TOWARDS PROGRESSIVE FUTURE

BNH

Protecting Prosperity™

Annual Report 2019

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

His Majesty
King Hamad bin Isa Al Khalifa
The King of the Kingdom of Bahrain

His Royal Highness
Prince Salman bin Hamad Al Khalifa
The Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister

Bahrain National Holding
9th Floor, BNH Tower, Seef Business District
P.O Box. 843, Kingdom of Bahrain

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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 organized 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 smash repairs services.

BNH's associates includes United Insurance Company, National Finance House, Arabian Shield Cooperative Insurance Company, Al Kindi Specialized Hospital, & Health 360° Ancillary Services W.L.L.

VISION

Creating prosperity through security

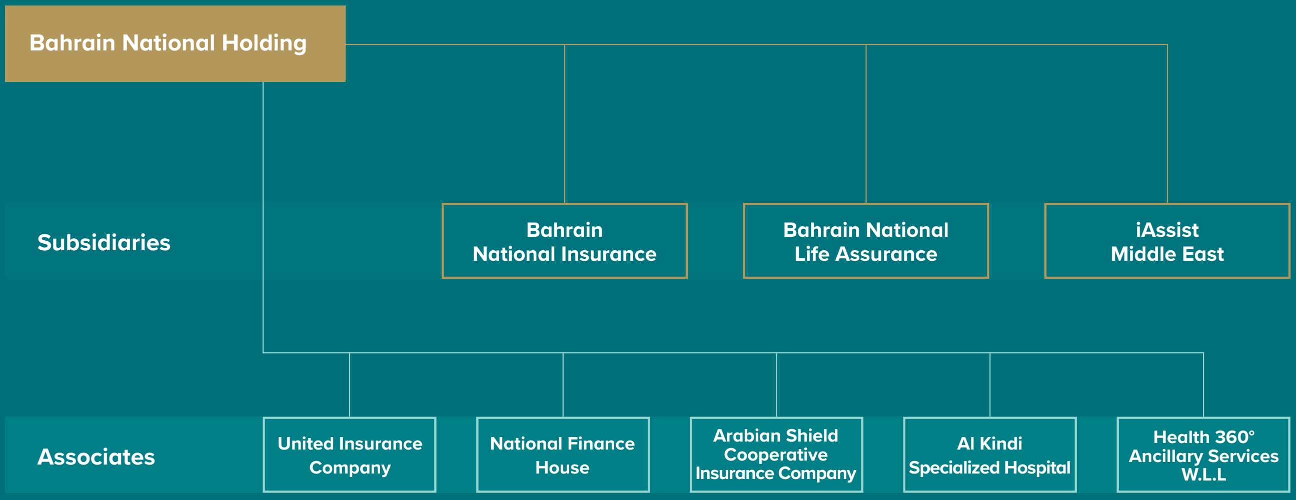
MISSION

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

GROUP STRUCTURE

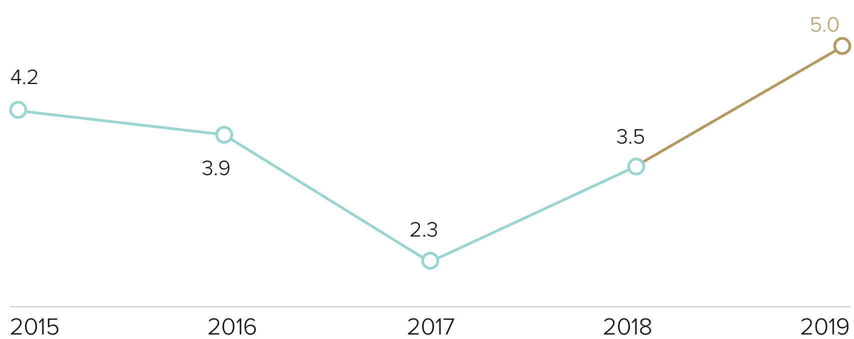


FINANCIAL HIGHLIGHTS

Net Profit

BHD Millions

5.0m



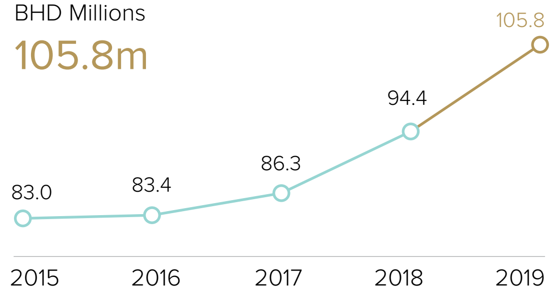
BNH Financial Highlights from 2009 to 2019

BHD millions

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Net Profit	**5.0**	3.5	2.3	3.9	4.2	3.8	3.0	2.3	3.3	3.8	4.1
Total Assets	**105.8**	94.4	86.3	83.4	83.0	87.7	83.2	76.8	71.6	74.1	73.6
Total Equity	**56.7**	51.4	50.3	49.1	47.7	47.8	45.3	42.9	42.2	42.2	40.2
Gross Premiums	**33.8**	33.6	28.9	27.6	28.4	25.7	24.9	23.3	21.9	23.1	24.7
Net Earned Premiums	**17.5**	16.7	15.8	15.0	14.8	13.7	14.3	14.3	13.4	13.6	13.4
Market Capitalization	**39.3**	42.9	48.8	47.8	47.8	49.0	56.8	44.7	46.3	46.1	52.9
Earning Per Share (in Fils)	**42.6**	29.4	18.8	36.2	37.8	33.6	27.8	20.1	29.2	34.7	36.9

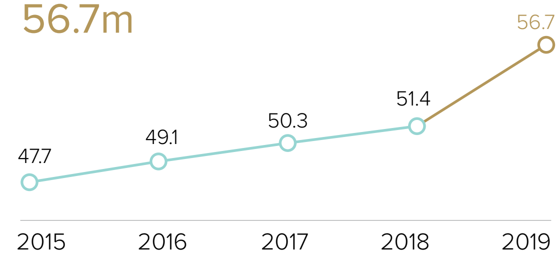
Totals Assets
BHD Millions

105.8m



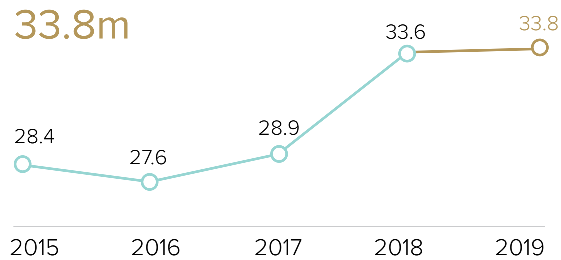
Total Equity
BHD Millions

56.7m



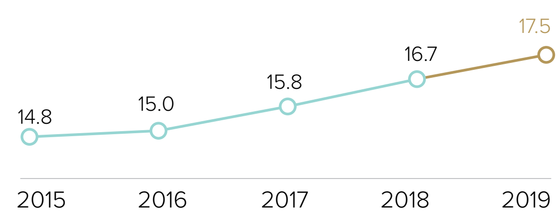
Gross Premiums
BHD Millions

33.8m



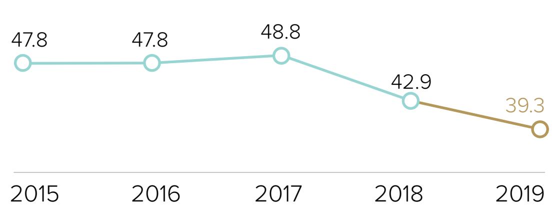
Net Earned Premiums
BHD Millions

17.5m



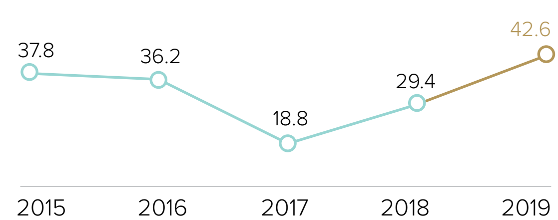
Market Capitalization
BHD Millions

39.3m



Earning Per Share
in Fils

42.6Fils



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 Company

Chairman:
- Y. K. Almoayyed & Sons B.S.C. (c), Bahrain
- Y. K. Almoayyed & Sons Property Company W.L.L, Bahrain
- Almoayyed Contracting Group, Bahrain
- Ashrafs, Bahrain
- Ashrafs-BGDC, Bahrain
- National Concrete Company., Bahrain
- National Bank of Bahrain B.S.C., Bahrain
- Bahrain Duty Free Shop Complex, Bahrain
- Gulf Hotels Group, Bahrain
- Ahlia University, Bahrain
- Ibn Khuldoon National School - Board of Trustees, Bahrain

Director:
- 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 Company
- Vice Chairman of Nomination, Remuneration & Corporate Governance Committee of Bahrain National Holding Company
- Chairman of Nomination, Remuneration & Corporate Governance Committee of Bahrain National Insurance Company

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

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

Chairman & Managing Director:
- UNEECO BSC (c)

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

Vice Chairman:
- Prudent, Saudi Arabia J/V

Director:
- Bin Juma Holdings

Jehad Yusuf Amin
Director

Nationality: Bahraini
Non-Executive Director
Board Member since 1999

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

Director:
- General Company for Trading & Food industries (TRAFCO), Bahrain
- Bahrain Maritime & Mercantile International Company (BMMI), Bahrain
- Bahrain Livestock, Bahrain
- Bahrain Cinema Company B.S.C, Bahrain
- United Insurance Company, Bahrain
- Bahrain Duty Free Complex, Bahrain
- Metro Market Company S.P.C., Bahrain

Redha Abdulla Faraj
Director

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

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

Member of:
- Shura Council, Bahrain

Director:
- Bahrain Maritime and Mercantile International (BMMI), Bahrain
- Y.K. 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
- Minors Estate Guardianship Council, Bahrain

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

BOARD OF DIRECTORS
(CONTINUED)

Ghassan Qasim Fakhroo
Director

Nationality: Bahraini
Non-Executive Director
Board Member since 2008

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

Chief Executive:
- Mohamed Fakhroo & Bros., Bahrain

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

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

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

Sami Mohamed Sharif Zainal
Director

Nationality: Bahraini
Non-Executive Director
Board Member since 2008

- Vice Chairman of Bahrain National Insurance Company
- Vice Chairman of Executive & investment Committee of Bahrain National Insurance Company
- Member of Audit, Compliance & Risk Committee of Bahrain National Insurance Company

Chairman:
- General Poultry Company, Bahrain

Director :
- GCC Commercial Arbitration Centre, 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
- Gulf Medical Diabetes Center, Bahrain
- Bahrain Basketball Association, Bahrain

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

Director:
- Motor City, Bahrain
- Supreme Council for Youth & Sports, Bahrain
- Injaz, Bahrain

Ali Hasan Mahmood
Director

Nationality: Bahraini
Non-Executive Director
Board Member since 1999 and Re-elected in 2011

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

Vice Chairman:
- Jaffaria Waqf Directorate, Bahrain

Chairman:
- Euro Gulf Oil Energy Services, Bahrain
- United International Décor W.L.L., Bahrain
- Bed Center W.L.L., Bahrain
- United Marketing International Company W.L.L., Bahrain

Chairman and Managing Director:
- Hasan & Habib s/o Mahmood Group of Companies, Bahrain
- Al Jazeera Shipping Company. W.L.L., Bahrain

Director:
- Bahrain Specialist Hospital, Bahrain

Member:
- Bahrain Standards and Metrology Directorate – Ministry of Industry, Commerce & Tourism, Bahrain
- Bahrain Businessmen Association, Bahrain

Ayad Saad Algosaibi
Director

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

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

Vice Chairman:
- Khalifa A. Algosaibi Investment Co. CJSC, Dammam, Saudi Arabia

SOLUTIONS FOR TOMORROW

With our finger firmly on the pulse of industry trends and changing customer needs, we shape solutions for a brighter tomorrow

CHAIRMAN'S MESSAGE

Farooq Yusuf Almoayyed
Chairman of the Board

The year 2019 is special for the Group as we celebrate our 50th anniversary. It, therefore, gives me immense pleasure to report that your Group recorded its highest profit in the past decade.

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 2019.

Bahrain's real GDP is estimated to have grown by 2.1% in 2019, thanks to the healthy growth of 2.3% growth in the non-hydrocarbons sector. Strong performances by manufacturing, up 4.1% and the services sector like hotels and transportation provided a substantial boost to overall performance. Oil sector growth was at 1.4% as a slight fall in production was offset by price gains relative to 2018. Drilling is due to start on the offshore block one area in the north coast of Bahrain to seek deposits. Increasing flows from the GCC development fund has resulted in a 16.6% increase in the cumulative value of projects commenced, reaching USD 4.3 Billion. Disbursals have also picked up 29.3%. The Fiscal Balance Program made substantial progress, with the budget deficit falling from 6.3% in 2018 to 4.7% in 2019. The strong performance of the non-oil sector offset the 3% drop in government spending. Continuing pressures on oil prices make it imperative for Bahrain to consolidate its financial position and seek diversification from the oil sector.

The year 2019 is special for the Group as we celebrate our 50th anniversary. It, therefore, gives me immense pleasure to report that your Group recorded its highest profit in the past decade. The Group achieved a net profit of BD 5.03 million compared to BD 3.49 million in 2018. The achievement is commendable as it was against a backdrop of intense competition, soft insurance rates, drop in new-vehicle demand, and additional cost pressures due to Value Added Tax and need to comply with additional regulations. Net Investment Income grew by 33.5% to BD 3.10 million. Portfolio value increased, resulting in a record high comprehensive income of BD 7.16 million compared to BD 2.75 million in 2018.

We witnessed strong growth of 11.2% in our life and medical insurance subsidiary, as the medical line of business was able to retain its clients while bagging additional accounts. The year 2019 witnessed a sharp drop in new motor premiums as a result of the impact of VAT on the purchasing behavior of consumers. bni managed to grow its non-motor gross premiums by 3.7%, despite these challenges. Robust claims control in motor resulted in the overall Group recording a sharp fall in net claims by 7.5% compared to 2018. Your Group continues to be conservatively reserved, with net technical reserves at 110% of net earned premium.

We expect 2020 to be a particularly challenging year, as oil prices continue to be under pressure from the impact of the coronavirus outbreak in China. We also expect increasing cost pressures due to additional expenses related to the transition to IFRS 17 and IFRS9 accounting standards.

A focus on digitalization is no longer an option but a necessity as consumers demand ever more timely and quality services and more options. Weaker business models will be under pressure and customers will look for a reliable and financially stable insurance partner. Given our strong performance, balance sheet strength and rating, and our push into digitalization, we are well positioned to serve more customers in the coming years.

The Group's gross premiums for FY 2019 grew by 0.7% to BD 33.80 million. Gains in medical, life, and general insurance premiums offset the weaker performance of motor premiums.

The Increasing adoption of InsureTech and the far-reaching changes in the accounting standards will shape insurance industry in the coming years.

Gross underwriting profit increased by 35.9% to BD 6.41 million compared to BD 4.72 million a year earlier. Thanks to claims control, particularly in motor, Net underwriting profits jumped 184% in 2019 to BD 2.06 million, compared to BD 724 thousand last year. Though general and administration expenses were higher, this was primarily because of conservative provisions on receivables.

A 33.5% increase in the investment portfolio income helped the Group offset the lower share of associate profits. The growth was achieved while maintaining a highly liquid portfolio, and significant allocation to cash and equivalents. Our associate income fell primarily due to a sharp fall in the profitability of our insurance associate in Saudi Arabia. Our portfolio of associate companies continues to be a source of stability and diversification for the Group. We continue to focus on maximizing the synergies in our associate holdings and our insurance subsidiaries.

The Group's net profit for 2019 of BD 5.03 million rose by 44% from BD 3.49 million in 2018. Total Equity reached BD 56.66 million, and basic and diluted earnings per share were 42.6 fils at the close of the year.

We are increasingly concerned by the valuation levels across all asset classes as a result of Central Bank interventions globally. While there are pockets of growth and optimism, we face higher uncertainties due to regional and international political developments. Low growth rates continue to pressure yields globally, posing peculiar challenges to insurance Groups like ours, to not only maintain strong investment returns but also protect our capital.

The Group had embarked on an upgrade of its core IT system and will go live in 2020. The Group plans to invest significantly in digitalizing its operations that will have a significant impact on the quality and efficiency of our services. It will also provide us a platform to get closer to our customers and provide innovative insurance solutions.

Two trends that will shape insurance in the coming years are increasing adoption of InsureTech and the far-reaching changes in the accounting standards. While InsureTech is expected to disrupt and change the way insurers carry out business, the changes in accounting standards will also have long-lasting effects on pricing discipline in underwriting and measuring performance. In this context, an ability to attract and retain top-class employees, particularly in the areas of Information Technology, data analysis and actuarial sciences, assumes critical importance. The Board has put in place structures for continuous skills up-gradation as well as career progression for our employees. We are thankful for 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 2019.

EXECUTIVE MANAGEMENT

Sameer AlWazzan

Chief Executive
Bahrain National Holding Company

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

Mr. Sameer AlWazzan is the Board Vice-Chairman and Chairman of Audit Committee of United Insurance Company; Board Vice-Chairman and Chairman of NRCG Committee and Risk Management Committee and Member of Executive Committee of Arabian Shield Cooperative Insurance Company (KSA); Board Member and Member of Executive Committee of National Finance House; and Board Member of Al Kindi Specialized Hospital.

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, Chief Executive of Solidarity Group and Chief Executive 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.

Masood Bader

Deputy Chief Executive
Bahrain National Holding Company

Masood Bader joined Bahrain National Insurance Company 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.

Anand Subramaniam

Chief Investment and Financial Officer
Bahrain National Holding Company

Anand Subramaniam has over 21 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 B.S.C.

He has previously worked with 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.

Eman Mojali

General Manager

Bahrain National Insurance Company

Eman Mojali is the General Manager overseeing Motor, Personal Lines and Commercial Insurance at Bahrain National Insurance (bni). Eman has been a part of bni since 1995, having over 24 years of experience in insurance. Her technical skills and experience, together with her talent for customer service, placed Eman in a position as 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.

Enas Asiri

General Manager

Bahrain National Life Assurance Company

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 specialized 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.

Rayan Al Mahmood

Assistant General Manager

Bahrain National Insurance Company

Rayan Al Mahmood joined Bahrain National Insurance 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 severed 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 Company

Hassan has got 26 years of experience in insurance filed particularly in motor insurance underwriting and claim management as well as business development. He joined Bahrain National Insurance 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 Advanced Management (with distinction) from Bahrain University. He also holds Insurance diploma (student of the year awarded) from BIBF 1995 and Advanced insurance Diploma (student of the year awarded) from BIBF 1996.

Chief Executive’s Report

Sameer AlWazzan
Chief Executive

We are pleased with the way our business development teams in the underwriting subsidiaries,as they managed to maintain the group’s topline by ensuring the retention of key accounts in the portfolio through working closely with clients.

It gives me great pleasure to report that The Group achieved a significant milestone in 2019, with net profits crossing the BD 5 million mark for the first time in a decade. It is satisfying that these results were achieved in a highly competitive market environment, with rising cost pressures.

Overview

During 2019 we built on the momentum of 2018, recording a robust operational performance across both our insurance subsidiaries. Motor insurance was the most significant contributor to our underwriting performance. While the drop in new car sales impacted the entire industry, we invested our resources in retaining our retail customers, while paying close attention to managing claims inflation. We managed to record a growth in most other general insurance lines, despite the severe competition. On the medical insurance front, growth was boosted by significant wins of new accounts, while retaining most of our performing portfolio. Life business continued to grow on the back of strong demand for credit life, though individual lines lagged.

Investment markets were very supportive in 2019 thanks to cuts in interest rates as well as positive developments on the trade war front. As oil prices stabilized on the back of production cuts by OPEC, regional markets also fared well. Portfolio returns would have been even higher, but for the conservative levels of liquidity maintained through the year. Some of our associates’ profits were lower than in 2018, impacted by higher claims and margin pressures. Group’s costs were broadly under control, despite additional pressures of provisioning for receivables.

Group Financial Performance

The Group recorded robust growth in medical and non-motor general insurance lines, which was partly offset by a drop in motor premiums. We are pleased with the way our business development teams in the underwriting subsidiaries, as they managed to maintain the Group’s topline by ensuring the retention of key accounts in the portfolio through working closely with clients. After the nearly 16% growth in 2018, the Group successfully defended its portfolio in a highly competitive market. The Group’s claims ratio at 63% was a substantial improvement over the 72% recorded in 2018. Lower net claims were a key contributor to the 184% increase in Net Underwriting Profit to BD 2.06 million in 2019. Our portfolio of investment securities performed strongly, recording a 34% growth during 2019 apart from a significant increase in unrealized gains, which boosted the equity of the Group. Basic and diluted earnings per share increased to 42.6 fils compared to 29.4 fils in 2018.

Group Subsidiaries’ Performance

Bahrain National Insurance Company (bni)

Despite the sharp drop in the sale of new cars in 2019 as a result of the impact of Value Added Tax, gross written premiums fell by 2.9% to BD 24.5 million in 2019 compared to BD 25.2 million in 2018. Motor premiums were under pressure due to a combination of factors. In 2019, we noticed a continuation of the trend in shifting to third party cover from comprehensive policies. This shift, combined with the lower value of cars, contributed to a decrease in policy count as well as a slight downward change in the share of comprehensive policies in the total portfolio. However, the motor portfolio saw a significant improvement in claims experience as well as control over cost per claim. The bni team worked closely with service providers to streamline processes and improve the customer experience while processing claims and repairing vehicles. bni’s topline growth came from new business wins, particularly in property and general accident offset by a drop in marine business. Improvements to the reinsurance treaty structure and our close coordination with our broking intermediaries helped nearly double net commision income.

The net underwriting profit for bni stood at BD 1.72 million, compared to BD 367 thousand in 2018. The investment team took timely tactical decisions on the investment portfolio, which increased investment income, while continuously maintaining a healthy cash balance and remaining within various risk limits. As a result, bni’s net profit rose to BD 3.95 million compared to BD 1.93 million in 2018.

Bahrain National Life Assurance Company (bnl)

Building on its momentum of 2018, bnl had a stellar 2019, despite an uptick in life claims. Gross written premiums grew by 11.2% to BD 9.5 million in 2019 compared to BD 8.6 million in 2018.

Group medical business saw sustained growth as the team retained key accounts while making further inroads into profitable small and medium enterprises businesses. Our medical claims experience was in line with expectations at the time of pricing our policies. Acquisition costs were on the higher side due to additional broker-driven business gains as well as growth in the portfolio. Credit life continued to grow well as lending activity continued apace in 2019. However, individual life segment premiums fell. An increase in the number of death claims and surrenders impacted life underwriting profit. The strong performance of the policyholder portfolio allowed us to declare a higher bonus for savings product customers. However, as a conservative measure, we maintained reserves at a higher level than estimated by our independent actuary. Net underwriting profit in 2019 grew by 11% from BD 352 thousand in 2018 to BD 392 thousand. The Company's net profit rose from BD 852 thousand in 2018 to BD 941 thousand in 2019, an increase of 10%.

iAssist Middle East

A drop in the number of motor policies and customer preference for low-value basic covers, affected the topline for road assist operations. However, savings in the replacements car claims more than offset the drop. Improved coordination of the body-shop with the motor department of bni helped with shorter repair times and higher quality of repairs to our motor insurance customers. The focus in 2020 will be on increasing the productivity of the body-shop to drive overall profits.

Investments and Associates

The Group’s net investment income from the market portfolio increased by 34% in 2019 to BD 3.1 million. Apart from the income, the portfolio value increased by nearly BD 2 million in 2019 compared to a drop of BD 737 thousand in 2018. The portfolio size increased to BD 51 million, including cash. We had maintained higher cash levels than

2018, deployed into bank deposits and T-bills in Bahrain, due to higher relative return to risk trade-off compared to low yielding bonds. Though the elevated cash made us underperform the benchmark partially, we feel that it was prudent to maintain high cash levels, given the high valuations in bond and equity markets and the potential for volatility. Though the temporary improvement in the trade war, which started in 2018, is a positive development, there are several risks, including the potential impact of the coronavirus outbreak in early 2020.

Our Associate stakes with a carrying value of BD 18.5 million, delivered a share of profit of BD 1.6 million compared to BD 2.1 million in 2018. The drop was primarily due to our insurance associate in the Kingdom of Saudi Arabia, which faced the impact of higher medical claims and a sharp fall in motor premiums as a result of certain distribution restrictions. Strategies have been put in place to address these challenges, and we are confident of a turnaround in performance in 2020. We have added Health 360° Ancillary Services W.L.L., a third-party administrator of medical claims, as a new member of our portfolio of associates during the year. It is a profitable and strategically important investment for the Group.

Other Group Activities

The upgrade of the Group's core IT system is progressing well. There have been some minor delays in the short run as the user teams have been diligently testing and improving key processes. These changes will help us to offer our digital suite of products, minimize manual operations and improve the service levels as well as responsiveness to customer requirements. We have also planned our digital transformation journey and allocated resources to ensure our continuing technology leadership in the Bahraini insurance sector.

During the year, the Group has also begun planning the transition into the IFRS 17 & IFRS 9 accounting standards. The new standard will have to be implemented with effect from Jan 2022. The changes will impact the financial measurement of insurance underwriting as well as financial instruments. It implies changes to systems, governance, strategy as well as employee skills. We will be working closely with our external consultant on the gap analysis phase and view this transition as an opportunity to enhance our business process and policies further.

Success in insurance is increasingly dependent on enhancing the skills employees as simple and repetitive tasks get increasingly automated, and the emphasis is on innovation and anticipating and fulfilling customer needs. The Group's employees participated in several training programs, on topics ranging from IFRS 17 accounting standards, customer service excellence, liability insurance, motor insurance, insurance documentation. Apart from this, we are proud of the number of employees who achieved professional certifications in their field. The Group has several internal plans to promote skills enhancement and gaining qualifications.

The employee Bahrainisation rate for the Group and insurance subsidiaries is registered at 85%.

Regulatory Developments

There have been several regulatory developments with an impact on our Group, including the new Personal Data Protection Law, and the motor unified comprehensive insurance policy law. We also anticipate that compulsory health insurance, when introduced, will fundamentally change the economics of medical insurance in Bahrain. Our compliance team in coordination with relevant departments has been continuously coordinating the necessary changes in internal systems, procedures and processes to be in line with these regulations.

The insurance sector in Bahrain continues to be profitable as consolidation efforts of the past have started bearing fruit

Economic Outlook

Despite the drop in average oil prices to USD 64 in 2019 compared to USD 71 in 2018, the government has made significant progress with the fiscal balance program. The primary deficit has been slashed by nearly 85% to BD 41 million, thanks to 63% growth in non-oil revenues on the back of VAT implementation and BD 128 million savings in expenditure due to the removal of unviable subsidies and spending. Deficit to GDP, a key measure of financial solvency has improved from 6.3% to 4.7% and the government is well on its way to a balanced budget by 2020. Liquidity conditions also dramatically improved with the government successfully raising USD 2 billion in long term debt, at very competitive rates and with a strong response from investors.

The lower government spending has been more than offset by the robust performance of the non-oil sector as well as expenditures under the USD 7.4 billion GCC Development plan. The cumulative total of tendered projects increased 6.3% to USD 6.1 billion, while commenced projects jumped 16.6%. Disbursals from the program increased by 29.3% to USD 2.6 billion.

In the year 2019, ALBA line 6 expansion was fully commissioned, and the expanded Bahrain International Airport is expected to come online in 2020. The 109 km light metro rail network tenders are to be finalized in the first quarter of 2020. The transitional phase of the King Hamad causeway project worth USD 2.9 billion was signed in 2019. BAPCO modernization project has reached 35% completion and is due for completion by 2022. Apart from the above, there are several infrastructure projects linked to power, roadworks, real estate and social housing.

As always, there are several potential headwinds in 2020, including the impact of the recent coronavirus outbreak on oil prices and business activity in general. Overall, business confidence levels in Bahrain, as per the most recent survey, show resilience with optimistic views significantly higher at 28.9% compared to 18.3% pessimistic responses, with the balance remaining neutral.

The official growth forecast of real GDP is 2.7% for 2020, after an estimated 2.1% growth in 2019. At the time of going to press, the spread of the coronavirus is expected to impact significant engines of global growth in 2020, starting with China. Much depends on the extent of the spread of the virus, disruption to supply chains, and business confidence.

The insurance sector in Bahrain continues to be profitable as consolidation efforts of the past have started bearing fruit, in terms of greater pricing discipline. Government and regulators are encouraging and enabling Fintech, which is going to disrupt the way incumbent insurers carry on their business. We already see increasing moves in the market to digitalize customer interactions replacing the traditional distribution channel of physical branches, particularly in retail. Significant transformations are occurring in other core areas like claims processing, pricing innovations and value-added services.

It is increasingly apparent that the successful insurance provider will be one who is closest to the consumer and can understand the needs and provide innovative solutions at reasonable price points. The Group is fortunate to be well-positioned to resource and manage this transition adequately. We look forward to the support of all our key stakeholders to make 2020 another successful year for the Group.

Sameer AlWazzan
Chief Executive

SUBSIDIARIES

Bahrain National Insurance Company

Established: 1998

Capital: BD 6.5 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 Company

Established: 2000

Capital: BD 5 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: BD 1.2 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 structure series of operating procedures ensuring faster and more efficient performance.

ASSOCIATES

United Insurance Company

Established: 1986

Paid-up capital: BD 5 million / BNH share: 20%

The United Insurance Company (UIC) provides insurance cover for passengers and vehicles crossing the King Fahad Causeway linking the Kingdom of Bahrain and Saudi Arabia.

Website: www.uic.bh

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

Arabian Shield Cooperative Insurance Company

Established: 2006

Paid-up capital: SR 300 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

Al Kindi Specialized Hospital

Established: 2008

Paid-up capital: BD 2.2 million / BNH share: 27%

Al Kindi is a private specialist hospital offering high standards of primary and secondary medical care. Al Kindi Specialized Hospital is equipped with a 24-hour clinic, radiology unit, medical laboratory and pharmacy.

Website: www.alkindihospital.com

Health 360° Ancillary Services W.L.L

Established: 2013

Paid-up capital: BD 0.4 million / BNH share: 26.2%

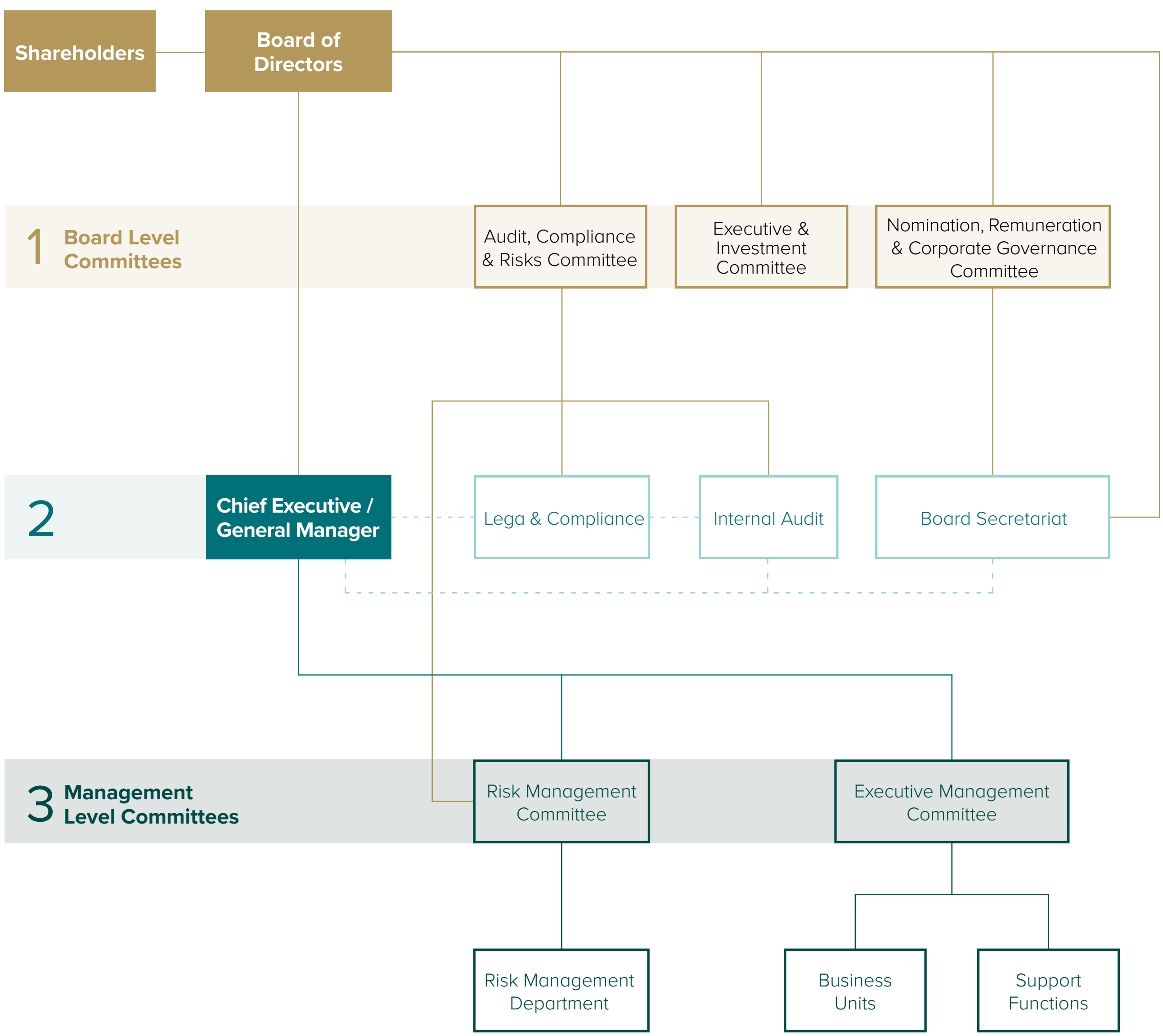
“Health °360 Ancillary Services W.L.L”, is a Third party administrator (TPA) company based in the Kingdom of Bahrain. The company is providing claims management for insurance companies providing medical covers through a network of medical service providers.

Website: www.health360.bh

EMBRACING CHANGE

We learn, innovate and adapt, embracing change as we continuously evolve

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.
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 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. Independent oversight to ensure the sound implementation of Governance and Risk Management Systems and standards, which is the responsibility of the Audit, Compliance and Risk Committee (ACRC)

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 2019.

The Board

BNH's Board of Director 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.

Directors' Attendance at Board Meetings in 2019

Board Member	Title	26 Feb	14 May	6 Aug	13 Nov	3 Dec	Attendance percentage
Farooq Yusuf Almoayyed	Chairman (Non-Executive Director)	•	•	•	•	•	100%
Abdulhusain Khalil Dewani	Vice Chairman (Non-Executive Director)	•	•	•	•	•	100%
Abdulrahman Mohamed Juma	Board Member (Non-Executive Director)	•	•	•	•	•	100%
Jehad Yusuf Amin	Board Member (Non-Executive Director)	•	•	•	•	•	100%
Redha Abdulla Faraj	Board Member (Non-Executive Director)	•	•	•	•	•	100%
Ghassan Qasim Fakhroo	Board Member (Non-Executive Director)	•	•	•	•	•	100%
Sami Mohamed Sharif Zainal	Board Member (Non-Executive Director)	•	•	•	•	•	100%
Talal Fuad Kanoo	Board Member (Non-Executive Director)	•	•	–	•	•	80%
Ali Hasan Mahmood	Board Member (Non-Executive Director)	•	•	•	•	•	100%
Ayad Saad Algosaibi	Board Member (Non-Executive Director)	•	•	•	•	•	100%

- 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 2019

Name of Shareholder	Title	Number of shares as at 01/01/2019	Number of shares as at 31/12/2019	Changes
Director				
Farooq Yusuf Almoayyed	Chairman	1,295,792	1,395,792	100,000
Abdulhusain Khalil Dewani	Vice Chairman	1,307,152	1,427,152	120,000
Abdulrahman Mohamed Juma	Board Member	667,794	687,794	20,000
Jehad Yusuf Amin	Board Member	3,000,000	3,200,000	200,000
Ali Hasan Mahmood	Board Member	530,881	530,881	-
Ayad Saad Algosaibi	Board Member	105,000	105,000	-
Sami Mohamed Sharif Zainal	Board Member	146,869	156,869	10,000
Talal Fuad Kanoo	Board Member	152,037	152,037	-
Ghassan Qasim Fakhroo	Board Member	105,000	105,000	-
Executive Management				
Sameer AlWazzan	Chief Executive	114,741	114,741	-

Description of the transactions of the directors, their spouses and sons on the Company's shares during the year 2019 according to the following table:

Name	Title	Shares held as at 31/12/2019	Total sale transaction	Total purchase transaction
Farooq Yusuf Almoayyed	Chairman	1,395,792	-	100,000
Abdulhusain Khalil Dewani	Vice Chairman	1,427,152	-	120,000
Abdulrahman Mohamed Juma	Board Member	687,794	-	20,000
Jehad Yusuf Amin	Board Member	3,200,000	-	200,000
Sami Mohamed Sharif Zainal	Board Member	156,869	-	10,000

BOARD COMMITTEES

Audit, Compliance & Risks Committee (ACRC)

Responsibilities

- Oversee the selection and compensation of the External auditor and ensure their professionality as required 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 2019

Members	Title	12 Feb	6 May	5 Aug	5 Nov	Attendance percentage
Redha Abdulla Faraj	Chairman	•	•	•	•	100%
Ayad Saad Algosaibi	Vice Chairman	•	•	•	•	100%
Abdulrahman Mohamed Juma	Member	•	•	•	•	100%
Ali Hasan Mahmood	Member	•	•	•	•	100%

- 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.

Executive & 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.

Directors' Attendance at EIC Meeting in 2019

Members	Title	18 July	Attendance percentage
Abdulhusain Khalil Dewani	Chairman	•	100%
Jehad Yusuf Amin	Vice Chairman	•	100%
Anand Subramaniam	Member	•	100%

- Mr. Abdulhusain Dewani is the Chairman of the 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 the Board, Board members, Committees and Senior Executives.

Directors' Attendance at NRCG Meetings in 2019

Members	Title	26 Feb	3 Dec	Attendance percentage
Farooq Yusuf Almoayyed	Chairman	•	•	100%
Abdulhusain Khalil Dewani	Vice Chairman	•	•	100%
Jehad Yusuf Amin	Member	•	•	100%
Redha Abdulla Faraj	Member	•	•	100%

- Mr. Farooq Yusuf Almoayyed is the Chairman of the NRCG.
- The NRCG is required to meet at least twice a year.

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

Executive Management Committee

Objectives

- Provide a forum by which the ideas and opinions of the Senior Management team are considered in issues relating to Group policy and strategy, and for exchanging inter- departmental information.
- Provide assurance to the Board that the affairs of the Group are overseen by a team of senior managers.
- Achieve standardization of policies and practices across the Group.
- Exercise such financial authorities as the Board may grant, and 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

- Masood Bader, Deputy Chief Executive, BNH – Chairman
- Anand Subramaniam, Chief Investment and Financial Officer, BNH – Member
- Eman Mojali, General Manager, bni – Member
- Enas Asiri, General Manager, bnl - Member
- Anantha Ramani, Senior Manager, Finance, BNH – Member
- Mohsin Ali, Senior Manager, Finance, BNH – Member
- Samia Saleh, Human Capital, property and Facility Senior Manager, BNH – Member
- Bashayer Dhaif, Corporate Communications, Senior Manager, BNH – Member
- Mahmood Al Adraj, Information Technology Senior Manager, BNH – Member
- Amith Valsan, Internal Audit Manager, BNH – 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:

- Coordinating 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 Board of Directors to the ACRC
- Ensuring risk mitigations and controls are implemented by various business units and support functions

Membership

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

Compliance Responsibility

The 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, in which a continuous compliance monitoring programme is conducted to ensure effective compliance.

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.

Employment of Relatives

The Management, in general, does not allow the employment of "closely related" persons. However, if there is no apparent conflict of interest stemming from personal or a business relationship, such employment may be permitted by the CEO/GM/ Board of Directors, looking into the circumstances of each case.

"Closely related" in this context will include spouses, parents, children, siblings and in-laws (Father-in-law, Mother-in-law, Brother-in-law, Sister-in-law, Son-in-law & Daughter-in-law). Such relationships should be declared to the company prior to the commencement of employment. Failure to do so may result in termination of the services of the concerned employee, "Employee" in this context will include all CBB approved persons, such as GM's, Head of compliance ...etc.

Relatives cannot be employed within the organization in the same department.

In case of marriage between two employees working in the same company, approval of the CEO/GM must be obtained to continue employment in the company after the marriage.

Policies & Procedures

During 2019, BNH continued to regularly review and update all key policies and procedures manuals, covering critical operational areas in the Group's insurance subsidiaries and across all functions of the organization.

Directors & Officers 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. It is worth mentioning that 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. On an annual basis, 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 2018 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 and concerns 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 2019 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 "or any other regulatory authority" 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 and 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.

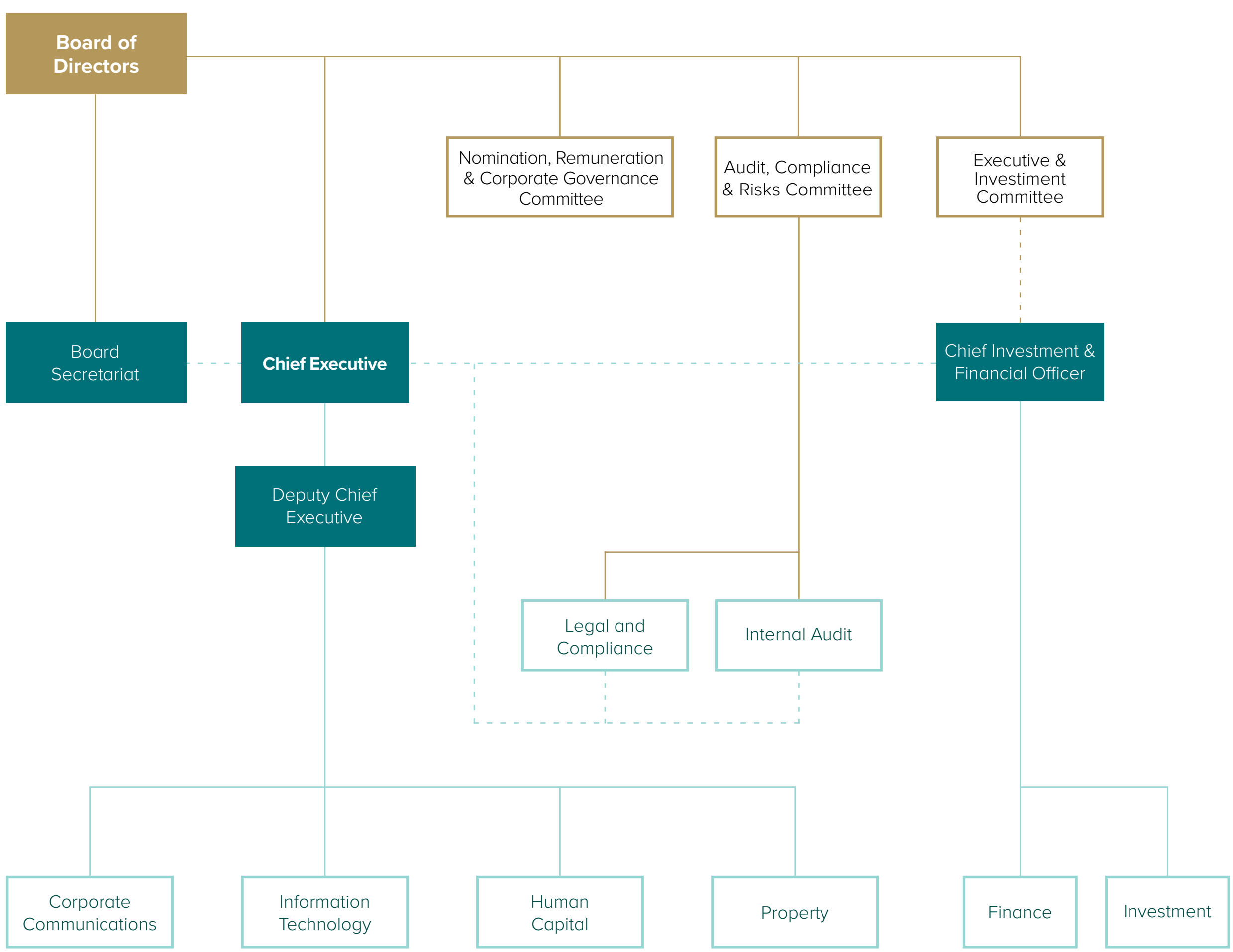
The Board Secretary extends its support to the Board by maintaining a smooth functioning of the Management Committees and ensuring meetings are properly called and organized, and that minutes are accurately recorded.

Succession Plan

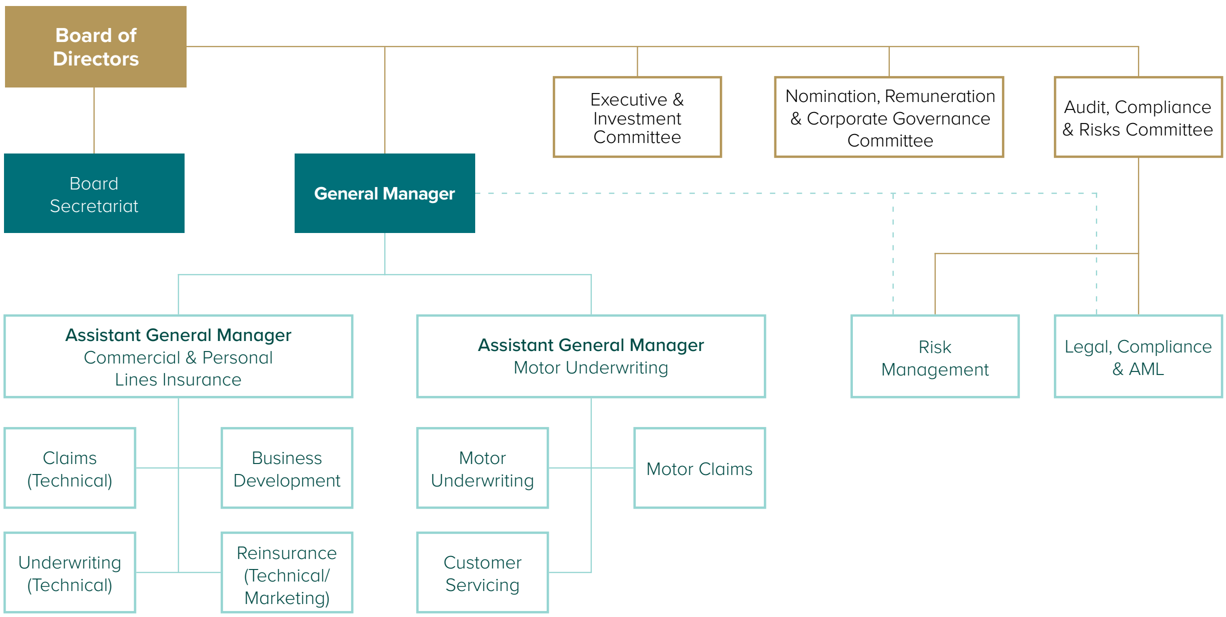
In accordance with the requirements and principles of Corporate Governance, the Board of Directors has reviewed and approved the succession plan, including the policies and principles of selecting the successor to the CEO, whether in case of emergency or in the context of normal business. In addition, the management in coordination with the Board of Directors has put in place a succession plan for the Senior Management individuals of the company, which is being implemented in accordance with the plan.

ORGANIZATIONAL CHART

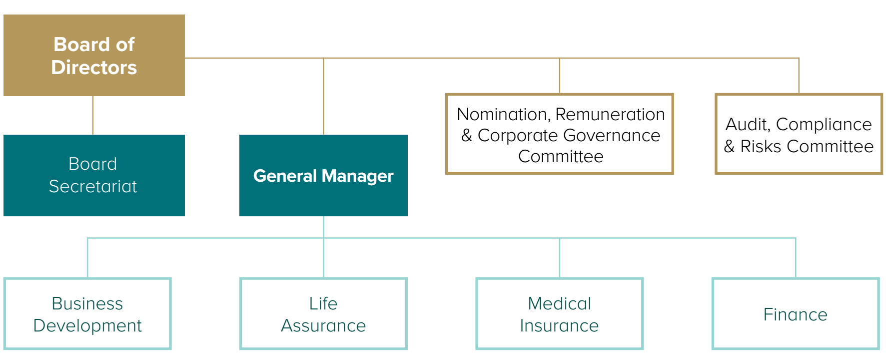
Bahrain National Holding



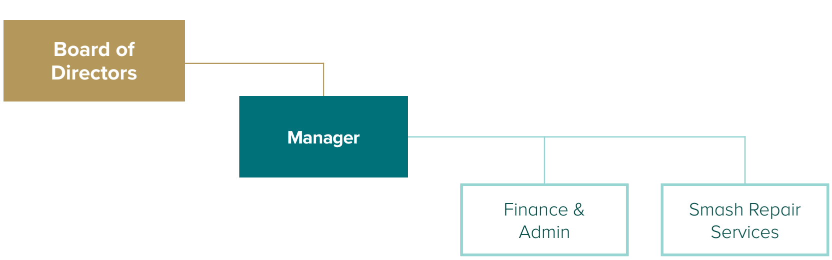
Bahrain National Insurance



Bahrain National Life Assurance



iAssist Middle East



INNOVATING & ADAPTING

In a dynamic, connected world, creativity and innovation is the fuel that drives our sustainable success.

Corporate Social Responsibility (CSR)

Charities:

- Sponsored Row to Grow Bahrain's 1st indoor rowing relay marathon at Gravity Indoor Skydiving in collaboration with CrossFit Delmon to raise funds for Bahrain Mobility International.

Social Service:

- Distributed Gift vouchers to needy families in Holy Month of Ramadan.
- Production & distribution of recycling boxes to collect plastic where all proceeds will go towards Bahrain Association for Parents and Friends of the Disabled initiatives.

Awareness Campaigns:

- Sponsored Civil Defense International Day Festival which aims to raise awareness around fire safety.
- Produced 10 Traffic Awareness videos on Road safety during the Holy Month of Ramadan.
- Produced 10 Traffic Awareness Videos on Road Safety during the National Day Celebrations.
- Sponsored gifts distributed by the General Traffic Directorate to responsible drivers.

Sports:

- Sponsored the Youth City 2030 Health & Fitness center. This initiative aims to exposing the youth of Bahrain to activities and opportunities within the health & wellness industry that will help them become physically and mindfully fit with the purpose of reducing the risk of obesity, diabetes and other illness.
- Launched the E-Movement Program at the Youth City 2030 where trackers were distributed to youth who participated in the program to monitor their activity patterns such as; sleep, movement, heart rate etc to get a better understanding of the youth’s lifestyle.
- Initiated for the first time the inclusion of the Bahrain Deaf Sport Club in all the Youth City 2030 sports activities.
- As part of the Youth City 2030 activities, produced sport exercises videos which included videos for the deaf.
- Sponsored a participant at the IRONMAN 70.3 Middle East Championship Bahrain.

Insurance for Societies:

- Insured UCO parents Care Centre vehicles
- Insured Down Syndrome Society vehicles
- Insured Bahrain Institute for Special Education vehicles

Staff Activities:

- Organized 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 organizations in the Kingdom
- Engaged staff in internal activities to promote health awareness including breast cancer, Movember - prostate cancer and more

Contacts

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Tel: 17 112 380 - 17 112 390
WhatsApp: 3671 1255
Fax: 17 112 398
Website: www.iassist-me.com

bni's Branches and Outlets:

Seef Branch
BNH Tower
Seef Business District

Sanad Branch
bni Complex, 2nd Floor,
Building 1809, Road 4635,
Block 646, Nuwaidrat

Manama Branch
Ground Floor, Al Hedaya Plaza
Building, Shop 61,
Government Road 305, Manama

Muharraq Branch
Promoseven Holding Building
Shop. 6, 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, Souq waqef,
Hamad Town

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

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

Zinj Branch
Manama Plaza
Shop No. 61P, Building No. 63,
Manama

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Bahrain National Holding Company B.S.C

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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 2019, 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 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for 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 2019. 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 judgment in note 5(b)(i), 5(b)(ii), accounting policy in note 5(a)(ii), 5(a)(iii) and disclosures in 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 2019, the Group had significant technical insurance provisions, representing 73.1% 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 judgment 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 judgments 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 samples 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 ▪ Evaluating 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 judgment in note 5(b)(iii), accounting policy in note 5(a)(xii) and disclosures in 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 2019, the Group’s financial investments comprise 30.3% 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 2019, a significant amount, representing 85.1% of total financial investments, comprise “available-for-sale securities” having carrying value of BD 27.3 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 the 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 has been a significant drop in fair value. We also evaluated 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 judgment in note 5(b)(iii), accounting policy in note 5(a)(vii) and 5(a)(xiii) and disclosures in 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 2019, the Group had significant insurance receivables from policyholders, 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 judgment 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 the key 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.

Auditors' 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 auditors' 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 directors' 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 auditors' 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 auditors' 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 2019 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

1. 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.
2. As required by the Ministry of Industry, Commerce and Tourism in their letter dated 30 January 2020 in respect of the requirements of Article 8 of Section 2 of Chapter 1 of the Corporate Governance Code, we report that the Company has:
   a. A corporate governance officer; and
   b. A Board approved written guidance and procedures for corporate governance.

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

KPMG Fakhro

Partner Registration No. 137
25 February 2020

(In thousands of Bahraini Dinars)

Consolidated statement of financial position

As at 31 December 2019

	Note	**2019**	2018
Assets			
Cash and cash equivalents	6	4,254	11,181
Placements with banks	6	14,767	3,497
Insurance and other assets	7	11,493	10,324
Financial investments	8	32,148	31,764
Equity accounted investees	9	18,520	17,633
Reinsurers' share of insurance technical reserves	10	16,772	12,442
Deferred acquisition cost	27	732	634
Investment properties	12	2,731	2,774
Intangible assets	13	266	275
Property and equipment	14	4,024	3,728
Statutory deposits	15	125	125
Total assets		**105,832**	94,377
Liabilities			
Insurance technical reserves	16	35,958	31,328
Insurance payables	20	6,102	4,599
Other provisions and liabilities	21	7,117	7,096
Total liabilities		**49,177**	43,023
Net assets		**56,655**	51,354
Equity			
Share capital	23b	11,918	11,918
Treasury shares	23c	(1,868)	(1,868)
Share premium	23g	3,990	3,990
Statutory reserve	24a	5,959	5,959
General reserve	24b	13,585	13,585
Fair value reserve	24c	4,615	2,698
Retained earnings		15,641	12,568
Equity attributable to shareholders of the Parent company		**53,840**	48,850
Non-controlling interest	11	2,815	2,504
Total equity		**56,655**	51,354

The consolidated financial statements were approved by the Board of Directors on 25 February 2020 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.

(In thousands of Bahraini Dinars)

Consolidated statement of profit or loss

For the year ended 31 December 2019

	Note	2019	2018
Gross insurance premiums	26	33,804	33,581
Reinsurers' share of gross insurance premiums		(17,052)	(16,267)
Retained premiums		**16,752**	17,314
Net change in reserve for unearned premiums	18	739	(613)
Net premiums earned		**17,491**	16,701
Gross claims paid		(22,206)	(21,394)
Claims recoveries		11,654	10,768
Outstanding claims adjustment – gross	17d	(4,403)	(2,141)
Outstanding claims adjustment – reinsurance	17d	3,876	784
Net claims incurred		**(11,079)**	(11,983)
Gross underwriting profit		**6,412**	4,718
Actuarial adjustment on life assurance obligation	19	-	19
Net commission and fee income	27	195	60
Impairment losses on insurance receivables	7	(1,003)	(305)
General and administration expenses – underwriting	30a	(3,607)	(3,801)
Other income		59	33
Net underwriting profit		**2,056**	724
Net investment income	28	3,097	2,319
Impairment losses on investment	29	(89)	(50)
Share of profit of equity accounted investees	9	1,618	2,098
Net income from road assist services		242	125
General and administration expenses - non-underwriting	30b	(1,905)	(1,729)
Other income		8	5
Profit for the year		**5,027**	3,492
Profit attributable to:			
Parent company		4,792	3,279
Non-controlling interest	11	235	213
		5,027	3,492
Basic and diluted earnings per share	23d, e	**42.6 fils**	29.4 fils

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.

(In thousands of Bahraini Dinars)

Consolidated statement of comprehensive income

For the year ended 31 December 2019

	Note	**2019**	2018
Profit for the year		**5,027**	3,492
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Available-for-sale securities:			
▪ Change in fair value		3,270	47
▪ Transfer to statement of profit or loss on impairment of securities		77	21
▪ Transfer to statement of profit or loss on disposal of securities	28	(1,335)	(805)
Share of other comprehensive income of equity accounted investees		121	(6)
Other comprehensive income		**2,133**	(743)
Total comprehensive income		**7,160**	2,749
Total comprehensive income attributable to:			
Parent company		6,709	2,622
Non-controlling interest	11	451	127
		7,160	2,749

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

(In thousands of Bahraini Dinars)

Consolidated statement of changes in equity

For the year ended 31 December 2019

2019	**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	11,918	(1,868)	3,990	5,959	13,585	2,698	12,568	48,850	2,504	51,354
Profit for the year	-	-	-	-	-	-	4,792	4,792	235	5,027
Other comprehensive income	-	-	-	-	-	1,917	-	1,917	216	2,133
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**1,917**	**4,792**	**6,709**	**451**	**7,160**
Dividends declared for 2018	-	-	-	-	-	-	(1,689)	(1,689)	(140)	(1,829)
Donations declared for 2018	-	-	-	-	-	-	(30)	(30)	-	(30)
Appropriations approved by shareholders	**-**	**-**	**-**	**-**	**-**	**-**	**(1,719)**	**(1,719)**	**(140)**	**(1,859)**
Balance at 31 December	**11,918**	**(1,868)**	**3,990**	**5,959**	**13,585**	**4,615**	**15,641**	**53,840**	**2,815**	**56,655**

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

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

(In thousands of Bahraini Dinars)

Consolidated statement of cash flows

For the year ended 31 December 2019

	Note	**2019**	2018
Operating Activities			
Insurance operations			
Premiums and service fees received, net of acquisition costs		33,175	33,808
Payments to insurance and reinsurance companies		(15,833)	(15,771)
Claims paid to policyholders		(22,326)	(20,918)
Claims recovered from reinsurers and salvage recoveries		11,623	11,368
Cash flows from insurance operations		**6,639**	8,487
Investment operations			
Dividends and interest received		1,720	1,724
Proceeds from sale and redemptions of financial investments		10,771	14,813
Payments for purchases of financial investments		(7,784)	(16,909)
Bank deposits with maturities of more than three months		(14,767)	(3,497)
Redemption proceeds from bank deposits		3,497	9,333
Payment for investment in equity accounted investees		(105)	-
Dividends received from equity accounted investees		957	1,152
Payment for investment properties		(10)	(2)
Rent received		254	341
Cash flows from investment operations		**(5,467)**	6,955
Expenses paid		(6,166)	(5,286)
Cash flows from operating activities		**(4,994)**	10,156
Investment Activities			
Purchase of property, equipment and intangible assets		(44)	(531)
Cash flows used in investment activities		**(44)**	(531)
Financing Activities			
Dividends paid to shareholders		(1,623)	(1,411)
Dividends paid to non-controlling interest		(140)	(102)
Donations paid		(32)	(28)
Payments of lease liabilities		(94)	-
Cash flows used in financing activities		**(1,889)**	(1,541)
Net (decrease) / increase in cash and cash equivalents		**(6,927)**	8,084
Cash and cash equivalents at 1 January		11,181	3,097
Cash and cash equivalents at 31 December	6	**4,254**	11,181

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

Notes to the consolidated financial statements

For the year ended 31 December 2019

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 2019 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 MEASUREMENT

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

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 25 February 2020.

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 judgments 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 2019

The following standards, amendments and interpretations, which became effective as of 1 January 2019, are relevant to the Group:

i. IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognizes 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.

The Group initially applied IFRS 16 from 1 January 2019. The Group applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 is not restated - i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed in note 4. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

ii. 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.

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

2. BASIS OF ACCOUNTING AND MEASUREMENT continued

iii. 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).

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 is effective for annual periods beginning on or after 1 January 2019.

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

iv. 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.

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 adoption of these amendments 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 2019 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 impact on the Group's consolidated financial statements in the period of initial application.

i. 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 recognized 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. BASIS OF ACCOUNTING AND MEASUREMENT continued

ii. Definition of Material–Amendments to IAS 1 and IAS 8

The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information.

In particular, the amendments clarify:

- That the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and
- The meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

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

iii. Definition of a Business – Amendments to IFRS 3

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.

The amendments will likely result in more acquisitions being accounted for as asset acquisitions.

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

iv. 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 recognize 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 recognized 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.

v. FRS 17 Insurance Contracts

IFRS 17 "Insurance Contracts" was issued in May 2017 to replace the existing IFRS 4, "Insurance Contracts". IFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue the insurance contracts, as well as to certain guarantees and financial instruments with discretionary participation features, with scope exceptions will apply.

The standard applies to annual periods beginning on or after 1 January 2021. In June 2019, the IASB tentatively decided to delay the effective date of IFRS 17 by one year to periods beginning on or after 1 January 2022 and has considered further amendments to this new standard. Early application is permitted, provided the entity also applies IFRS 9 on or before the date it first applies IFRS 17. The Group intends to adopt the new standard on its mandatory effective date, alongside the adoption of IFRS 9.

The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful

2. BASIS OF ACCOUNTING AND MEASUREMENT continued

and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A simplified approach (the premium allocation approach) mainly for short-duration contracts
- A specific adaptation for contracts with direct participation features (the variable fee approach)

IFRS 17 requires liabilities for insurance contracts to be recognized as the present value of future cash flows, incorporating an explicit risk adjustment, which is updated at each reporting date to reflect current conditions, and a contractual service margin (CSM) that is equal and opposite to any day-one gain arising on initial recognition. Losses are recognized directly into the income statement. For measurement purposes, contracts are grouped together into contracts of similar risk, profitability profile and issue year, with further divisions for contracts that are managed separately.

Profit for insurance contracts under IFRS 17 is represented by the recognition of the services provided to policyholders in the period (release of the CSM), release from non-economic risk (release of risk adjustment) and investment profit. The CSM is released as profit over the coverage period of the insurance contract, reflecting the delivery of services to the policyholder. For certain contracts with participating features (where a substantial share of the fair value of the related investments and other underlying items is paid to policyholders) such as the Group's with-profits products, the CSM reflects the variable fee to shareholders. For these contracts, the CSM is adjusted to reflect the changes in economic experience and assumptions. For all other contracts the CSM is only adjusted for non-economic assumptions.

IFRS 17 introduces a new measure of insurance revenue, based on the delivery of services to policyholders and excluding any premiums related to the investment elements of policies, which will be different from existing premium revenue measures, currently reported in the income statement. In order to transition to IFRS 17, the amount of deferred profit, being the CSM at transition date, needs to be determined. The CSM to be calculated as if the standard had applied retrospectively. However, if this is not practical an entity is required to choose either a simplified retrospective approach or to determine the CSM by reference to the fair value of the liabilities at the transition date. The approach for determining the CSM will have a significant impact on both shareholders' equity and on the amount of profits on in-force business in future reporting periods.

The 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 '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.

IFRS 17 is expected to have a significant impact as the requirements of the new standard are complex and requires a fundamental change to accounting for insurance contracts as well as the application of significant judgement and new estimation techniques.

The effect of changes required to the Group's accounting policies as a result of implementing these standards are currently uncertain, but these changes can be expected to, among other things, alter the timing of IFRS profit recognition.

The Group has an implementation programme underway to implement IFRS 17 and IFRS 9. The programme is responsible for setting accounting policies and developing application methodologies, establishing appropriate processes and controls, sourcing appropriate data and implementing actuarial and finance system changes.

The Group remains on track to start providing IFRS 17 financial statements in line with the requirements for interim reporting at its effective date, which is currently expected to be from 1 January 2022.

2. BASIS OF ACCOUNTING AND MEASUREMENT continued

vi. 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 as per amendments to IFRS 4 published in 2016, 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' to address the temporary consequences of the different effective dates of IFRS 9 and IFRS 17.

These amendments include an optional temporary exemption from applying IFRS 9 and the associated amendments until IFRS 17 comes into effect. This temporary exemption is available to companies whose predominant activity is to issue insurance contracts based on meeting the eligibility criteria as at 31 December 2015 as set out in the amendments.

The summarized impact of IFRS 9 application on the Group 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 2022.

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 standard is mainly attributed to an increase in impairment losses recognized on financial assets.

The Group recognized the cumulative effect of initially applying IFRS 9 on its non-insurance equity accounted investees as an adjustment to the opening retained earnings balance at 1 January 2018.

IFRS 9 - Classification and measurement of financial assets and financial liabilities

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.

IFRS 9 - Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt instruments at FVOCI, but not equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39. For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile.

The Group has an implementation programme underway to implement IFRS 17 and IFRS 9. The programme is responsible for setting accounting policies and developing application methodologies, establishing appropriate processes and controls, sourcing appropriate data and implementing actuarial and finance system changes. The Group is in process assessing the impact of applying IFRS 9, but these can be expected to be significant.

The Group remains on track to start providing IFRS 17 and IFRS 9 financial statements in line with the requirements for interim reporting at its effective date, which is currently expected to be from 1 January 2022.

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 derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized 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 recognized 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.

4. CHANGE IN ACCOUNTING POLICIES

The Group initially applied IFRS 16 from 1 January 2019. A number of other new standards are also effective from 1 January 2019, but they do not have a material effect on the Group’s consolidated financial statements.

a. Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

For the year ended 31 December 2019 (In thousands of Bahraini Dinars)

4. CHANGE IN ACCOUNTING POLICIES continued

b. As a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

The Group has elected not to recognise right-of-use assets and lease liability for some leases of low value assets and to some short term leases. For leases of other assets, which were classified as operating under IAS 17, the Group recognized right-of-use assets and lease liabilities.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

Leases classified as operating leases under IAS 17

Previously, classification under IAS 17 was based on assessment of risk and rewards. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at either:

- Their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Group's incremental borrowing rate at the date of initial application; or
- An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments - the Group applied this approach to all other leases.

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- Did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- Did not recognise right-of-use assets and liabilities for leases of low value assets;
- Excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight when determining the lease term.

c. As a lessor

The accounting policies applicable to the Group as a lessor are not different from those under IAS 17.

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. However, the Group has applied IFRS 15 Revenue from Contracts with Customers to allocate consideration in the contract to each lease and non-lease component.

d. Impact on financial statements

On transition to IFRS 16, the Group recognized BD 641 thousand of right-of-use assets in property and equipment and BD 641 thousand of lease liabilities in provisions and other liabilities.

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 7%.

	1 January 2019
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Group's consolidated financial statements	503
Discounting impact using the incremental borrowing rate at 1 January 2019	(113)
Recognition exemption for leases of low-value assets	(12)
Recognition exemption for leases with less than 12 months of lease term at transition	(20)
Extension options reasonably certain to be exercised	283
Lease liabilities recognized at 1 January 2019	**641**

On transition to IFRS 16, the Group recognized BD 641 thousand of right-of-use assets in property and equipment and BD 641 thousand of lease liabilities in provisions and other liabilities.

5. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

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 IFRS 4 – Insurance Contracts.

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:

5. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS continued

- 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.

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 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.

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.

5. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS continued

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 recognized 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 recognized 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.

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

5. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS continued

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 recognized 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 recognized at fair value, and transaction cost are expensed in the profit or loss. Investments are derecognized 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.

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 recognized 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 recognized 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 recognized 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 recognized in other comprehensive income are transferred to the consolidated statement of profit or loss.

5. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS continued

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 reorganization, 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.

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 recognized 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 recognized 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 recognized 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 recognized in the consolidated statement of profit or loss.

5. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS continued

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

An item of property and equipment and any significant part initially recognized is derecognized 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 recognized in profit or loss.

xii. Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located. less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset. which is determined on the same basis as those of property and equipment. In addition. the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

5. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS continued

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rat e. initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Group is reasonably certain to exercise lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option. and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets
The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, (including IT equipment). The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessor
At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case. then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Group recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue.

Generally, the accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16 except for the classification of the sub-lease entered into during current reporting period that resulted in a finance lease classification.

xiii. 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

5. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS continued

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 recognized 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 recognized in profit or loss – is removed from other comprehensive income and recognized in the statement of profit or loss. Impairment losses recognized 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 recognized if the estimated recoverable amount is assessed to be below the cost of the investment.

Non-financial assets

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

An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognized 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 recognized.

xiv. Employees' benefits

Bahraini employees

Pensions and other social benefits for Bahraini employees are covered by the Social Insurance Organization, 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.

5. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS continued

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.

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

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

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

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

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Board of Directors and 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.

xix. 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 recognized 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 recognized 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's 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.

5. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS continued

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.

ii. Life assurance actuarial reserve estimation

Life insurance liabilities are recognized 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 recognized in the consolidated statement of profit or loss over the life of the contract, whereas losses are fully recognized in the consolidated statement of profit or loss during the first year of run-off. The liability is recognized 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 recognized 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.

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 reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. Losses are recognized in the consolidated statement of profit or loss and reflected in an allowance against the receivables.

(In thousands of Bahraini Dinars)

5. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS continued

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

	2019	2018
Cash and bank current accounts	4,254	4,089
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	**4,254**	11,181
Placements with banks with maturities of more than three months	14,767	3,497
Total cash and balances with banks	**19,021**	14,678

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

For the year ended 31 December 2019 (In thousands of Bahraini Dinars)

7. INSURANCE AND OTHER ASSETS

	2019	2018
Insurance receivables		
Policyholders	5,847	5,051
Provision for impairment of receivables from policyholders	(1,213)	(691)
Write off of receivables from policyholder	-	(3)
Insurance and reinsurance companies	5,663	5,152
Provision for impairment of receivables from insurance and reinsurance companies	(1,231)	(750)
	9,066	8,759
Other assets		
Accrued income	1,151	865
Recoverable deposits	651	343
VAT recoverable	204	-
Rent receivables	225	115
Provision for impairment of rent receivables	(119)	(72)
Prepayments and advances	134	149
Others	181	165
	2,427	1,565
	11,493	10,324
Movement in provision for impairment during the year is as follow:		
Opening balance	1,513	1,141
Charged on insurance receivables, net	1,003	305
Charged on rent receivables, net	47	70
Write off	-	(3)
	2,563	1,513

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

8. FINANCIAL INVESTMENTS

	2019	2018
Securities carried at fair value through profit or loss	1,769	1,966
Available-for-sale securities	27,380	25,809
Held-to-maturity securities	2,999	3,989
	32,148	31,764

(In thousands of Bahraini Dinars)

8. FINANCIAL INVESTMENTS continued

a. Securities carried at fair value through profit or loss

	2019	2018
Listed securities:		
▪ Equity securities	275	369
▪ Government debt securities	226	179
▪ Corporate debt securities	529	492
▪ Treasury bills	-	196
▪ Managed funds	718	634
Unlisted funds	21	96
	1,769	1,966
Movement during the year:		
Opening balance	1,966	1,606
Purchases	606	1,172
Sales	(970)	(753)
Fair value movement	167	(59)
	1,769	1,966

b. Available-for-sale securities

	2019	2018
Listed securities:		
▪ Equity securities	9,197	8,395
▪ Government debt securities	2,164	1,897
▪ Corporate debt securities	7,724	6,504
▪ Treasury bills	1,246	1,468
▪ Managed funds	5,322	4,717
Unlisted securities and funds	1,727	2,828
	27,380	25,809
Movement during the year:		
Opening balance	25,809	23,933
Purchases	7,206	15,729
Disposals	(7,645)	(13,115)
Fair value movement	2,099	(688)
	27,469	25,859
Impairment losses	(89)	(50)
	27,380	25,809

Investments in unlisted securities and funds include investments of BD 5 thousand (2018: BD 5 thousand) carried at cost less impairment in the absence of a reliable measure of fair value.

(In thousands of Bahraini Dinars)

8. FINANCIAL INVESTMENTS continued

c. Held-to-maturity securities

	Fair value		Carrying value	
	2019	2018	**2019**	2018
Government debt securities	2,639	3,062	2,485	3,021
Corporate debt securities	539	974	514	968
	3,178	4,036	**2,999**	3,989
Movement during the year:				
Opening balance			3,989	4,300
Matured securities			(978)	(305)
Exchange losses			(12)	(6)
			2,999	3,989

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:

	2019	2018
Cash equivalents	55	36
Placements with banks	1,017	427
Financial investments	2,351	2,662
	3,423	3,125
Actuarial estimate of the present value of future benefit obligations at 31 December (note 19)	**3,291**	3,166

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

(In thousands of Bahraini Dinars)

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:

Name of the entity	Location of business / country	Percentage of ownership interest 2019	Percentage of ownership interest 2018	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
Health 360 Ancillary Services W.L.L.*	Kingdom of Bahrain	26.2%	-	Associate	Processing insurance claims as a third party administrator

*During the year, the Group has acquired 1,048 shares of Health 360 Ancillary Services W.L.L for BD 105 thousand which represents 26.2% ownership interest.

b. The movement in the investment in associates is as follows:

2019	National Finance House	Al Kindi Specialised Hospital	United Insurance Company	Arabian Shield Cooperative Insurance Company*	Health 360 Ancillary Services	Total
Opening balance	5,070	1,726	2,669	8,168	-	**17,633**
Investments	-	-	-	-	105	**105**
Share of profit	375	104	934	171	34	**1,618**
Dividends received	(210)	(47)	(700)	-	-	**(957)**
Share of other comprehensive income	-	-	82	39	-	**121**
	5,235	**1,783**	**2,985**	**8,378**	**139**	**18,520**

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

*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 2019 was BD 7,776 thousand (31 December 2018: BD 8,321 thousand).

(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:

2019	**National Finance House**	**United Insurance Company**	**Arabian Shield Cooperative Insurance Company**
Total assets	54,644	27,262	108,911
Total liabilities	39,657	12,336	65,258
Net assets	14,987	14,926	43,653
Group's share of net assets	**5,235**	**2,985**	**6,550**
Goodwill	-	-	1,828
Carrying amount of interest in associate	**5,235**	**2,985**	**8,378**
Revenue	3,188	9,924	52,078
Profit	1,070	4,674	1,140
Other comprehensive income	-	410	260
Total comprehensive income	1,070	5,084	1,400
Group's share in total comprehensive income	**375**	**1,016**	**210**

2018	National Finance House	United Insurance Company	Arabian Shield Co-operative 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

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 2019 and 2018. For the other associates, the information is taken from the financial information for the year ended 31 December 2019 and 2018.

(In thousands of Bahraini Dinars)

10. REINSURERS' SHARES OF INSURANCE TECHNICAL RESERVES

	2019	2018
Outstanding claims recoverable from reinsurers (note 17)	10,029	6,153
Reinsurers' share of unearned premiums (note 18)	6,743	6,289
	16,772	12,442

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 2019. 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:

Name of the entity	**Place of business / country of incorporation**	**Date of incorporation**	**Ownership interest held by the Group**		**Ownership interest held by non-controlling interest**		**Principal activities**
			2019	2018	**2019**	2018	
Bahrain National Insurance BSC (c)	Bahrain	30 Dec 1998	**100%**	100%	**-**	-	Transact various types of general insurance business.
Bahrain National Life Assurance BSC (c)	Bahrain	4 Oct 2000	**75%**	75%	**25%**	25%	Transact the business of life assurance, medical insurance, retirement planning and savings.
iAssist Middle East WLL	Bahrain	14 Jan 2010	**100%**	100%	**-**	-	Transact the business of automobile smash repairs, roadside assistance and automobile services.

For the year ended 31 December 2019 (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 NCI, before any intra-group elimination:

Bahrain National Life Assurance Company BSC (c)	**2019**	2018
Cash and cash equivalents	775	2,032
Placements with banks	3,114	675
Insurance and other receivables	2,599	1,840
Reinsurers' share of insurance technical reserves	2,670	2,244
Deferred acquisition costs	174	161
Financial investments	11,841	11,843
Intangible assets	31	32
Equipment	196	27
Statutory deposits	50	50
Insurance technical reserves	(8,187)	(6,925)
Insurance payables	(1,192)	(601)
Other liabilities	(857)	(1,400)
Net assets (100 %)	**11,214**	9,978
Net assets attributable to NCI	**2,815**	2,504
Net premium earned	3,706	3,002
Net claims incurred	(2,318)	(1,838)
General and administration expenses - underwriting	(588)	(586)
Net commission expenses	(424)	(257)
Life assurance actuarial reserve charge	-	19
Other income	16	12
Net investment income	674	639
Impairment losses on investment	(23)	(34)
General and administration expenses - non-underwriting	(102)	(105)
Net profit	**941**	852
Other comprehensive income	865	(341)
Total comprehensive income	**1,806**	511
NCI's share of profit (25%)	**235**	213
NCI's share of total comprehensive income (25%)	**451**	127
Cash flows (used in) / from operating activities	(51)	407
Cash flows (used in) / from investing activities	(611)	1,194
Cash flows used in financing activities, before dividends to NCI	(440)	(308)
Cash flows used in financing activities, cash dividends to NCI	(140)	(102)
Donations paid	(15)	(4)
Net change in cash and cash equivalents	**(1,257)**	1,187

(In thousands of Bahraini Dinars)

12. INVESTMENT PROPERTIES

2019	**BNH Tower in Seef**	**BNH Building in Sanad**	**Total**
Cost			
At 1 January	2,798	1,925	4,723
Additions	6	-	6
Reclassified from Property and Equipment	118	-	118
At 31 December	**2,922**	**1,925**	**4,847**
Accumulated depreciation			
At 1 January	1,482	467	1,949
Depreciation	90	77	167
At 31 December	**1,572**	**544**	**2,116**
Net book value at 31 December	**1,350**	**1,381**	**2,731**
Total fair value at 31 December	**3,921**	**1,901**	**5,822**
This comprises (at net book value):			
Investment properties	1,350	1,381	2,731
Owner occupied (property)	1,231	283	1,514
Total net book value at 31 December	**2,581**	**1,664**	**4,245**

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

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

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

(In thousands of Bahraini Dinars)

13. INTANGIBLE ASSETS

2019	**Goodwill**	**Software**	**Development cost**	**Total**
Cost				
At 1 January	74	1,768	69	1,911
Additions	-	1	35	36
At 31 December	**74**	**1,769**	**104**	**1,947**
Accumulated amortization				
At 1 January	-	1,636	-	1,636
Amortisation	-	45	-	45
At 31 December	**-**	**1,681**	**-**	**1,681**
Net book value at 31 December	**74**	**88**	**104**	**266**

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

For the year ended 31 December 2019 (In thousands of Bahraini Dinars)

14. PROPERTY AND EQUIPMENT

2019	**Right-of-use assets**	**Lands and buildings**	**Machinery**	**Furniture & equipment**	**Capital work-in-progress**	**Total**
Cost						
At 1 January	-	4,747	749	1,743	225	7,464
Initial recognition (IFRS 16)	641	-	-	-	-	641
Additions	-	-	6	103	21	130
Disposals	-	-	-	(61)	-	(61)
Transfers	-	118	-	2	(120)	-
Reclassified to investment properties	-	-	-	-	(118)	(118)
At 31 December	**641**	**4,865**	**755**	**1,787**	**8**	**8,056**
Accumulated depreciation						
At 1 January	-	1,603	723	1,410	-	3,736
Depreciation	71	128	6	151	-	356
Disposals	-	-	-	(60)	-	(60)
At 31 December	**71**	**1,731**	**729**	**1,501**	**-**	**4,032**
Net book value at 31 December	**570**	**3,134**	**26**	**286**	**8**	**4,024**

2018	Right-of-use assets	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

(In thousands of Bahraini Dinars)

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.

16. INSURANCE TECHNICAL RESERVES

	2019	2018
Outstanding claims - gross (note 17)	17,976	13,573
Unearned gross insurance premiums (note 18)	13,749	14,034
Unearned commissions income (note 27)	713	555
Life assurance actuarial reserve (note 19)	3,520	3,166
	35,958	31,328

For the year ended 31 December 2019 (In thousands of Bahraini Dinars)

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimate of ultimate claims costs:											
At end of reporting year	5,420	3,883	7,275	5,550	8,850	4,772	4,798	6,577	8,114	**10,937**	66,176
One year later	5,950	4,632	7,512	7,510	8,928	5,833	5,813	6,512	**7,082**		59,772
Two year later	6,074	5,140	6,059	7,957	9,433	5,934	5,788	**6,937**			53,322
Three year later	6,120	4,970	5,972	7,901	9,629	5,729	**5,942**				46,263
Four year later	6,072	4,948	5,818	7,979	9,589	**5,824**					40,230
Five year later	5,940	4,789	5,897	8,058	**9,577**						34,261
Six year later	5,313	4,869	5,926	**8,062**							24,170
Seven year later	5,385	5,055	**5,926**								16,366
Eight year later	5,372	**5,050**									10,422
Nine year later	**5,855**										5,855
Current estimate of cumulative claims **(A)**	5,855	5,050	5,926	8,062	9,577	5,824	5,942	6,937	7,082	10,937	71,192
Cumulative payments to date **(B)**	5,715	4,688	5,800	7,815	9,360	5,568	5,618	6,071	4,553		55,188
Total (A – B)	**140**	**362**	**126**	**247**	**217**	**256**	**324**	**866**	**2,529**	**10,937**	**16,004**
Reserve in respect of years prior to 2009											-
Gross reserve included in the statement of financial position for Motor & General Insurance											**16,004**

Gross outstanding claims for life and medical insurance business amounted to BD 1,972 thousand.

For the year ended 31 December 2019 (In thousands of Bahraini Dinars)

17. OUTSTANDING CLAIM continued

ii. Net insurance claims for general insurance business

Accident year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimate of ultimate claims costs:											
At end of reporting year	1,986	1,949	3,409	2,281	2,083	2,201	2,888	4,477	5,791	**5,243**	32,308
One year later	2,383	2,259	3,356	2,874	2,794	3,122	3,360	3,452	**3,389**		26,989
Two year later	2,496	2,263	3,279	3,260	3,142	3,442	2,215	**3,975**			24,072
Three year later	2,590	2,179	3,153	3,320	3,364	2,872	**2,465**				19,943
Four year later	2,602	2,117	3,132	3,403	2,993	**2,862**					17,109
Five year later	2,460	2,104	3,178	3,286	**3,059**						14,087
Six year later	2,437	2,193	3,138	**3,322**							11,090
Seven year later	2,463	2,240	**3,142**								7,845
Eight year later	2,442	**2,235**									4,677
Nine year later	**2,558**										2,558
Current estimate of cumulative claims **(A)**	2,558	2,235	3,142	3,322	3,059	2,862	2,465	3,975	3,389	5,243	32,250
Cumulative payments to date **(B)**	2,526	2,205	3,119	3,272	3,030	2,821	2,291	3,538	2,199		25,001
Total (A – B)	**32**	**30**	**23**	**50**	**29**	**41**	**174**	**437**	**1,190**	**5,243**	**7,249**
Net reserve in respect of years prior to 2009											-
Net reserve included in the statement of financial position for Motor & General Insurance											**7,249**

Net outstanding claims for life and medical insurance business amounted to BD 698 thousand.

(In thousands of Bahraini Dinars)

17. OUTSTANDING CLAIM continued

b. Changes in insurance assets and liabilities – general insurance

	2019			2018		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Reported claims	11,218	6,153	5,065	9,282	5,369	3,913
IBNR	2,355	-	2,335	2,150	-	2,150
Total at 1 January	13,573	6,153	7,420	11,432	5,369	6,063
Changes	26,609	15,530	11,079	23,535	11,552	11,983
Settled	(22,206)	(11,654)	(10,552)	(21,394)	(10,768)	(10,626)
Balance at 31 December	**17,976**	**10,029**	**7,947**	13,573	6,153	7,420
Reported claims	15,531	10,029	5,502	11,218	6,153	5,065
IBNR	2,445	-	2,445	2,355	-	2,355
Balance as at 31 December	**17,976**	**10,029**	**7,947**	13,573	6,153	7,420

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	
	2019	2018
Non-Life Insurance		
Expense rate		
1 percent increase	(45)	(39)
1 percent decrease	45	39
Expected loss ratio		
1 percent increase	(105)	(116)
1 percent decrease	105	116
Life Assurance		
Demographic assumptions		
1 percent increase in base mortality rate	(5)	(3)
1 percent decrease in base mortality rate	5	3
Expense assumptions		
1 percent increase	(3)	(3)
1 percent decrease	3	3
Expected loss ratio		
1 percent increase	(7)	(4)
1 percent decrease	7	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.

(In thousands of Bahraini Dinars)

17. OUTSTANDING CLAIM continued

d. Movements in outstanding claims:

	Gross outstanding claims		Reinsurers' share		Net outstanding claims	
	2019	2018	**2019**	2018	**2019**	2018
At 1 January	13,573	11,432	6,153	5,369	7,420	6,063
Net movement during the year	4,403	2,141	3,876	784	527	1,357
At 31 December	**17,976**	13,573	**10,029**	6,153	**7,947**	7,420

18. NET CHANGE IN RESERVES FOR UNEARNED INSURANCE PREMIUMS

	Unearned gross insurance premiums		Reinsurers' share		Net unearned premiums	
	2019	2018	**2019**	2018	**2019**	2018
At 1 January	14,034	11,743	6,289	4,611	7,745	7,132
Net movement during the year	(285)	2,291	454	1,678	(739)	613
At 31 December	**13,749**	14,034	**6,743**	6,289	**7,006**	7,745

19. LIFE ASSURANCE ACTUARIAL RESERVE AND ACTUARIAL ASSUMPTIONS

	2019	2018
Life assurance actuarial reserve		
Balance at 1 January	3,166	3,038
Contributions received	227	220
Benefits paid	(199)	(87)
Actuarial adjustment on life assurance obligation	-	(19)
Management fee	(27)	(51)
Policyholder's share of net investment income	353	65
Balance at 31 December	**3,520**	3,166
Life assurance actuarial reserve per consolidated statement of financial position	**3,520**	3,166
Actuarial estimate of the present value of future benefit obligations at 31 December	**3,291**	3,166

The actuarial estimate has been prepared by independent actuaries, Actuscope Consulting Actuaries, Lebanon. The mortality rate assumptions used was 45% (2018: 45%) of the 75-80 Ultimate Mortality US Table and the valuation interest rate was set at 4.5% p.a. (2018: 4.5% p.a.). Allowances have been made for reinsurance, guaranteed bonuses, renewal expenses unexpired risks and contingencies where appropriate.

(In thousands of Bahraini Dinars)

20. INSURANCE PAYABLES

	2019	2018
Policyholders – Claims	572	288
Insurance and reinsurance companies	5,530	4,311
Balance at 31 December	**6,102**	4,599

Information about the Group's exposure to credit and market risks for insurance payables are included in note 32.

21. OTHER PROVISIONS AND LIABILITIES

	2019	2018
Vehicle repairers and spare parts	1,706	1,793
Premiums received in advance	738	1,331
Lease liabilities	588	-
VAT payables	395	-
Medical claims care fund	313	381
Provision for employees' benefits	574	498
Employees' leaving indemnities	454	437
Cash colletral	324	324
Unclaimed dividends - prior years	342	275
Hit and run levy fee	119	131
Other	1,564	1,926
Balance at 31 December	**7,117**	7,096

22. RETIREMENT BENEFITS COST

As at the 31 December 2019, the Group employed 153 Bahrainis (2018: 161 Bahrainis) and 53 expatriates (2018: 59 expatriates).

Bahraini employees are covered by the pension scheme of Social Insurance Organization 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 2019 amounted to BD 230 thousand (2018: BD 219 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 2019 amounted to BD 77 thousand (2018: BD 79 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 2019 amounted to BD 781 thousand (2018: BD 689 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 8d).

Expatriate employees on limited-term contracts are entitled to leaving indemnities payable under the Bahrain Labour Law for the Private Sector 2012 (as amended), 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.

22. RETIREMENT BENEFITS COST continued

Movement in employees' leaving indemnities:

	2019	2018
Balance at 1 January	437	454
Indemnities and advances paid	-	(46)
Charge during the year	17	38
Release during the year	-	(9)
Balance at 31 December	**454**	437

23. SHARE CAPITAL

	Number 2019	**Amount 2019**	Number 2018	Amount 2018
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**	119,175,000	11,918

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 2019	**Amount 2019**	Number 2018	Amount 2018
Balance at 1 January	6,566,756	1,868	6,253,816	1,868
Bonus shares issued	-	-	312,940	-
Balance at 31 December	**6,566,756**	**1,868**	6,566,756	1,868

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

	2019	2018
Basic and diluted earnings per share – fils	42.6	29.4
Proposed cash dividend – fils	22.0	15.0
Net asset value – fils	503.1	461.2
Stock exchange price at 31 December – fils	330.0	360.0
Market capitalization at 31 December – in thousands of BD	39,328	42,903
Price/Earnings ratio at 31 December	7.7	12.2

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 4,792 thousand (2018: BD 3,279 thousand), attributable to 112,608,244 ordinary shares (2018: BD 111,345,046 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.

(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	7,559,507	6.34
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 at 300 fils (share premium 200 fils) per share.

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 %	587	47,225,293	39.63
1 % up to less than 5 %	23	50,014,710	41.97
5 % up to less than 10 %	3	21,934,997	18.40
TOTAL	**613**	**119,175,000**	**100.00**

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

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 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 recognized in the fair value reserve. Upon de-recognition or impairment of any security, the corresponding gain or loss, recognized earlier directly in the investment fair value reserve, is transferred to the consolidated statement of profit or loss.

For the year ended 31 December 2019 (In thousands of Bahraini Dinars)

25. PROPOSED APPROPRIATIONS AND DIRECTORS REMUNERATION

	2019	2018
Profit as per consolidated statement of profit or loss	5,027	3,532
Net profit attributable to non-controlling interest	(235)	(223)
Profit attributable to shareholders of Parent company	**4,792**	3,309
Proposed appropriations:		
Transfer to statutory reserve	-	284
Dividend to shareholders	2,477	1,689
Retained earnings	2,315	1,306
	4,792	3,279

Proposed director's remuneration is BD 106 thousand (2018: BD 106 thousand). The appropriation of the 2019 profit is subject to approval by shareholders at the Annual General Meeting.

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

26. GROSS INSURANCE PREMIUMS

	2019	2018
Direct Business	32,480	33,437
Inward Business	1,324	144
	33,804	33,581

27. NET COMMISSION AND FEE INCOME

	2019	2018
Commission and fee income	2,091	2,002
Commission expenses	(1,836)	(1,660)
Adjustment for unearned commission income	(158)	(340)
Adjustment for deferred commission expense	98	58
	195	60

Movements in unearned commission income and deferred commission expense:

	Unearned commission income		**Deferred commission expense**	
	2019	2018	**2019**	2018
At 1 January	555	215	634	576
Net movement during the year	158	340	98	58
	713	555	**732**	634

For the year ended 31 December 2019 (In thousands of Bahraini Dinars)

28. NET INVESTMENT INCOME

	2019	2018
Net losses on disposal of financial investments	(154)	(171)
Transfer from other comprehensive income on disposal of available-for-sale securities	1,335	805
Valuation gains / (losses) gains on trading securities	181	(59)
Foreign exchange (losses) / gains	(5)	37
Amortisation of premiums on held-to-maturity securities	(6)	(6)
Interest income	1,254	1,065
Dividend income	825	696
Investment administration expenses	(58)	(50)
Policyholders' share of investment income	(353)	(65)
Investment properties' income	373	376
Depreciation charges on investment properties	(167)	(163)
Other investment properties' expenses	(128)	(146)
	3,097	2,319

29. IMPAIRMENT ON INVESTMENT

	2019	2018
Opening balance	844	846
Transfer on disposal of securities	(332)	(52)
Impairment losses for the year	89	50
	601	844

30. EXPENSES

a. General and administration expenses - underwriting	**2019**	2018
Employee costs	2,354	2,107
Depreciation and amortisation	271	236
Other costs	982	1,458
	3,607	3,801

b. General and administration expenses - non-underwriting	**2019**	2018
Employee costs	1,279	1,254
Depreciation and amortisation	131	165
Other costs	495	310
	1,905	1,729

For the year ended 31 December 2019 (In thousands of Bahraini Dinars)

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.

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

2019	**Motor**	**Property & General**	**Medical**	**Life Assurance**	**Corporate**	**Consolidation adjustments**	**Total**
Gross insurance premiums	11,904	12,592	6,395	3,138	-	(225)	**33,804**
Net premiums earned	12,743	1,169	2,741	965	-	(127)	**17,491**
Net claims incurred	(8,128)	(678)	(1,652)	(665)	-	44	(11,079)
Impairment losses on insurance receivables	(872)	(120)	(9)	(2)	-	-	(1,003)
General and administration expenses - underwriting	(2,337)	(889)	(276)	(301)	-	196	(3,607)
Net commission (expense) / income	(343)	963	(385)	(40)	-	-	195
Other income	22	21	7	9	-	-	59
Net underwriting results	1,085	466	426	(34)	-	113	**2,056**
Net investment income	1,339	1,339	236	438	559	(814)	3,097
Impairment losses on investment	(33)	(33)	(5)	(18)	-	-	(89)
Share of profit of equity accounted investees	-	-	-	-	684	934	1,618
Net income from road assist services	242	-	-	-	-	-	242
Corporate Services fees	-	-	-	-	597	(597)	-
Other income	-	-	-	-	8	-	8
General and administration expenses - non-underwriting	(344)	(151)	(64)	(38)	(1,905)	597	(1,905)
Segment results	2,289	1,621	593	348	(57)	233	**5,027**

For the year ended 31 December 2019 (In thousands of Bahraini Dinars)

31. SEGMENTAL INFORMATION continued

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)
Impairment losses on insurance receivables	(205)	(41)	(57)	(2)	-	-	(305)
General and administration expenses - underwriting	(2,512)	(882)	(264)	(263)	-	120	(3,801)
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

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.

Geographical information

2019	**Bahrain**	**GCC**	**Other Countries**	**Total**
Gross insurance premiums	33,084	720	-	**33,804**
Non-current assets	26,134	13,537	11,582	**51,253**

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

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.

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 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 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.

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 Accident 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.	There are generally agreed benefits or amounts easily quantified for Casualty. 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.
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.

32. INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

Type of contract	Terms and conditions	Key factors affecting future cash flows
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.
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.

(In thousands of Bahraini Dinars)

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.

2019 Geographical area	**General Insurance**	**Life Assurance**	**Total**
Bahrain			
Gross insurance premiums	29,946	3,138	**33,084**
Retained premiums	15,758	920	**16,678**
Other countries			
Gross insurance premiums	720	-	**720**
Retained premiums	74	-	**74**
Total			
Gross insurance premiums	**30,666**	**3,138**	**33,804**
Retained premiums	**15,832**	**920**	**16,752**

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

c. Capital Management

The Board’s policy is to maintain a strong capital base 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.

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.

32. INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

d. Financial and operational risk management

Insurance contracts expose the Group to underwriting risk, which comprises insurance risk, policyholder behaviour risk and expense risk. In addition, the Group is exposed to financial and operational risks from insurance and reinsurance contracts and financial instruments. Financial and operational risks are as follows:

- Credit risk
- Liquidity risk
- Market risk
- Operational 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.

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.

(In thousands of Bahraini Dinars)

32. INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

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

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

Overall exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Financial assets	**2019**	2018
Receivables:		
▪ Policyholders	4,634	4,357
▪ Insurance and reinsurance companies	4,432	4,402
▪ Others	2,427	1,565
Financial investment securities:		
▪ Fair value through profit or loss - debt instruments	755	867
▪ Available-for-sale debt instruments	11,134	9,869
▪ Held to maturity securities	2,999	3,989
Cash equivalents with banks	4,248	11,175
Placements with banks	14,767	3,497
Statutory deposits	125	125
	45,521	39,846

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.

For the year ended 31 December 2019 (In thousands of Bahraini Dinars)

32. INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

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:

	2019	2018
Debt instruments:		
Government of Bahrain	**6,121**	7,676
Bank balances and receivables:		
Ahli United Bank	**5,269**	2,832
Bank of Bahrain and Kuwait	**3,308**	401
Salam Bank	**2,806**	1,450
Mashreq Bank	**2,088**	1,659
National Bank of Bahrain	**1,983**	3,526
Arab Bank	**853**	2,227

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**		
2019	**Less than 90 days**	**91– 180 days**	**More than 180 days**	**Gross Amount**	**Provision for impairment**	**Total**
Receivables:						
▪ Policyholders	1,772	1,351	1,511	1,213	(1,213)	4,634
▪ Insurance and Reinsurance companies	1,832	1,155	1,445	1,231	(1,231)	4,432
▪ Others	2,380	26	21	119	(119)	2,427
	5,984	**2,532**	**2,977**	**2,563**	**(2,563)**	**11,493**

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

(In thousands of Bahraini Dinars)

32. INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

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.

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:

2019		**Undiscounted contractual cash flows**			
	Carrying amount	**Less than 1 year**	**1 – 2 years**	**2 – 5 years**	**More than 5 years**
Financial liabilities					
Policyholders' liabilities	572	572	-	-	-
Insurance/reinsurance companies	5,530	5,530	-	-	-
Other payables	6,529	6,529	-	-	-
Lease liability	588	78	77	231	463

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

(In thousands of Bahraini Dinars)

32. INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

iii. Market risk

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

Management of market risks

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

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

Interest rate risk

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

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

The effective interest 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:

	2019 Aggregate principal	**2019 Effective rate**	2018 Aggregate principal	2018 Effective rate
Cash and short-term deposits	**19,146**	**2.87%**	13,813	2.27%
Bonds and treasury bills	**14,888**	**5.27%**	15,715	4.88%

Derivatives:

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

(In thousands of Bahraini Dinars)

32. INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

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.

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 summarized as follows:

Net currency-wise concentration

	2019	2018
Financial Assets		
Euros	411	678
Pounds sterling	308	258
Other currencies	140	100
Total open foreign exchange position at 31 December currencies	**859**	1,036
United States dollars	28,190	28,631
GCC Currencies	11,791	11,322
Bahraini dinars	40,467	33,535
	81,307	74,524
This comprises of:		
Financial investments	32,148	31,764
Equity accounted investees	18,520	17,633
Cash and cash equivalents	4,254	11,181
Placements with banks	14,767	3,497
Statutory deposits	125	125
Receivables:		
Policyholders	4,634	4,357
Insurance and reinsurance companies	4,432	4,402
Others	2,427	1,565
	81,307	74,524
Financial Liabilities		
Bahraini dinars	10,989	10,045
United States dollars	734	403
GCC Currencies	1,454	1,176
Pounds sterling	19	50
Euros	6	6
Other currencies	17	15
	13,219	11,695
This comprises of:		
Policyholders liabilities	572	288
Insurance/reinsurance companies payables	5,530	4,311
Other payables	7,117	7,096
	13,219	11,695

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.

For the year ended 31 December 2019 (In thousands of Bahraini Dinars)

32. INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

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.

	2019		2018	
Financial assets and liabilities	**Profit or loss**	**Equity**	Profit or loss	Equity
US Dollars	90	267	103	275
GCC currencies	86	111	88	109
Euro	-	4	2	7
Pounds Sterling	-	3	-	2
Other currencies	-	1	-	1

Sensitivity analysis to market risks

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

	2019		2018	
31 December	**Profit or loss**	**Equity**	Profit or loss	Equity
Interest rate risk				
+ 1 percent shift in yield curves	102	679	106	830
- 1 percent shift in yield curves	(102)	(679)	(106)	(830)
Equity price risk				
+1 percent increases in equity prices	3	91	4	88
-1 percent decrease in equity prices	(3)	(91)	(4)	(88)

32. INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

iv. Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, liquidity and market risks, such as the risk of mis-selling products, modelling errors and non-compliance with legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all Group's operations.

The Group's objectives in managing operational risk is to balance the avoidance of financial losses and damage to the Group's reputation with overall cost-effectiveness and innovation. In all cases, Group's policy requires compliance with all applicable legal and regulatory requirements.

The Board of Directors has delegated responsibility for operational risk to the Group's Audit, Compliance and Risk Committee, which is responsible for the development and implementation of controls to address operational risk.

This responsibility is supported by management risk committee and the development of overall Group standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation, including insurance where this is cost-effective.

In addition, the Group uses the following approaches in monitoring and mitigating the various aspects of operational risks:

Impact on Solvency:
The Group uses internal Economic Capital Model ("ECM"), which follow the Solvency II QIS5 approach for quantifying operational risk. The QIS5 is based on premium volumes as well as technical provisions.

The ECM is essentially a calibration to multiple stresses. Under this approach the value of assets and liabilities are shocked in response to changes in various risk factors. Then the operational risk impact on solvency is measured.

Risk Registers:
The Group identifies and analyses the root causes of various types of operational risks; recommend necessary mitigations and controls and records/documents such observations in its respective risk registers.

Others:

The Group has set the followings programs for mitigating and controlling operational risks:

- Business Continuity Program
- Fraud Control Framework
- Outsourcing Risk policy and procedures

(In thousands of Bahraini Dinars)

33. MATURITY PROFILE OF INVESTMENTS

2019	**Less than 1 year**	**1 - 5 years**	**5 - 10 years**	**Over 10 years / no maturity**	**Total**
Equities	-	-	-	9,197	9,197
Government bonds and treasury bills	2,867	1,598	1,430	-	5,895
Corporate bonds	1,925	4,203	290	1,820	8,238
Managed funds	-	-	-	5,322	5,322
Unquoted equities & funds	-	-	-	1,727	1,727
Equity accounted investees	-	-	-	18,520	18,520
	4,792	**5,801**	**1,720**	**36,586**	**48,899**

This balance comprises of:

	2019
Available-for-sale securities	27,380
Held-to-maturity securities	2,999
Equity accounted investees	18,520
	48,899

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

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 realizable and intended to be held for short term purposes. These are not included in the above maturity profile of investments.

(In thousands of Bahraini Dinars)

34. GEOGRAPHICAL CONCENTRATION OF INVESTMENTS

	2019	2018
Bahrain	24,289	23,722
Other GCC countries	13,925	13,595
North America	4,954	5,437
Europe	3,967	3,778
China and India	1,811	1,339
Other global/multi-regional	1,722	1,526
	50,668	49,397

This comprises of:

	2019	2018
Securities carried at fair value through profit or loss	1,769	1,966
Available-for-sale securities	27,380	25,809
Held-to-maturity securities	2,999	3,989
Equity accounted investees	18,520	17,633
	50,668	49,397

Investment income by segment

	2019	2018
Bahraini listed equities	435	327
Other equities	1,497	620
Bonds and treasury bills	781	740
Managed funds	245	345
Bank balances and short-term deposits	472	335
Investment properties	373	376
Gross investment income	**3,803**	2,743
Investment administration expenses	(58)	(50)
Policyholders’ share of net investment income	(353)	(65)
Depreciation charges on investment properties	(167)	(163)
Other investment properties’ expenses	(128)	(146)
Net investment income	**3,097**	2,319

(In thousands of Bahraini Dinars)

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

2019	**Associates**	**Key management personnel**	**Companies in which Directors control**	**Total**
Insurance receivables	456	5	270	**731**
Retirement and saving plan obligation	700	-	68	**768**
Insurance payables	8	-	3	**11**
Other liabilities	-	-	1,628	**1,628**

2018	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

(In thousands of Bahraini Dinars)

35. RELATED PARTIES continued

b. Transactions with related parties

2019	**Associates**	**Key management personnel**	**Companies in which Directors control**	**Total**
Gross insurance premiums	1,034	12	1,095	**2,141**
Reinsurer's share of gross insurance premiums	2	-	-	**2**
Gross claims paid	412	1	228	**641**
Claims recoveries	217	-	-	**217**
Commission and fee expenses	41	-	-	**41**
Retirement and saving plan contributions received	119	-	9	**128**
Retirement and saving plan benefits paid	91	-	15	**106**
General and administration expenses	-	795	164	**959**
Purchase of equipment	-	-	34	**34**

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

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:

	2019	2018
Salaries and allowances	**632**	578
Other benefits	**47**	46
Board remuneration and attendance fees paid	**116**	118
Board remuneration and attendance fees provision	**106**	106

(In thousands of Bahraini Dinars)

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.

2019	**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	-	-	-	4,254	-	4,254	4,254
Placements with banks	-	-	-	14,767	-	14,767	14,767
Insurance and other receivables	-	-	-	11,493	-	11,493	11,493
Financial investments	1,769	27,380	2,999	-	-	32,148	32,327
Total financial assets	**1,769**	**27,380**	**2,999**	**30,514**	**-**	**62,662**	**62,841**
Insurance payables	-	-	-	-	6,102	6,102	6,102
Other liabilities	-	-	-	-	7,117	7,117	7,117
Total financial liabilities	**-**	**-**	**-**	**-**	**13,219**	**13,219**	**13,219**

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

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.

For the year ended 31 December 2019 (In thousands of Bahraini Dinars)

36. FAIR VALUE MEASUREMENT continued

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.

2019	**Level 1**	**Level 2**	**Level 3**	**Total**	**Carrying Value**
Available-for-sale investments	25,652	1,723	-	27,375	27,375
Securities carried at fair value through profit or loss	1,748	21	-	1,769	1,769
	27,400	**1,744**	**-**	**29,114**	**29,114**

2018	Level 1	Level 2	Level 3	Total	Carrying Value
Available-for-sale investments	22,981	2,828	-	25,809	25,809
Securities carried at fair value through profit or loss	1,870	96	-	1,966	1,966
	24,851	2,924	-	27,775	27,775

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 2,999 thousand (2018: BD 3,989 thousand) whereas the fair value of the investments is BD 3,178 thousand (2018: BD 4,036 thousand). The investments in available-for-sale securities include investment in managed funds carried at cost and having carrying value of BD 5 thousand (2018: 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 2019, the Group has commitments to make investments amounting to BD 460 thousand (2018: BD 337 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 2018 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.