	**5-10 years**	**Over 10 years / no maturity**	**Total 2012**	Total 2011
Equities	-	-	-	8,439	8,439	6,333
Government bonds	-	1,750	1,388	-	3,138	3,179
Other bonds	1,521	6,750	617	-	8,888	9,114
Managed funds	-	-	-	5,300	5,300	6,160
Unquoted equities & funds	-	-	-	343	343	344
Investment in associates	-	-	-	11,610	11,610	14,009
Total	**1,521**	**8,500**	**2,005**	**25,692**	**37,718**	39,139
2011	1,553	8,801	1,939	26,846	39,139	

This balance comprises:

	2012	2011
Available-for-sale securities	16,468	14,992
Held-to-maturity securities	9,640	10,138
Investment in associates	11,610	14,009
Total	**37,718**	39,139

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

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

NOTES TO THE 2012 CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Bahraini Dinars)

33. Geographical concentration of investments

	2012	2011
Bahrain	14,999	15,851
Other GCC countries	12,538	12,051
Japan and Korea	617	605
Other Asia/Oceania	885	723
Europe	2,248	2,671
North America	5,386	6,723
Global/multi-regional	3,391	2,500
Total	**40,064**	41,124

This comprises:

	2012	2011
Securities carried at fair value through profit or loss	2,346	1,985
Available-for-sale securities	16,468	14,992
Held-to-maturity securities	9,640	10,138
Investment in associates	11,610	14,009
Total	**40,064**	41,124

34. 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:

	2012	2011
Assets		
Receivables from companies in which directors are interested	1,051	718
Receivables from associates	172	328
Liabilities - payables		
Payables to companies in which directors are interested	545	554
Payables to associates and joint-venture	60	14
Income and expenses		
Gross premiums	1,701	2,519
Claims	141	206
Other income	18	18

34. Related parties (contd...)

Transactions with key management personnel

Key management personnel of the Group comprise of the Chief Executive Officer, Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group.

The key management personnel compensation is as follows:

	2012	2011
Salaries and benefits	524	547
Terminal benefits	93	118
Post-employment benefits	58	41
Board remuneration	121	120
Board committee sitting fees	56	60

35. 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.

2012	Fair value through the income statement	Available-for- sale	Held-to-maturity	Loans and receivables	**Total carrying value**	**Fair value**
Cash and cash equivalents	-	-	-	11,787	11,787	11,787
Receivables	-	-	-	6,388	6,388	6,388
Reinsurer's share of outstanding claims	-	-	-	7,979	7,979	7,979
Investment securities	2,346	16,468	9,640	-	28,454	29,149
Total financial assets	**2,346**	**16,468**	**9,640**	**26,154**	**54,608**	**55,303**
Bank loan	-	-	-	1,160	1,160	1,160
Outstanding claims	-	-	-	13,414	13,414	13,414
Insurance payables	-	-	-	3,299	3,299	3,299
Other liabilities	-	-	-	2,641	2,641	2,641
Total financial liabilities	**-**	**-**	**-**	**20,514**	**20,514**	**20,514**

NOTES TO THE 2012 CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Bahraini Dinars)

35. Fair value measurement (contd...)

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

36. Commitments and contingent liabilities

As at 31 December 2012, the Group has commitments to make investments amounting to BD 160 thousand (2011: BD 310 thousand).

37. Comparatives

Certain corresponding figures of 2011 have been reclassified where necessary to conform to the current year's presentation. Such reclassification did not affect previously reported total assets, total liabilities, equity, profit or comprehensive income.