THE GOLDEN PATH TO PROSPERITY

ANNUAL REPORT 2018

50 YEARS BNH
Celebrating Prosperity

His Royal Highness
Prince Khalifa Bin Salman Al Khalifa
The Prime Minister

His Royal 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
First Deputy Prime Minister

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GROUP OVERVIEW

Bahrain National Holding B.S.C. (BNH) is the premier Bahraini insurance group, offering a comprehensive range of insurance and risk management solutions. Established in 1998 through a merger between Bahrain Insurance Company and National Insurance Company, our heritage in the industry dates back to 1969. Over the years, we have earned a formidable reputation for the quality and excellence of our services and are today a household name in the Kingdom of Bahrain.

A widely-held public company listed on Bahrain Bourse, our group operations are organised as four 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 Commercial Insurance and Motor & Personal Lines Insurance under the bni brand
- Our 75% owned subsidiary, Bahrain National Life Assurance Company B.S.C. (c), which offers Life & Medical Insurance under the bnl brand
- iAssist Middle East W.L.L. a wholly-owned subsidiary, offering a full range of technical, body shop & roadside assistance services

VISION

Creating prosperity through security

MISSION

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

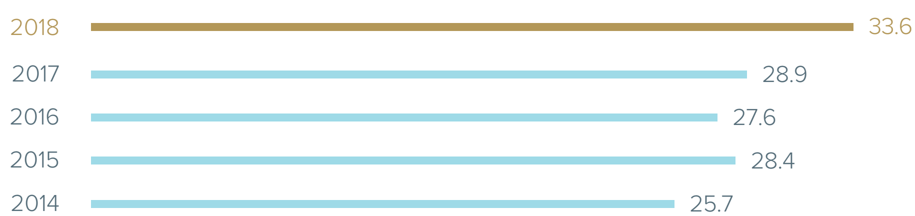
VALUES

Integrity, Excellence, Pioneering

FINANCIAL HIGHLIGHTS

Gross Premiums (BHD Millions)

33.6m

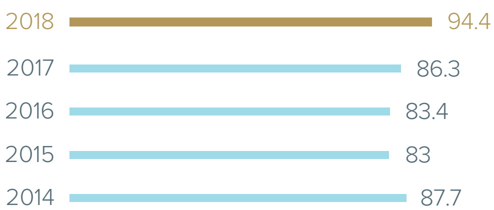


BNH Financial Highlights from 2010 - 2018 (BHD Millions)

	2018	2017	2016	2015	2014	2013	2012	2011	2010
Gross Premiums	**33.6**	28.9	27.6	28.4	25.7	24.9	23.3	21.9	23.1
Total Assets	**94.4**	86.3	83.4	83	87.7	83.2	76.8	71.6	74.1
Market Capitalisation	**42.9**	48.8	47.8	47.8	49	56.8	44.7	46.3	46.1
Total Equity	**51.4**	50.3	49.1	47.7	47.8	45.3	42.9	42.2	42.2
Net Earned Premiums	**16.7**	15.8	15	14.8	13.7	14.3	14.3	13.4	13.6
Net Profit	**3.5**	2.3	3.9	4.2	3.8	3	2.3	3.3	3.8
Earning Per Share (in Fils)	**29.4**	18.8	36.2	37.8	33.6	27.8	20.1	29.2	34.7

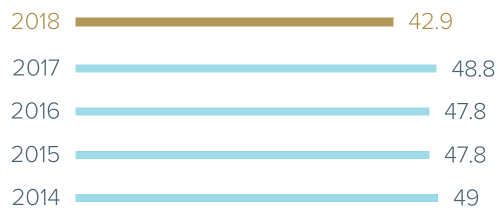
Total Assets
BD Millions

94.4m



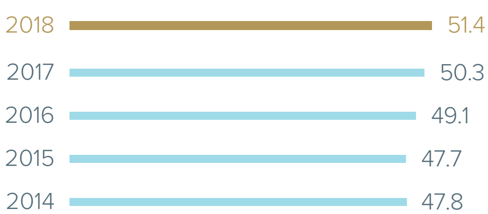
Market Capitalisation
BD Millions

42.9m



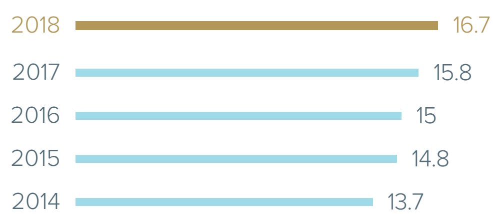
Total Equity
BD Millions

51.4m



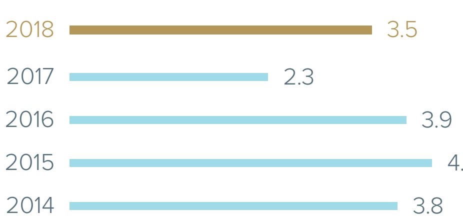
Net Earned Premiums
BD Millions

16.7m



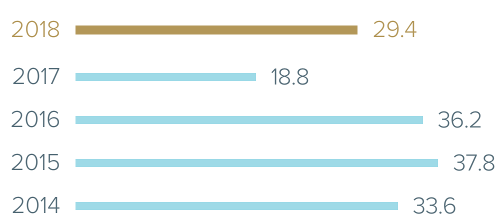
Net Profit
BD Millions

3.5m



Earning Per Share
In Fils

29.4Fils



50 YEARS OF ACHIEVEMENTS

Bahrain Insurance Company (BIC) was established, and grew to become the largest composite insurance company in Bahrain.

1969

National Insurance Services established in 1979 as an insurance agency for Zurich Insurance, Reliance Insurance USA & AGF France.

1979

In 1982, National Insurance Company (NIC) was formed by converting (NIS) to a full fledged insurance company.

1982

2000

Bahrain National Life Assurance Company (bnl) was established as Bahrain's first dedicated life assurance company

2006

Bahrain National Holding Company (BNH) & other partners established National Finance House (NFH).

2007

BNH also participated in the establishment of Arabian Shield Cooperative Insurance Company in Saudi Arabia.

Bahrain Insurance Company (BIC) and National Insurance Company (NIC) participated in the establishment of United Insurance Company (UIC).

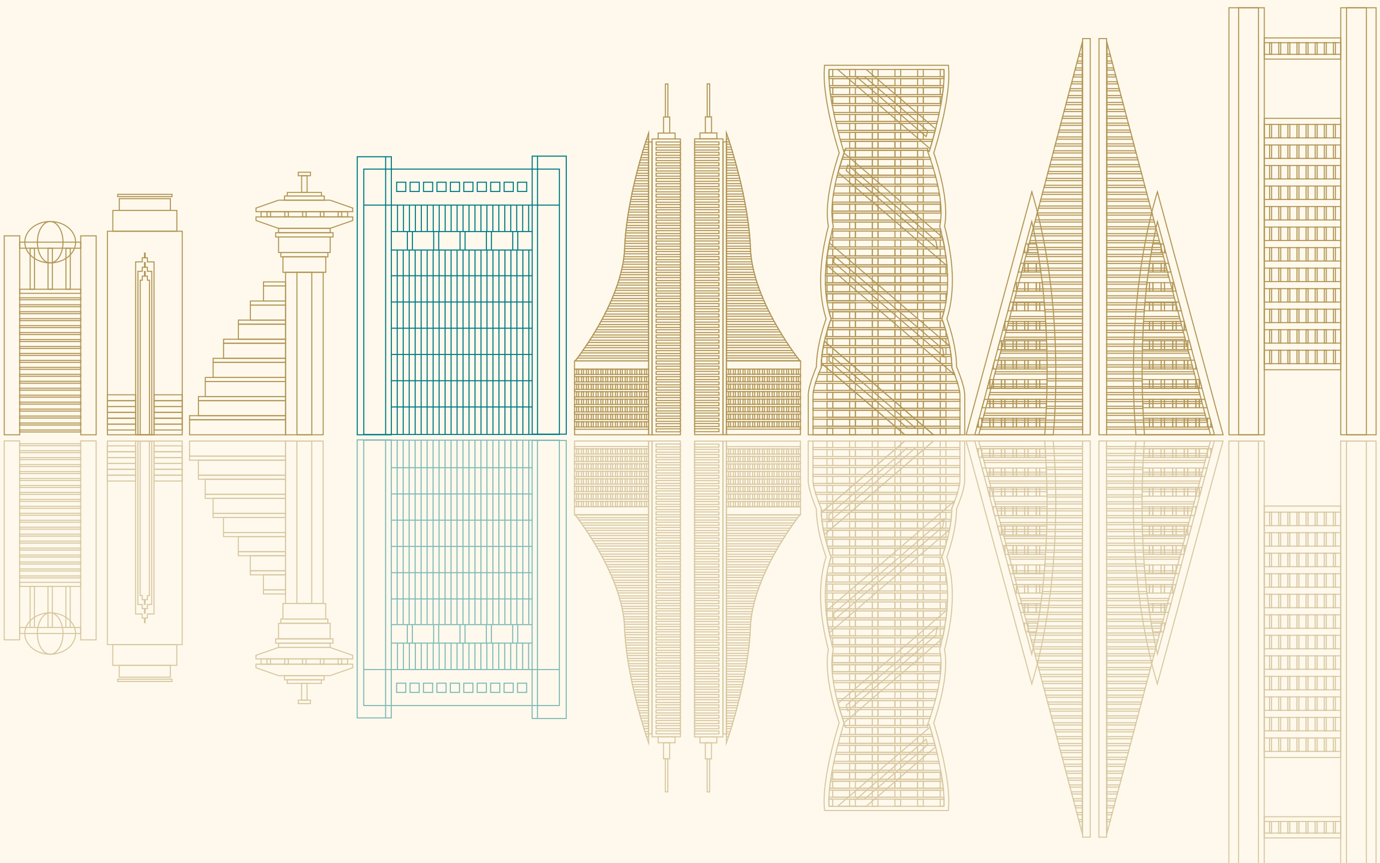
1986

bni was formed by merging the operations of BIC and NIC.

1998

BNH was listed on Bahrain Stock Exchange (currently known as Bahrain Bourse).

1999



2008

Bahrain National Holding Company (BNH) took a significant stake in Al Kindi Specialised Hospital.

2009

Bahrain National Holding Company (BNH) established Ultra Tune Middle East in Bahrain with an Australian partner.

2015

iAssist Middle East W.L.L became a wholly owned subsidiary of Bahrain National Holding Company (BNH) after acquiring the Australian partners shares in Ultra tune.

BOARD OF DIRECTORS

Farooq Yusuf Almoayyed
Chairman

Nationality: Bahraini
Non-Executive Director
Board Member since 2008

- Chairman of Nomination, Remuneration and Corporate Governance Committee of Bahrain National Holding

Chairman:
- Y. K. Almoayyed & Sons B.S.C. (c), Bahrain
- Y. K. Almoayyed & Sons Property Co, Bahrain
- Almoayyed International Group, Bahrain
- National Bank of Bahrain B.S.C., Bahrain
- Bahrain Duty Free Shop Complex, Bahrain
- Gulf Hotels Group, Bahrain
- Ahlia University, Bahrain
- Small & Medium Enterprises, Bahrain
- Ibn Khuldoon National School, Bahrain

Director:
- Investcorp Bank B.S.C., Bahrain
- Economic Development Board, Bahrain

Abdulhusain Khalil Dewani
Vice Chairman

Nationality: Bahraini
Non-Executive Director
Board Member since 1999

- Chairman of Bahrain National Insurance Company
- Chairman of Executive & Investment Committee of Bahrain National Holding
- Chairman of Nomination, Remuneration and Corporate Governance Committee of Bahrain National Insurance
- Vice Chairman of Nomination, Remuneration and Corporate Governance Committee of Bahrain National Holding

Chairman:
- Dawani Group Holding B.S.C, Bahrain
- Deeko Bahrain W.L.L., Bahrain
- Dawanco W.L.L., Bahrain
- Dawanco Industries W.L.L., Bahrain
- Dawani Properties S.P.C, Bahrain
- Tominna Trading W.L.L., Bahrain
- Legend Paints Company W.L.L., Bahrain
- Collection W.L.L., Bahrain
- Bahrain Foundation Construction Company, Bahrain
- Al Jazira Group, Bahrain
- American Cultural & Educational Centre, Bahrain

Vice- Chairman
- Delmon Poultry Company W.L.L., Bahrain

Abdulrahman Mohamed Juma
Director

Nationality: Bahraini
Non-Executive Director
Board Member since 1999

- Chairman of Bahrain National Life Assurance
- Chairman of Nomination, Remuneration and Corporate Governance Committee of Bahrain National Life Assurance.
- Member of the Audit, Compliance & Risk Committee of Bahrain National Holding

President:
- Abdulrahman bin Mohamed Juma & Sons, Bahrain W.L.L.

Chairman & Managing Director:
- UNEECO B.S.C (Closed)

Chairman:
- Prudent Solutions W.L.L.
- Universal Laboratories W.L.L.

Vice Chairman:
- Prudent, Saudi Arabia J/V

Director:
- Bin Juma Holdings

Redha Abdulla Faraj
Director

Nationality: Bahraini
Independent Non-Executive Director
Board Member since 2014

- Chairman of iAssist Middle East
- Director in Bahrain National Insurance & Bahrain National Life Assurance
- Chairman of Audit, Compliance & Risk Committee of Bahrain National Holding, Bahrain National Insurance & Bahrain National Life Assurance
- Member of Nomination, Remuneration and Corporate Governance Committee of Bahrain National Holding, Bahrain National Insurance & Bahrain National Life Assurance

Member:
- Shura Council, Bahrain

Director:
- Bahrain Maritime and Mercantile International (BMMI), Bahrain
- YK Almoayyed and Sons B.S.C (c), Bahrain
- Almoayyed International Group, Bahrain
- Almoayyed Contracting Group, Bahrain
- National Concrete Company W.L.L., Bahrain
- Banader Hotels Company B.S.C, Bahrain
- National Finance House, Bahrain

Founder of:
- Al Faraj Consulting Co. W.L.L., Bahrain
- Al Faraj Horizon Developments Co. W.L.L., Bahrain

Ghassan Qasim Fakhroo
Director

Nationality: Bahraini
Non-Executive Director
Board Member since 2008

- Director of Bahrain National Insurance
- Chairman of the Executive and Investment Committee of Bahrain National Insurance

Chief Executive:
- Mohamed Fakhroo & Bros., Bahrain

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

Director and Partner:
- Qasim Mohamed Fakhroo & Sons, Bahrain
- Fakhroo Investment Company, Bahrain
- Areej Trading Establishment, Bahrain

Director:
- Alkindi Specialized Hospital, Bahrain
- National Institute for Industrial Training, Bahrain
- General Poultry Company B.S.C., Bahrain
- National Poultry Company B.S.C, Bahrain

BOARD OF DIRECTORS (CONTINUED)

Jehad Yusuf Amin

Director

Nationality: Bahraini
Non-Executive Director
Board Member since 1999

- Director of Bahrain National Insurance
- Vice Chairman of the Executive & Investment Committee of Bahrain National Holding
- Vice Chairman of Nomination, Remuneration and Corporate Governance Committee of Bahrain National Insurance
- Member of Nomination, Remuneration and Corporate Governance Committee of Bahrain National Holding
- Member of Executive & Investment Committee of Bahrain National Insurance.

Vice Chairman:
- Banader Hotels, Bahrain

Director:
- General Company for Trading & Food industries (TRAFCO), Bahrain
- Bahrain Maritime & Mercantile Company (BMMI), Bahrain
- Bahrain Livestock, Bahrain
- Bahrain Cinema, Bahrain
- United Insurance, Bahrain
- Bahrain Duty Free Complex, Bahrain

Ali Hasan Mahmood

Director

Nationality: Bahraini
Board Member since 1999 up to 2010 and re-elected in 2014

- Member of Audit, Compliance and Risk Committee of Bahrain National Holding

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 Décor International, Bahrain
- Amaan International Safety Services Co. W.L.L., Bahrain

Director:
- Bahrain Specialist Hospital
- Bahrain Businessmen Association

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

Sami Mohamed Zainal

Director

Nationality: Bahraini
Non-Executive Director
Board Member since 2008

- Vice Chairman of Bahrain National Insurance
- Vice Chairman of iAssist Middle East W.L.L.
- Vice Chairman of the Executive and Investment Committee of Bahrain National Insurance
- Member of Audit, Compliance and Risk Committee of Bahrain National Insurance

Chairman:
- General Poultry Company, Bahrain

Director :
- GCC Commercial Arbitration Center, Bahrain
- Zainal Enterprises, Bahrain
- Tony Luke's, Bahrain
- Life Marketing S.P.C, Bahrain

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

Talal Fuad Kanoo

Director

Nationality: Bahraini
Non-Executive Director
Board Member since 2008

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

Managing Director:
- E. K. Kanoo B.S.C (c), Bahrain

Director:
- Motor City, Bahrain
- McLaren Bahrain

Ayad Saad Algosaibi

Director

Nationality: Bahraini
Independent Non-Executive Director
Board Member since 2008

- Director of Bahrain National Insurance Company
- Vice Chairman of the Audit, Compliance & Risk Committee of Bahrain National Holding, Bahrain National Insurance & Bahrain National Life Assurance

Executive Director:
- Khalifa A. Algosaibi Investment Co. CJSC, Dammam, Saudi Arabia

EMBARKING ON A JOURNEY OF PROGRESSION

AERIAL VIEW OF DIPLOMATIC AREA - MANAMA 1960s

CHAIRMAN'S MESSAGE

"I am pleased to report that the Group successfully navigated the market challenges and grew both the top and bottom-line in FY 2018."

On behalf of the Board of Directors, I am pleased to share with you the Annual Report of Bahrain National Holding B.S.C. (BNH) for the financial year ended on 31st December 2018.

In 2018, the Bahrain government intensified its efforts to restructure the economy and implement its fiscal balance program with the aim of a balanced budget by 2022. The key focus areas included reducing government operational expenditure, streamlining subsidies distribution, improving the efficiency of government expenditure and simplifying processes. This combined with the USD 10 billion support package should put the country's finances on a stronger footing. We expect that these steps will result in a challenging environment in the interim and the focus of the Group is on maximizing the opportunities presented by these factors, while minimizing any negative impacts.

I am pleased to report that the Group successfully navigated the market challenges and grew both the top and bottom-line in FY 2018. This is a commendable achievement given the intensifying competition in the insurance industry in Bahrain and the increasing turmoil witnessed in the global financial markets, particularly in the latter half of 2018.

Our insurance subsidiaries not only increased their topline by bagging some of the larger accounts in the island but were also successful in managing their claims in 2018. This is even more creditable in view of the strong technical reserves maintained by the Group. Insurance reserves were at 109% of net earned premium compared to 100% in FY 2017. The Group took several proactive steps in claims control while being careful to make sure that this does not in any way impact the quality of services our customers expect from us.

Going forward, competition is likely to persist as the market consolidation that took place over the past 2 years will instill some level of pricing discipline in the market. We also expect liquidity conditions to remain tight in 2019, which means that we need to be increasingly vigilant on counterparty risks across all the intermediaries and customers the Group deals with. Increasing regulations and associated costs are also expected to impact business models. We believe that this environment presents the Group with an opportunity to pick up market share from weaker players, given our balance sheet strength as well as liquidity position.

We expect the insurance market growth to accelerate over the medium term, on the back of USD 32.5 billion of infrastructure and development projects to be completed in the coming years. Apart from the GCC Fund contribution of USD 7.5 billion, the private sector is expected to invest USD 15 billion with the balance from government owned entities. This offers a strong foundation for insurance market growth.

While all insurance segments of the Group's insurance subsidiaries witnessed growth in premiums, we are particularly pleased with our performance in medical and general insurance, which contributed the most to the growth. The Group's gross premiums for FY 2018 grew by 16.2% to BD 33.6 million.

Gross underwriting profit increased by 33.6% to BD 4.7 million compared to BD 3.5 million a year earlier. Net underwriting profits witnessed a turnaround in 2018 with a profit of BD 724 thousand, compared to a loss of BD 432 thousand last year.

A 23% increase in the investment portfolio income and lower impairments helped the Group offset the lower share of associate profits. These profits were achieved while maintaining a relatively liquid portfolio, and in the face of difficult market conditions particularly in the last quarter of 2018. The Group's net profit for 2018 of BD 3.5 million rose by 55% from BD 2.3 million in 2017. Total Equity reached BD 51.4 million and basic and diluted earnings per share were 29.4 fils at the close of the year.

The performance of our associate companies continues to be a vital component of the Group's resilience and business model. While 2019 is widely expected to be a volatile year for investments in the wake of increased protectionism, trade-war concerns, and a late stage business cycle, we expect that our disciplined investing philosophy, portfolio diversification and significant cash levels will act as a buffer against this.

The Group had embarked on an upgrade of its core IT system in mid-2018 and this is expected to go live by late 2019. We view the core system upgrade as a key first step in the eventual digitalization of our insurance services and related operations. This will help the Group align with the government and regulator's thrust towards adopting financial technologies in offering more innovative services as well as increasing efficiencies.

The Board continues to prioritize human capital as the most valuable resource of the company with continuous training and skills upgradation being treated as key component to the success of the Group's strategic plan. We are thankful to the support offered by Tamkeen and other government agencies in this regard.

On behalf of the Board of Directors, I would like to express my sincere appreciation and gratitude to His Majesty King Hamad bin Isa Al Khalifa, His Royal Highness Prime Minister Prince Khalifa bin Salman Al Khalifa, and His Royal Highness the Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister, Prince Salman bin Hamad Al Khalifa for their wise leadership and support of the Kingdom's financial sector.

I also extend my thanks to all the ministries, institutions, and government agencies, especially the Ministry of Industry, Commerce and Tourism, the Central Bank of Bahrain, the Ministry of Finance, Tamkeen and the Bahrain Bourse, for their guidance and continuous support.

I would also like to take this opportunity to thank all our shareholders, customers and business partners for their continuous trust and loyalty, and the members of the Board of Directors, the Executive Management and all employees for their efforts and dedication during 2018.

Farooq Yusuf Almoayyed
Chairman of the Board

EXECUTIVE MANAGEMENT

Sameer AlWazzan

Chief Executive
Bahrain National Holding

An internationally recognized veteran of the insurance industry for over three decades.

Mr. Sameer AlWazzan is the Board Vice-Chairman and Chairman of the Audit Committee of United Insurance Company, Board Vice-Chairman of Arabian Shield Cooperative Insurance Company (KSA) and Board member of National Finance House, Al Kindi Specialised Hospital and Doha Bank Assurance Company (Qatar).

He was the Founder and Board Committee Member of Central Bank of Bahrain (CBB) "Motor Accident Compensation Fund" and served as a Member of the Bahrain Chamber of Commerce and Industry (BCCI) "Banking & Insurance Sectors" and "Arbitration & Legal" Committees.

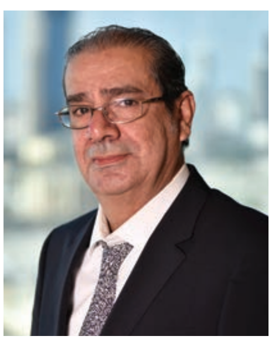
Mr. AlWazzan held Senior management roles such as General Manager of National Insurance Company, General Manager of UNITAG Group, General Manager of Bahrain Kuwait Insurance Company, CEO of Solidarity Group and CEO of Al Khazna Insurance Company. He also has 10 years (1972–1982) of experience working as an Instrument Engineer at Bahrain Petroleum Company (BAPCO).

Mr. AlWazzan completed Management Studies from renowned institutions including Stanford University, California, USA, Manchester Business School, UK, Swansea Polytechnic, UK, Huddersfield Polytechnic, UK and University of Bahrain. He joined BNH as Group Chief Executive in January 2014.

Anand Subramaniam

Chief Investment and Financial Officer
Bahrain National Holding

Anand Subramaniam has over 20 years of experience in the field of investments and asset management. He holds a Chartered Financial Analyst designation from the CFA Institute, USA and an MBA and BBA from Sardar Patel University, Gujarat, India. He also holds a Chartered Alternative Investment Analyst designation from the CAIA Association, USA. Prior to this, he was the Head of Investments at Bahraini Saudi Bank BSC and a Fund Manager at TAIB Bank BSC. His other work experience include working for Fincorp SAOG as VP-Asset Management and Oman Arab Bank as an Investment Officer. He started his career as an equity researcher in India focusing on the IT, banking and cement sectors. He joined BNH in 2010, where he is responsible for managing the group's investment portfolio and overseeing the groups' finance function.



Masood Bader

General Manager
Bahrain National Insurance

Masood Bader joined bni in 2010, bringing 23 years of insurance and reinsurance experience to the company. An accounting major, he started his career as a Claims Assistant with Arab Insurance Group (ARIG), working his way up to Executive Manager in charge of an international portfolio of Marine and Energy. In the six years prior to joining bni, he worked as an Insurance and Reinsurance Broker, first for Arthur J. Gallagher Middle East as Regional Director, and then for AON Middle East as Vice President.

Enas Asiri

General Manager
Bahrain National Life Assurance

Enas Asiri joined Bahrain National Life Assurance (bnl) in September 2017 as the Assistant General Manager. Following the completion of her Bachelor's degree in Occupational Therapy, Enas has pursued her Insurance Studies completing the Advanced Diploma of the Chartered Insurance Institute (ACII); and progressed to attain the Fellowship of the Chartered Insurance Institute (FCII) in 2015. She also holds Masters of Business Administration (MBA) from Strathclyde University. Prior to joining bnl, she was an Assistant Director in the Life and Medical Department at Arab Insurance Group (Arig). She started her career in insurance in 2007 as part of Arig's prestigious Graduate Development Program, after which she has specialised in Life Underwriting, and has headed the Medical Reinsurance operations. In addition to her assigned responsibilities in risk management, business developments and exploring new markets; Enas regularly delivers regional training workshops, and conducts insurance training courses as a part-time lecturer at BIBF.

Eman Mujali

Deputy General Manager

Bahrain National Insurance

Eman Mujali has been a part of bni since 1995, having over 20 years of experience in insurance. Her technical skills and experience, together with her talent for customer service, placed Eman in a Business Development position as a Deputy General Manager. She has qualifications in Business Administration and Marketing from the University of Bahrain, ACII in Insurance from The Chartered Insurance Institute and has also attended a number of technical, personal development and management courses.

Rayan Al Mahmood

Assistant General Manager

Bahrain National Insurance

Rayan Al Mahmood joined bni in December 2013 as a Senior Manager at the Commercial Insurance Division.

Following the completion of his Bachelor's degree in Business Informatics, Rayan has pursued his Insurance Studies at the BIBF completing the Insurance Diploma.

Mr. Al Mahmood started his career in insurance in 2003 where he worked in Takaful International Motor department and then for the next 8 years he served in several departments such as Fire & General Accidents, Reinsurance and Business Development. In 2010 he moved to the Marsh and McLennan specializing in Financial Institutions and Professional Services and then moved back to Takaful International in 2012 to serve as head of Special Risks and Major Accounts.

Currently Mr. Al Mahmood heads the Commercial Insurance Division at bni where he overlooks the underwriting, claims, sales and business development functions.

Hassan Hashim

Assistant General Manager

Bahrain National Insurance

Hassan has 25 years of experience in the insurance field particularly in motor insurance underwriting and claim management as well as business development. He joined bni in 1994 and prior to this he was an Assistant Admin. Manager at United Gulf Factory. Hassan holds a Diploma in Business Administration from ABE- West London College U.K and Diploma in Advance Management (with distinction) from Bahrain University. He also holds an Insurance Diploma (student of the year award) from BIBF 1995 and Advanced Insurance Diploma (student of the year award) from BIBF 1996.

Sergio Martinez Fernandez

General Manager

iAssist Middle East

With over 18 years of experience in motor-related services and the insurance field in various countries in the Middle East, Sergio Martinez Fernandez joined iAssist as General Manager in 2015. Prior to joining iAssist, he was Financial Director at MAPFRE Insurance and CEO Advisor/Strategy and Planning Director at Al-Etihad Insurance, KSA.

He also worked as an advisor in Strategy and Planning for the Ministry of Health in the Kingdom of Bahrain and as an External Expert Consultant with Grant Thornton. Mr. Fernandez holds an MBA in CEF from Financial Economic Centre, Madrid, Spain, a BS in Business Economics from University Complutense of Madrid (UCM), Spain and a CII Award from Bahrain Institute of Banking and Finance (BIBF).

CHIEF EXECUTIVE'S MESSAGE

"The significant turnaround in underwriting coupled with the strong investment performance, helped drive up the Group's Net Profit to BD 3.5 million, an increase of 55%."

It is my pleasure to present to you the Annual Report of Bahrain National Holding B.S.C (BNH) for the financial year ended on 31st December 2018. This year is of added significance to all of us as our group celebrates its 50th year anniversary.

Overview

The strong operational performance for 2018, was built on the actions taken in late 2017 to improve internal processes to control claims. Despite continuing claims inflation, control over claims was a key highlight of 2018. We take pride in the fact that this has been achieved against a background of prudent reserving. We are also pleased with the topline growth of our subsidiaries in a highly competitive market.

This performance in underwriting was complemented by the performance of our diversified investment portfolio of marketable securities. The portfolio outperformed very challenging market conditions, particularly in the second half of 2018, while maintaining Group liquidity at comfortable levels. Group costs were under control despite inflationary pressures and additional conservative provisions taken on receivables.

"The Group has since completed 50 years of service to our customers, stakeholders and the wider community. Over the years we have evolved into a diversified insurance group with a wide network of branches throughout the Kingdom of Bahrain and a strong brand identity for our insurance subsidiaries."

Group Financial Performance

During the year, the Group exceeded its internal targets set for its core insurance business. There were significant new contract wins and steady renewal of existing businesses. This allowed the Group to grow gross premiums for FY 2018 by 16% to BD 33.6 million. The claims ratio for 2018 was 72% compared to 78% last year driving the 34% increase in Gross Underwriting Profit to BD 4.7 million in 2018. Net underwriting profits of BD 724 thousand in 2018 was a significant turnaround compared to the loss of BD 432 thousand last year. This, coupled with the strong investment performance, helped drive up Group net profit to BD 3.5 million, an increase of 55%. Basic and diluted Earnings per share increased to 29.4 fils compared to 18.8 fils in 2017.

Group Subsidiaries' Performance

Bahrain National Insurance (bni)

Bahrain National Insurance (bni) gross written premiums grew by 12% to BD 25.2 million in 2018 compared to BD 22.6 million in 2017. Growth came from new business wins, particularly in Property and Marine lines of business. Motor premiums were flat YoY despite the fall in new vehicle sales as bni improved its service levels and took many steps to defend its prime position in the market. Lower consumer spending power is manifesting itself in a shift to lower value cars as well as third party cover. The steps taken in 2018 to control claim costs, including rationalization of service providers and improvements in internal processes, paid off with claims ratio for bni dropping to 74% from 82% last year. The net underwriting profit for bni stood at BD 265 thousand compared to the loss of BD 930 thousand in 2017. Thanks to these underwriting results, coupled with the strong performance of investment portfolio, the Company's net profit rose to BD 1.95 million compared to BD 187 thousand in 2017.

Bahrain National Life Assurance (bnl)

Bahrain National Life Assurance (bnl) gross written premiums grew by 31% to BD 8.6 million in 2018 compared to BD 6.5 million in 2017. This is one of the fastest rates of growth in the history of the company, as increased engagement with our partners as well as exemplary services, paid off. Large wins in the medical business was complemented by excellent growth in group credit life. Claims trends were in general higher, particularly in medical and pricing pressures continue in a market dominated by a few large accounts and broker driven business. Net underwriting profit in 2018 grew by 19% from BD 294 thousand in 2017 to BD 351 thousand. The Company's net profit rose from BD 634 thousand in 2017 to BD 851 thousand in 2018, an increase of 34%.

CHIEF EXECUTIVE'S MESSAGE (CONTINUED)

iAssist Middle East
Our subsidiary continues to distinguish itself as a reliable and quality provider of road assist and car repair services for our customers. Several internal process improvements and cost rationalization have resulted in continuing profitability despite increased competitive pressures on the revenue side.

Investments and Associates
The Group's net investment income increased by 44% in 2018 to BD 2.3 million. The underlying portfolio of around BD 46.5 million, including cash, is diversified geographically and across asset classes. Trade conflict, slowing growth and valuation concerns led to a volatile market particularly in the second half of 2018. We had ramped up the cash levels anticipating elevated volatility, and the relatively better risk to return payoffs in local bank deposits and T-bills compared to other investments. This positioning was vindicated as our portfolio substantially outperformed benchmarks.

Our associate stakes with a carrying value of BD 17.6 Million, are a crucial part of the Group's portfolio. All the companies grew their respective bottom lines in 2018, except for Arabian Shield Insurance Company. Although the company remains profitable, certain unanticipated business disruptions and general softness in the market affected results. A number of proactive steps have been taken by the management and we look forward to a rebound in the medium term.

Other Group Activities
The project to upgrade the Group's core IT system is progressing smoothly and is set for completion in 2019. This exercise is resulting in significant changes to our internal systems and processes, which should benefit the Group in the long run. We believe that this is the first step in our journey towards the eventual digital transformation of the insurance business which will improve customer services, enable innovation as well as raise internal productivity and efficiencies. During the year, the Group has also successfully adapted our systems for the Value Added Tax introduced in Bahrain with effect from January 2019.

The Group continues to prioritize employee skill development and thanks Tamkeen for its strong support in this area. All Group employees attended an IT security awareness program followed up by weekly online tips, in order to ensure the security of our IT infrastructure. Employees also undertook programs in various areas of insurance including, big data analysis and training on Amazon Web Services. The employee Bahrainisation rate for the Group and insurance subsidiaries alone, improved from 82% in 2017 to 85% in 2018.

Regulatory Developments
Real Estate Regulatory Authority (RERA) in cooperation with the Bahrain Insurance Association and Swiss Re, a AA rated reinsurance launched an innovative new insurance bond that will help developers of off-plan sale projects to meet RERA regulatory requirement by either depositing funds in a specified development project escrow account, a Bank Guarantee, or by the Insurance Bond. This bond will not only protect the rights of investors in off-plan real estate projects from the risks of non-execution, but will also help developers to better organize their financing and liquidity. The Law on compulsory health insurance is expected to be enacted during 2020. We expect this regulation to add significantly to the growth of the health insurance sector in Bahrain.

Group's Golden Jubilee
Our Group was formed as a culmination of the merger of the earliest insurance companies in Bahrain, Bahrain Insurance Company - which was founded in the year 1968 and started its operations in 1969, and National Insurance Company which was founded in the year 1982. In 1998, the two companies merged to form Bahrain National Insurance. The Group has since completed 50 years of service to our customers, stakeholders and the wider community. Over the years we have evolved into a diversified insurance group with a wide network of branches throughout the Kingdom of Bahrain and a strong brand identity for our insurance subsidiaries. We have a commanding market presence in all insurance segments. Our subsidiary, Bahrain National Life Assurance Company which was established in 2000, continues to be the single national company licensed to operate as an independent life insurance company. It is a matter of pride to us that we are the largest Bahraini owned insurance group in the Kingdom.

Economic Outlook
The recently unveiled fiscal balance program aims to systematically target a reduction in the fiscal deficit by adjusting Government expenditure without impacting economic growth. Several major infrastructure projects primarily in transportation and manufacturing are in the works heading into 2019. These include the expansion project of Bahrain International Airport, power project, the oil refinery expansion and modernization, LNG infrastructure and many roadworks and housing projects. There is also considerable investment in tourism related infrastructure as well with 22 new hotels under construction in Bahrain.

"We will continue to focus on our human capital and Information Technology infrastructure to drive growth for our group and increase the shareholder value."

Real GDP growth is expected to remain resilient heading into this year. The latest IMF Mission estimated Bahrain's GDP growth in 2018 at 1.8%. For 2019, IMF estimates growth remaining at 1.8% due to the fiscal consolidation measures being undertaken by the Government. Credit growth in Bahrain has also been robust in 2018. Based on Bahrain EDB reports, as on November 2018, bank credit grew by 9.2% YoY with the aggregate value of business loans rising by 9.7%. The macro background thus presents an opportunity for insurance operations to grow at a healthy pace. However, we expect elevated credit risks due to the tighter liquidity in certain sectors.

Heading into 2019, the outlook for the insurance sector is promising as the benefits of consolidation in the past 2 years are realized by the current players. The additional regulatory and technology costs for firms in the financial services sector and an emphasis on financial strength will favor established players. The eventual introduction of compulsory health insurance in Bahrain could be a significant positive for 'bnl'. We believe a combination of control over claims and costs as well as efficient customer service will be key differentiators in 2019.

Ultimately we will continue to focus on our human capital and Information Technology infrastructure to drive growth for our group and increase the shareholder value.

We aim to retain our position as the primary choice of customers when it comes to insurance services.

Sameer AlWazzan
Chief Executive

SUBSIDIARIES

Bahrain National Insurance

Established: 1998
Capital: BD6.5 million
Bahrain National Insurance Company B.S.C.(c) is a wholly owned subsidiary of Bahrain National Holding Company and the General Insurance arm of the Group, offering a full range of products for businesses and individuals.

Bahrain National Life Assurance

Established: 2000
Capital: BD5 million
Bahrain National Life Assurance Company B.S.C. (c) is a 75% owned subsidiary of Bahrain National Holding and is the only local company specializing exclusively in providing a wide range of life and medical insurance products and services for businesses and individuals.

iAssist Middle East

Established: 2010
Capital: BD1.2 million
iAssist Middle East W.L.L is a wholly owned subsidiary of Bahrain National Holding Company (BNH). It is a state of art car body shop that offers a full range of services, each designed to be performed in a structured series of operating procedures ensuring faster and more efficient performance. That is in addition to the 24hr Roadside Assistance services.

ASSOCIATES

Al Kindi Specialised Hospital
Established: 2008
Paid-up capital: BD2.2 million
BNH share: 27%
Al Kindi is a private specialist hospital offering high standards of primary and secondary medical care. Al Kindi Specialised Hospital is equipped with a 24-hour clinic, radiology unit, medical laboratory and pharmacy.
Website: www.alkindihospital.com

Arabian Shield Cooperative Insurance Company
Established: 2006
Paid-up capital: SR200 million
BNH share: 15%
The Arabian Shield Cooperative Insurance Company provides general (commercial and industrial) and medical insurance cover in the Kingdom of Saudi Arabia.
Website: www.der3.com

National Finance House
Established: 2005
Paid-up capital: BD7.5 million
BNH share: 34.93%
National Finance House (NFH) specialises in providing consumer and corporate financing for the purchase of private, commercial and heavy vehicles.
Website: www.nfh.com.bh

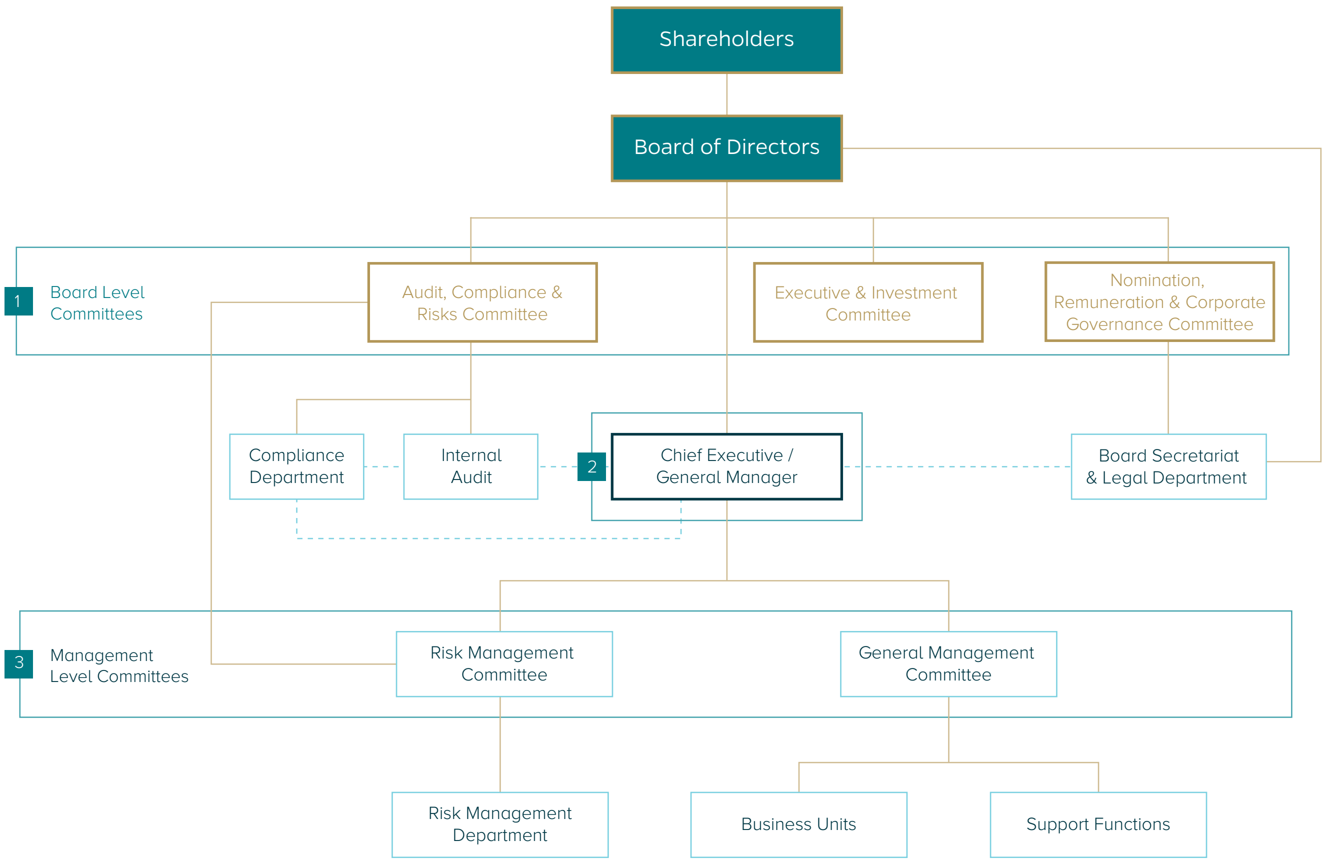
United Insurance Company
Established: 1986
Paid-up capital: BD5 million
BNH share: 20%
The United Insurance Company (UIC) provides insurance cover for passengers and vehicles crossing the King Fahad Causeway linking the Kingdom of Bahrain and Saudi Arabia.
Website: www.uic.bh

SECURING
A BRIGHT FUTURE

AERIAL VIEW OF DIPLOMATIC AREA - MANAMA 1990s

CORPORATE GOVERNANCE

Group Governance and Organization Structure



Notes

1. Board Committees of each respective Company; Executive and Investment Committee for BNH and bni only.
2. CEO for BNH; GM in the case of the subsidiaries bni, bnl and iAssist Middle East.
3. Management Committees are joint committees and included in the services provided by the holding company BNH; and other units are for each respective companies bni & bnl as applicable to the operation of that company.

Corporate Governance Commitment

Bahrain National Holding Company commits to undertake a system that is extracted from the corporate governance code of Bahrain, which was enacted by the Ministry of industry, commerce and tourism and the Central Bank of Bahrain in 2010. BNH awards the system high importance by developing and enhancing the implementation of the corporate governance requirements in every aspect of the operations and responsibilities of the company. BNH sees corporate governance as a system whereby the company's business operations are financially and commercially directed and controlled.

The governance organizational structure defines the distribution of rights and responsibilities of the various parties involved in the company, such as Shareholders, Board of Directors, Board Committees, Executive Management, Managers and other Stakeholders. In addition, it explains the rules and procedures for making decisions to the company and its strategy, in order to find a model that determines the company's objectives and the means that should be followed to achieve these objectives and performance monitoring.

The Structure of Corporate Governance

The Governance model applied in Bahrain National Holding Company consists of three tracks as follows:

1. Business units apply group's strategies in dealing with the risks, according to risks identification index.
2. Risk management system is responsible for the selection and ongoing monitoring of risks faced by the company in various areas of its business and suggests ways to avoid those risks or mitigate the severity of its impact as much as possible. Risk Management Committee is responsible for the verification of full implementation of this system by the concerned parties in the company.
3. The overall responsibility of risk management rests with the Board of Directors. In discharging its duties and responsibilities towards risk management, the Board is supported by the ACRC. The ACRC is the highest authority (after the Board) for taking decisions related to all risk and governance issues.

Central Bank of Bahrain

The group maintained its full commitment to all rules and regulations issued by the Central Bank of Bahrain, without reporting any violations during the year 2017.

The Board

BNH's Board of Directors consists of 10 non-executive members, elected and approved by the Central Bank of Bahrain in March 2017 for a term of 3 years. Following the election of the directors, each one signed a Letter of Appointment, setting out the terms of their tenure, duties and responsibilities, remuneration, attendance fees, code of conduct and confidentiality.

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

CORPORATE GOVERNANCE (CONTINUED)

Directors' Attendance at Board Meetings in 2018

Board Members	27 Feb	14 May	13 Aug	13 Nov	9 Dec
Farooq Yusuf Almoayyed	✓	✓	✓	✓	✓
Abdulhusain Khalil Dewani	✓	✓	✓	✓	✓
Abdulrahman Mohamed Juma	✓	✓	✓	✓	✓
Jehad Yusuf Amin	✓	✓	✓	✓	✓
Sami Mohamed Zainal	✓	✓	✓	✓	✓
Ayad Saad Algosaibi	✓	✓	✓	✓	✓
Ghassan Qasim Fakhroo	✓	✓	✓	✓	✓
Talal Fuad Kanoo	✓	✓	✓	×	✓
Ali Hasan Mahmood	✓	✓	✓	✓	✓
Redha Abdulla Faraj	✓	✓	✓	✓	✓

- Mr. Farooq Yusuf Almoayyed is the Chairman of the board.
- The induction and orientation process for the Board of Directors is carried out with the assistance of the Chief Executive and the Board 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 must attend at least 75% of meetings held during a financial year.
- The remuneration for Directors is determined by the shareholders at the Annual General Meeting.

Board of Directors & Executive Management Interests – January to December 2018

Name of Shareholder	Number of Shares As At 01/01/2018	Number of Shares As At 31/12/2018	Changes
Directors			
Farooq Yusuf Almoayyed (Chairman)	1,234,088	1,295,792	61,704
Abdulhusain Khalil Dewani (Vice Chairman)	1,244,907	1,307,152	62,245
Abdulrahman Mohamed Juma	635,996	667,794	31,798
Jehad Yusuf Amin	566,157	3,000,000	2,433,843
Ali Hasan Mahmood	505,601	530,881	25,280
Ayad Saad Algosaibi	100,000	105,000	5,000
Sami Mohamed Zainal	139,876	146,869	6,993
Talal Fuad Kanoo	144,798	152,037	7,239
Ghassan Qasim Fakhroo	100,000	105,000	5,000
Executive Management			
Sameer AlWazzan (CEO)	109,278	114,741	5,463

Description of the transactions of the directors, their spouses and sons on the Company's shares during the year 2018 according to the following table:

Name	Position/kinship	Shares held as at 31/12/2018	Total sale transaction	Total purchase transaction
Jehad Yusuf Amin	Non-executive Director	3,000,000	-	3,911
Jehad Yusuf Amin	Non-executive Director	3,000,000	-	20,000

Board Committees

Audit, Compliance & Risks Committee (ACRC)

Responsibilities

- Oversee the selection and compensation of the external auditor for appointment and approval at the Board and Annual General Meeting.
- Approve the appointment, replacement, reassignment or dismissal of the Head of Internal Audit.
- Review and approve the annual internal audit, risk and compliance plans.
- Review audited annual, quarterly and half-yearly financial statements, and discuss with the Board and obtain its approval.
- Assist in developing the risk management framework.
- Ensure compliance with all relevant regulatory and legal rules.
- Carry out the instructions of the Board for all investigations.
- Review arrangements for whistle blowing and ensure that whistle blowers are heard and their rights are safeguarded.
- Oversee procedures and internal controls consistent with the corporate governance structure.
- Monitor the effectiveness and integrity of internal control systems.
- Ensure that all ACRC members are familiar with significant accounting and reporting issues, practices and management estimates including recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Review and discuss the adequacy of internal audit personnel, procedures, internal controls and compliance procedures, and any risk management systems.
- Ensure processes are established and maintained to address critical financial reporting risks and transparency of financial reporting.
- Assess independence, accountability and effectiveness of external auditor.

Directors’ Attendance at ACRC Meetings in 2018

Members	13 Feb	7 May	6 Sep	5 Nov
Redha Abdulla Faraj	✓	✓	✓	✓
Ayad Saad Algosaibi	✓	✓	✓	✓
Abdulrahman Mohamed Juma	✓	✓	✓	✓
Ali Hasan Mahmood	✓	✓	✓	✓

- Mr. Redha Abdulla Faraj is the Chairman of the ACRC.
- Mr. Redha Abdulla Faraj and Mr. Ayad Saad Algosaibi are independent members.
- The ACRC is required to meet at least four times in a financial year.

Exectuive & Investment Committee (EIC)

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. To ensure that the Group has in place tools to monitor performance and that its Key Performance Indicators (KPI) are being checked and achieved
- Mr. Abdulhusain Dewani is the Chairman of the Executive & Investment Committee (EIC)
- The EIC is required to meet when and as required.

Nomination, Remuneration & Corporate Governance Committee (NRCG)

Responsibilities

- Monitor the establishment of an appropriate Corporate Governance framework.
- Nomination of members of Board and Sub-committees CEO/GM, CFO and Corporate Secretary
- Make necessary recommendations to the Board as to changes of 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, Committees and Senior Executives.

Directors’ Attendance at NRCG Meetings in 2018

Members	27 Feb	9 Dec
Farooq Yusuf Almoayyed	✓	✓
Abdulhusain Khalil Dewani	✓	✓
Jehad Yusuf Amin	✓	✓
Redha Abdulla Faraj	✓	✓

- Mr. Farooq Yousif Almoayyed is the Chairman of the NRCG.
- The NRCG is required to meet when and as required.

Management

The Board has delegated the responsibility for the day-to-day management of the Group's Business to the Chief Executive Officer (CEO), who is supported by an experienced Senior Management team and a number of Operational Committees. The names and profiles of the CEO and Senior Management team are listed at the front of this annual report.

Operational Committees

General Management Committee (GMC)

Objectives

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

Membership

- Sameer AlWazzan, Chief Executive – Chairman
- Anand Subramaniam, Chief Investment and Financial Officer – Member
- Masood Bader, General Manager, bni – Member
- Eman Mujali, Deputy General Manager, bni - Member
- Anantha Ramani, Senior Manager-Finance – Member
- Enas Asiri, General Manager bnl - Member
- Samia Saleh, Human Capital Senior Manager – Committee Secretary
- Bashayer Dhaif, Corporate Communications Senior Manager – Member
- Mohammed Al Abbasi, Legal, Compliance and AML Senior Manager – Member
- Mahmood Al Adraj, Information Technology Senior Manager – Member
- Rolando Macalanda, Property and Facilities Manager – Member
- Bayan Jaberi, Enterprise Risk Management Manager – Member
- Amith Valsan, Internal Audit Manager – Member

Risk Management Committee

The Risk Management Committee is comprised of senior management such as the CEO, CFO, GMs, IT Manager, Legal & Compliance Manager, and Head of Internal Audit.

Responsibilities:

- Co-ordinating decision making to ensure consistency in the risk management responses
- Overseeing the development and implementation of the Enterprise Risk Management Framework
- Monitoring the on going performance of the Enterprise Risk Management Framework
- Ensuring that responsibility and authorities are clearly defined and that adequate resources are assigned to the Enterprise Risk Management Framework
- Regularly reviewing the suitability of the risk management processes and risk responses
- Providing a comprehensive view of the organization's risk profile to the Board of Directors
- Ensuring that the Business Continuity Plan is reviewed and monitored
- Ensuring that the corporate plan and strategy risks are periodically reviewed
- Ensuring that the organization's insurance program is reviewed annually
- Take risk decisions at management committee level and escalate further required risk decisions at Baord of Directors to the ACRC
- Ensuring risk mitigations and controls are implemented by various business units and support functions

Membership

- Sameer AlWazzan, CEO, Chairman
- Anand Subramaniam, Chief Investment and Financial Officer – Member
- Masood Bader, General Manager bni - Member
- Enas Asiri, General Manager bnl - Member
- Bayan Jaberi, Enterprise Risk Management Manager – Committee Secretary
- Mohamed Al Abbasi, Legal, Compliance and AML Senior Manager – Member
- Mahmood Al Adraj, Information Technology Senior Manager – Member
- Amith Valsan, Internal Audit Manager – Member

Compliance Responsibility

Responsibility for ensuring the Group's compliance with the rules, regulations and guidelines of the Central Bank of Bahrain & other regulatory authorities resides with the Compliance Officer who is responsible for managing the Group's dedicated Legal, Compliance & AML department and is directly responsible for all compliance issues.

Transparency & Efficiency

In developing its Corporate Governance process guiding principles, the Group aims to maximize transparency and efficiency of the whole process for the benefit of all stakeholders, particularly in the areas of insider/Key person trading, anti-money laundering, information security and the sound management of financial assets.

Policies & Procedures

During 2018, 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 organization.

Directors & Officers (D&O) Liability Insurance

The Group is insured under a Directors & Officers Insurance Policy. The adequacy of the cover is measured in terms of size of the assets and future growth expectations of the Group. No claims have been reported during the last 10 years.

Anti-Money Laundering (AML)

The Group has in place policies and procedures to handle all aspects of anti-money laundering activities in line with regulations of the Central Bank of Bahrain. Yearly, the Group conducts a thorough review of its policies, procedures, internal directives in addition to arranging specialized courses to ensure ongoing compliance. The Group has submitted its external auditors report for the year 2017 in accordance with the requirement of the Central Bank of Bahrain.

Whistle Blowing Policy

In its commitment to the highest standard of good governance practice, the Group has in place a whistle blowing policy designed to enable all employees to raise any serious internal behavior with high level of confidentiality. The policy explains procedures that the staff may follow for reporting any misconduct or irregularities to the concerned officials without fear from any adverse consequences. The policy is accessible to all staff members and disclosed on the company's intranet.

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 & Risk Committee which reports to the Board of Directors. The Group has submitted its internal audit report for the year 2018 in accordance with the requirement of the Central Bank of Bahrain.

Code of Conduct

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

Penalties

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

Communications

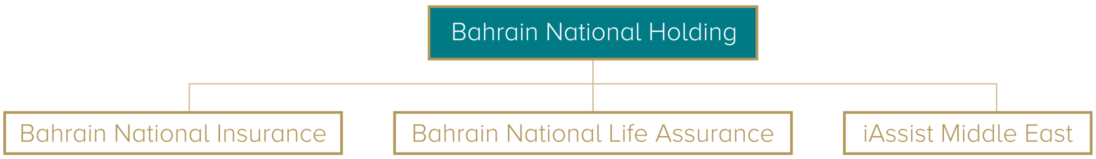
The Group is committed to communicating effectively with all its stakeholders – both internal and external – in a timely, transparent and professional manner. The Group's main communications channels include the annual general meeting, quarterly/annual report, consolidated financial statements, corporate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

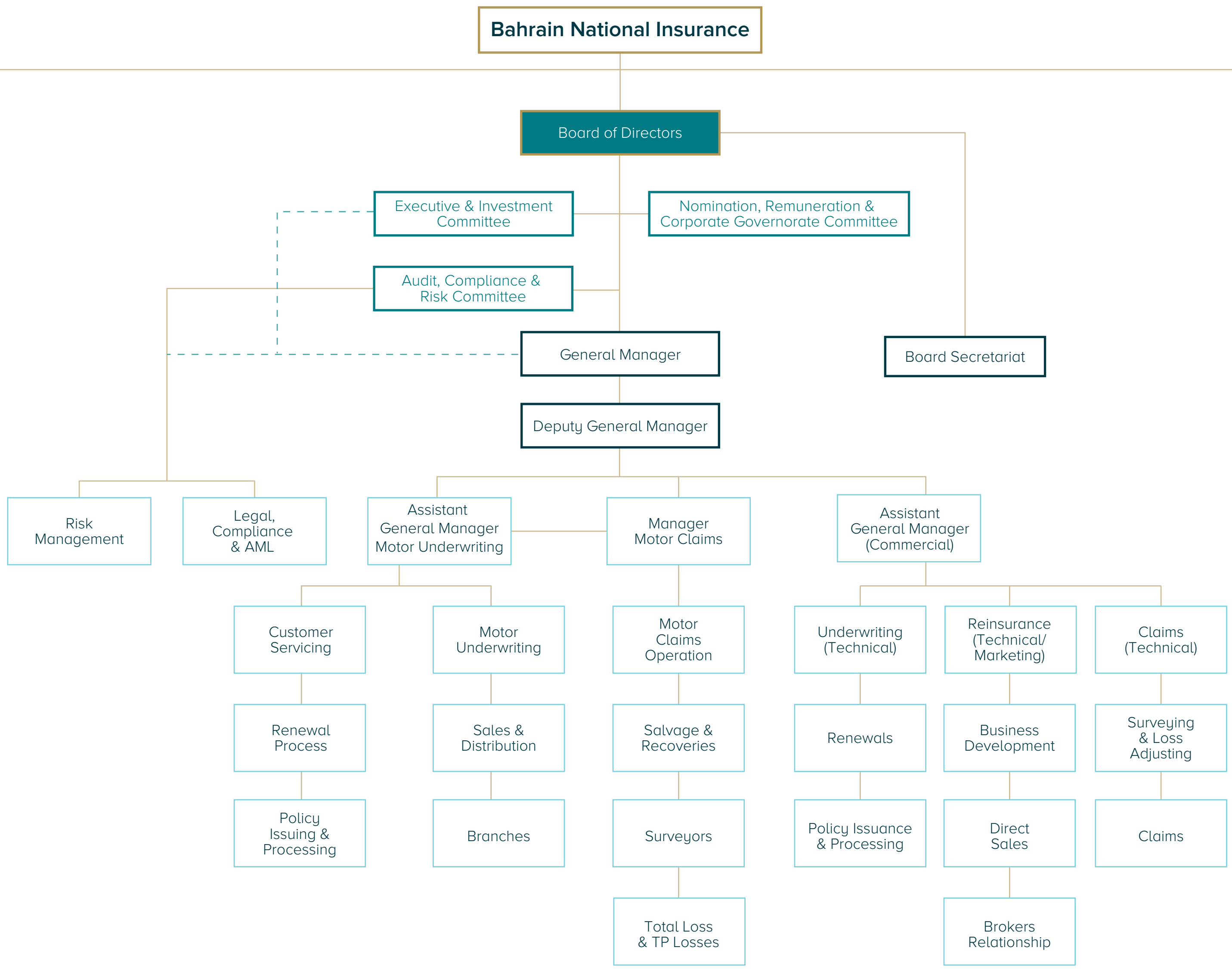
Corporate Secretary

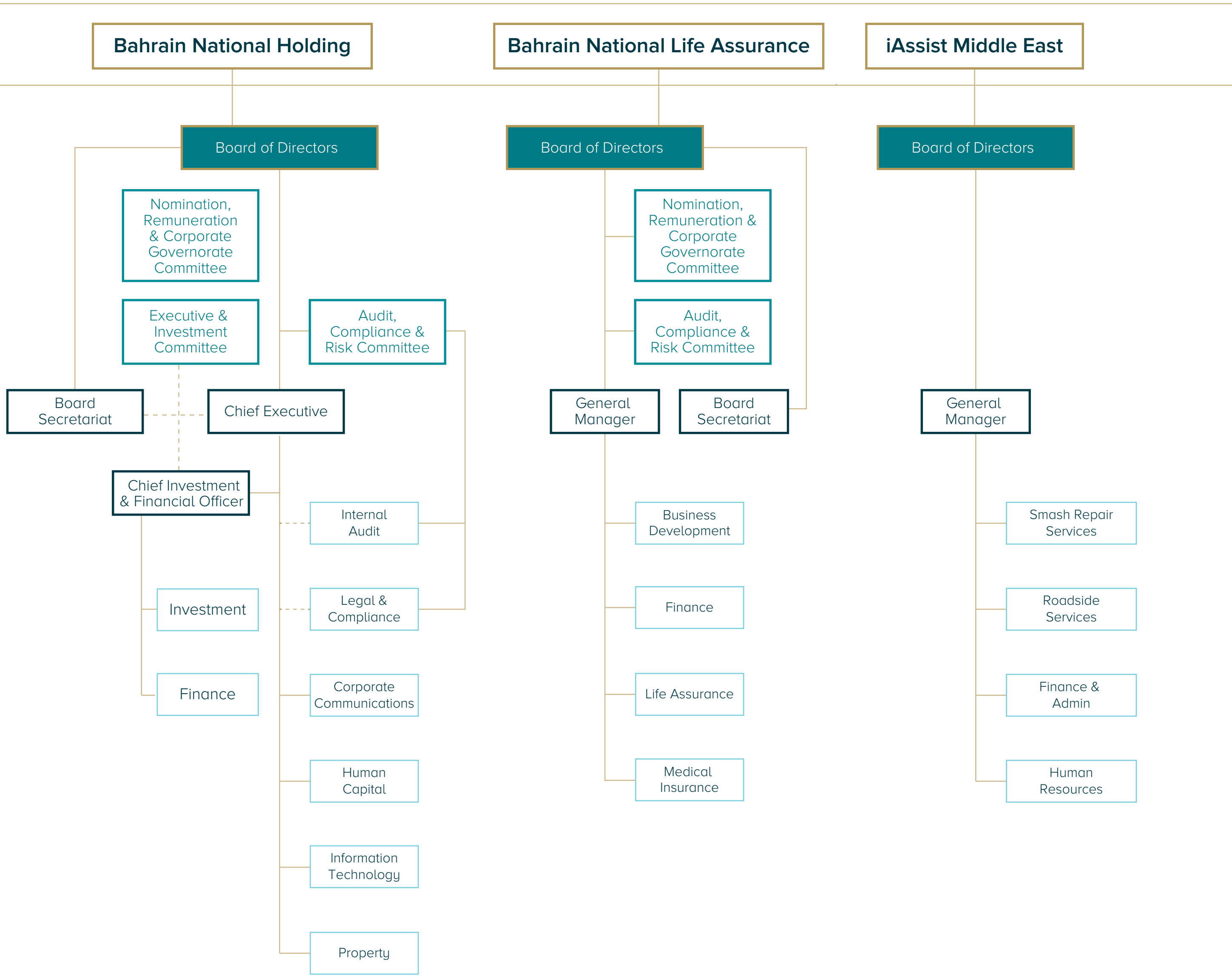
In accordance with the Corporate Governance Code, Kingdom of Bahrain principles, the Group has a separate section dealing with the Group corporate secretariat function resides with the Group corporate secretary who is responsible for ensuring the integrity of the governance framework, being responsible for the efficient administration of the company, ensuring compliance with statutory and regulatory requirements and implementing decisions made by the Board of Directors.

The Board Secretary maintained its support to the Board in ensuring the smooth functioning of the Management Committees by ensuring that meetings are properly called and organized, and that minutes are accurately recorded.

ORGANISATIONAL CHART






Bahrain National Holding
Board of Directors
Nomination, Remuneration & Corporate Governorate Committee
Executive & Investment Committee
Audit, Compliance & Risk Committee
Board Secretariat
Chief Executive
Chief Investment & Financial Officer
Internal Audit
Investment
Legal & Compliance
Finance
Corporate Communications
Human Capital
Information Technology
Property
Bahrain National Life Assurance
Board of Directors
Nomination, Remuneration & Corporate Governorate Committee
Audit, Compliance & Risk Committee
General Manager
Board Secretariat
Business Development
Finance
Life Assurance
Medical Insurance
iAssist Middle East
Board of Directors
General Manager
Smash Repair Services
Roadside Services
Finance & Admin
Human Resources

A LEGACY CELEBRATED

AERIAL VIEW OF DIPLOMATIC AREA - MANAMA 2000s


THE DIPLOMAT
THE DIPLOMAT RESIDENCE

CORPORATE SOCIAL RESPONSIBILITY

Charities

- Participated in St. Christpher's School ladies charity breakfast to raise money for children diagnosed with Cancer, Autism and Down Syndrome etc.
- Donation to support Chinmaya Society
- Raised Funds for Kerala flood victims

Social Service

- Distributed Gift vouchers to needy families

Awareness Campaigns

- Produced a film aimed to raise awareness about Zebra Crossing
- Participated in the Ministry of Interior Civil Defense Awareness Day

Health

- Donated a wheelchair to the Bahrain Association for Parents and Friends of Disabled

Insurance for societies

- Insured UCO parents Care Centre vehicles

Staff Activities

- Organised a blood donation drive for staff and customers
- BNH team participated in the annual Bahrain Marathon Relay, a major fund raising event that supports charity organisations in the Kingdom
- Engaged staff in internal activities to promote health awareness including breast cancer, Movember - prostate cancer and more
- Staff participated in a campaign aimed to clean beaches around the Kingdom

CONTACTS

Bahrain National Holding B.S.C
BNH Tower 2491, Road 2832
Block 428, Seef District
P.O Box 843
Kingdom of Bahrain
Tel: 17 587300
Fax: 17 583099
website: www.bnhgroup.com

Bahrain National Insurance B.S.C (c)
BNH Tower 2491, Road 2832
Block 428, Seef District
P.O Box 843
Kingdom of Bahrain
Call Centre: 8000 8288
WhatsApp No.: 39338288
Fax: 17 583477, 17 583299
website: www.bnidirect.com

Bahrain National Life Assurance B.S.C (c)
BNH Tower 2491, Road 2832
Block 428, Seef District
P.O Box 843
Kingdom of Bahrain
Tel: 17 587333
Fax: 17 583277
website: www.bnl4life.com

iAssist Middle East W.L,L
Building 1402, Road 426
Block 704, Salmabad
P.O. Box 80540,
Kingdom of Bahrain
Road Assist: 8000 1255
Tel: 17 112380
Fax: 17 112398
website: www.iassist-me.com

bni's branches and outlets:

Seef Branch
BNH Tower
Seef Business District

Sanad branch
bni Complex, 2nd Floor
Buidling 1809, Road 4571
Block 745, Sanad

Manama branch
Ground Floor, City Centre 203
Al Hedaya Building, Manama

Muharraq branch
Promoseven Holding Building
Shop. 2, Ground Floor
Road 1531, Block 215, Muharraq

Budaiya branch
Najibi Centre
Shop No. 3, Building No.3, Saar

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

Sitra branch
Building No. 946
Road No. 115, Block 601, Sitra

Isa Town branch
Seef Mall,
Shop No. 16
Isa Town

Zinj branch
Manama Plaza
Shop No. 61P
Building No. 63
Manama

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

KPMG Fakhro
12th Floor, Fakhro Tower
P.O. Box 710, Manama
Kingdom of Bahrain

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

The Bahrain National Holding Company BSC
P.O. Box 843, 9th floor, BNH Tower,
Seef Business District, Kingdom of Bahrain

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Bahrain National Holding Company B.S.C. (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Technical insurance provisions

(refer to the use of estimate and management judgement in note 5(b)(i), 5(b)(ii), accounting policy in note 5(a)(ii), 5(a)(iii) and note 16 to the consolidated financial statements)

Description	How the matter was addressed in our audit
We focused on this matter because: ▪ as at 31 December 2018, the Group had significant technical insurance provisions, representing 72.8% of the Group's total liabilities relating to outstanding claim reserves, life actuarial reserve, claims that have been incurred at reporting date but have not yet been reported to the Group, and unearned premiums; ▪ the valuation of technical insurance provisions involves high level of subjectivity, significant judgment and assumptions, in particular life actuarial reserves and claims that have been incurred at reporting date but have not yet been reported to the Group involve significant judgement over uncertain future outcomes, including primarily the timing and amount of ultimate full settlement of policyholder liabilities; and ▪ internal claim development methods and actuarial models are used to support the calculation of insurance technical reserves. The complexity of the models may give rise to errors as a result of inaccurate/incomplete data or the design or application of the models may be inappropriate. Assumptions used in actuarial models, such as historical claims, which can be used to project the trend of future claims, mortality, morbidity, expenses, lapse rates, and so on, are set up in applying estimates and judgements based on the experience analysis and future expectations by management.	Our audit procedures, with the assistance of our actuarial specialists, included: ▪ testing the design and operating effectiveness of the key controls around recording and reserving process for reported claims, unreported claims and unearned premium; ▪ testing a sample of outstanding claims and related reinsurance recoveries and subrogation claims, focusing on those with most significant impact on the consolidated financial statements to assess whether claims and related recoveries are appropriately estimated; ▪ for major lines of business, we assessed the reasonableness of the key assumptions, such as loss ratio, risk factor, claims adjustment expenses, frequency and severity of claims, which were used in the valuation models and comparing them to the Group's historical data; ▪ we also evaluated whether reserving was consistent in approach, with sufficient justification for changes in assumptions. We used our industry knowledge to benchmark the Group's reserving methodologies and estimates of losses. Our audit focused on lines of business with most inherent uncertainty; ▪ we also considered the appropriateness of information provided to external independent actuarial experts engaged by the Group and considered their scope of work and findings to corroborate adequacy of management estimates on claims reserving; and ▪ assessing the adequacy of the Group's disclosures related to technical insurance provisions in the consolidated financial statements by reference to the requirements of the relevant accounting standards.

Valuation and Impairment of available-for-sale financial investments

(refer to the use of estimate and management judgement in note 5(b)(iii), accounting policy in note 5(a)(xii) and note 8 to the consolidated financial statements)

Description	How the matter was addressed in our audit
We focused on this matter because: ▪ As at 31 December 2018, the Group's financial investments comprise 33.7% of total assets in the consolidated financial statements and is considered one of the drivers of operations and performance. We do not consider these investments to be at high risk of significant misstatement, or to be subject to a significant risk of judgment because they mainly comprise liquid, quoted investments. However due to their materiality in the context of the consolidated financial statements as a whole, they are considered to be one of the areas which we focused on; ▪ As at 31 December 2018, a significant amount, representing 81.2% of total financial investments, comprise "available-for-sale securities" having carrying value of BD 25.8 million, which is subject to impairment assessment; and ▪ The Group makes subjective judgments over both timing of recognition of impairment and the estimation of the amount of such impairment.	Our audit procedures, amongst others, included: ▪ testing the design and operating effectiveness of key controls over process of recording investment transactions and valuation of the quoted investment portfolio; ▪ agreeing the valuation of the quoted equity and debt securities and managed funds to externally quoted prices; and ▪ for unlisted managed funds, comparing the carrying values with the most recent Net Assets Values of the underlying funds. For impairment of available-for-sale equity securities and managed funds, we: ▪ examined whether management has identified all investments that have experienced a decline in fair value below cost; and ▪ evaluated the reasonableness and consistency of the application of the criteria to determine that a significant or prolonged decline in fair value below cost has led to recognition of impairment. For impairment of available for sale debt securities, we: ▪ evaluated individual debt security for any signs of significant financial difficulty of the issuer; ▪ assessed if there has been a default or past due event; and ▪ assessed if there had been a significant drop in fair value. We also assessed the adequacy of the Group's disclosures in relation to valuation and impairment of available for sale financial investments by reference to the requirements of the relevant accounting standards.

Impairment of insurance receivables and recoveries

(refer to the use of estimate and management judgement in note 5(b)(iii), accounting policy in note 5(a)(vii) and 5(a)(xii) and notes 7 and 32(d)(i) to the consolidated financial statements)

Description	How the matter was addressed in our audit
We focused on this matter because: ▪ As at 31 December 2018, the Group had significant insurance receivables from policy holders and other insurance companies and recoverable amounts from reinsurance companies, representing 10.9% of Group's total assets; ▪ The Group faces a risk of non-recoverability of these receivables due to financial difficulties of the counter parties; ▪ Estimation of the recoverable amount and determining the level of impairment allowance involves judgement and estimation uncertainty; and ▪ The Group makes subjective judgments over both timing of recognition of impairment and the estimation of the amount of such impairment.	Our audit procedures, amongst others, included: ▪ testing the design and operating effectiveness of controls over the process of collection and identification of doubtful balances; ▪ focusing on those accounts with the most significant potential impact on the consolidated financial statements, results of reconciliation of statement of accounts and receipts subsequent to the year-end; and ▪ evaluating the adequacy of the Group's disclosures related to credit risk on insurance receivables and impairment allowance in the consolidated financial statements by reference to the requirements of the relevant accounting standards.

Other information

The board of directors is responsible for the other information. The other information comprises the annual report but does not include the consolidated financial statements and our auditor's report thereon. Prior to the date of this auditors' report, we obtained the Chairman's report which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the board of directors for the consolidated financial statements

The board of directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, the board of directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Conclude on the appropriateness of the board of director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended 31 December 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

a) the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith;

b) the financial information contained in the chairman's report is consistent with the consolidated financial statements;

c) we are not aware of any violations during the year of the Commercial Companies Law or the terms of the Company's memorandum and articles of association, that would have had a material adverse effect on the business of the Company or on its financial position; and

d) satisfactory explanations and information have been provided to us by management in response to all our requests.

The engagement partner on the audit resulting in this independent auditor's report is Mahesh Balasubramanian.

KPMG Fakhro
Partner Registration No. 137
26 February 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

(In thousands of Bahraini Dinars)

	Note	2018	2017
ASSETS			
Cash and cash equivalents	6	11,181	3,097
Placements with banks	6	3,497	9,333
Insurance and other receivables	7	10,324	9,600
Financial investments	8	31,764	29,839
Equity accounted investees	9	17,633	16,934
Reinsurers' share of insurance technical reserves	10	12,442	9,980
Deferred acquisition cost	27	634	576
Investment properties	12	2,774	2,936
Intangible assets	13	275	211
Property and equipment	14	3,728	3,676
Statutory deposits	15	125	125
Total assets		**94,377**	86,307
LIABILITIES			
Insurance technical reserves	16	31,328	26,428
Insurance payables	20	4,599	3,973
Other provisions and liabilities	21	7,096	5,586
Total liabilities		**43,023**	35,987
Net assets		**51,354**	50,320
EQUITY			
Share capital	23 b	11,918	11,350
Treasury shares	23 c	(1,868)	(1,868)
Share premium	23 g	3,990	3,990
Statutory reserve	24 a	5,959	5,675
General reserve	24 b	13,585	13,585
Fair value reserve	24 c	2,698	3,355
Retained earnings		12,568	11,754
Equity attributable to shareholders of the Parent company		**48,850**	47,841
Non-controlling interest	11	2,504	2,479
Total equity		**51,354**	50,320

The consolidated financial statements were approved by the Board of Directors on 26 February 2019 and signed on its behalf by:

Farooq Yusuf Almoayyed
Chairman

Abdulhusain Khalil Dewani
Vice Chairman

Sameer AlWazzan
Chief Executive Officer

The accompanying notes 1 to 38 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018 *(In thousands of Bahraini Dinars)*

	Note	**2018**	2017
Gross insurance premiums	26	33,581	28,887
Reinsurers' share of gross insurance premiums		(16,267)	(12,702)
Retained premiums		**17,314**	**16,185**
Net change in reserve for unearned premiums	18	(613)	(365)
Net premiums earned		**16,701**	**15,820**
Gross claims paid		(21,394)	(22,478)
Claims recoveries		10,768	11,974
Outstanding claims adjustment - gross	17 d	(2,141)	(1,748)
Outstanding claims adjustment - reinsurance	17 d	784	(36)
Net claims incurred		**(11,983)**	(12,288)
Gross underwriting profit		**4,718**	3,532
Actuarial adjustment on life assurance obligation	19	19	(35)
Net commission and fee income	27	60	102
General and administration expenses - underwriting	30 a	(4,106)	(4,031)
Other income		33	-
Net underwriting profit / (loss)		**724**	(432)
Net investment income	28	2,319	1,889
Impairment losses on investment	29	(50)	(308)
Share of profit of equity accounted investees	9	2,098	2,676
Gains on partial sale of investment in equity accounted investees		-	114
Net income from road assist services		125	97
General and administration expenses - non-underwriting	30 b	(1,729)	(1,783)
Other income		5	-
Profit for the year		**3,492**	2,253
Profit attributable to:			
Parent company		3,279	2,095
Non-controlling interest	11	213	158
		3,492	2,253
Basic and diluted earnings per share	23 d, e	**29.4 fils**	18.8 fils

The consolidated financial statements were approved by the Board of Directors on 26 February 2019 and signed on its behalf by:

Farooq Yusuf Almoayyed
Chairman

Abdulhusain Khalil Dewani
Vice Chairman

Sameer AlWazzan
Chief Executive Officer

The accompanying notes 1 to 38 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018 *(In thousands of Bahraini Dinars)*

	Note	**2018**	2017
Profit for the year		**3,492**	2,253
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Available-for-sale securities:			
- Change in fair value		47	1,028
- Transfer to statement of profit or loss on impairment of securities		21	308
- Transfer to statement of profit or loss on disposal of securities	28	(805)	(322)
Share of other comprehensive income of equity accounted investees		(6)	170
Other comprehensive income		**(743)**	1,184
Total comprehensive income		**2,749**	3,437
Total comprehensive income attributable to:			
Parent company		2,622	3,187
Non-controlling interest	11	127	250
		2,749	3,437

The accompanying notes 1 to 38 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018 *(In thousands of Bahraini Dinars)*

2018	**Attributable to the shareholders of the Parent company**									
	Share capital	**Treasury shares**	**Share premium**	**Statutory reserve**	**General reserve**	**Fair value reserve**	**Retained earnings**	**Total**	**Non-controlling Interest**	**Total Equity**
Balance at 1 January, as previously reported	11,350	(1,868)	3,990	5,675	13,585	3,355	11,754	47,841	2,479	50,320
Adjustment on initial application of IFRS 15 by non-insurance subsidiary	-	-	-	-	-	-	(75)	(75)	-	(75)
Adjustment on initial application of IFRS 9 by non-insurance equity accounted investee	-	-	-	-	-	-	(241)	(241)	-	(241)
Restated balance at 1 January	**11,350**	**(1,868)**	**3,990**	**5,675**	**13,585**	**3,355**	**11,438**	**47,525**	**2,479**	**50,004**
Profit for the year	-	-	-	-	-	-	3,279	3,279	213	3,492
Other comprehensive income	-	-	-	-	-	(657)	-	(657)	(86)	(743)
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**(657)**	**3,279**	**2,622**	**127**	**2,749**
Bonus shares issued	568	-	-	-	-	-	(568)	-	-	-
Transfer to statutory reserve	-	-	-	284	-	-	(284)	-	-	-
Dividends declared for 2017	-	-	-	-	-	-	(1,287)	(1,287)	(102)	(1,389)
Donations declared for 2017	-	-	-	-	-	-	(10)	(10)	-	(10)
Appropriations approved by shareholders	**568**	**-**	**-**	**284**	**-**	**-**	**(2,149)**	**(1,297)**	**(102)**	**(1,399)**
Balance at 31 December	**11,918**	**(1,868)**	**3,990**	**5,959**	**13,585**	**2,698**	**12,568**	**48,850**	**2,504**	**51,354**

2017	Attributable to the shareholders of the Parent company									
	Share capital	Treasury shares	Share premium	Statutory reserve	General reserve	Fair value reserve	Retained earnings	Total	Non-controlling Interest	Total Equity
Balance at 1 January	11,350	(1,868)	3,990	5,675	13,585	2,263	11,854	46,849	2,229	49,078
Profit for the year	-	-	-	-	-	-	2,095	2,095	158	2,253
Other comprehensive income	-	-	-	-	-	1,092	-	1,092	92	1,184
Total comprehensive income	-	-	-	-	-	1,092	2,095	3,187	250	3,437
Dividends declared for 2016	-	-	-	-	-	-	(2,145)	(2,145)	-	(2,145)
Donations declared for 2016	-	-	-	-	-	-	(50)	(50)	-	(50)
Appropriations approved by shareholders	-	-	-	-	-	-	(2,195)	(2,195)	-	(2,195)
Balance at 31 December	11,350	(1,868)	3,990	5,675	13,585	3,355	11,754	47,841	2,479	50,320

The accompanying notes 1 to 38 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

(In thousands of Bahraini Dinars)

	Note	**2018**	2017
OPERATING ACTIVITIES			
Insurance operations			
Premiums and service fees received, net of acquisition costs		33,808	29,278
Payments to insurance and reinsurance companies		(15,771)	(12,155)
Claims paid to policyholders		(20,918)	(22,999)
Claims recovered from reinsurers and salvage recoveries		11,368	11,592
Cash flows from insurance operations		**8,487**	5,716
Investment operations			
Dividends and interest received		1,724	1,240
Proceeds from sale and redemptions of financial investments		14,813	6,928
Payments for purchases of financial investments		(16,909)	(8,789)
Bank deposits with maturities of more than three months		(3,497)	(9,458)
Redemption proceeds from bank deposits		9,333	9,121
Proceeds from partial sale of investment in equity accounted investees		-	343
Dividends received from equity accounted investees		1,152	1,353
Payment for investment properties		(2)	(5)
Rent received		341	289
Cash flows from investment operations		**6,955**	1,022
Expenses paid		(5,286)	(5,781)
Cash flows from operating activities		**10,156**	957
INVESTMENT ACTIVITIES			
Purchase of property, equipment and intangible assets		(531)	(664)
Cash flows used in investment activities		**(531)**	(664)
FINANCING ACTIVITIES			
Dividends paid to shareholders		(1,411)	(2,207)
Dividends paid to non-controlling interest		(102)	-
Donations paid		(28)	(37)
Cash flows used in financing activities		**(1,541)**	(2,244)
Net increase / (decrease) in cash and cash equivalents		**8,084**	(1,951)
Cash and cash equivalents at 1 January		3,097	5,048
Cash and cash equivalents at 31 December	6	**11,181**	3,097

The accompanying notes 1 to 38 are an integral part of these consolidated financial statements.

1 REPORTING ENTITY

Bahrain National Holding B.S.C (the "Company") is domiciled in Kingdom of Bahrain. The Company's registered office at 9th floor, BNH Tower, Seef Business District, Manama, Kingdom of Bahrain, P.O. Box 843.

These consolidated financial statements as at and for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group is primarily involved in insurance and investment activities.

2 BASIS OF ACCOUNTING AND MEASURMENT

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in conformity with Commercial Companies Law. The consolidated financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

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 investment securities carried at fair value through profit or loss and available-for-sale securities, which are stated at fair value.

These consolidated financial statements were authorized for issue by the board of directors on 26 February 2019.

a) Functional and presentation currency

These consolidated financial statements are presented in Bahraini Dinar, which is the Group's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise stated.

b) Use of judgements and estimates

The preparation of consolidated 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 5 (b).

c) New standards, amendments and interpretations effective from 1 January 2018

The following standards, amendments and interpretations, which became effective as of 1 January 2018, are relevant to the Group:

i) IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, however, certain exemptions have been provided for certain qualifying insurers to delay the application of IFRS 9 to the date of adoption of IFRS 17. The summarized impact of IFRS 9 application over insurance and non-insurance is as follows:

a) IFRS 9 impact on insurance activities:

The Group has performed an assessment of the exemption requirements and determined that its activities are predominantly connected with insurance, and hence it has opted to apply the temporary exemption available under IFRS 4 and will therefore apply this standard for the periods beginning 1 January 2021.

2 SIGNIFICANT ACCOUNTING POLICIES continued

b) IFRS 9 impact on non-insurance equity accounted investees:

The Group has certain non-insurance equity accounted investees which do not qualify for delay in the application of IFRS 9 and have adopted IFRS 9 from 1 January 2018. Although the Group opted to apply the temporary exemption available under IFRS 4 as determined above, it has retained the application of IFRS 9 on its non-insurance equity accounted investees as per IFRS 4.

The effect of initially applying this standards is mainly attributed to an increase in impairment losses recognised on financial assets.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and on its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The Group recognized the cumulative effect of initially applying IFRS 9 as an adjustment to the opening retained earnings balance at 1 January 2018. Refer to note 4 for detailed impact.

ii) Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)

In September 2016, the IASB published an amendment to IFRS 4 which addresses the concerns of insurance companies about the different effective dates of IFRS 9 Financial instruments and the new insurance contracts standard. The amendment provides two different solutions for insurance companies: a temporary exemption from IFRS 9 for entities that meet specific requirements (applied at the reporting entity level), and the ‘overlay approach’. Both approaches are optional.

IFRS 4 (including the amendments) will be superseded by the forthcoming new insurance contracts standard. Accordingly, both the temporary exemption and the ‘overlay approach’ are expected to cease to be applicable when the new insurance standards becomes effective.

The amendments are effective for annual periods beginning on or after 1 January 2018.

The Group has selected to apply the temporary exemption from IFRS option which does not have a significant impact on the consolidated financial statements.

iii) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

IFRS 15 has been applied over Group’s non-insurance revenue and that lead to deferring the recognition of service revenues of its car repair and assistance activities over the period.

2 SIGNIFICANT ACCOUNTING POLICIES continued

The Group recognized the cumulative effect of initially applying IFRS 15 as an adjustment to the opening retained earnings balance at 1 January 2018, without restating prior period. Accordingly, the information for 2017 has not been restated – i.e. it is presented, as previously reported. Refer to note 4 for detailed impact.

iv) Transfers of Investment Property (Amendments to IAS 40)

A transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property if there is evidence of the change in use. A change in management intention alone does not support a transfer.

The revised examples of evidence of a change in use included in the amended version of IAS 40 are not exhaustive – i.e. other forms of evidence may support a transfer.

A company has a choice on transition to apply the prospective approach – i.e. apply the amendments to transfers that occur after the date of initial application – and also reassess the classification of property assets held at that date.

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

v) Annual Improvements to IFRSs 2014–2016 Cycle – various standards

The annual improvements to IFRSs 2014-2016 cycles include certain amendments to various IFRSs. Earlier application is permitted (along with the special transitional requirement in each case), in which case the related consequential amendments to other IFRSs would also apply.

The following are the key amendments in brief:

- **IFRS 12 Disclosure of Interests in Other Entities** – The disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution. Effective retrospectively for annual periods beginning on or after 1 January 2017.
- **IAS 28 Investments in Associates and Joint Ventures** – A venture capital organisation, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by-investment basis.

A non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture. Effective retrospectively for annual periods beginning on or after 1 January 2018; early application is permitted.

The adoption of these amendments had no significant impact on the consolidated financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES continued

vi) IFRIC 22 Foreign Currency Transactions and Advance Consideration

When foreign currency consideration is paid or received in advance of the item it relates to – which may be an asset, an expense or income – IAS 21 The Effects of Changes in Foreign Exchange Rates is not clear on how to determine the transaction date for translating the related item.

This has resulted in diversity in practice regarding the exchange rate used to translate the related item.

IFRIC 22 clarifies that the transaction date is the date on which the company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date.

The amendments are effective for annual periods commencing on or after 1 January 2018.

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

d) New standards, amendments and interpretations issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Group has not early applied the following new or amended standards in preparing these consolidated financial statements.

The following standards are expected to have a material impact on the Group's financial statements in the period of initial application.

i) IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard- i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

The Group will recognise new assets and liabilities for its operating leases. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

In addition, the Group will no longer recognise provisions for operating leases that it assesses to be onerous. Instead, the Group will include the payments due under the lease in its lease liability.

2 SIGNIFICANT ACCOUNTING POLICIES continued

Transition

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

ii) Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The IASB has changed IFRS 9's requirements in two areas of financial instruments accounting. These changes could significantly affect companies preparing financial statements for 2017.

Financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9. Companies that have modified or exchanged fixed rate financial liabilities face a significant change in the accounting for non-substantial modifications that do not result in derecognition.

The amendment applies for annual periods beginning on or after 1 January 2019. Early adoption is permitted.

The Group does not expect to have a significant impact on its consolidated financial statements.

iii) Long term interests in associates and joint venture (Amendments to IAS 28)

An amendment to IAS 28 Investments in Associates and Joint Ventures will affect companies that finance such entities with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or 'LTI'). The amendment, which addresses equity-accounted loss absorption by LTI, involves the dual application of IAS 28 and IFRS 9 Financial Instruments.

The amendment and accompanying example state that LTI are in the scope of both IFRS 9 and IAS 28 and explain the annual sequence in which both standards are to be applied.

In effect, this is a three-step annual process:

- Apply IFRS 9 independently
- True up past allocations
- Book current year equity share

The amendment applies for annual periods beginning on or after 1 January 2019. Early adoption is permitted.

The Group does not expect to have a significant impact on its consolidated financial statements.

iv) Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

The amendment clarifies how the asset ceiling cost is incorporated into the gain or loss calculation.

The amendments also clarify that:

- on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and
- the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI).

2 SIGNIFICANT ACCOUNTING POLICIES continued

Consistent with the calculation of a gain or loss on a plan amendment, a company now uses updated actuarial assumptions to determine the current service cost and net interest for the period. Previously, it would not have updated its calculation of these costs until the year-end.

Further, if a defined benefit plan was settled, any asset ceiling would be disregarded when determining the plan assets as part of the calculation of gain or loss on settlement.

The amendment applies for annual periods beginning on or after 1 January 2019. Early adoption is permitted.

The Group does not expect to have a significant impact on its consolidated financial statements.

v) Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards

As part of its process to make non-urgent but necessary amendments to IFRS, the IASB has issued the Annual Improvements to IFRS Standards 2015–2017 Cycle.

The amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted.

The following are the key amendments in brief:

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements

Clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business.

- If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.
- If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.

IFRS 11 – joint arrangement

Clarified that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation.

The Group does not expect to have a significant impact on its consolidated financial statements.

vi) Amendments to References to Conceptual Framework in IFRS Standards

The main changes to the Framework's principles have implications for how and when assets and liabilities are recognised and derecognised in the financial statements.

Some of the concepts in the revised Framework are entirely new – such as the 'practical ability' approach to liabilities. As they have not been tested as part of any recent standard-setting process, it is unclear what challenges the Board will encounter when using them to develop standards in the future. It is also unclear what challenges preparers of financial statements will face after those future standards become effective.

The amendment applies for annual periods beginning on or after 1 January 2020.

2 SIGNIFICANT ACCOUNTING POLICIES continued

vii) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

The IASB has made limited scope amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures.

The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations).

Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's investors in the associate or joint venture. The amendments apply prospectively.

The effective date for these changes has now been postponed until the completion of a broader review – which the IASB hopes will result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures. However, early adoption continues to be permitted.

viii) IFRS 17 Insurance contracts

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows
- an explicit risk adjustment, and
- a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity's share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The amendment applies for annual periods beginning on or after 1 January 2021.

The Group is in progress to commence the impact assessment of IFRS 17.

3 BASIS OF CONSOLIDATION

a) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, other contingent consideration is re-measured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

b) Subsidiaries

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

c) Non-controlling interest (NCI)

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

d) Loss of control

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

e) Interest in equity-accounted investees

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

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

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

f) Transactions eliminated on consolidation

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

As at 31 December 2018 (In thousands of Bahraini Dinars)

4 CHANGE IN ACCOUNTING POLICIES

The Group initially applied IFRS 15 and IFRS 9 from 1 January 2018. A number of other new standards are also effective from 1 January 2018, but they do not have a material effect on the Group's consolidated financial statements.

IFRS 9 has been applied over Group's non-insurance equity accounted investees which do not qualify for delay in the application of IFRS 9 and have adopted IFRS 9 from 1 January 2018. Although the Group opted to apply the temporary exemption available under IFRS 4 as determined above, it has retained the application of IFRS 9 on its non-insurance equity accounted investees as per IFRS 4.

IFRS 15 has been applied over Group's non-insurance revenue and that lead to deferring the recognition of service revenues of its car repair and assistance activities over the period.

Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these consolidated financial statements has not been restated to reflect the requirements of the new standards.

The impact of applying IFRS 9 and IFRS 15 is summarized as follows:

	Retained earnings
Balance at 1 January 2018, as previously reported	11,754
Impact of IFRS 9 adoption by non-insurance equity accounted investee	(241)
Impact of IFRS 15 adoption by non-insurance subsidiaries	(75)
Restated balance at 1 January 2018	**11,438**

5 SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

a) Significant Accounting Policies

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements:

i) Insurance and investment contracts

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.

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.

Investment contracts have been accounted for and recognized in accordance with IAS 39 – Financial Instruments: Recognition and Measurement and Insurance Contracts has been accounted for and recognized in accordance with IFRS4 – Insurance Contracts.

5 SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS continued

ii) General insurance business

Gross insurance premiums
Gross insurance 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 "insurance technical reserves" in the consolidated statement of financial position.

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

Unearned premiums
Unearned premiums are estimated amounts of premiums 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 premiums have been calculated on gross premiums 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.

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

Claims recoveries
Claim recoveries include amounts recovered from reinsurers in respect of the gross claims paid by the Group, in accordance with the reinsurance contracts held by the Group.

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 IBNR at the reporting date.

Provision for outstanding claims are based on estimates of the loss, which will eventually be payable on each unpaid claim, established by management in the light of current available information and past experience and modified for changes reflected in current conditions, increased exposure, rising claims costs and the severity and frequency of recent claims, as appropriate.

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

5 SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS continued

Commission income
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.

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.

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.

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

iii) Life assurance business

The life assurance operations 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 after taking into account annual actuarial assessment and returns of contract.

Gross insurance premiums
Gross insurance 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.

Reinsurers' share of gross insurance premiums
Reinsurance, in respect of proportional reinsurance transactions, is matched with the premiums received. Non-proportional reinsurance cost is accounted for when incurred.

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

5 SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS continued

Surpluses, if any, are released to the consolidated statement of profit or loss. 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 Bahrain National Life Assurance Company.

Gross claims paid
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.

Claims recoveries
Claim recoveries include amounts recovered from reinsurers in respect of the gross claims paid by the Group, in accordance with the reinsurance contracts held by the Group.

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

Acquisition costs
Acquisition costs include commission, brokerage and other variable insurance costs directly associated when acquiring business. These costs are amortised over the period of the insurance contract. Acquisition costs that relate to periods of risk that extend beyond the end of financial year are reported as deferred acquisition costs.

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

Bonuses
Bonuses to policyholders on profit-linked insurance contracts are recognised when declared by the Bahrain National Life Assurance Company.

iv) Liability adequacy test

At each reporting date, liability adequacy tests are performed by independent Actuary to ensure the adequacy of the insurance liabilities, net of related deferred acquisition costs using current estimates of future cash flows under insurance contracts. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used.

Any deficiency is immediately charged to the statement of profit or loss by establishing a provision for losses arising from liability adequacy tests.

5 SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS continued

v) Reinsurance contracts

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts in note 5 are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets.

Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts. The benefits to which the Group is entitled under its reinsurance contracts held are recognized as reinsurance assets.

These assets consists of balances due from reinsurers on settlement of claims and other receivables such as profit commissions and reinsurers share of outstanding claims that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are recognized consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense when due.

The Group assesses its reinsurance assets for impairment on a quarterly basis. If there is an objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in the statement of profit or loss. An 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.

vi) Financial assets and financial liabilities

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

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity that the 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.

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

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

5 SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS continued

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

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

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

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

vii) Receivables

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

viii) Cash and cash equivalents

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

5 SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS continued

ix) Intangible assets

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

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

Amortisation is calculated to write off cost of intangible assets less their estimated residual values using straight line method over their estimated useful lives and is generally recognised in profit or loss. The estimated useful life of software for the current and comparative periods is five years.

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

x) Property and equipment

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

Subsequent expenditure
Subsequent expenditure is capitalised only if it is probable that future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the consolidated statement of profit or loss as an expense when incurred.

Depreciation
Depreciation is calculated to write off cost of equipment less their estimated residual values using straight line method over their estimated useful lives and is generally recognised in profit or loss.

The useful lives of different categories of property and equipment are as follows:

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

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

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

5 SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS continued

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss when the asset is derecognised.

xi) Investment properties

Investment properties, which are held to earn rentals or for capital appreciation, are measured at cost, including transaction costs, less accumulated depreciation and accumulated impairment, if any. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property.

Investment properties are derecognised when either they have been disposed off or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on disposal of investment properties (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

xii) Impairment of assets

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

Financial assets carried at amortised cost
For financial assets carried at amortised cost (receivables and held-to-maturity bonds), impairment is measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses are recognised in statement of profit or loss and reflected in an allowance account.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the statement of profit or loss.

Impairment of available-for-sale investments
The Group assesses at each reporting date whether there is an objective evidence that a financial asset is impaired. A significant or prolonged decline in the market value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale securities, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses recognised in the statement of profit or loss on AFS equity instruments are subsequently reversed through the statement of comprehensive income. Reversals of impairment losses on debt instruments classified as available-for-sale are reversed through consolidated statement of profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment losses were recognized in the consolidated statement of profit or loss.

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

5 SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS continued

Non-financial assets

The carrying amount of the Group's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated or impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets of cash generating units (CGU's). The recoverable amount of an asset or a cash generating unit is the greater of its value in use or fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the assets or CGU.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the statement of profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

xiii) Employees' benefits

Bahraini employees

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

Expatriate employees

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

Employee savings scheme

The Group has a voluntary employees saving scheme. The Group and the employee contribute monthly on a fixed percentage of salaries basis to the scheme.

xiv) Share Capital

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

xv) Dividends

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

xvi) Directors' remunerations

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

xvii) 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.

5 SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS continued

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

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

xviii) Foreign currency translation

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

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

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

b) 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 reviewed on ongoing basis evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are recognized prospectively.

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 ultimate cost of setting claims is estimated using a range of loss reserving methods. These techniques assume that the Group's own claims experience is indicative of future claims development patterns and therefore ultimate claims cost. The assumptions used, including loss ratios and future claims inflation are implicitly derived from the historical claims development data on which the projections are based, although judgment is applied to assess the extent to which past trends might not apply in the future trends are expected to emerge.

Also, the estimation for claims 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.

5 SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS continued

ii) Life assurance actuarial reserve estimation

Life insurance liabilities are recognised when contracts are entered into and premiums are charged.

For long-term life insurance contracts, liabilities are currently measured by using the 'Net Premium' valuation method. The liability is determined as the discounted value of the expected future benefits, policyholder options and guarantees, less the discounted value of the expected net premiums that would be required to meet the future cash outflows based on the valuation assumptions used.

The liability for life insurance contracts, mainly yearly renewable and group life contracts, comprises the provision for unearned premiums calculated on the basis of 1/365 reserving method, as well as for claims outstanding, which may include an estimate of the incurred claims that have not yet been reported to the Group. Adjustments to the liabilities at each reporting date are recorded in the consolidated statement of profit or loss. Profits originated from margins of adverse deviations on run-off contracts are recognised in the consolidated statement of profit or loss over the life of the contract, whereas losses are fully recognised in the consolidated statement of profit or loss during the first year of run-off. The liability is recognised when the contract expires, is discharged or is cancelled. The assumptions are reviewed on yearly basis and include assumptions for incidence rates like mortality and morbidity, expenses and discount rates.

Incidence assumptions are based on standard industry mortality rate tables adjusted in order to reflect the historical experience of the country and company in particular. These tables estimates the number of deaths in order to determine the value of the benefit payments and the value of the valuation premiums.

The interest rate applied when discounting cash flows is based on prudent expectation of current market returns, expectations about future economic and financial developments as well as the analysis of investment income arising from the assets backing long term insurance contracts. For the long term plans an assumption of 4.5% is currently used.

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 if the average cost of the investment is higher than the 52-week high traded price as on the date of assessment. 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.

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 the consolidated statement of profit or loss and reflected in an allowance against the investment.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the consolidated statement of profit or loss.

As at 31 December 2018 (In thousands of Bahraini Dinars)

5 SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS continued

Impairment losses on receivables are established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. Losses are recognised in the consolidated statement of profit or loss and reflected in an allowance against the receivables.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the consolidated statement of profit or loss.

iv) Classification of investments

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

v) Classification of Arabian Shield Cooperative Insurance Company (ASCIC) as an associate

The Group classified the Arabian Shield Cooperative Insurance Company as an associate of the Group although the Group only owns a 15% ownership interest in ASCIC. An associate is an entity over which the investor has significant influence. The Group exercises significant influence over ASCIC, as it has a representation on the board of directors and participates in policy-making processes, including participation in decisions about dividends or other distributions and in advise on technical matters via representation on the Executive and Investment Committee of ASCIC. The Group's extent of ownership is also significant relative to other shareholders.

6 CASH AND BALANCES WITH BANKS

	2018	2017
Cash and bank current accounts	4,089	3,097
Placements with banks, with maturities of three months or less when acquired	6,102	-
Treasury bills, with maturities of three months or less when acquired	990	-
Cash and cash equivalents	**11,181**	3,097
Placements with banks with maturities of more than three months	3,497	9,333
Total cash and balances with banks	**14,678**	12,430

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

As at 31 December 2018 (In thousands of Bahraini Dinars)

7 INSURANCE AND OTHER RECEIVABLES

	2018	2017
Insurance receivables		
Policyholders	5,051	3,454
Provision for impairment of receivables from policyholders	(691)	(484)
Write off of receivables from policyholder	(3)	-
Insurance and reinsurance companies	5,152	5,655
Provision for impairment of receivables from insurance and reinsurance companies	(750)	(655)
	8,759	7,970
Other receivables		
Accrued income	865	838
Recoverable deposits	343	443
Rent receivables	115	33
Provision for impairment of rent receivables	(72)	(2)
Prepayments and advances	149	172
Others	165	146
	1,565	1,630
	10,324	9,600

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

	2018	2017
Opening balance	1,141	780
Charges during the year	377	361
Write off	(3)	-
Balances recovered during the year	(2)	-
	1,513	1,141

Information about the Group's exposure to credit and market risks, and impairment losses for receivables is included in note 32.

As at 31 December 2018 (In thousands of Bahraini Dinars)

8 FINANCIAL INVESTMENTS

	2018	2017
Securities carried at fair value through profit or loss	1,966	1,606
Available-for-sale securities	25,809	23,933
Held-to-maturity securities	3,989	4,300
	31,764	29,839

a) Securities carried at fair value through profit or loss

	2018	2017
Listed securities:		
- Equity securities	369	402
- Government debt securities	179	392
- Corporate debt securities	492	180
- Treasury bills	196	-
- Managed funds	634	556
Unlisted funds	96	76
	1,966	1,606
Movement during the year:		
Opening balance	1,606	1,499
Purchases	1,172	200
Sales	(753)	(180)
Fair value movement	(59)	87
	1,966	1,606

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

b) Available-for-sale securities

	2018	2017
Listed securities:		
- Equity securities	8,395	8,349
- Government debt securities	1,897	1,864
- Corporate debt securities	6,504	5,670
- Treasury bills	1,468	-
- Managed funds	4,717	5,474
Unlisted securities and funds	2,828	2,576
	25,809	23,933

As at 31 December 2018 (In thousands of Bahraini Dinars)

8 FINANCIAL INVESTMENTS continued

	2018	2017
Movement during the year:		
Opening balance	23,933	20,080
Purchases	15,729	8,569
Disposals	(13,115)	(5,600)
Fair value movement	(688)	1,192
	25,859	24,241
Impairment losses	(50)	(308)
	25,809	23,933

Investments in unlisted securities and funds include investments of BD 177 thousand (2017: BD 176 thousand) carried at cost less impairment in the absence of a reliable measure of fair value.

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

c) Held-to-maturity securities

	Fair value		**Carrying value**	
	2018	2017	**2018**	2017
Government debt securities	3,062	3,468	3,021	3,368
Corporate debt securities	974	984	968	932
	4,036	4,452	**3,989**	4,300
Movement during the year:				
Opening balance			4,300	4,800
Matured securities			(305)	(489)
Exchange losses			(6)	(11)
			3,989	4,300

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

As at 31 December 2018 (In thousands of Bahraini Dinars)

8 FINANCIAL INVESTMENTS continued

d) 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' financial assets (including financial assets of the staff retirement scheme) at the reporting date, included under financial assets are as follows:

	2018	2017
Cash equivalents	36	36
Placements with banks	427	614
Financial investments	2,662	2,453
	3,125	3,103
Life assurance actuarial reserve (note 19)	**3,166**	3,038

9 EQUITY ACCOUNTED INVESTEES

a) Interests in associates

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

		Percentage of ownership interest			
Name of the entity	**Location of business / country**	**2018**	2017	**Nature of relationship**	**Principal activities**
National Finance House BSC (c)	Kingdom of Bahrain	34.93%	34.93%	Associate	Engaged in consumer and auto finance business
Al Kindi Specialised Hospital W.L.L.	Kingdom of Bahrain	27%	27%	Associate	Engaged in providing private medical services
United Insurance Company BSC (c)	Kingdom of Bahrain	20%	20%	Associate	Primarily provides insurance coverage for motor vehicles
Arabian Shield Cooperative Insurance Company	Kingdom of Saudi Arabia	15%	15%	Associate	Transact various types of general insurance business

As at 31 December 2018 (In thousands of Bahraini Dinars)

9 EQUITY ACCOUNTED INVESTEES continued

b) The movements in the investment in associates are as follows:

2018	**National Finance House**	**Al Kindi Specialised Hospital**	**United Insurance Company**	**Arabian Shield Cooperative Insurance Company ***	**Total**
Opening balance	5,077	1,611	2,859	7,387	**16,934**
Share of profit	444	157	718	779	**2,098**
Dividends received	(210)	(42)	(900)	-	**(1,152)**
Share of other comprehensive income	-	-	(8)	2	**(6)**
Adjustment on initial application of IFRS 9	(241)	-	-	-	**(241)**
	5,070	**1,726**	**2,669**	**8,168**	**17,633**

2017	National Finance House	Al Kindi Specialised Hospital	United Insurance Company	Arabian Shield Cooperative Insurance Company *	Total
Opening balance	4,826	1,465	2,668	6,711	15,670
Share of profit	461	113	625	1,477	2,676
Dividends received	(210)	(42)	(500)	(602)	(1,354)
Partial sale	-	-	-	(228)	(228)
Share of other comprehensive income	-	75	66	29	170
	5,077	1,611	2,859	7,387	16,934

* The market value of Group's investments in Arabian Shield Cooperative Insurance Company based on the price quoted in Saudi Stock Exchange as at 31 December 2018 was BD 8,321 thousand (31 December 2017: BD 12,654 thousand).

As at 31 December 2018 (In thousands of Bahraini Dinars)

9 EQUITY ACCOUNTED INVESTEES continued

c) Latest available financial information of the material associates of the Group are as follows:

2018	**National Finance House**	**United Insurance Company**	**Arabian Shield Cooperative Insurance Company**
Total assets	56,075	25,601	116,313
Total liabilities	41,561	12,257	74,059
Net assets	14,514	13,344	42,254
Group's share of net assets	**5,070**	**2,669**	**6,340**
Goodwill	-	-	1,828
Carrying amount of interest in associate	**5,070**	**2,669**	**8,168**
Revenue	3,249	9,281	42,280
Profit	1,270	3,588	5,195
Other comprehensive income	-	(43)	11
Total comprehensive income	1,270	3,545	5,206
Group's share in total comprehensive income	**444**	**710**	**781**

2017	National Finance House	United Insurance Company	Arabian Shield Cooperative Insurance Company
Total assets	53,119	26,663	116,677
Total liabilities	38,583	12,367	79,616
Net assets	14,536	14,296	37,061
Group's share of net assets	5,077	2,859	5,559
Goodwill	-	-	1,828
Carrying amount of interest in associate	5,077	2,859	7,387
Revenue	4,691	8,684	52,339
Profit	1,202	3,081	5,686
Other comprehensive income	-	198	193
Total comprehensive income	1,202	3,279	5,879
Group's share in total comprehensive income	461	691	1,506

d) Reporting dates of financial information of associates

For equity accounting and for disclosing financial information of the Arabian Shield Cooperative Insurance Company, the information taken from the unaudited interim financial information for the nine months ended 30 September 2018 and 2017. For the other associates, the information is taken from the audited financial statements for the year ended 31 December 2018 and 2017.

As at 31 December 2018 (In thousands of Bahraini Dinars)

10 REINSURERS' SHARES OF INSURANCE TECHNICAL RESERVES

	2018	2017
Outstanding claims recoverable from reinsurers (note 17)	6,153	5,369
Reinsurers' share of unearned premiums (note 18)	6,289	4,611
	12,442	9,980

Amounts due from reinsurers in respect of claims paid by the Group on the contracts that are reinsured are included in insurance receivables (note 7).

11 INVESTMENT IN SUBSIDIARIES

Set out below are the Group's subsidiaries at 31 December 2018. Unless otherwise stated, they have share capital consisting solely of ordinary shares, that are held directly by the Group and the proportion of ownership interests held equals to the voting rights held by the Group. The country of incorporation or registration is also their principal place of business:

			Ownership interest held by the Group		Ownership interest held by non-controlling interest		
Name of the entity	**Place of business / country of incorporation**	**Date of incorporation**	**2018**	2017	**2018**	2017	**Principal activities**
Bahrain National Insurance BSC (c)	Bahrain	30 December 1998	**100%**	100%	**-**	-	Transact various types of general insurance business.
Bahrain National Life Assurance BSC (c)	Bahrain	4 October 2000	**75%**	75%	**25%**	25%	Transact the business of life assurance, medical insurance, retirement planning and savings.
iAssist Middle East WLL	Bahrain	14 January 2010	**100%**	100%	**-**	-	Transact the business of automobile smash repairs, roadside assistance and automobile services.

As at 31 December 2018 (In thousands of Bahraini Dinars)

11 INVESTMENT IN SUBSIDIARIES continued

Subsidiary with material non-controlling interests

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

Bahrain National Life Assurance BSC (c)	**2018**	2017
Cash and cash equivalents	2,032	845
Placements with banks	675	2,022
Insurance and other receivables	1,840	1,495
Reinsurers' share of insurance technical reserves	2,244	1,521
Deferred acquisition costs	161	129
Financial investments	11,843	11,358
Intangible assets	32	26
Equipment	27	10
Statutory deposits	50	50
Insurance technical reserves	(6,925)	(5,420)
Insurance payables	(601)	(883)
Other liabilities	(1,400)	(1,266)
Net assets (100 %)	**9,978**	9,887
Net assets attributable to NCI	**2,504**	2,479
Net premium earned	3,002	2,148
Net claims incurred	(1,838)	(1,084)
General and administration expenses - underwriting	(586)	(464)
Net commission expenses	(257)	(271)
Life assurance actuarial reserve charge	19	(35)
Other income	12	-
Net investment income	639	534
Impairment losses on investment	(34)	(89)
General and administration expenses - non-underwriting	(105)	(105)
Net profit	**852**	634
Other comprehensive income	(341)	367
Total comprehensive income	**511**	1,001
NCI's share of profit (25%)	**213**	158
NCI's share of total comprehensive income (25%)	**127**	250
Cash flows from operating activities	407	69
Cash flows from / (used in) investing activities	1,194	(733)
Cash flows used in financing activities, before dividends to NCI	(308)	-
Cash flows used in financing activities, cash dividends to NCI	(102)	-
Donations paid	(4)	(12)
Net change in cash and cash equivalents	**1,187**	(676)

As at 31 December 2018 (In thousands of Bahraini Dinars)

12 INVESTMENT PROPERTIES

2018	**BNH Tower in Seef**	**BNH Building in Sanad**	**Total**
Cost			
At 1 January	2,798	1,924	4,722
Additions	-	1	1
At 31 December	**2,798**	**1,925**	**4,723**
Accumulated depreciation			
At 1 January	1,396	390	1,786
Depreciation	86	77	163
At 31 December	**1,482**	**467**	**1,949**
Net book value at 31 December	**1,316**	**1,458**	**2,774**
Total fair value at 31 December	**4,145**	**1,964**	**6,109**
This comprises (at net book value):			
Investment properties	1,316	1,458	2,744
Owner occupied (property)	1,190	299	1,489
Total net book value at 31 December	**2,506**	**1,757**	**4,263**

2017	BNH Tower in Seef	BNH Building in Sanad	Total
Cost			
At 1 January	2,793	1,924	4,717
Additions	5	-	5
At 31 December	2,798	1,924	4,722
Accumulated depreciation			
At 1 January	1,311	307	1,618
Depreciation	85	83	168
At 31 December	1,396	390	1,786
Net book value at 31 December	1,402	1,534	2,936
Total fair value at 31 December	11,304	3,682	14,986
This comprises (at net book value):			
Investment properties	1,402	1,534	2,936
Owner occupied (property)	1,269	314	1,583
Total net book value at 31 December	2,671	1,848	4,519

As at 31 December 2018 (In thousands of Bahraini Dinars)

12 INVESTMENT PROPERTIES continued

The fair value was determined by external, independent property valuators, having appropriate recognised professional qualifications and recent experience in the location and category of the properties being valued.

The valuation for 2018 has been prepared on the basis of Market as defined by the RICS Valuation Professional Standards (July 2017). The Income Capitalisation approach was applied in considering the Market Value of the properties.

The valuation methodology for 2017 depends on market supply/demand and prices traded, considering the main key assumptions (location, area, population and building condition) and the use of the property by using Market Needs Analyses (MNA) evaluation system in addition to the comparative evidences.

13 INTANGIBLE ASSETS

2018	**Goodwill**	**Software**	**Development cost**	**Total**
Cost				
At 1 January	74	1,722	-	1,796
Additions	-	46	69	115
At 31 December	**74**	**1,768**	**69**	**1,911**
Accumulated amortization				
At 1 January	-	1,585	-	1,585
Amortisation	-	51	-	51
At 31 December	**-**	**1,636**	**-**	**1,636**
Net book value at 31 December	**74**	**132**	**69**	**275**

2017	Goodwill	Software	Development cost	Total
Cost				
At 1 January	74	1,924	10	2,008
Additions	-	22	-	22
Disposals	-	(218)	-	(218)
Reclassified to property and equipment	-	(16)	-	(16)
Transfers	-	10	(10)	-
At 31 December	74	1,722	-	1,796
Accumulated amortization				
At 1 January	-	1,726	-	1,726
Amortisation	-	80	-	80
Disposals	-	(218)	-	(218)
Reclassified to property and equipment	-	(3)		(3)
At 31 December	-	1,585	-	1,585
Net book value at 31 December	74	137	-	211

As at 31 December 2018 (In thousands of Bahraini Dinars)

14 PROPERTY AND EQUIPMENT

2018	**Lands and buildings**	**Machinery**	**Furniture & equipment**	**Capital work-in-progress**	**Total**
Cost					
At 1 January	4,747	749	1,547	46	7,089
Additions	-	-	224	179	403
Disposals	-	-	(28)	-	(28)
At 31 December	**4,747**	**749**	**1,743**	**225**	**7,464**
Accumulated depreciation					
At 1 January	1,481	655	1,277	-	3,413
Depreciation	122	68	161	-	351
Disposals	-	-	(28)	-	(28)
At 31 December	**1,603**	**723**	**1,410**	**-**	**3,736**
Net book value at 31 December	**3,144**	**26**	**333**	**225**	**3,728**

2017	Lands and buildings	Machinery	Furniture& equipment	Capital work-in-progress	Total
Cost					
At 1 January	4,228	740	2,279	18	7,265
Additions	519	9	70	28	626
Disposals	-	-	(818)	-	(818)
Reclassified from intangible assets	-	-	16	-	16
At 31 December	4,747	749	1,547	46	7,089
Accumulated depreciation					
At 1 January	1,359	575	1,902	-	3,836
Depreciation	122	80	190	-	392
Disposals	-	-	(818)	-	(818)
Reclassified from intangible assets	-	-	3	-	3
At 31 December	1,481	655	1,277	-	3,413
Net book value at 31 December	3,266	94	270	46	3,676

15 STATUTORY DEPOSITS

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

As at 31 December 2018 (In thousands of Bahraini Dinars)

16 INSURANCE TECHNICAL RESERVES

	2018	2017
Outstanding claims - gross (note 17)	13,573	11,432
Unearned gross insurance premiums (note 18)	14,034	11,743
Unearned commissions income (note 27)	555	215
Life assurance actuarial reserve (note 19)	3,166	3,038
	31,328	26,428

17 OUTSTANDING CLAIMS

a) Claims 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 IBNR.

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

(i) Gross insurance claims for general insurance business

Accident year	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
Estimate of ultimate claims costs:											
At end of reporting year	6,485	5,420	3,883	7,275	5,550	8,850	4,772	4,798	6,577	**8,027**	61,637
One year later	9,692	5,950	4,632	7,512	7,510	8,928	5,833	5,813	**6,512**		62,382
Two year later	9,658	6,074	5,140	6,059	7,957	9,433	5,934	**5,788**			56,043
Three year later	9,399	6,120	4,970	5,972	7,901	9,629	**5,729**				49,720
Four year later	9,573	6,072	4,948	5,818	7,979	**9,589**					43,979
Five year later	10,442	5,940	4,789	5,897	**8,058**						35,126
Six year later	10,399	5,313	4,869	**5,926**							26,507
Seven year later	10,434	5,385	**5,055**								20,874
Eight year later	10,644	**5,372**									16,016
Nine year later	**11,143**										11,143
Current estimate of cumulative claims **(A)**	11,143	5,372	5,055	5,926	8,058	9,589	5,729	5,788	6,512	8,027	71,199
Cumulative payments to date **(B)**	10,820	5,336	4,685	5,793	7,775	9,251	5,525	5,142	4,764		59,090
Total (A – B)	**323**	**36**	**370**	**133**	**283**	**338**	**204**	**646**	**1,748**	**8,027**	**12,109**
Reserve in respect of years prior to 2008											27
Total gross reserve included in the consolidated statement of financial position											**12,136**

(ii) Gross outstanding claims for life and medical insurance business amounted to BD 1,437 thousand.

As at 31 December 2018 (In thousands of Bahraini Dinars)

17 OUTSTANDING CLAIMS continued

(iii) Net insurance claims for general insurance business

Accident year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Estimate of ultimate claims costs:											
At end of reporting year	3,908	1,986	1,949	3,409	2,281	2,083	2,201	2,888	4,477	**5,705**	30,887
One year later	4,046	2,383	2,259	3,356	2,874	2,794	3,122	3,360	**3,452**		27,646
Two year later	3,949	2,496	2,263	3,279	3,260	3,142	3,442	**2,215**			24,046
Three year later	3,729	2,590	2,179	3,153	3,320	3,364	**2,872**				21,207
Four year later	3,735	2,602	2,117	3,132	3,403	**2,993**					17,982
Five year later	3,802	2,460	2,104	3,178	**3,286**						14,831
Six year later	3,767	2,437	2,193	**3,138**							11,535
Seven year later	3,759	2,463	**2,240**								8,462
Eight year later	3,783	**2,442**									6,225
Nine year later	**3,826**										3,826
Current estimate of cumulative claims **(A)**	3,826	2,442	2,240	3,138	3,286	2,993	2,872	2,215	3,452	5,705	32,169
Cumulative payments to date **(B)**	3,790	2,434	2,208	3,113	3,242	2,932	2,870	2,014	2,663		25,267
Total (A – B)	**36**	**8**	**32**	**25**	**44**	**61**	**2**	**201**	**789**	**5,705**	**6,902**
Net reserve in respect of years prior to 2008											3
Total net reserve included in the consolidated statement of financial position											**6,905**

(iv) Net outstanding claims for life and medical insurance business amounted to BD 515 thousand.

b) Changes in insurance assets and liabilities – general insurance

	2018			2017		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Reported claims	9,282	5,369	3,913	8,439	5,405	3,034
IBNR	2,150	-	2,150	1,245	-	1,245
Total at 1 Jan	11,432	5,369	6,063	9,684	5,405	4,279
Changes	23,535	11,552	11,983	24,226	11,938	12,288
Settled	(21,394)	(10,768)	(10,626)	(22,478)	(11,974)	(10,504)
Balance at 31 December	**13,573**	**6,153**	**7,420**	11,432	5,369	6,063
Reported claims	11,218	6,153	5,065	9,282	5,369	3,913
IBNR	2,355	-	2,355	2,150	-	2,150
Balance as at 31 December	**13,573**	**6,153**	**7,420**	11,432	5,369	6,063

As at 31 December 2018 (In thousands of Bahraini Dinars)

17 OUTSTANDING CLAIMS continued

c) Sensitivity analysis

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

	Profit or loss & Equity	
	2018	2017
Non-Life Insurance		
Expense rate		
1 percent increase	(39)	(35)
1 percent decrease	39	35
Expected loss ratio		
1 percent increase	(116)	(118)
1 percent decrease	116	118
Life Assurance	**2018**	2017
Demographic assumptions		
1 percent increase in base mortality rate	(32)	(20)
1 percent decrease in base mortality rate	32	20
Expense assumptions		
1 percent increase	(3)	(3)
1 percent decrease	3	3
Expected loss ratio		
1 percent increase	(4)	(4)
1 percent decrease	4	4

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 125 thousand in case of property and marine and BD 75 thousand in case of causality whereas in case of motor losses Group's exposure to a single event is limited to BD 100 thousand.

d) Movements in outstanding claims:

	Gross outstanding claims		Reinsurers' share		Net outstanding claims	
	2018	2017	**2018**	2017	**2018**	2017
At 1 January	11,432	9,684	5,369	5,405	6,063	4,279
Net movement during the year	2,141	1,748	784	(36)	1,357	1,784
At 31 December	**13,573**	11,432	**6,153**	5,369	**7,420**	6,063

As at 31 December 2018 (In thousands of Bahraini Dinars)

18 NET CHANGE IN RESERVES FOR UNEARNED INSURANCE PREMIUMS

	Unearned gross insurance premiums		Reinsurers' share		Net unearned premiums	
	2018	2017	**2018**	2017	**2018**	2017
At 1 January	11,743	11,885	4,611	5,118	7,132	6,767
Net movement during the year	2,291	(142)	1,678	(507)	613	365
At 31 December	**14,034**	11,743	**6,289**	4,611	**7,745**	7,132

19 LIFE ASSURANCE ACTUARIAL RESERVE AND ACTUARIAL ASSUMPTIONS

	2018	2017
Life assurance actuarial reserve		
Balance at 1 January	3,038	2,804
Contributions received	220	208
Benefits paid	(87)	(186)
Actuarial adjustment on life assurance obligation	(19)	35
Management fee	(51)	(44)
Policyholder's share of net investment income	65	221
Balance at 31 December	**3,166**	3,038
Life assurance actuarial reserve per consolidated statementof financial position	**3,166**	3,038
Actuarial estimate of the present valueof future benefit obligations at 31 December	**3,166**	3,038

The actuarial estimate has been prepared by independent actuaries, Actuscope Consulting Actuaries, Lebanon. The mortality rate assumptions used was 45% (2017: 45%) of the 75-80 Ultimate Mortality US Table and the valuation interest rate was set at 4.5% p.a. (2017: 4.5% p.a.). Allowances have been made for reinsurance, guaranteed bonuses, renewal expenses unexpired risks and contingencies where appropriate.

20 INSURANCE PAYABLES

	2018	2017
Policyholders – Claims	288	159
Insurance and reinsurance companies	4,311	3,814
Balance at 31 December	**4,599**	3,973

Information about the Group's exposure to credit and market risks for insurance payables are included in note 28.

 (In thousands of Bahraini Dinars)

21 OTHER PROVISIONS AND LIABILITIES

	2018	2017
Premiums received in advance	1,331	1,146
Vehicle repairers and spare parts	1,793	1,410
Medical claims care fund	381	398
Provision for employees' benefits	498	485
Employees' leaving indemnities	437	454
Cash collateral	324	-
Unclaimed dividends - prior years	275	400
Hit and run levy fee	131	131
Other	1,926	1,162
Balance at 31 December	**7,096**	5,586

22 RETIREMENT BENEFITS COST

As at the 31 December 2018, the Group employed 161 Bahrainis (2017: 154 Bahrainis) and 59 expatriates (2017: 65 expatriates).

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 2018 amounted to BD 219 thousand (2017: BD 226 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 2018 amounted to BD 79 thousand (2017: BD 76 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 2018 amounted to BD 689 thousand (2017: BD 721 thousand) and is included in the Life assurance actuarial reserve (note 19). The liability is funded by way of contributions from the retirement scheme. The contributions received are invested as part of policyholders' investments (note 8 d).

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

Movement in employees' leaving indemnities:

	2018	2017
At beginning of year	454	391
Indemnities and advances paid	(46)	(10)
Charge during the year	38	73
Release during the year	(9)	-
Balance at 31 December	**437**	454

23 SHARE CAPITAL

	Number 2018	Amount 2018	Number 2017	Amount 2017
a) Authorised shares 100 fils each	**200,000,000**	**20,000**	200,000,000	20,000
b) Issued and fully paid	**119,175,000**	**11,918**	113,500,000	11,350

c) Treasury shares:

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

	Number 2018	Amount 2018	Number 2017	Amount 2017
Balance at 1 January	6,253,816	1,868	6,253,816	1,868
Bonus shares issued	312,690	-	-	-
Balance at 31 December	**6,566,506**	**1,868**	6,253,816	1,868

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

	2018	2017
Basic and diluted earnings per share – fils	29.4	18.8
Proposed cash dividend – fils	15.0	12.0
Net asset value – fils	461.2	469.2
Stock exchange price at 31 December – fils	360.0	430.0
Market capitalization at 31 December – in thousands of BD	42,903	48,805
Price/Earnings ratio at 31 December	12.2	22.9

e) Earnings per share

The calculation of earnings per share is based on the net profit attributable to the shareholders for the year of BD 3,279 thousand (2017: BD 2,095 thousand), attributable to 111,356,306 ordinary shares (2017: BD 111,356,306 ordinary shares) for basic earnings, being the weighted average number of ordinary shares outstanding during the year.

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

As at 31 December 2018 (In thousands of Bahraini Dinars)

23 SHARE CAPITAL continued

f) Major shareholders

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

	Nationality	No. of shares	Shareholding (%)
National Insurance Company	Iraqi	7,808,734	6.55
Abdulhameed Zainal Mohamed Zainal	Bahraini	6,904,061	5.79
Bahrain National Holding Co. (Treasury shares)	Bahraini	6,566,756	5.51

g) 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.

h) 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 %	581	50,713,995	42.55
1 % up to less than 5 %	22	47,181,454	39.60
5 % up to less than 10 %	3	21,279,551	17.85
TOTAL	**606**	**119,175,000**	**100.00**

* Expressed as % of total issues and fully paid shares of the Company.

As at 31 December 2018 (In thousands of Bahraini Dinars)

24 RESERVES

a) Statutory reserve

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

b) General reserves

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

c) Fair value reserve

Gains or losses arising on re-measurement of available-for-sale securities are recognised in the 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 consolidated statement of profit or loss.

25 PROPOSED APPROPRIATIONS AND DIRECTORS REMUNERATION

	2018	2017
Profit as per consolidated statement of profit or loss	3,492	2,253
Net profit attributable to non-controlling interest	(213)	(158)
Profit attributable to shareholders of Parent company	**3,279**	2,095
Proposed appropriations:		
Transfer to statutory reserve	284	-
Dividend to shareholders	1,689	1,287
Bonus share to shareholders	-	568
Retained earnings	1,306	240
	3,279	2,095

Proposed director's remuneration is BD 106 thousand (2017: BD 116 thousand). The appropriation of the 2018 profit is subject to approval by shareholders at the Annual General Meeting.

For 2017, the Company also proposed to distribute 5 bonus shares for every 100 held by shareholders.

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

26 GROSS INSURANCE PREMIUMS

	2018	2017
Direct Business	33,437	28,701
Inward Business	144	186
	33,581	28,887

As at 31 December 2018 (In thousands of Bahraini Dinars)

27 NET COMMISSION AND FEE INCOME

	2018	2017
Commission and fee income	2,002	1,592
Commission expenses	(1,660)	(1,372)
Adjustment for unearned commission income	(340)	(66)
Adjustment for deferred commission expense	58	(52)
	60	102

Movements in unearned commission income and deferred commission expense:

	Unearned commission income		**Deferred commission expense**	
	2018	2017	**2018**	2017
At 1 January	215	149	576	628
Net movement during the year	340	66	58	(52)
	555	215	**634**	576

28 NET INVESTMENT INCOME

	2018	2017
Net (losses) / gains on disposal of financial investments	(171)	11
Transfer from other comprehensive income on disposal of available-for-sale securities	805	322
Valuation (losses) / gains on trading securities	(59)	86
Foreign exchange gains	37	12
Amortisation of premiums on held-to-maturity securities	(6)	(11)
Interest income	1,065	987
Dividend income	696	672
Investment administration expenses	(50)	(60)
Policyholders' share of investment income	(65)	(221)
Investment properties' income	376	319
Depreciation charges on investment properties	(163)	(168)
Other investment properties' expenses	(146)	(60)
	2,319	1,889

29 IMPAIRMENT ON INVESTMENT

	2018	2017
Opening balance	846	759
Transfer to profit or loss on disposal of securities	(52)	(221)
Impairment losses for the year	50	308
	844	846

As at 31 December 2018 (In thousands of Bahraini Dinars)

30 EXPENSES

a) General and administration expenses - underwriting	2018	2017
Employee costs	2,107	2,177
Depreciation and amortisation	236	344
Other costs	1,763	1,510
	4,106	4,031

b) General and administration expenses - non-underwriting	2018	2017
Employee costs	1,254	1,232
Depreciation and amortisation	165	128
Other costs	310	423
	1,729	1,783

31 SEGMENTAL INFORMATION

For operational and management reporting purposes, the Group is organised into five business segments:

Motor Insurance segment;

- Property & General segment;
- Medical Insurance Segment";
- Life Assurance segment and;
- Corporate segment.

Motor Insurance segment comprises motor comprehensive insurance covers and third-party insurance covers and other services related to motor.

Property and Casualty Insurance segment comprises property, general accidents, engineering, marine and aviation. Medical Insurance segment comprises medical insurance products.

Life Assurance segment comprises 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.

As at 31 December 2018 (In thousands of Bahraini Dinars)

31 SEGMENTAL INFORMATION continued

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

2018	Motor	Property & General	Medical	Life Assurance	Corporate	Consolidation adjustments	Total
Gross insurance premiums	**13,079**	**12,143**	**5,524**	**3,050**	**-**	**(215)**	**33,581**
Net premiums earned	**12,668**	**1,083**	**2,082**	**920**	**-**	**(52)**	**16,701**
Net claims incurred	(9,575)	(609)	(1,398)	(441)	-	40	(11,983)
General and administration expenses - underwriting	(2,717)	(923)	(321)	(265)	-	120	(4,106)
Net commission (expense) / income	(370)	687	(312)	55	-	-	60
Actuarial adjustment on life assurance obligation	-	-	-	19	-	-	19
Other income	9	12	6	6	-	-	33
Net underwriting results	**15**	**250**	**57**	**294**	**-**	**108**	**724**
Net investment income	1,031	1,031	162	477	633	(1,015)	2,319
Impairment losses on investment	(8)	(8)	(8)	(26)	-	-	(50)
Share of profit of equity accounted investees	-	-	-	-	1,380	718	2,098
Net income from road assist services	125	-	-	-	-	-	125
Corporate Services fees	-	-	-	-	591	(591)	-
Other income	-	-	-	-	5	-	5
General and administration expenses - non-underwriting	(336)	(150)	(65)	(40)	(1,735)	597	(1,729)
Segment results	**827**	**1,123**	**146**	**705**	**874**	**(183)**	**3,492**

As at 31 December 2018 (In thousands of Bahraini Dinars)

31 SEGMENTAL INFORMATION continued

2017	Motor	Property & General	Medical	Life Assurance	Corporate	Consolidation adjustments	Total
Gross insurance premiums	13,051	9,520	3,838	2,691	-	(213)	28,887
Net premiums earned	12,771	973	1,261	887	-	(72)	15,820
Net claims incurred	(10,818)	(432)	(682)	(402)	-	46	(12,288)
General and administration expenses - underwriting	(2,700)	(1,097)	(209)	(255)	-	230	(4,031)
Net commission (expense) / income	(385)	758	(249)	(22)	-	-	102
Actuarial adjustment on life assurance obligation	-	-	-	(35)	-	-	(35)
Net underwriting results	(1,132)	202	121	173	-	204	(432)
Net investment income	862	863	183	351	573	(943)	1,889
Impairment losses on investment	(109)	(110)	(30)	(59)	-	-	(308)
Share of profit of equity accounted investees	-	-	-	-	2,051	625	2,676
Gains on partial sale of equity accounted investees	-	-	-	-	-	114	114
Net income from road assist services	97	-	-	-	-	-	97
Corporate Services fees	-	-	-	-	591	(591)	-
General and administration expenses - non-underwriting	(336)	(150)	(65)	(40)	(1,791)	599	(1,783)
Segment results	(618)	805	209	425	1,424	8	2,253

Assets and liabilities are not reported on segment basis as these are managed on an aggregate basis.

Cash flows relating to segments are not disclosed separately as these are managed on an aggregate basis.

As at 31 December 2018 (In thousands of Bahraini Dinars)

31 SEGMENTAL INFORMATION continued

Geographical information

2018	**Bahrain**	**GCC**	**Other Countries**	**Total**
Gross insurance premiums	33,551	30	-	**33,581**
Non-current assets	27,827	12,723	11,336	**51,886**

2017	Bahrain	GCC	Other Countries	Total
Gross insurance premiums	28,701	186	-	28,887
Non-current assets	27,706	12,234	12,024	51,964

In presenting the geographic information, segment revenue is based on the location of the customers and segment assets were based on the geographic location of the assets.

Non-current assets for this purpose consist of financial investments which are intended to be held for more than one year, equity accounted invitees, investment properties, property and equipment and statutory deposits.

32 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Risk management framework

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

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

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

32 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

b) Insurance Risk Management

The activity of the Group 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 Group faces in writing a portfolio of insurance contracts are the frequency of occurrence of the insured events and the severity of resulting claims. The Group'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 Group's financial position and profits to large losses or a high frequency as there will be a larger income to sustain such impacts. The exposure of high frequency and severe large losses are also protected by a comprehensive reinsurance program placed with highly reputable international reinsurers.

(i) Underwriting Policy

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

The Group has also a subsidiary 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 subsidiary reviews actuarial the technical funds required to meet any of the future liabilities that can arise out of these contracts.

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

(ii) Reinsurance Policy

As part of the underwriting process the next risk control measure in respect of the insurance risk is the transfer of the risks to third parties through a reinsurance contract or facility. The Group 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 Group is also guided by a strict retention policy adopted by the Group. Any claim will be recovered in the same proportion. Furthermore the Group 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 Group is not dependent on a single reinsurer or a reinsurance contract. The Group 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 Group seeks internationally rated reinsurers but also places some small shares in the local markets as exchange of business.

32 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

Reinsurance is used to manage insurance risk. Although the Group has reinsurance arrangements, it does not, however, discharge the Group'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 Group minimizes such credit risk by entering into reinsurance arrangements with reinsurers having good credit ratings, which are reviewed on a regular basis. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract. This review is performed by the Risk Management Committee which also monitors extent of single exposures.

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

(iii) Terms and conditions of insurance contracts

An overview of the terms and conditions of various contracts written by the Group, the territories in which these contracts are written and the key factors upon which the timing and uncertainty of future cash flows of these contracts are depend are detailed in the following table:

Type of contract	Terms and conditions	Key factors affecting future cash flows
Property and Engineering	This contract indemnifies the insured against material damage to the property of the insured being buildings, contents, machinery and equipment, caused by specified perils, or against all risks subject to specific exclusion and limitations. The insured can extend the policy as the loss can also affect the potential income of the insured and therefore covers loss of income based on this business interruption.	The risk on any policy varies according to many factors such as location, age, occupancy, weather conditions and safety measures in place. The events insured against are fortuitous, sudden and unforeseen. Claims have to be notified within a specified period and a surveyor and/or loss adjustor is appointed in most cases. The loss would be the cost to repair, reinstate or replace the assets damaged bringing the insured to the same position before the loss. In cases of business interruption losses, time for completion are key factors influencing the level of claims under these policies.
Casualty (General Acciiident and Liability)	Under these contracts, compensation is paid for injury suffered by individuals, including employees or members of public. And to indemnify the insured against legal liability as a result of an act or omission inured against causing either bodily injury or third party property damage.	are generally agreed benefits or amounts easily quantified. In the case of liability claims these are very much dependent on factors beyond the control of the parties involved such as court proceedings and identification of medical conditions in the case of bodily injury. Estimating claims provisions for these claims involves uncertainties such as the reporting lag, the number of parties involved in the claim, whether the insured event is over multiple time periods and the potential amounts of the claim. The majority of bodily injury claims are decided based on the laws in force and court judgment, and are settled within two – three years.

32 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

Type of contract	Terms and conditions	Key factors affecting future cash flows
Marine Hull and Cargo	These are very standard contracts within the international spectrum and indemnify the insured against loss of cargo and in the case of hull against material damage to the hull or liability arising out of the use of the hull.	The nature of marine business especially cargo is cross border movement of goods and therefore tend to take longer to quantify or to establish the cause of loss. Underwriters use various loss adjustors to protect their interest The main risk is the establishing the correct cause of loss. Most of these losses will initiate rights of recovery from third parties and even this presents some uncertainty as to quantum and time.
Motor	Motor insurance contracts provide cover in respect of policyholder's private cars and their liability to third parties in respect of damage to property and injury. The exposure on motor insurance contracts is normally limited to the replacement value of the vehicle and a policy limit in respect of third party damage. Exposure to third party bodily injury is unlimited in accordance with statutory requirements	In general, claims lags are minor and claim complexity is relatively low. The frequency of claims is affected by adverse weather conditions, and the volume of claims is higher in adverse weather conditions. The number of claims is also connected with the economic activity, which affects the amount of traffic activity. The majority of bodily injury claims are decided based on the laws in force and court judgment, and are settled within two – three years.
Medical	These contracts pay benefits for medical treatment and hospital expenses. The policyholder is indemnified for only part of the cost of medical treatment or benefits are fixed.	Claims under these contracts depend on both the incidence of policyholders becoming ill and the duration over which they remain ill. Claims are generally notified promptly and can be settled without delay. Premium revisions are responded reasonably quickly to adverse claims experience.
Term life	These contracts indemnify the life of the policyholder over a defined period.	Claims reporting lags are minor and claim complexity is relatively low. The exposure of the Company and amount of claim is limited to the policy value.
Group life	These contracts are type of life insurance in which a single contract covers an entire group of people. Typically, the policyholder is an employer or an entity and the policy covers the employees or members of the group. These contracts indemnify the life of the policyholder over a defined period.	Claims reporting lags are minor and claim complexity is relatively low. The exposure of the Company and amount of claim is limited to the policy value.

32 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

Type of contract	Terms and conditions	Key factors affecting future cash flows
Group Credit life	These contracts are type of life insurance designed to pay off a borrower's debt if the borrower dies. The face value of a credit life insurance policy decreases proportionately with the outstanding loan amount as the loan is paid off over time, until both reach zero value.	Claims reporting lags are minor and claim complexity is relatively low. The exposure of the Company and amount of claim is limited to the policy value.
Group retirement plans	These contracts pay benefits based on employer terms and conditions in case of the death, disability or retirement of the participants. The policyholder is indemnified based on fixed pre-determined benefits considering period of membership, accumulated contributions, administration or surrender fees and bonus return, when applicable.	Surrenders and benefits under these contracts depend on both the life or determined disability of participants. Surrenders and benefits are generally notified promptly and can be settled without delay from the participants portfolio. Contributions are received on timely basis.
Individual savings plans	These contracts are spilt into 3 categories: Future Security Plan (FSP), Child Education Plans and Endowment with profit Plans. These plans include protection benefits such as life insurance, waiver of premium and permanent disability cover. All the policyholders are given a guaranteed cash value schedule at policy issue date for the whole duration of their policy.	Surrenders and benefits under these contracts depend on both the life or determined disability of participants. Surrenders and benefits are generally notified promptly and can be settled without delay from the participants portfolio. Contributions are received on timely basis.

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32 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

(iv) 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.

2018 **Geographical area**	**General Insurance**	**Life Assurance**	**Total**
Bahrain			
Gross insurance premiums	30,501	3,050	33,551
Retained premiums	16,388	920	17,308
Other countries			
Gross insurance premiums	30	-	30
Retained premiums	6	-	6
Total			
Gross insurance premiums	**30,531**	**3,050**	**33,581**
Retained premiums	**16,394**	**920**	**17,314**

2017 Geographical area	General Insurance	Life Assurance	Total
Bahrain			
Gross insurance premiums	26,010	2,691	28,701
Retained premiums	15,260	887	16,147
Other countries			
Gross insurance premiums	186	-	186
Retained premiums	38	-	38
Total			
Gross insurance premiums	26,196	2,691	28,887
Retained premiums	15,298	887	16,185

c) Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investors, creditors 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 non-controlling 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.

32 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

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

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

The Group has 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.

d) Financial Risk Management

The Group has exposure to the following risks:

- credit risk
- liquidity risk
- market risk

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

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

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

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

32 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

(i) Credit risk

Credit risk is the risk that one party 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 are:

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries;
- statutory deposits;
- cash and placements with banks and financial institutions; and
- financial investments - debt instruments.

The Group's 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. To control the credit risk, the Group compiles company-wide data on receivables. 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 financial investments (debt instruments) 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.

As at 31 December 2018 (In thousands of Bahraini Dinars)

32 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

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	**2018**	2017
Receivables:		
- Policyholders	4,357	2,970
- Insurance and reinsurance companies	4,402	5,000
- Others	1,565	1,458
Financial investment securities:		
- Fair value through profit or loss - debt instruments	867	572
- Available-for-sale debt instruments	9,869	7,534
- Held to maturity securities	3,989	4,300
Cash and cash equivalents with banks	11,175	3,090
Placements with banks	3,497	9,333
Statutory deposits	125	125
	39,846	34,382

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

Concentrations of credit risk

The Group monitors concentrations of exposures by industry sector and geographic location of the counterparty as well as by individual counterparties. Counterparty concentration occurs mainly because of the investment management accounts maintained with the various investment bankers. Geographical concentrations at the reporting date have been presented in note 34.

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

	2018	2017
Debt instruments:		
Government of Bahrain	**7,676**	5,148
Placements and bank accounts:		
National Bank of Bahrain	**3,526**	3,547
Ahli United Bank	**2,832**	3,112
Arab Bank	**2,227**	1,917
Mashreq Bank	**1,659**	2,181
Salam Bank	**1,450**	432

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32 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

Assets that are past due

The Group has insurance and other receivables that are past due but not impaired at the reporting date. The Group believes that impairment of these receivables is not appropriate on the basis of stage of collection of amounts owed to the Group and the net settlement position with the counterparty. An age analysis of the carrying amounts of these insurance and other receivables is presented as follows:

Financial assets	**Neither past due nor impaired**	**Past due but not impaired**		**Individually impaired**		
2018	**Less than 90 days**	**91– 180 days**	**More than 180 days**	**Gross Amount**	**Provision for impairment**	**Total**
Receivables:						
- Policyholders	2,163	1,342	852	691	(691)	4,357
- Insurance and Reinsurance companies	1,497	813	2,092	750	(750)	4,402
- Others	1,555	10	-	72	(72)	1,565
	5,215	**2,165**	**2,944**	**1,513**	**(1,513)**	**10,324**

Financial assets	Neither past due nor impaired	Past due but not impaired		Individually impaired		
2017	Less than 90 days	91– 180 days	More than 180 days	Gross Amount	Provision for impairment	Total
Receivables:						
- Policyholders	1,486	678	806	484	(484)	2,970
- Insurance and Reinsurance companies	1,332	1,151	2,517	655	(655)	5,000
- Others	1,624	6	-	2	(2)	1,630
	4,442	1,835	3,323	1,141	(1,141)	9,600

(ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations and commitments associated with its insurance contracts and financial liabilities in cash or other financial assets. Liquidity risk may arise from inability to sell a financial asset at a price close to its fair value.

Liquidity requirements are monitored on a regular 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.

As at 31 December 2018 (In thousands of Bahraini Dinars)

32 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

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 disclosed in significant accounting policies in note 4. 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 liquidity of investment in the portfolio apart from a minimum liquidity reserve that is updated every quarter by the risk management department based on rolling cash flows trends.

The Group's approach to managing its liquidity risk is as follows:

- Budgets are prepared, to forecast monthly inflows and cash outflows from insurance and investment contracts;
- Assets purchased by the Group are required to satisfy specified liquidity requirements and limits;
- The Group maintains adequate cash and liquid assets to meet daily calls on its insurance and investment contracts;
- The Group has a board approved Liquidity Contingency Plan, that will be activated in the event of a liquidity event; and
- The Group also maintain a minimum liquidity reserve that is updated every quarter based on cash flows trends.

Exposure to liquidity risk

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

2018		**Contractual undiscounted cash flows**			
Financial liabilities	**Carrying amount**	**Less than 1 year**	**1 – 2 years**	**2 – 5 years**	**More than 5 years**
Policyholders' liabilities	288	288	-	-	-
Insurance/reinsurance companies	4,311	4,311	-	-	-
Other payables	7,096	7,096	-	-	-

2017		Contractual undiscounted cash flows			
Financial liabilities	Carrying amount	Less than 1 year	1 – 2 years	2 – 5 years	More than 5 years
Policyholders' liabilities	159	159	-	-	-
Insurance/reinsurance companies	3,814	3,814	-	-	-
Other payables	5,586	5,586	-	-	-

(iii) Market risk

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

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32 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

Management of market risks

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

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

Interest rate risk

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

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

The effective interest 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:

	2018 Aggregate principal	**2018 Effective rate**	2017 Aggregate principal	2017 Effective rate
Cash and short-term deposits	**13,813**	**2.27%**	12,555	2.47%
Bonds and treasury bills	**15,715**	**4.88%**	12,406	5.30%

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 Group 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 Bahraini Dinar is effectively pegged to the United States dollar; thus, currency risk is expected to occur only in respect of other currencies.

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32 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

The Group's exposure to currency risk, other than United States dollars and Bahraini Dinars, as well as the currency-wise concentration, expressed in the equivalent of Bahraini dinars is summarised as follows:

Net currency-wise concentration

Financial Assets	**2018**	2017
Euros	678	367
Pounds sterling	258	231
Other currencies	100	244
Total open foreign exchange position at 31 December	**1,036**	842
United States dollars	28,631	26,400
GCC Currencies	11,322	10,472
Bahraini dinars	33,535	31,214
	74,524	68,928
This comprises of:		
Financial investments	31,764	29,839
Equity accounted investees	17,633	16,934
Cash and cash equivalents	11,181	3,097
Placements with banks	3,497	9,333
Statutory deposits	125	125
Receivables:		
Policyholders	4,357	2,970
Insurance and reinsurance companies	4,402	5,000
Others	1,565	1,630
	74,524	68,928

Financial Liabilities	**2018**	2017
Bahraini dinars	10,045	7,838
United States dollars	403	1,288
GCC Currencies	1,176	358
Pounds sterling	50	19
Euros	6	43
Other currencies	15	13
	11,695	9,559
This comprises of:		
Policyholders liabilities	288	159
Insurance/reinsurance companies payables	4,311	3,814
Other payables	7,096	5,586
	11,695	9,559

As at 31 December 2018 (In thousands of Bahraini Dinars)

32 INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

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 – currency risk

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

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

	2018		2017	
Financial assets and liabilities	**Profit or loss**	**Equity**	Profit or loss	Equity
US Dollars	103	275	84	251
GCC currencies	88	109	75	101
Euro	2	7	-	3
Pounds Sterling	-	2	-	2
Other currencies	-	1	1	2

Sensitivity analysis to market risks

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

	2018		2017	
31 December	**Profit or loss**	**Equity**	Profit or loss	Equity
Interest rate risk				
+ 1 percent shift in yield curves	106	830	106	879
- 1 percent shift in yield curves	(106)	(830)	(106)	(879)
Equity price risk				
+1 percent increases in equity prices	4	88	4	85
-1 percent decrease in equity prices	(4)	(88)	(4)	(85)

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33 MATURITY PROFILE OF INVESTMENTS

2018	**Less than 1 year**	**1 - 5 years**	**5 - 10 years**	**Over 10 years / no maturity**	**Total**
Equities	-	-	-	8,395	8,395
Government bonds and treasury bills	1,994	3,246	998	148	6,386
Corporate bonds	453	5,011	259	1,749	7,472
Managed funds	-	-	-	4,717	4,717
Unquoted equities & funds	-	-	-	2,828	2,828
Equity accounted investees	-	-	-	17,633	17,633
	2,447	**8,257**	**1,257**	**35,470**	**47,431**

This balance comprises of:

	2018
Available-for-sale securities	25,809
Held-to-maturity securities	3,989
Equity accounted investees	17,633
	47,431

2017	Less than 1 year	1 - 5 years	5 - 10 years	Over 10 years / no maturity	Total
Equities	-	-	-	8,354	8,354
Government bonds	-	4,081	1,003	149	5,233
Corporate bonds	151	4,365	502	1,583	6,601
Managed funds	-	-	-	5,469	5,469
Unquoted equities & funds	-	-	-	2,576	2,576
Equity accounted investees	-	-	-	16,934	16,934
	151	8,446	1,505	35,065	45,167

This balance comprises of:

	2017
Available-for-sale securities	23,933
Held-to-maturity securities	4,300
Equity accounted investees	16,934
	45,167

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.

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34 GEOGRAPHICAL CONCENTRATION OF INVESTMENTS

	2018	2017
Bahrain	23,722	21,478
Other GCC countries	13,595	12,562
North America	5,437	6,810
Europe	3,778	2,509
China and India	1,339	1,243
Other global/multi-regional	1,526	2,160
	49,397	46,773

This comprises of:

	2018	2017
Securities carried at fair value through profit or loss	1,966	1,606
Available-for-sale securities	25,809	23,933
Held-to-maturity securities	3,989	4,300
Equity accounted investees	17,633	16,934
	49,397	46,773

Investment income by segment

	2018	2017
Bahraini listed equities	327	317
Other equities	620	274
Bonds and treasury bills	740	632
Managed funds	345	517
Bank balances and short-term deposits	335	339
Investment properties	376	319
Gross investment income	**2,743**	2,398
Investment administration expenses	(50)	(60)
Policyholders' share of net investment income	(65)	(221)
Depreciation charges on investment properties	(163)	(168)
Other investment properties' expenses	(146)	(60)
Net investment income	**2,319**	1,889

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35 RELATED PARTIES

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

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

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

a) Related party balances

2018	**Parent's associates**	**Key management personnel**	**Companies in which Directors control**	**Total**
Insurance receivables	597	1	345	**943**
Retirement and saving plan obligation	609	-	67	**676**
Insurance payables	-	-	12	**12**
Other liabilities	-	-	1,181	**1,181**

2017	Parent's associates	Key management personnel	Companies in which Directors control	Total
Insurance receivables	363	2	130	495
Retirement and saving plan obligation	504	-	57	561
Insurance payables	2	-	-	2
Other liabilities	-	-	951	951

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35 RELATED PARTIES continued

b) Transactions with related parties

2018	**Associates**	**Key management personnel**	**Companies in which Directors control**	**Total**
Gross insurance premiums	289	9	1,342	1,640
Gross claims paid	203	2	166	371
Retirement and saving plan contributions received	118	-	9	127
Retirement and saving plan benefits paid	36	-	-	36
General and administration expenses	-	742	119	861
Purchase of equipment	-	-	389	389

2017	Associates	Key management personnel	Companies in which Directors control	Total
Gross insurance premiums	231	7	1,313	1,551
Gross claims paid	128	2	1,350	1,480
Retirement and saving plan contributions received	108	-	4	112
Retirement and saving plan benefits paid	8	-	21	29
General and administration expenses	-	768	120	888
Purchase of equipment	-	-	49	49

c) 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:

	2018	2017
Salaries and allowances	**578**	573
Other benefits	**46**	79
Board remuneration and attendance fees paid	**118**	116
Board remuneration and attendance fees provision	**106**	108

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36 FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer liability in an ordinary transaction between market participant at the measurement date in the principle or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

The table below sets out the Group's classification of each class of financial assets and liabilities, and their fair values.

2018	**Fair value through the statement of profit or loss**	**Available-for- sale**	**Held-to-maturity**	**Loans and receivables**	**Financial liability**	**Total carrying value**	**Fair value**
Cash and cash equivalents	-	-	-	11,181	-	11,181	11,181
Placements with banks	-	-	-	3,497	-	3,497	3,497
Insurance and other receivables	-	-	-	10,324	-	10,324	10,324
Financial investments	1,966	25,809	3,989	-	-	31,764	31,811
Total financial assets	**1,966**	**25,809**	**3,989**	**25,002**	**-**	**56,766**	**56,813**
Insurance payables	-	-	-	-	4,599	4,599	4,599
Other liabilities	-	-	-	-	7,096	7,096	7,096
Total financial liabilities	-	-	-	**-**	**11,695**	**11,695**	**11,695**

2017	Fair value through the statement of profit or loss	Available-for- sale	Held-to-maturity	Loans and receivables	Financial liability	Total carrying value	Fair value
Cash and cash equivalents	-	-	-	3,097	-	3,097	3,097
Placements with banks	-	-	-	9,333	-	9,333	9,333
Insurance and other receivables	-	-	-	9,428	-	9,428	9,428
Financial investments	1,606	23,933	4,300	-	-	29,839	29,991
Total financial assets	1,606	23,933	4,300	21,858	-	51,697	51,849
Insurance payables	-	-	-	-	3,973	3,973	3,973
Other liabilities	-	-	-	-	5,586	5,586	5,586
Total financial liabilities	-	-	-	-	9,559	9,559	9,559

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36 FAIR VALUE MEASUREMENT continued

Fair value hierarchy

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

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

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

- **Level 1**

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

- **Level 2**

  inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- **Level 3**

  inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

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

2018	**Level 1**	**Level 2**	**Level 3**	**Total**	**Carrying Value**
Available-for-sale investments	22,981	2,650	-	25,631	25,631
Securities carried at fair value through profit or loss	1,870	96	-	1,966	1,966
	24,851	**2,746**	**-**	**27,597**	**27,597**

2017	Level 1	Level 2	Level 3	Total	Carrying Value
Available-for-sale investments	21,357	2,400	-	23,757	23,757
Securities carried at fair value through profit or loss	1,530	76	-	1,606	1,606
	22,887	2,476	-	25,363	25,363

36 FAIR VALUE MEASUREMENT continued

During the year, there were no transfers between level 1 and 2, also there were no transfers out of, or into, the level 3 measurement classification.

The carrying amount of the Group's held-to-maturity investments equals BD 3,989 thousand (2017: BD 4,300 thousand) whereas the fair value of the investments is BD 4,036 thousand (2017: BD 4,452 thousand). The investments in available-for-sale securities include investment in unlisted equity securities and managed funds carried at cost and having carrying value of BD 178 thousand (2017: BD 176 thousand) and BD 5 thousand (2016: BD 5 thousand) respectively.

The carrying amount of the Group's other financial assets and liabilities approximate their fair values due to their short-term nature.

37 COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2018, the Group has commitments to make investments amounting to BD 337 thousand (2017: BD 391 thousand).

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

38 COMPARATIVE

Certain corresponding figures of 2017 have been regrouped where necessary to conform to the current year's presentation. Such regrouping did not affect previously reported total assets, total liabilities, equity, profit or loss or comprehensive income.