

creating prosperity through security

inspiring faith in regional capability

a mark of excellence in protection



Annual Report 2007

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**His Highness Shaikh  
Khalifa bin Salman  
Al Khalifa**

The Prime Minister of  
The Kingdom of Bahrain



**His Majesty King  
Hamad bin Isa  
Al Khalifa**

The King of the Kingdom  
of Bahrain



**His Highness Shaikh  
Salman bin Hamad  
Al Khalifa**

The Crown Prince  
& Deputy Supreme  
Commander

# Contact Directory

## BNH - Bahrain National Holding Company

Bahrain National Holding Company provides strategic direction and support to our wholly owned subsidiaries BNL (Bahrain National Life), and BNI (Bahrain National Insurance) and other regional joint ventures. Driven by our goals of unity, simplicity and growth, we have created a new brand vision for BNH. The new BNH corporate identity illustrates our strength as an international standard financial corporation – driving excellence in performance and strengthening our role as the Group's visioning unit; creating and realising further opportunities across the GCC.

## Our new BNI brand

The re-branding process has delivered a unified retail and business service brand called 'bni'. These three letters are the new brand-mark under which our General, Life and Medical insurance products and services will be marketed; improving customer service by providing a single access point to our extensive product range, increasing simplicity and efficiency. We will continue to be the market leader in insurance products and services in Bahrain, supported by a growing branch network. Our goal is to continue to introduce quality products and services; raising customer satisfaction and encouraging loyalty.

### Registered office

P.O. Box 843, 8th floor, BNH Tower,  
Seef Business District,  
Kingdom of Bahrain  
Tel: 17 587300, 17 587400  
Fax: 17 583299, 17 583099  
E-mail: [bnh@bnhgroup.com](mailto:bnh@bnhgroup.com)  
Website: [www.bnhgroup.com](http://www.bnhgroup.com)

### Subsidiaries

Bahrain National Insurance Company  
BSC (c)  
Bahrain National Life Assurance  
Company BSC (c)

### Associates

United Insurance Company BSC (c)  
National Finance House BSC (c)  
Gulf Insurance Institute BSC (c)  
Arabian Shield Cooperative  
Insurance Co  
Al Kindi Specialised Hospital

### Listing

Bahrain Stock Exchange

### Auditors and registrars to the group

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

### Actuaries

Mercer Zainal Consulting Sdn. Bhd  
(35090-4)  
Consulting Actuaries - Malaysia

### Bankers to the group

Ahli United Bank  
HSBC Bank  
National Bank of Bahrain  
Bank of Bahrain & Kuwait  
ABN Amro Bank NV, UAE  
Standard Chartered Bank

### Branches and outlets:

#### Seef

BNH Tower, Seef Business District  
Tel: 17587300, Fax: 17583099

#### Sanad

Sanad Market Complex,  
Al Estiglal Highway, Road 4571,  
Block 745  
Tel: 17627050, Fax: 17623771

#### Budaiya

Najeebi Complex, First Floor  
Shop No. 106 & 108, Building No.3,  
Saar Ave., Block No.515  
Tel: 17797888, Fax : 17797878

#### Manama

Ground Floor, City Centre, 203,  
Government Avenue, Manama  
Tel: 17501277, Fax: 17216464

#### Muharrag

Shop 1232, Road 1535, Block 215  
Tel: 17351999, Fax: 17336681

#### Hamad Town

Shop No. 255, Road No. 305, Block  
1203  
Tel: 17418100, Fax: 17413227

#### Sitra

Building No. 946, Road No. 115,  
Block No. 601, Sitra  
Tel: 17457800, Fax: 17735801

#### University of Bahrain

Food Court, University of Bahrain,  
Sakhir  
Tel: 17449000, Fax: 17448919

### Our vision

To create prosperity through security.

### Our mission

To build from our base of insurance services and shared values to become the preferred security and financial services provider in our region and a driving force for excellence.

Our work will inspire faith in regional capability and transform attitudes to financial planning and long-term security.

We will be the mark of excellence in protection; enhancing prosperity and building on the pioneering and caring spirit of our heritage.

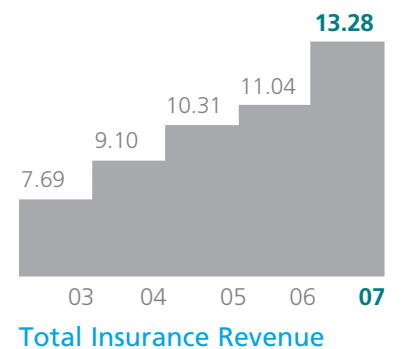
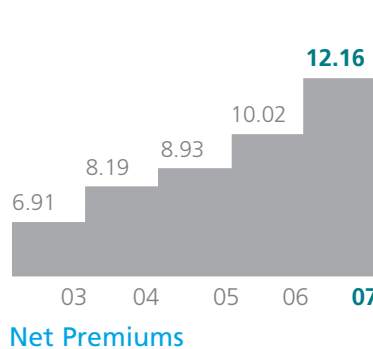
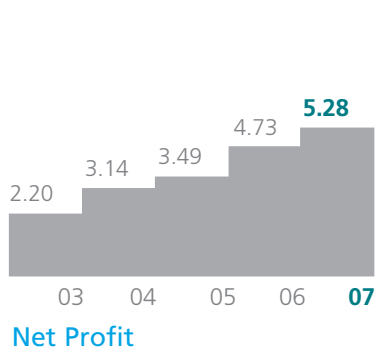
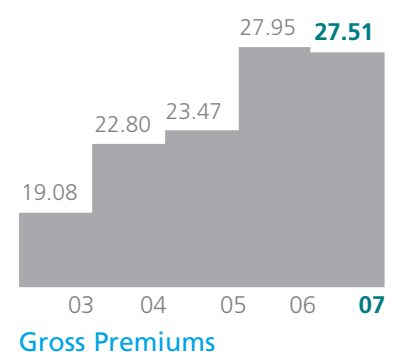
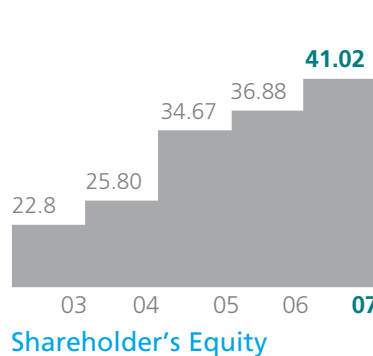
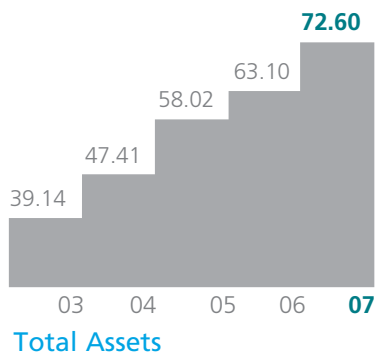
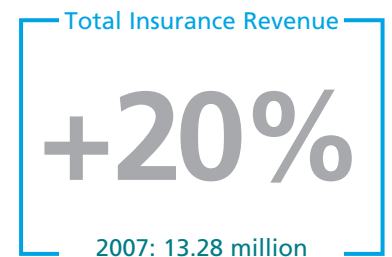
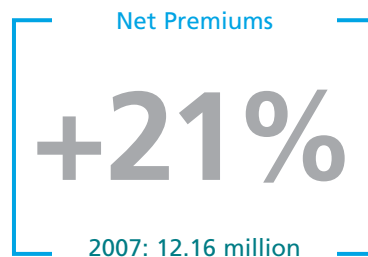
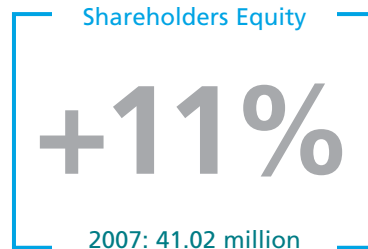
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## Operational Highlights

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- Marking the Group's tenth anniversary, 2007 proved to be the most successful year ever for Bahrain National Holding, highlighted in particular by record financial results and significant strategic progress.
- Group subsidiary Bahrain National Insurance maintained its 'BBB+' (Good) long-term counterparty credit and insurer financial strength rating from Standard & Poor's, with a 'Stable' outlook.
- Strategic initiatives include the successful IPO of Arabian Shield Cooperative Insurance Company in Saudi Arabia, and the excellent first full year of operations for National Finance House in Bahrain.
- Pioneering new product and service developments include the planned launch in 2008 of a co-branded credit with AUB, and the introduction of e-insurance online transaction facilities.
- In another industry 'first' for a national insurance provider, BNH introduced a new formal procedure to handle customers' complaints and enhance customer service, with the creation of a Customer Satisfaction & Legal Coordination Unit.
- The Group established a Human Resources Development Committee to spearhead specific training and development opportunities for staff to acquire specialist insurance skills, knowledge and qualifications.
- BNH participated in the establishment of Gulf Insurance Institute (GII) to provide internationally recognised and accredited professional development programmes and certification paths for insurance and financial services practitioners in the GCC.

# Financial Highlights



\*All figures are expressed in BD million

# Board of Directors



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## Share Movements

PERIOD 01 JANUARY 2007 TO 31 DECEMBER 2007

Name of Shareholders	Jan 1, 2007	31/12/2007	Change
Ali Hussain Yateem	411,844	341,844	(70,000)
Abdul Rahman Juma	542,859	552,859	10,000
Abdul Hussain Khalil Dawani	1,244,907	1,244,907	0
Mohamed Jaber Zubari	397,123	397,123	0
Jehad Yousif Amin	500,000	500,000	0
Ahmed Bin Ali Al Ali	151,766	151,766	0
Ali Rashid Al Amin	1,103,347	1,053,347	(50,000)
Ali Hassa Mahmood	505,601	505,601	0
Nizar Al Saie	0	112,957	112,957
General Organisation For Insurance In Iraq	14,873,780	0	(14,873,780)
National Insurance Company, Iraq	0	7,436,890	7,436,890
Mahmood Al Soufi	39,046	74,046	35,000



# Board of Directors Profile

## 1. Ali Hussain Yateem

Chairman (Bahraini)

Chairman of the Investment Committee  
Board Member since 1999  
Vice Chairman of Yateem Group of Companies  
Board and Executive Committee Member of National Bank of Bahrain  
Board Member of Bahrain Tourism Company

## 2. Mohamed Jaber Zubari

Director (Bahraini)

Member of the Investment Committee  
Board Member since 1999  
Chairman of Intraders  
Director and Partner in Unitag Group

## 3. Ali Rashid Al Amin

Director (Bahraini)

Board Member since 1999  
Chairman of Ali Rashid Al Amin Co BSC (c), Bahrain  
Chairman of Ramakaza Trading Co WLL, Bahrain  
Chairman of Ramakaza Trading Co WLL, Qatar  
Chairman of A&B Logistic Services WLL, Bahrain  
Chairman of Rawabi Al Amin Distribution Co Ltd, Saudi Arabia  
Chairman of A.R. Al Amin Industries, Qatar  
Chairman of A.R. Al Amin Industries, Bahrain  
Chairman of The Board of Trustees at Ali Rashid Al Amin Charity Est

## 4. Abdulrahman Mohamed Juma

Director (Bahraini)

Board Member since 1999  
Chairman of the Audit Committee  
Managing Director of UNEECO Group of Companies  
Managing Director of Prudent Solutions WLL  
Managing Director & Vice Chairman of CELTEX Weaving Mills E.C.  
Managing Director of Abdulrahman bin Moh'd Juma & Sons WLL  
Board Member & Audit Committee Member of Bahrain Bayan School

## 5. Jihad Yousif Amin

Director (Bahraini)

Board Member since 1999  
Member of the Investment Committee  
Board Member of Banader Hotel Company  
Board Member of the General Company for Trading and Food Industries, Trafco  
Board Member of Bahrain Cinema Company  
Board Member of United Insurance Company  
Board Member of & Member of the Executive & Investment Committees of Bahrain Maritime and Mercantile Company, BMMI and of Audit and Applebee's Committees of Trafco

## 6. Ali Hassan Mahmood

Director (Bahraini)

Board Member since 1999  
Member of the Audit Committee  
Managing Director of Hasan & Habib s/o Mahmood Group of Companies and Al-Jazira Shipping Company  
Director in Bahrain Tourism Company and Bahrain Specialist Hospital

## 7. Abdul Hussain Khalil Dawani

Director (Bahraini)

Board Member since 1999  
Member of the Investment Committee  
Chairman of Deeko Bahrain  
Chairman of Dawanco  
Chairman of Dawanco Industries  
Chairman of Tomina Trading  
Chairman of Bahrain Foundation Construction Company  
Director of AlJazira Group

## 8. Ahmed bin Ali Al A'ali

Director (Bahraini)

Board Member since 1999  
Deputy Chairman of the Audit Committee  
Director of Haji Hassan Group  
Director of Bahrain Precast Concrete  
Director of Bahrain Bulk Trade  
Director of Bahrain Cement Company

## 9. Nazar Mohamed Al Saie

Director (Bahraini)

Board Member since 2005  
Member of the Investment Committee  
Vice Chairman of the Family Office Management Advisory  
Board Member of Kalaam Telecom  
Chairman of Delta Capital

## 10. Sadiq Fadhel Aliwi Al-Khafaji

(IRAQI national)

Chairman and General Manager of National Insurance Company, Iraq  
Board Member of Iraqi Insurance Companies Association, Iraq  
Board Member of Bahrain National Holding, Bahrain

### Committees:

#### The Audit Committee

A committee of the Board of Directors. Established to give additional assurance regarding the quality and reliability of financial information used by the Board and financial statements issued by the company.

The Audit Committee consists of the following members:

Abdulrahman Mohd Juma	Chairman
Ahmed Bin Ali Al A'Ali	Deputy Chairman
Ali Hassan Mahmood	Member

The Audit Committee held 4 meetings during 2007.

#### The Investment Committee

A committee of the Board of Directors. Established to define broad guidelines for the investment team, to ensure that the investible funds are allocated in a judicious manner and to periodically review the investments.

The investment Committee consists of the following members:

Ali Hussain Yateem	Chairman
Abdul Hussain Khalil Dawani	Deputy Chairman
Mohamed Jaber Zubari	Member
Jihad Yousif Amin	Member
Nezar Mohamed Al Saie	Member

The Investment Committee held 4 meetings during 2007.

# 2007: a successful year for BNH



Ali Hussain Yateem  
Chairman of the Board



Quassim Mohamed Fakhroo  
Chairman of the Board up to December 2007

On behalf of the Board of Directors, it is my pleasure to present the annual report of Bahrain National Holding Company (BNH) for the year ended 31 December 2007, which marked the Group's tenth anniversary. I am delighted to report that this proved to be our most successful year ever, highlighted by record financial results, significant strategic progress, excellent business achievements, and ongoing organisational developments.

All lines of business contributed to the year's impressive financial results, with net profits rising by 11.1% over 2006. As the result of unpredicted rise in claims and in particular losses caused by the GONO storm in Oman in 2007; underwriting profits were lower than those of 2006 by 34.2%. Despite the continued volatility of global financial markets, investment income increased by 31.9% to BD 4.49 million against BD 2.47 million for the previous year. Shareholders' equity grew by 11.2% to BD 41 million, while earnings per share rose to 48.12 fils from 43.99 fils in 2006. Accordingly, the Board of Directors is recommending a total cash dividend of BD 2.19 million (2006: BD 1.86 million), which is equivalent to 20 fils per share (2006: 17 fils) for the year 2007.

It is worth mentioning that the Group did not have any direct exposure in the sub-prime market in which many big national/international financial institutions had an exposure and lost big sums of money.

Significantly, these excellent results illustrate the success of the Group's efforts to achieve a closer balance between underwriting and investment revenues, and its ability to maintain a dominant share of the market, despite intensely growing competition from existing local and regional players, and new international entrants.

The increase in the capital of BNH, through a rights issue to existing shareholders during 2006, supported the Group in the successful implementation of its strategy of geographic expansion, value chain enhancement and product diversification during 2007.

Arabian Shield Cooperative Insurance Company, a Riyadh-based joint venture formed with local partners in the Kingdom of Saudi Arabia in October 2006, was listed on the Saudi stock exchange in 2007 following its oversubscribed IPO, and has since expanded its operations with the opening of branch offices in Jeddah and Dammam. National Finance House, which provides personal and corporate financing for private, commercial

and heavy vehicles, and construction equipment, plant and instrumentation in the Kingdom of Bahrain, posted a strong performance during its first full year of operations.

These impressive strategic and business achievements were supported by a number of important organisational initiatives during 2007, aimed at further building the Group's institutional capability. BNH continued to strengthen its corporate governance, compliance and risk management framework.

As a leading Bahrain-based financial institution, BNH is committed to contributing to the social and economic well-being of the Kingdom. Throughout 2007, the Group continued to implement its comprehensive programme of corporate social responsibility. This comprises financial support for charitable, community, educational, medical, cultural and sporting organisations, as well as sponsorship of various activities and events that enhance the status of Bahrain as the region's leading financial services centre, and an attractive destination for foreign investment.

In particular, I would like to single out the success of the Group's initiative in helping to establish the Gulf Insurance Institute (GII) in association with leading local, regional and international insurance-related entities. GII, which has the objective of spearheading the development of world class insurance skills and globally-accredited qualifications throughout the GCC, has been officially launched at the GAIF conference held in Bahrain during February 2008.

Looking ahead, BNH is committed to pursuing its pioneering efforts to support the growth and development of the regional insurance industry. In Bahrain, where the Group is based, the insurance market has witnessed double-digit growth in recent years. Since the introduction of the Insurance Rulebook by the Central Bank of Bahrain (CBB) in 2005, several major international insurance and re-insurance companies, both conventional and Islamic, have established their Middle Eastern hubs in the Kingdom.

In addition, during 2007, the CBB licensed the region's first captive insurance company, and waived capital requirements for Bahrain branches of foreign insurance firms. Elsewhere, recent reforms in Saudi Arabia in the areas of motor and medical insurance, offer huge potential for the growth of the insurance industry.

At the end of 2007, the Chairman of BNH, Mr. Qassim Mohammed Fakroo, resigned from the Board of Directors following his appointment as Chairman of the Board of Directors of the Central Bank of Bahrain. On behalf of everyone at BNH, I congratulate Qassim on this singular honour, and thank him for his invaluable contribution in building the status and reputation of the Group during his tenure. His vision, leadership and wise counsel will be truly missed.

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

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

**Ali Hussain Yateem**  
Chairman

# A strong platform for future performance



Mahmood Al Soufi  
Chief Executive Officer

In 2007, Bahrain National Holding (BNH) passed an important milestone with the celebration of the tenth anniversary of our establishment in 1998. This resulted from the merger of Bahrain Insurance Company (BIC) and National Insurance Company (NIC), two of the top three composite insurance companies in the Kingdom of Bahrain. Our roots, however, go back nearly forty years, to when BIC commenced operations in 1969, since when we have developed a unique knowledge and understanding of the regional insurance market.



Significantly, BNH has delivered uninterrupted dividends and provided sustainable shareholder value since its inception, while its share price has consistently outmatched the BSE Index since the Company was listed on the Bahrain Stock Exchange in 1999. And it is worth noting that initial investors in BIC have seen their investment increase more than four-fold in the last forty years.

Over the years, BNH has earned a reputation for its innovation, and has pioneered many insurance industry 'firsts' in Bahrain, as well as setting new standards for quality and service. These include the establishment of Bahrain National Life (BNL) in 2000 – the first and only dedicated medical and life assurance company in Bahrain; the introduction of branch offices, with some opening 7 days a week and the development of bancassurance. The Company also successfully maintained its BBB+ long-term counterparty credit and insurer financial strength rating, with a 'Stable Outlook', which was assigned by Standard & Poor's in 2005.

This strong heritage of innovation and financial performance continued in 2007, with the posting of record financial results, the establishment of the first formal complaints procedure by a national insurance company, and completion of plans to launch a credit card and e-insurance services in early 2008. Also during the year, we formally launched a new corporate branding strategy, comprising the BNH holding company brand, and the bni marketing brand, which embraces all products and services provided by the Group's two subsidiaries – Bahrain National Insurance and Bahrain National Life Assurance.

Following the establishment of a dedicated division for Motor and Personal Lines insurance products in 2006, we restructured our Medical and Life assurance and General insurance divisions in 2007. Headed by internationally-experienced General Managers, these divisions

have further refined and refocused their value proposition and product portfolio. Additional achievements during the year include the launch of new innovative products and services; the expansion of the branch network in Bahrain; the growth of the Group's regional presence; the addition of new strategic investments; and the ongoing strengthening of shared services, particularly Human Resources and IT, provided by the holding company. These are covered in more detail in the Review of Operations section of this report.

All areas of the Group's operations produced excellent results, with an equal contribution to increased shareholder value and income from both our core insurance business and our investment activities. Given the continued volatility of global financial markets, the increasingly competitive nature of regional insurance market, and the further softening of rates during the year, this is a significant achievement. The impressive growth in premiums performance and growth in and profits resulted not only from prudent underwriting and claims management, but also from the Group's ability to meet its planned increase in retentions, which remains a cornerstone of our insurance risk management policy. Full details of the Group's financial performance are covered in the Financial Review section of this report.

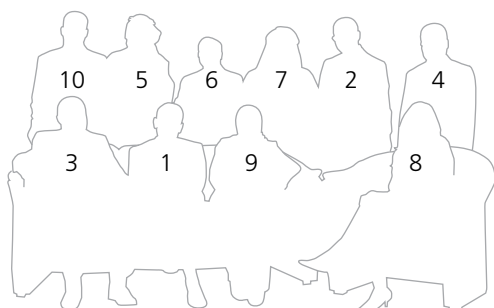
The Group's policy has always been to work closely with our customers, partners and competitors in order to expand and develop the regional insurance industry. In this respect, we began discussions a few years ago with regulatory bodies, other insurance companies, and international institutes regarding our idea for the establishment of a dedicated training institute to provide the highest standards of education and professional qualifications for insurance practitioners across the region. I am delighted to report that this pioneering initiative resulted in

the establishment of Gulf Insurance Institute (GII) during 2007, with its formal launch planned to take place during the GAIF conference in Bahrain in late February 2008.

In conclusion, I would like to express my thanks to the Board of Directors for their steadfast support and guidance, and to our customers for their continued loyalty and trust. In particular, I would also like to pay tribute to the continued dedication and hard work of the Group's management and staff. Their individual and collective contributions during the year were undoubtedly a major factor in the Group's record performance and impressive achievements during 2007.

Mahmood Al Soufi  
Chief Executive

# Management Team



## 1. Mahmood Al Soufi

Chief Executive Officer (CEO)  
Bahrain National Holding (BNH)

Joined BNH in 2002. Higher National Diploma and College Diploma in Engineering from Nottingham U.K. Attended a large number of professional courses, including IMD Geneva, the Chartered Institute of Marketing UK, Swiss Insurance Training Centre and World Economic Forum in Davos. Approximately 33 years of experience, including 17 years as General Manager of Bahrain Saudi Marketing Company BALCO and BALEXCO. Currently Chairman of MASY International. Board member and chairman of executive committee of national finance house. Also a Board member of Arabian Shield Insurance Company, Saudi Arabia, and the Gulf Insurance Institute.

## 2. Abdulla Khamis Abdulla Al Sowaidi

General Manager  
Bahrain National Insurance (BNI)  
Motor & Personal Lines Insurance

Joined BNH in April 2003. Graduated from Kuwait University. Attended a number of development courses and seminars including accelerated development program for chief executives at London Business School. Diploma and Advance Diploma in Insurance and a Diploma in insurance management. 30 years experience working with various organisations. Last position held was Assistant General Manager of Bahrain Aluminum Extrusion Co.

## 3. Patrick Byrne

General Manager  
Bahrain National Life (BNL)

Joined BNL in January 2006. Previously Head of Actuarial Services at ARIG, Bahrain. Held senior management and actuarial consulting positions with international insurance and reinsurance organisations in Lloyd's of London and the London Market with US-insurer St Paul Travelers, LCP and Watson Wyatt.

## 4. Joseph M. Rizzo

General Manager  
Bahrain National Insurance  
General Insurance

Joined BNI in September 2007, an Associate of the Chartered Insurance Institute and a Chartered Insurer with more than 25 years experience in insurance and reinsurance. He previously held the position of General Manager and later Chief Operations Officer with Middlesea Insurance plc a leading insurance company in Malta. Mr Rizzo occupied various directorships in subsidiaries and associated companies, was chairman of a surveying and loss adjusting firm operating in the Mediterranean region, and involved in overseas expansion projects.

## 5. Mohammed Kadhim

Assistant General Manager  
Legal & Compliance  
Bahrain National Holding (BNH)

Joined BNH in 1978. Possesses law degree and attended a number of courses in insurance, management, personal development and leadership. Previous positions: Assistant General Manager of BNI Motor until 2003, Secretary of Motor Committee of BIA and then Chairman of the said Committee. A director for legal and association affairs of BIA, until December 2006.

## 6. C. A. Gopalakrishnan

Head of Finance and Investments  
Bahrain National Holding Company BSC

Joined BNH in December 2003. Mr. Gopalakrishnan is an associate member of the Institute of Chartered Accountants of India and is Bachelor in Commerce. Has over 23 years of experience in Audit, Finance and Investment management. Previous positions: Finance Manager, Al Shirawi Group of Companies, UAE. Prior to that he served as Accounts Manager for various companies in India and Bahrain.

## 7. Fathalla Ebrahim

Assistant General Manager  
Bahrain National Life (BNL)

Joined BNL in March 2006. Previously with ARIG since 1993 in various technical and managerial positions, in

direct and reinsurance roles. Extensive experience of medical insurance business in the GCC and the Levant. Lectured widely at regional and international conferences. Former BIBF Student of the Year (1993) and holds a BBA (Dean's List of Honour) and MBA (Distinction).

## 8. Mojgan Khoshabi

Assistant General Manager  
Major Accounts & Special Risks  
Bahrain National Insurance (BNI)

Joined BNI in May 2005. Holds a BSc in Business Administration and a DIP CII from the Chartered Insurance Institute, U.K. Has attended various Insurance and Management courses & seminars. Has over 20 years of experience in Insurance and Reinsurance. Previous positions: Energy and Property Underwriter, ARIG. Insurance Manager for Gulf Air, and Insurance Instructor with BIBF.

## 9. Ebtisam Al Jowder

Assistant General Manager  
Motor & Personal Lines  
Bahrain National Insurance (BNI)

Joined BNI in January 1982. Over 25 years of experience in insurance. Holds BIBF Diploma and Advanced Diploma in Insurance. Attended a number of Technical and Management courses.

## 10. Jonathan J. Abela

Assistant General Manager  
Motor & Personal Lines  
Bahrain National Insurance (BNI)

Joined BNI in October 2006. A Chartered Insurer and an Associate of the Malta Institute of Management. Awarded the Applied Insurance Studies Diploma by the Malta International Training Centre (MITC). Over 16 years experience derived mainly from the Maltese insurance market in motor and personal lines claims, underwriting and product development as well as insurance broking. An insurance lecturer for a number of years on behalf of the MITC having delivered various courses in Malta and in the UAE. Previously a member of the Executive Committees of the Malta Green Card Bureau and Motor Insurers' Bureau of the Malta Insurance Association.

# Pioneering

Bahrain National Holding (BNH) has earned a reputation for its innovation and leadership, and has pioneered many industry 'firsts' in Bahrain, as well as setting new standards for quality and service.

Continuing this trend during 2007, BNH finalised plans for the introduction of a co-branded credit card with Ahli United Bank, and the launch of e-insurance online transaction facilities, during 2008. Both of these initiatives are the first of their kind for a national insurance company.



## Insurance operations

### Personal Lines Insurance

Following its establishment in 2006 as a dedicated unit covering motor, home, travel and domestic servants insurance, the Personal Lines division continued to build its team during 2007, both through external recruitment and the filling of key positions by internal promotion. In line with its focus on customer satisfaction, the division expanded its customer services unit, and created a dedicated claims unit for assisting customers with an update on the progress of their car repairs at approved garages.

Two marketing agreements were signed during the year, with the aim of enhancing distribution and delivery channels by working with partners to cross-sell related products, and providing customers with a one-shop, value-added service. Through an agreement with National Finance House (NFH), a BNI representative is permanently based at their main office on Adhari Highway, while NFH has a sales desk at BNI's total loss claims centre at Sanad. The agreement with Nonoo Exchange Company (NEC) enables BNI to distribute its products and services at selected NEC branches, while NEC will offer Western Union money transfer services through a number of BNI branches, the first being located at the Sakhir Campus of the University of Bahrain.

Also mid-year, the division launched **Asfaar** – an upgraded travel insurance policy – which offers superior but cost-effective protection, including worldwide emergency medical services provided by ONE Assist. For the first six months of this new product we are already seeing significant sales. Plans were also finalised for the introduction in early 2008 of a co-branded credit card with Ahli United Bank (AUB), and the launch of e-insurance solutions, both the first of their kind for a national insurance company in Bahrain; while a project team was appointed to identify the best solutions to handle the division's document management requirements.

Despite increased competition from existing and new players in the market, the division posted a strong performance in 2007 with personal lines gross premiums growing by 70%, and motor gross premiums increasing by 8%.

### Life and Medical Assurance

During 2007, the Group's Life and Medical assurance division successfully completed a restructuring exercise that involved enhancing its in-house specialist expertise, widening its product portfolio and client base, improving its reinsurance utilization and growing gross premiums (including Savings Plans) by 45%. These achievements were supported by an increase in the paid-up capital of Bahrain National Life Assurance Company (BNL) – a wholly-owned BNH subsidiary – to BD 5 million during the year.

The division's **Life Assurance** activities were refocused in 2007 with an emphasis on developing the long-term Life portfolio to support the growing market in mortgage provision in Bahrain. This was supported by further developing our Life underwriting expertise with international reinsurance partners. In addition we have been able to reduce the servicing time for non-standard quotes and now provide responses within 48 hours on most non-standard underwriting. BNL has benefited from having its own in-house actuarial team, which is a unique competency for a national insurance company.

Notable achievements during the year include a substantial growth in Group Term assurance policies provided for corporate clients, and an increased individual client business, especially in the area of mortgage protection. The division also widened its distribution channels, with a particular focus on retail banks, for which BNH provides insurance training and education for their staff. BNL now provides insurance services to most of the retail banks in Bahrain.

The Group's previous life and medical insurance business model was profitable but heavily re-insured. During the last two years, the division has been successful in increasing its retention capability and thereby generating higher profits.

The division's **Medical Insurance** activities enjoyed a highly successful year in 2007, with gross premium income increasing by 140% over the previous year. In recent years, the Group has established itself as the preferred medical insurance provider for corporate clients, while enhancing its reputation with providers, differentiated by the quality of its people.

BNL is the only national insurance company with its own in-house team of doctors and nurses, who provide

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## Review of Operations

*Continued*

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expert services in areas such as diagnosis and claims settlement, as well as relationship management with the Group's provider network. This has enabled the specialist, medical insurance division to develop its own premium rating structure rather than being led by market rates, and to build a fully retained local book of business. Its portfolio comprises local and international plans, with products that are tailored to meet customers' specific needs. The Group has established a close working relationship with InterGlobal, a leading UK-based medical insurance provider, who act as partners and reinsurers for international coverage.

### **General Insurance**

In 2007, the Group restructured its general insurance division into four discrete teams focused on underwriting, reinsurance, business development (including existing client relationships and new business generation), and claims (including risk management). This enabled the division to rise to the challenges of increased competition, a decrease in rates due to high market capacity, and the trend for more commercial business being placed through brokers rather than directly with insurance companies.

During the year, the division took steps to improve the balance of its portfolio, both in terms of size of risk and geographic exposure. As a result, there was an increase in commercial business from small-to-medium enterprises of 12%, while business outside Bahrain grew by 11%. The impact of claims arising from cyclone Gonu in Oman in 2007 was successfully absorbed within the retention and reinsurance programme of BNH.

Also during the year, the division continued to optimise its large treaty capacity and sought means to retain more business within this capacity. This will improve as the ongoing re-balancing of the portfolio produces a higher proportion of small-to-medium risks, in contrast to large risks where a higher percentage needs to be placed in the facultative market. Marine and aviation business continued to be very consistent, with an improved rate of return on gross written premiums approaching 20% in 2007.

### **Investment Operations**

The Group's consistent portfolio discipline and diversified investment strategy successfully minimised the impact of the continued volatility of global financial markets in 2007. As a result, investment income grew by 82% during the year.

### **Strategic investments**

BNH is a major shareholder in National Finance House (NFH), which provides financing to individual and corporate clients in Bahrain for private, commercial and heavy vehicles. NFH enjoyed a very successful first full year of operations in 2007, expanding its client base, business relationships, and market share. The product portfolio was also broadened to cover construction equipment and instrumentation in order to meet growing demand from contractors due to the booming real estate development market. In addition, feasibility studies were conducted into possible areas for future business development, including financing for selected real estate properties, and geographic expansion into other GCC states.

Working with local partners, BNH established Arabian Shield Cooperative Insurance Company in the Kingdom of Saudi Arabia during 2007. Following a successful IPO that was oversubscribed 4.5 times, Arabian Shield was subsequently listed on the Saudi stock exchange. This was followed by the opening of two branches – in Jeddah and Dammam – which extended the activities of Company's headquarters in Riyadh across the Kingdom. Given the recent financial sector reforms in Saudi Arabia, this new joint-venture is well placed to take advantage of the growing potential of the insurance industry in the Kingdom.

Also during 2007, BNH acquired a 25% stake in Al Kindi Specialist Hospital in the Kingdom of Bahrain. This new hospital will provide the highest levels of care and treatment to citizens and it comes as parts of BNH's strategic objectives of diversifying its investments.

### **Market presence**

BNH expanded its market presence in Bahrain to seven conveniently-located branches during 2007 with the opening of a new branch at Sitra industrial area. This new branch will be the main centre for managing and handling motor insurance claims, as well as providing other motor and personal lines products and services.

# Integrity

Bahrain National Holding (BNH) is committed to adopting internationally-recognised standards and global best practice, and to upholding the highest levels of corporate, professional and personal behaviour.

During 2007, BNH continued to strengthen its corporate governance, compliance and risk management framework, which has been augmented with the introduction of a new enterprise risk management (ERM) system. The Group has developed a comprehensive Code of Business Ethics governs the behaviour and working practices of all directors, management and staff

# Compassion

The establishment of a Customer Satisfaction & Legal Coordination Unit during 2007 – the first of its kind by a national insurance company – underlines the Group's caring attitude to its customers.

The Unit will be the first entry point for all customer complaints. Staffed by people with legal experience and customer service skills, it is designed to reinforce the Group's image as a fair, customer-conscious and quality driven organisation, genuinely seeking to achieve a swift and amicable solution to disputes.

The ongoing expansion of the branch network underlines the Group's commitment to provide customers with increased levels of convenience, while continuing to grow its portfolio of personal lines products purchased by private individuals, comprising motor, home contents, travel and domestic servants insurance cover.

### **Customer service**

BNH regards customer service as a top priority. Accordingly, in 2007, the Group introduced a new formal procedure to handle customer complaints with the establishment of a Customer Satisfaction & Legal Coordination Unit, the first of its kind by a national insurance company. Staffed by people with legal experience and customer service skills, the unit has its own email address – [customercomplaints@bnhgroup.com](mailto:customercomplaints@bnhgroup.com) – together with dedicated telephone and facsimile lines.

This will be the first entry point for all customer complaints, reinforcing the Group's image as a fair, customer-conscious and quality-driven organisation, genuinely seeking to achieve a swift and amicable solution to disputes. To help make clients aware of their rights, all motor and personal lines products now carry a complaints procedure encouraging customers to contact BNH should they have cause for complaint, or to pass on ideas and suggestions related to products and services.

### **Human resources**

Throughout 2007, BNH made good progress with its policy to build a world class human resources development capability. The HR team was expanded and HR policies and procedures were updated. The Hay Group was appointed to undertake job evaluations and introduce the job-point system which will be implemented in 2008. Committed to becoming a 'learning company', the Group established an HRD Committee to spearhead specific training and development opportunities for staff to acquire specialist insurance skills, knowledge and qualifications, through which to progress their careers with BNH.

The Group's Executive Development Programme (EDP) completed its first phase during 2007, with all executive management having undertaken individually-tailored development programmes at leading international institutions. The programme embraces general business, professional and leadership skills, as well as specialist areas such as strategy development.

The Group also continued to provide a comprehensive range of training programmes for all levels of staff, with theoretical courses covering key areas such as insurance, IT, marketing, customer service, communications, and compliance; as well as practical training with overseas reinsurance companies. Underlining its commitment to provide Bahrainis with promising career opportunities, the level of nationals employed by the Group totalled 82% at the end of 2007.

### **Information Technology**

The Group considers the adoption of the latest information and communications technology (ICT) as a critical business enabler in supporting its current activities and future strategic direction. Accordingly, in 2007, BNH reviewed and revised its IT strategy and developed a new three-year plan to meet the changing requirements of recently restructured business divisions.

A new system was installed for Investment Operations, providing enhanced automated data entry and portfolio management processes to improve decision making and reporting. Major enhancements were initiated for non-life insurance lines, with a phased approach spread over 2007 and 2008, designed to improve access to information through current and planned distribution channels. With the recent growth of life and medical portfolios, new projects were initiated to study current applications and identify new systems to cater for future requirements.

Another major achievement during the year was the establishment of an internal IT HelpDesk. The system enables the IT division to identify and rectify all the system related issues in more systematic and controlled manner.

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# Financial Review

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## Insurance Operations

### Gross premium

Softening trend of the international insurance market, intensely growing competition from existing local and regional players, and new international entrants, is adding pressure on the insurance industry in Bahrain, leading to a decline in premium rates. As a result, the total gross premium for the Group in 2007 slightly decreased by 2% to BD 27.51 million, (2006: BD 27.95million). Gross premium from General Insurance operations (excluding Motor but including Medical insurance) decreased to BD 16.18 million (2006: BD 17.28 million) and gross Motor Insurance premium increased to BD 9.51 million (2006: BD 8.97 million).

The gross Life Assurance premium increased to BD 1.82 million (2006: BD 1.70 million). In 2007, Personal Lines, comprising Life, Motor and Medical insurance, accounted for 45% of gross written premium (2006: 41%). Predominantly Commercial and Industrial lines, such as Fire, Accident and Marine insurance, accounted for 55% of gross written premium (2006: 59%).

### Net Premiums and Insurance Revenue

Given the difficult market conditions that were not conducive to premium growth, the Group's strategy of prudently improving the retention commensurate with the Group's financial base has resulted in an increase in net premium by 21% to BD 12.16 million (2006: BD 10.02 million). Total insurance revenue, which includes net commission income in addition to net premium, increased by 20% to BD 13.28 million (2006: BD 11.04 million).

### Claims

Overall claims incurred by the Group in 2007 totalled BD 8.06 million, an increase of 51% from the previous year. The increase is mainly attributable to the unpredicted losses caused by GONU storm in the Sultanate of Oman in addition to the continued rise in the number of motor accidents, cost of motor vehicles spare parts and repairs, as well as the continued escalation in court awards for cases of bodily injury and death to third party claimants. The overall claims ratio for the group is 62% (2006: 53%).

### Underwriting profit

On account of the market-driven reduction in gross premiums and higher claims the Group's profit from underwriting operations in 2007 was 34% lower at BD 2.01 million as against BD 3.05 million in 2006.

## Investment Operations

The Group's portfolio discipline and diversified investment strategy minimised the impact of the continued volatility of global financial markets during 2007. In comparison to the previous year, Net Investment Income totalled BD 4.50 million (2006: BD 2.47 million), an increase of 82%. This includes the proceeds realized on the sale of part of BNH's share in United Insurance Company (UIC) which resulted in net income of BD 0.8 million. If we were to exclude proceeds realized from the sale of UIC shares, the Net Investment Income would still be 48% higher than 2006. The Group's diversified and risk-balanced portfolio remains stable in uncertain market conditions, however the ongoing volatility of global financial markets and pricing of broad asset classes remain a cause for concern.

It is worth mentioning that the Group did not have any direct exposure in the sub-prime market in which many big national and international financial institutions had an exposure and consequently suffered huge losses.

### Net Profit

The Group's net profit for 2007, after deducting corporate and financial expenses, increased by 12% to BD 5.29 million (2006: BD 4.73 million). Earnings per share rose 9% to 48.12 fils (2006: 43.99 fils) while the book value per share at 31 December 2007 was 373.93 fils compared to 336.07 fils at the end of the previous year.

# Excellence

BNH participated in a major regional initiative to establish the Gulf Insurance Institute (GII). Inaugurated in June 2007, the mission of GII is to provide internationally recognised and accredited professional development programmes and certification paths for insurance and financial services professionals in the GCC.

The founding shareholders of GII comprise leading regional and international insurance organisations, while strategic partners include the UK-based Chartered Insurance Institute (CII) and Securities and Investment Institute (SII), and the American Insurance Institute (AICPCU).

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# Corporate Governance

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

In addition to complying with the Central Bank of Bahrain's rules and regulations, we are committed to developing and implementing best practice in corporate governance in all areas of our operations and responsibility.

## Compliance Responsibility

Responsibility for ensuring the Group's compliance with regulations and guidelines of the Central Bank of Bahrain resides with the Assistant General Manager – Legal, Personnel and Training, who also acts as Company Secretary. In 2006, we established a dedicated Legal and Compliance Unit to be directly responsible for all compliance issues.

## Transparency and Efficiency

In developing our corporate governance process and under our guiding principles we aim to maximise transparency and efficiency of the whole process for the benefit of all the Group's stakeholders, particularly in the areas of insider trading, anti-money laundering, information security and the sound management of our financial assets.

## Policies and Procedures

We continue to review and update our key policies and procedures covering critical operational areas in our insurance subsidiaries and across the Group functions and as part of our regular review process we have revised and updated where necessary.

## Directors and Officers (D & O) Policy

The Group is insured under a Directors & Officers insurance policy. The adequacy of the cover is measured in terms of size of the assets and future growth expectations of the Group. No claims have been reported during the last 5 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. During 2006 we submitted our AML Policies and Procedures Manual to the Central Bank of Bahrain. Each year we conduct a review of our policies, procedures and internal directives to ensure ongoing compliance.

The group have submitted their external auditors report, for the year 2006, in accordance with the requirement of the Central Bank of Bahrain.

## Insider Trading

The Group's compliance with the latest insider trading regulations of the Central Bank of Bahrain is supervised by the Audit Committee reporting to the Board of Directors.

The group have submitted to the Central Bank of Bahrain the internal audit report for the year 2007, in accordance with their requirement of the Central Bank of Bahrain.

## Code of Conduct

The Group has developed a Code of Business Ethics that governs the behaviour and working practices of the Directors, management and staff.

## Penalties

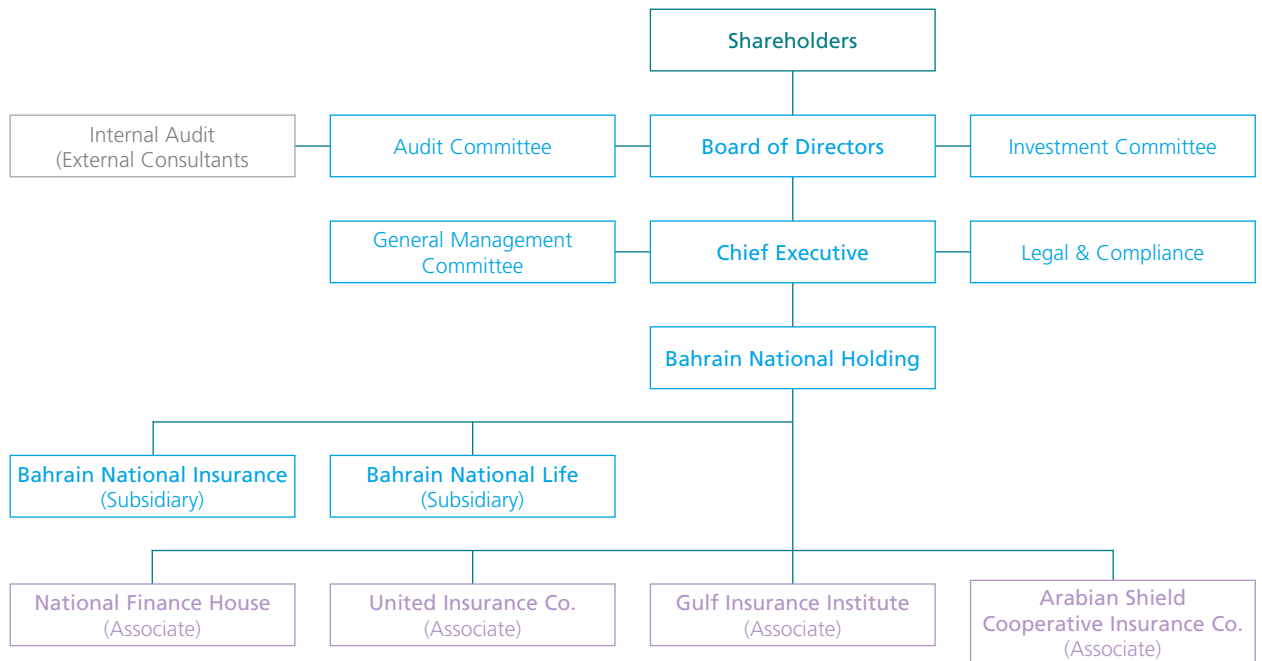
The Group did not pay any financial penalties to the Central bank of Bahrain during the year.

## Communications

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



# Corporate Governance Structure



External consultants  
  External body  
  Internal body  
  Brands & Joint Ventures

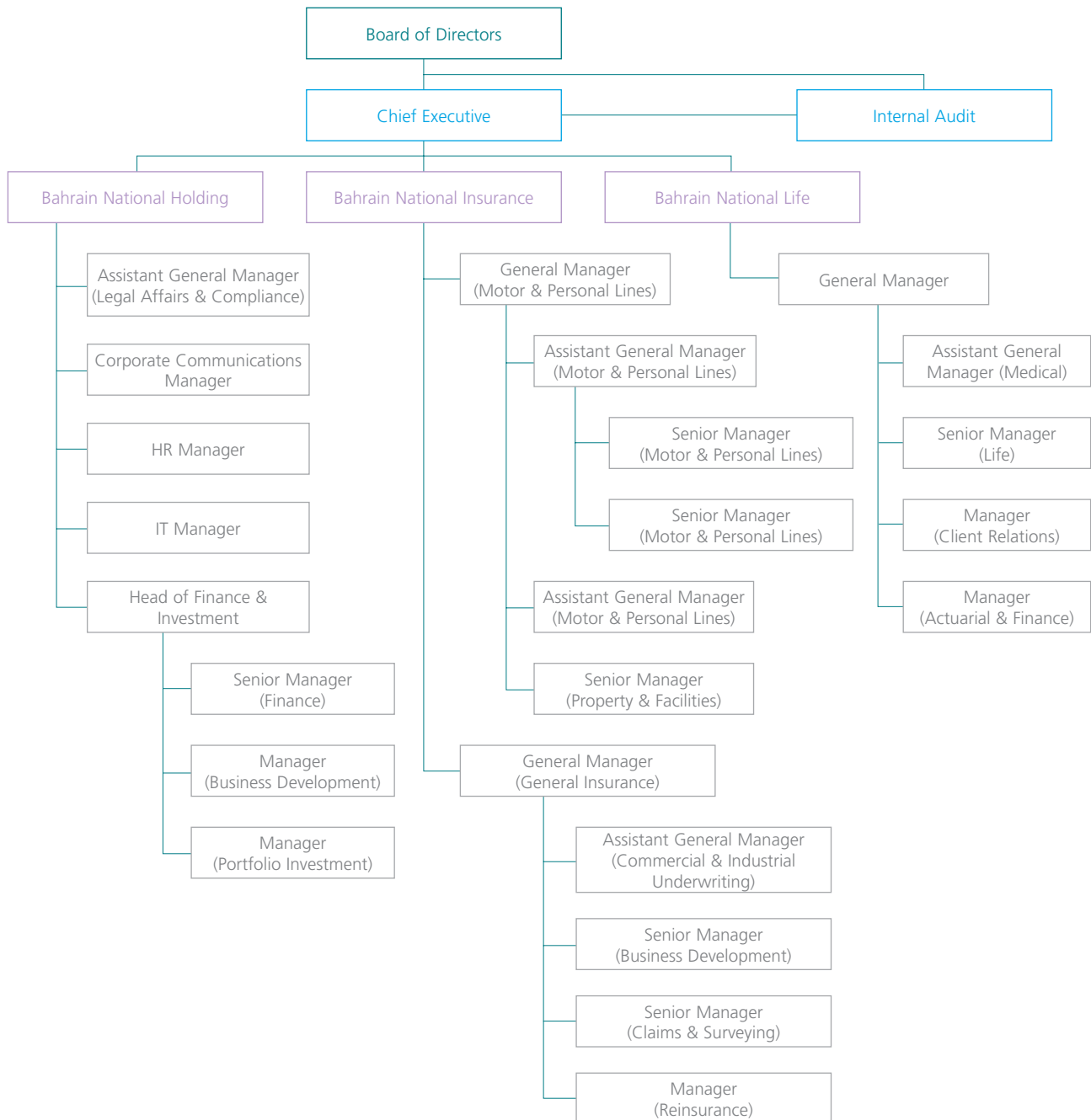
## Risk Management Strategies and Practices

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

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

Internal control risks are mitigated by putting in place adequate internal control systems and testing them on a frequent basis. The Group Internal Audit reports to the Audit Committee on all matters of internal controls. The internal audit, which is carried out by external consultants, ensures policies and procedures are well documented and adhered to. During 2007 they have not reported any significant deviation from the policies and procedures.

# Organization Chart



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32	Notes to the 2007 Consolidated Financial Statements



KPMG Fakhro  
Audit  
5th floor, Chamber of Commerce Building  
PO Box 710, Manama, Kingdom of Bahrain

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

## Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Bahrain National Holding Company B.S.C. ("the Company") and its subsidiaries (together the "Group"), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Responsibility of the directors for the consolidated financial statements

The directors of the Company are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures

that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2007, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

## Report on other legal and regulatory requirements

In addition, in our opinion, the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith. We have reviewed the accompanying report of the chairman and confirm that the information contained therein is consistent with the consolidated financial statements. We are not aware of any violations of the Bahrain Commercial Companies Law 2001, the Central Bank of Bahrain and Financial Institutions Law 2006, the Insurance Regulations set out in Volume 3 of the Insurance Rulebook issued by the Central Bank of Bahrain or the terms of the Company's memorandum and articles of association having occurred during the year ended 31 December 2007 which might have had a material effect on the business of the Company or its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

20 February 2008



KPMG Fakhro, a registered partnership under Bahrain law, is a member of KPMG International, a Swiss non-operating association.

# Consolidated Balance Sheet

as at 31 December 2007  
(Expressed in Bahraini Dinars)

	Note	2007	2006
<b>Assets</b>			
Cash and cash equivalents		11,225,630	14,931,160
Statutory deposits	8	125,000	125,000
Receivables			
Policyholders	9, 13	2,196,219	2,013,631
Insurance and reinsurance companies	10, 13	2,713,705	2,680,696
Other	11	459,140	205,256
Outstanding claims recoverable from reinsurers	12, 13	10,050,600	6,948,191
Reinsurers' share of unearned gross premiums	23	5,139,322	6,789,661
Assets held for sale	14	-	388,667
Investments			
Securities carried at fair value through income statement	15, 30	14,546,566	12,516,143
Available-for-sale securities	15, 30	13,621,874	11,818,709
Held-to-maturity securities	15, 30	2,794,363	1,723,563
Associates	18	8,920,835	3,494,669
Investment property	19	1,821,532	1,909,621
Property, plant and equipment	20	4,126,885	4,343,024
<b>Total Assets</b>		<b>77,741,671</b>	<b>69,887,991</b>
<b>Liabilities</b>			
Bank loan	21	-	1,665,586
Insurance reserves			
Outstanding claims – gross	22	17,017,127	11,906,042
Unearned gross premiums	23	10,967,535	12,179,163
Unearned commissions	23	213,297	311,940
Life assurance actuarial reserve	24	3,278,101	2,543,359
Payables and accrued liabilities			
Policyholders claims		163,442	163,503
Insurance and reinsurance companies		2,760,983	1,982,553
Other	25	2,108,773	2,070,937
Provision for employees' leaving indemnities	26	208,808	183,276
<b>Total Liabilities</b>		<b>36,718,066</b>	<b>33,006,359</b>
<b>Total Net Assets</b>		<b>41,023,605</b>	<b>36,881,632</b>
<b>Equity (page 30)</b>			
Share capital	5	11,350,000	11,350,000
Treasury shares	5	(757,817)	(699,957)
Statutory reserve	6	4,358,000	3,830,000
Capital reserve	6	4,220	4,220
Share premium	6	3,960,895	3,960,895
General reserve	6	11,485,000	9,485,000
Investment fair value reserve	6	6,089,896	5,153,310
Retained earnings	7	4,533,411	3,798,164
<b>Total equity</b>		<b>41,023,605</b>	<b>36,881,632</b>

Ali Hussain Yateem  
Chairman

Ahmed Bin Ali Al A'ali  
Deputy Chairman

Mahmood Al Soufi  
Chief Executive Officer

The Board of Directors approved the consolidated financial statements consisting of pages 27 to 62 on 20 February 2008.

# Consolidated Income Statement

For the year ended 31 December 2007

(Expressed in Bahraini Dinars)

	2007			2006		
	General insurance	Life assurance	Total	General insurance	Life Assurance	Total
<b>Gross Premiums (note 27)</b>	<b>25,689,360</b>	<b>1,819,516</b>	<b>27,508,876</b>	<b>26,255,263</b>	<b>1,697,123</b>	<b>27,952,386</b>
Reinsurance ceded	(13,983,872)	(923,869)	(14,907,741)	(15,891,728)	(1,111,592)	(17,003,320)
Retained premiums	11,705,488	895,647	12,601,135	10,363,535	585,531	10,949,066
Unearned premiums adjustment						
– gross	1,211,628	-	1,211,628	(2,642,385)	-	(2,642,385)
– re-insurance	(1,650,339)	-	(1,650,339)	1,714,945	-	1,714,945
<b>Net Premiums Earned</b>	<b>11,266,777</b>	<b>895,647</b>	<b>12,162,424</b>	<b>9,436,095</b>	<b>585,531</b>	<b>10,021,626</b>
Gross claims paid	(12,516,277)	(540,555)	(13,056,832)	(10,530,984)	(519,720)	(11,050,704)
Reinsurance recoveries	6,707,794	297,939	7,005,733	5,929,339	229,875	6,159,214
Outstanding claims adjustment						
– gross	(5,384,958)	273,874	(5,111,084)	(1,765,033)	(397,857)	(2,162,890)
– recoveries	3,333,550	(231,142)	3,102,408	1,374,967	327,535	1,702,502
<b>Net Claims Incurred</b>	<b>(7,859,891)</b>	<b>(199,884)</b>	<b>(8,059,775)</b>	<b>(4,991,711)</b>	<b>(360,167)</b>	<b>(5,351,878)</b>
Departmental expenses (note 29)	(2,746,060)	(286,579)	(3,032,639)	(2,441,892)	(238,110)	(2,680,002)
Net commission income/(expense)	1,160,022	(43,453)	1,116,569	1,007,773	12,754	1,020,527
Net transfer from/(to) life assurance actuarial reserve (note 24)	-	(180,394)	(180,394)	-	37,510	37,510
<b>Underwriting Profit for the year</b>	<b>1,820,848</b>	<b>185,337</b>	<b>2,006,185</b>	<b>3,010,265</b>	<b>37,518</b>	<b>3,047,783</b>
Net Investment Income (note 28)			4,495,254			2,471,919
Net transfer from/(to) life assurance actuarial reserve (note 24)			(289,227)			-
Corporate and financial expenses (note 29)			(933,338)			(791,565)
<b>Net Profit for the year</b>			<b>5,278,874</b>			<b>4,728,137</b>
Basic earnings per share (100 fils each) (note 5)			48.12 Fills			43.99 Fills

Ali Hussain Yateem  
Chairman

Ahmed Bin Ali Al A'ali  
Deputy Chairman

Mahmood Al Soufi  
Chief Executive Officer

The Board of Directors approved the consolidated financial statements consisting of pages 27 to 62 on 20 February 2008.

# General Insurance Business Departmental Results

For the year ended 31 December 2007

(Expressed in Bahraini Dinars)

2007	Fire	Accident	Engineering	Marine and aviation	Motor	Medical	Total
Gross Premiums	6,522,913	2,580,870	3,080,133	1,826,841	9,507,973	2,170,630	25,689,360
<b>Net Premiums Earned</b>	<b>435,600</b>	<b>313,194</b>	<b>214,119</b>	<b>168,522</b>	<b>8,853,499</b>	<b>1,281,843</b>	<b>11,266,777</b>
Net claims incurred	(540,777)	(287,067)	(99,250)	(93,749)	(5,765,013)	(1,074,035)	(7,859,891)
Departmental expenses	(447,412)	(180,551)	(319,712)	(239,282)	(1,298,643)	(260,460)	(2,746,060)
Net commission income	571,294	202,055	335,747	275,854	(305,304)	80,376	1,160,022
<b>Underwriting Profit</b>	<b>18,705</b>	<b>47,631</b>	<b>130,904</b>	<b>111,345</b>	<b>1,484,539</b>	<b>27,724</b>	<b>1,820,848</b>
Net retention (%)	6.7	12.1	7.0	9.2	93.1	59.1	43.9
Loss ratio (%)	124.1	91.7	46.4	55.6	65.1	83.8	69.8
Identifiable assets	4,909,734	673,370	2,706,099	343,848	1,910,155	0	10,543,206
Identifiable liabilities	6,871,214	1,323,619	3,936,788	692,398	11,028,750	822,163	24,674,932

Assets amounting to BD 3,633,882 and liabilities amounting to BD 3,556,953 pertain to life insurance business.

Assets amounting to BD 58,244,303 and liabilities amounting to BD 8,486,181 are not specifically identifiable with general and life insurance business.

2006	Fire	Accident	Engineering	Marine and aviation	Motor	Medical	Total
Gross Premiums	6,734,817	3,388,947	4,190,280	2,059,149	8,971,888	910,182	26,255,263
<b>Net Premiums Earned</b>	<b>442,774</b>	<b>286,858</b>	<b>208,356</b>	<b>197,860</b>	<b>7,839,397</b>	<b>460,850</b>	<b>9,436,095</b>
Net claims incurred	(322,396)	408,141	157,704	(55,856)	(4,852,032)	(327,272)	(4,991,711)
Departmental expenses	(446,318)	(136,229)	(269,286)	(253,521)	(1,155,379)	(181,159)	(2,441,892)
Net commission income	572,625	204,040	293,860	178,863	(283,262)	41,647	1,007,773
<b>Underwriting Profit</b>	<b>246,685</b>	<b>762,810</b>	<b>390,634</b>	<b>67,346</b>	<b>1,548,724</b>	<b>(5,934)</b>	<b>3,010,265</b>
Net retention (%)	6.6	8.5	5.0	9.6	87.4	50.6	35.9
Loss ratio (%)	72.8	-142.3	-75.7	28.2	61.9	71.0	52.9
Identifiable assets	4,035,259	706,764	1,488,137	373,332	1,335,385	42,096	7,980,973
Identifiable liabilities	5,834,358	1,141,329	2,650,898	694,289	9,124,454	500,615	19,945,943

Assets amounting to BD 3,658,737 and liabilities amounting to BD 3,078,004 pertain to life insurance business.

Assets amounting to BD 58,245,281 and liabilities amounting to BD 9,982,412 are not specifically identifiable with general and life insurance business.

## Classification of general insurance business for departmental purposes

### Fire

Fire, theft and allied perils including Business interruption and Household insurance

### Accident

General Accident and Sickness, Money, Fidelity Guarantee, Travel, Domestic Servants

### Medical

Group and individual medical

### Marine and aviation

Marine cargo  
Marine hull  
Aviation  
Marine ship repairer's liability

### Engineering

Contractors' Erection, Plant & Machinery all risks, Deterioration of Stock, Machinery Breakdown and Electronic Equipment

### Liability

General Third party (excluding Motor) Products, Employer's including Workmen Compensation, Professional Indemnity and Director's and Officers

### Motor

Motor comprehensive  
Motor third party liability

The consolidated financial statements consist of pages 27 to 62.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

(Expressed in Bahraini Dinars)

2007	Share capital	Treasury shares	Statutory reserve	Capital reserve	Share premium	General reserve	Investment fair value reserve	Retained earnings	Total
<b>Balance at 1 January</b>	11,350,000	(699,957)	3,830,000	4,220	3,960,895	9,485,000	5,153,310	3,798,164	36,881,632
Change in fair value of available for sale securities	-	-	-	-	-	-	1,177,460	-	1,177,460
Transfer to income statement on disposal of AFS investments	-	-	-	-	-	-	(240,874)	-	(240,874)
Net income recognized directly in equity	-	-	-	-	-	-	936,586	-	936,586
Net profit for the year	-	-	-	-	-	-	-	5,278,874	5,278,874
<b>Total recognized income and expense</b>	-	-	-	-	-	-	936,586	5,278,874	6,215,460
Treasury stock purchases	-	(57,860)	-	-	-	-	-	-	(57,860)
Dividends declared for 2006	-	-	-	-	-	-	-	(1,865,627)	(1,865,627)
Directors remuneration declared for 2006	-	-	-	-	-	-	-	(100,000)	(100,000)
Donations declared for 2006	-	-	-	-	-	-	-	(50,000)	(50,000)
Transfers to reserves (refer note 7)	-	-	528,000	-	-	2,000,000	-	(2,528,000)	-
<b>Balance at 31 December</b>	11,350,000	(757,817)	4,358,000	4,220	3,960,895	11,485,000	6,089,896	4,533,411	41,023,605

2006	Share capital	Treasury shares	Statutory reserve	Capital reserve	Share premium	General reserve	Investment fair value reserve	Retained earnings	Total
<b>Balance at 1 January</b>	11,350,000	(681,915)	3,357,000	4,220	3,960,895	8,385,000	5,883,069	2,412,565	34,670,834
Change in fair value of available for sale securities	-	-	-	-	-	-	(503,925)	-	(503,925)
Transfer to income statement on disposal of AFS investments	-	-	-	-	-	-	(225,834)	-	(225,834)
Net income recognized directly in equity	-	-	-	-	-	-	(729,759)	-	(729,759)
Net profit for the year	-	-	-	-	-	-	-	4,728,137	4,728,137
<b>Total recognized income and expense</b>	-	-	-	-	-	-	(729,759)	4,728,137	3,998,378
Treasury stock purchases	-	(18,042)	-	-	-	-	-	-	(18,042)
Dividends declared for 2005	-	-	-	-	-	-	-	(1,619,538)	(1,619,538)
Directors remuneration declared for 2005	-	-	-	-	-	-	-	(100,000)	(100,000)
Donations declared for 2005	-	-	-	-	-	-	-	(50,000)	(50,000)
Transfers to reserves (refer note 7)	-	-	473,000	-	-	1,100,000	-	(1,573,000)	-
<b>Balance at 31 December</b>	11,350,000	(699,957)	3,830,000	4,220	3,960,895	9,485,000	5,153,310	3,798,164	36,881,632

The consolidated financial statements consist of pages 27 to 62.



# Statement Of Consolidated Cash Flows

For the year ended 31 December 2007

(Expressed in Bahraini Dinars)

	2007	2006
<b>Operating activities</b>		
<b>Insurance operations</b>		
Premiums received net of acquisition costs	27,262,241	27,315,703
Contribution received from policyholders	365,244	478,059
Payments to insurance and reinsurance companies	(12,711,176)	(17,320,798)
Claims paid to policyholders	(13,057,183)	(10,957,236)
Claims recovered from reinsurers and salvage recoveries	6,572,513	5,753,927
<b>Cash flows from insurance operations</b>	<b>8,431,639</b>	<b>5,269,655</b>
<b>Investment operations</b>		
Cash flows from securities carried at fair value through income statement		
Dividends and interest received	765,563	784,777
Proceeds from sale	3,341,183	1,386,946
Payments for purchases	(4,302,628)	(2,525,366)
<b>Cash flows from investment operations</b>	<b>(195,882)</b>	<b>(353,643)</b>
Expenses paid – general and administration	(3,998,246)	(3,179,079)
<b>Cash flows from operating activities</b>	<b>4,237,511</b>	<b>1,736,933</b>
<b>Investment activities</b>		
Held-to-maturity and available-for-sale securities		
Dividends and interest received	568,816	588,172
Proceeds from sale and redemptions	2,427,880	1,872,535
Payments for purchases	(3,270,853)	(1,243,625)
Investment in associates	(4,963,560)	(440,000)
Proceeds from sale of shares in an associate	1,237,500	-
Dividends received from an associate	120,000	318,750
Purchase of property, plant and equipment	(133,896)	(1,189,857)
<b>Cash flows from investment activities</b>	<b>(4,014,113)</b>	<b>(94,025)</b>
<b>Financing activities</b>		
Bank loan repaid	(1,665,586)	(600,184)
Payment for purchase of treasury stock	(57,860)	(18,042)
Dividends paid to shareholders	(2,067,920)	(1,443,693)
Directors' remuneration paid	(94,500)	(90,000)
Donations paid	(43,062)	(46,684)
<b>Cash flows from financing activities</b>	<b>(3,928,928)</b>	<b>(2,198,603)</b>
<b>Total Net Cash flows during the year</b>	<b>(3,705,530)</b>	<b>(555,695)</b>
Cash and cash equivalents at 1 January	14,931,160	15,486,855
<b>Cash and cash equivalents at 31 December</b>	<b>11,225,630</b>	<b>14,931,160</b>
<b>Cash and Cash Equivalents at 31 December</b>		
Cash and bank balances	996,300	902,774
Short-term deposits	10,229,330	14,028,386
<b>Total as per balance sheet</b>	<b>11,225,630</b>	<b>14,931,160</b>

The consolidated financial statements consist of pages 27 to 62.

# Notes to the 2007 Consolidated Financial Statements

(Expressed in Bahraini Dinars)

## 1. Status and operations

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

## 2. Subsidiary companies

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

The paid-up share capital of Bahrain National Life Assurance Company B.S.C. (c) was increased during the year from BD 2,305,500 to BD. 5,000,000 by issuing shares @ 100 fils per share on a Rights basis to the existing shareholders.

## 3. Associates

The Group holds 20% (2006: 25%) of the equity share capital of the United Insurance Company BSC (closed), a Bahraini shareholding company (closed). United Insurance Company primarily provides insurance coverage for motor vehicles. (Refer note: 14 and note: 18)

The Group holds 25.9 percent (2006: 25.9percent ) of the voting capital of National Finance House BSC (c) (NFH), a closed Bahraini joint stock company, engaged in consumer and auto finance business. (Refer note: 18).

The Group acquired 15% (2006:NIL) of the voting capital of Arabian Shield Cooperative Insurance Company, Saudi Arabia (ASCIC), a Saudi Arabian Registered joint stock company, engaged in consumer and Insurance business. (Refer note: 18). ASCIC is treated as an investment in associate as the Group has significant influence over the financial and operating policies by way of its presence on the board of directors and executive committees.

The Group acquired 18% (2006: NIL) of the voting capital of Gulf Insurance Institute BSC (c) (GII), a Bahraini shareholding company (closed), engaged in conducting training mainly in insurance related subjects. (Refer note: 18). GII is treated as an investment in associate as the Group has significant influence over the financial and operating policies by way of its presence on the board of directors and the executive committees.

## 4. Significant accounting policies

### (a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards, the requirements of the Bahrain Commercial Companies Law 2001 and the Central Bank of Bahrain and Financial Institutions Law 2006.

During the period, the Group adopted IFRS 7- Financial Instruments: Disclosures and revised IAS 1 Presentation of Financial Statements – Capital Disclosures and revised IFRS 4 – Insurance Contracts, on their required application date of 1 January 2007. The adoption of IFRS 7 and the amendments to IAS 1 and revised IFRS 4 impacted the type and amount of disclosures made in these financial statements, but had no impact on the reported profits or financial position of the Group. In accordance with the transitional requirements of the standards, the Group has provided full comparative information.

### (b) Basis of preparation

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

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

### (c) Basis of consolidation

#### i. Subsidiaries

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

## ii. Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the associate's total recognised gains and losses. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

## iii. Transactions eliminated on consolidation

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

## (a) Insurance

The Group issues contracts that transfer insurance risk or financial risk or both.

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 as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

### General Insurance business

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

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

### iii. Unearned premiums:

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

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

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

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

### v. Outstanding claims

For general insurance contracts, estimates have to be made for both the expected ultimate cost of claims reported at the balance sheet date and for the expected ultimate cost of claims incurred but not reported (IBNR) at the balance sheet date.

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

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

- unexpected and unfavourable 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.

# Notes to the 2007 Consolidated Financial Statements

(Expressed in Bahraini Dinars)

## 4. Significant accounting policies (continued)

### vi. Liability adequacy test

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

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

### viii. Deferred commission and acquisition costs

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

### ix. Salvage and subrogation reimbursements

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

### x. Reinsurance contracts

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

The Group assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in the income statement. Objective evidence for impairment is assessed as a result of an event that occurred after initial recognition of the reinsurance asset that the Company 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 Company will receive from the reinsurer.

xi. **Departmental expenses** include direct departmental expenses and apportioned overheads (based on staff costs). All expenses are charged to the income statement in the year in which they are incurred.

## Life assurance business

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

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

### ii. Insurance

The Group issues contracts that transfer insurance risk or financial risk or both. The Company classifies all its contracts individually as either insurance contracts or 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 as significant insurance risk, the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur (refer note 4 (e) (b)).

- iii. **Investment contracts** are those contracts with insignificant transfer of insurance risk from the policyholder to the Company and are accounted for as financial instruments under IAS 39 Financial Instruments: Recognition and Measurement and IAS 18: Revenue.
- iv. **Gross premiums** from life assurance business are recognized when due, except for single premiums received on certain long-term policies; such single premiums are spread over the tenures of the policies on a straight-line basis. Single premiums are those relating to policies issued by the Group where there is a contractual obligation for the payment of only one premium.

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

- v. **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.
- vi. **Acquisition costs** are written off when incurred.
- vii. **Bonuses** to policyholders on profit-linked insurance contracts are recognised when declared by the Group.
- viii. **Embedded derivatives** in contracts with discretionary participating feature (DPF) that meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate) are not separately measured. All other embedded derivatives are separated and carried at fair value if they are not closely related to the host insurance contract and meet the definition of a derivative. Embedded derivatives that are separated from the host contract are fair valued through income.

A unit-linked insurance contract with discretionary participation feature is an embedded derivative linking payments on the contract to units of an internal investment fund set up by the Group with the consideration received from the contract holders. This embedded derivative meets the definition of an insurance contract and is not therefore accounted for separately from the host insurance contract. The liability for such contracts is adjusted for all changes in the fair value of the underlying assets.

ix. **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.

x. **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 balance sheet date. The life assurance actuarial reserve is created by crediting the net investment income arising out of the investments made by the Company on behalf of the life assurance policyholders. At the balance sheet 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 balance sheet date. The shortfall, if any, is charged to the income statement.

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

xi. **Liability adequacy test**

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the insurance liabilities (including the Life assurance actuarial reserve) 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 income statement initially. For significant assumptions used in the estimation of the Life assurance actuarial reserve refer note 4 (e) (b).

xii. **Reinsurance contracts**

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts in note 4 (c) are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards insurance) are included with insurance contracts.

# Notes to the 2007 Consolidated Financial Statements

(Expressed in Bahraini Dinars)

## 4. Significant accounting policies (continued)

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist 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 measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Group assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in the income statement. Objective evidence for impairment is assessed as a result of an event that occurred after initial recognition of the reinsurance asset that the Company 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 Company will receive from the reinsurer.

xiii. **Fee and commission income** from insurance and investment contract policyholders are charged for policy administration and investment management services. The fee is recognized as revenue in the period in which it is received unless it relates to services to be provided in future periods where these are deferred and recognised in the income statement as the service is provided over the term of the contract. Fee income is being disclosed as part of investment income (note 28).

### (e) Critical accounting estimates and judgments in applying accounting policies

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

#### (a) The ultimate liability arising from claims made under insurance contracts

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

#### (b) Life Assurance Actuarial Reserve estimation

The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the Group. Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to risk. The Group bases these estimates on standard industry and comparable mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the Group's own experience. For contracts that insure the risk of longevity, appropriate but not excessively prudent allowance is made for expected mortality improvements. The estimated number of deaths determines the value of the benefit payments and the value of the valuation premiums. The main source of uncertainty is that epidemics such as AIDS, SARS and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which the Group has significant exposure to mortality risk. However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Group is exposed to longevity risk.

There is no reinsurance protection held in respect of these contracts that would reduce these amounts. For contracts without fixed terms, it is assumed that the Group will be able to increase mortality risk charges in future years in line with emerging mortality experience. Under certain contracts, the Group has offered guaranteed annuity options. In determining the value of these options, estimates have been made as to the percentage of contract holders that will exercise them. Changes in investment conditions could result in significantly more contract holders exercising their options than has been assumed. With respect to changes in policyholder options, reserves do not take into account lapsation. Thus there is no effect of changes in policyholder options.

Estimates are also made as to future investment income arising from the assets backing long term insurance contracts. These estimates are based upon the current market returns as well as expectations about future economic and financial developments. In 2007, the investment returns were 8% to the fund. For the long term plans an assumption of 5% has been used. This has resulted in surplus generated in the past. For the accumulation products where the entire investment return less charges are given to the policyholders, there is no surplus from investment income. For other plans such as yearly renewable plans where 1/24 method of reserving is used, the entire 3% income on reserves is contribution to surplus.

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

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

#### (c) Impairment losses for available-for-sale securities and receivables

The Group determines that available-for-sale unquoted securities and managed funds are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged decline requires judgment. Where fair values are not available, the recoverable amount of such investment is estimated to test for impairment. In making this judgment, the Company 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 operating and financing cash flows.

The Group assesses receivables that are individually significant and receivables included in a group of financial assets with similar credit risk characteristics for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment for impairment. This assessment for impairment requires judgment. In making this judgment, the Group evaluates credit risk characteristics that considers industry, past due status and an estimation of future cash flows being indicative of the ability to pay all amounts due as per the contractual terms.

#### (d) 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 (refer note 13).

#### (f) Investment operations

- i. The accounting policies for investments in securities are as follows:-
  - a) Financial assets classified as held for trading are included in the category "Securities carried at fair value through income statement". These are held for resale with the intent of generating a profit from short-term fluctuations in price and are carried at fair value.
  - b) Available-for-sale securities are carried at fair value.
  - c) Held-to-maturity securities are carried at amortised cost using the effective interest rate method.
  - d) Associate companies are those entities in which the Group has significant influence over the financial and operating policies . The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group had an obligation or had made payments on behalf of the investee.

Purchases and sales of investments are recognised on the date that the Company commits to purchase or sell the investment (trade date accounting).
- ii. **Fair value basis:** In respect of quoted equities and bonds, the fair value is the quoted bid price of the security at the balance sheet date. The fair value of unquoted securities, where available, is the Group's proportionate share of the net assets of the investee company. In the absence of active markets or other appropriate methods from which to derive reliable fair values, the unquoted securities are stated at cost. In respect of private equity funds, the fair value is certified by the fund manager. The fair value of closed-ended managed funds, which are traded in securities exchanges, is the closing market price of the fund at the balance sheet date. The fair value of other managed funds is either the bid value or the net asset value of the fund, depending on the terms of redemption under the fund's prospectus.
- iii. **Treasury shares:** The amount of consideration paid in respect of repurchased shares is classified as treasury shares and presented as a deduction from equity. In case of sale, the difference between the cost and sale proceeds will be taken to Equity.
- iv. **Gains or losses on disposal of investments** are included under investment income. In the event of disposal, collection or impairment of available-for-sale securities, the cumulative gains and losses recognised in equity are transferred to investment income.



# Notes to the 2007 Consolidated Financial Statements

(Expressed in Bahraini Dinars)

## 4. Significant accounting policies (continued)

- v. **Unrealised valuation gains or losses** arising from re-measurement of securities carried at fair value through income statement at each balance sheet date are included in investment income. Unrealised valuation gains or losses arising from the re-measurement of available-for-sale securities at each balance sheet date are transferred to the investment fair value reserve, a separate component of equity.
- vi. **Gains or losses** arising from re-measurement, at amortised cost, of held-to-maturity securities at each balance sheet date are transferred to investment income.
- vii. **Dividend income** is recognised when the right to receive the dividend is established.

### Others

#### (g) 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.

#### (h) Foreign currency translation

##### Functional and presentation currency

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

##### Transactions and balances

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

#### (i) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in income statement.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price. As at December 31, 2007, there were no open derivative positions.

- (j) **Receivables** are stated at their cost less provision for impairment, if any.

- (k) **Property, plant and equipment** are stated at cost less accumulated depreciation and provision for impairment losses, if any.

The cost of self constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property.

#### Subsequent expenditure

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



## Depreciation

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

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

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

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

(l) **Borrowing costs** that are directly attributable to the acquisition, construction or production of an asset are included in the cost of that asset. Such borrowing costs are capitalized as part of the cost of the asset when it is probable that they will result in future economic benefits to the enterprise and the costs can be measured reliably. Other borrowing costs are recognized as an expense in the period in which they are incurred

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

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

(o) **Cash flows** are inflows and outflows of cash and cash equivalents. Cash flows arising from the purchase, holding and sale of securities carried at fair value through income statement are classified under operating activities.

## (p) Impairment of assets

The carrying values of assets are assessed at each balance sheet date to ascertain whether there is any indication of impairment. If the estimated recoverable amount in respect of an asset is less than its carrying amount, the carrying amount is reduced to its estimated recoverable amount by recognising an impairment loss. Impairment losses are charged to the income statement.

(q) **Dividends** to shareholders and directors' remuneration are recognized as a liability in the period in which they are declared.

## (r) Employees benefits

### i. Bahraini employees

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

### ii. Expatriate employees

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

### iii. Employee savings scheme

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

# Notes to the 2007 Consolidated Financial Statements

(Expressed in Bahraini Dinars)

## 5. Share Capital

	Number 2007	Amount 2007	Number 2006	Amount 2006
Authorised: shares of 100 fils each	200,000,000	20,000,000	200,000,000	20,000,000
<b>Issued and fully paid</b>	<b>113,500,000</b>	<b>11,350,000</b>	<b>113,500,000</b>	<b>11,350,000</b>

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

	Number 2007	Amount 2007	Number 2006	Amount 2006
Balance at beginning of year	3,757,237	699,957	3,700,784	681,915
Treasury stock purchases	158,800	57,860	56,453	18,042
<b>Balance at 31 December</b>	<b>3,916,037</b>	<b>757,817</b>	<b>3,757,237</b>	<b>699,957</b>

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

	2007	2006
Basic earnings per share – fils	48.12	43.99
Proposed cash dividend – fils	20.0	17.0
Net asset value – fils	373.93	336.07
Stock Exchange price at 31 December – fils	484.00	315.00
Market capitalisation at 31 December – Bahraini dinars	54,934,000	35,752,500
Price/Earnings ratio at 31 December	10.05	7.16

In accordance with IAS 33, the calculation of earnings per share is based on the net profit for the year of BD 5,278,874 (2006: BD 4,728,137), attributable to 109,708,871 (2006: 109,765,963) ordinary shares for basic earnings, being the weighted average number of ordinary shares outstanding during the year. Diluted earning per share has not been presented as the group has no instruments convertible into ordinary shares that will dilute the earning per share.

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

	Nationality	Number of Shares	% holding
National Insurance Company	Iraqi	7,436,890	6.55%
Yousif Abdulla Amin	Bahraini	10,680,379	9.41%

### (d) Additional information on shareholding pattern:

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

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

Categories	Number of shareholders	Number of shares	% of total outstanding shares
Less than 1 %	632	56,493,733	49.78%
1 % upto less than 5 %	18	38,888,998	34.26%
5 % upto less than 10 %	2	18,117,269	15.96%
<b>Total</b>	<b>652</b>	<b>113,500,000</b>	<b>100.00%</b>

# Notes to the 2007 Consolidated Financial Statements

(Expressed in Bahraini Dinars)

(e) Particulars of Directors' interests in the shares of the Company:

	2007	2006
	No. of shares	No. of shares
Qassim Mohammed Fakhroo (Chairman till January 6, 2008)	2,524,234	2,524,234
Ali Hussain Yateem (Chairman from January 6, 2008)	341,844	411,844
Mohamed Jaber Zubari	397,123	397,123
Ali Hassan Mahmood	505,601	505,601
Abdul-Hussain K Dawani	1,244,907	1,244,907
Ali Rashid Al Amin	1,053,347	1,103,347
Abdul-Rahman M Juma	552,859	542,859
Ahmed bin Ali Al A'ali	151,766	151,766
Jehad Yousif Amin	500,000	500,000
Nezar M. Al Saie	112,957	-
National Insurance Company, Iraq	7,436,890	-

(f) Capital Adequacy and Solvency Margins (in accordance with capital adequacy module of the Volume 3 of the Insurance Rule Book issued by the Central Bank of Bahrain)

Description	Bahrain National Insurance	Bahrain National Life
Capital Available	16,202,418	5,514,225
Solvency Margin	2,162,758	910,901
Minimum Fund requirement	500,000	400,000

## 6. Reserves

**Statutory reserve:** The Bahrain Commercial Companies Law 2001, which applies to the parent company, requires appropriation of 10% of the net profit each year, until the reserve equals 50% of the paid-up capital. The Central Bank of Bahrain and Financial Institutions Law, 2006 which applies to Bahrain National Insurance and Bahrain National Life, requires appropriation, in respect of general and life insurance companies, of 10% of the net profit each year, until the reserve equals 100% of the paid-up capital. These limits are applied separately to each company within the Group.

**Capital reserve:** This has the same legal characteristics as share premium under the Bahrain Commercial Companies Law 2001.

**Share premium:** During the 2005 financial year, the Company issued 20,000,000 shares @ 300 fils (share premium 200 fils) per share on a rights basis.

**Investment fair value reserve:** Gains or losses arising on re-measurement of available-for-sale securities, are recognised in the investment fair value reserve.

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

**General reserve:** Appropriations are proposed by the Board of Directors and approved by the shareholders.

## 7. Proposed appropriations:

	2007	2006
<b>Net profit as per income statement</b>	<b>5,278,874</b>	<b>4,728,137</b>
Proposed appropriations:		
Statutory reserve	528,000	473,000
Dividend to shareholders	2,191,679	1,865,627
Directors' remuneration	100,000	100,000
Donations	50,000	50,000
General reserve	2,100,000	2,000,000
Retained earnings	309,195	239,510
	<b>5,278,874</b>	<b>4,728,137</b>

The appropriation of the 2007 profit is subject to approval by shareholders at the annual general meeting.

# Notes to the 2007 Consolidated Financial Statements

(Expressed in Bahraini Dinars)

8. **Statutory deposits** are maintained under the regulations of the Central Bank of Bahrain and Financial Institutions Law, 2006. Such deposits, which depend on the nature of the insurance business and the number of branches, cannot be withdrawn except with the approval of the Central Bank of Bahrain.

## 9. Receivables – policyholders

	2007	2006
Gross amount receivable	2,451,719	2,257,662
Provision for impairment (refer note 13)	(255,500)	(244,031)
<b>Total per balance sheet</b>	<b>2,196,219</b>	<b>2,013,631</b>

## 10. Receivables – insurance and reinsurance companies

	2007	2006
Gross amount receivable	2,828,870	3,229,080
Provision for impairment (refer note 13)	(115,165)	(548,384)
<b>Total per balance sheet</b>	<b>2,713,705</b>	<b>2,680,696</b>

## 11. Receivables – other

	2007	2006
Accrued interest and dividends	129,623	105,890
Advance payments	136,763	51,803
Due from employees	6,332	390
Miscellaneous	186,422	47,173
<b>Total per balance sheet</b>	<b>459,140</b>	<b>205,256</b>

## 12. Outstanding claims recoverable from reinsurers

	2007	2006
Gross amount receivable	10,225,857	7,123,448
Provision for impairment (refer note 13)	(175,257)	(175,257)
<b>Total per balance sheet</b>	<b>10,050,600</b>	<b>6,948,191</b>

## 13. Provision for impairment – receivables and outstanding claims recoverable

	Policyholders (refer note 9)	Insurance and reinsurance companies (refer note 10)	Outstanding Claims Recoverable (refer note 12)
Balance at beginning of the year	244,031	548,384	175,257
Balances recovered during the year	(3,531)	(433,219)	-
Additional amount provided during the year	15,000	-	-
<b>Balance at end of the year</b>	<b>255,500</b>	<b>115,165</b>	<b>175,257</b>

## 14. Assets Held for Sale

The Group had signed a Memorandum of Understanding in the previous year with an interested buyer for selling up to 20% (5% of United Insurance Company's issued capital) of its stake in United Insurance Company BSC ( c ). In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', such investments were reclassified as "Assets held for sale". The transaction was completed in the first quarter of the current year.

# Notes to the 2007 Consolidated Financial Statements

(Expressed in Bahraini Dinars)

	2007	2006
Investments in associates	-	388,667
<b>Total per balance sheet</b>	<b>-</b>	<b>388,667</b>

## 15. Investments

### Securities carried at fair value through the income statement

	2007	2006
Quoted		
Equities	3,600,168	3,042,003
Government bonds	572,362	657,260
Other bonds	1,094,137	1,600,218
Managed funds	9,279,899	7,216,662
<b>Total per balance sheet</b>	<b>14,546,566</b>	<b>12,516,143</b>

### Available-for-sale securities

	2007	2006
Quoted		
Equities	7,373,178	5,890,328
Government bonds	870,295	935,229
Other bonds	1,282,699	1,777,354
Managed funds	3,763,485	2,893,919
Unquoted equities & funds	332,217	321,879
<b>Total per balance sheet</b>	<b>13,621,874</b>	<b>11,818,709</b>

The carrying value of available-for-sale securities is after deducting a provision for impairment for unquoted managed funds. The movement in the provision account is as follows:

	2007	2006
Balance at beginning of the year	441,980	429,540
Additional provision during the year	35,302	128,636
Release of provision during the year	(42,356)	(116,196)
<b>Balance at end of the year</b>	<b>434,926</b>	<b>441,980</b>

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

### Held-to-maturity securities

	2007 Fair value	2006 Fair value	2007 Carrying value	2006 Carrying value
Government bonds	425,625	447,481	407,104	434,049
Other bonds	2,400,879	1,277,088	2,387,259	1,289,514
<b>Total per balance sheet</b>	<b>2,826,504</b>	<b>1,724,569</b>	<b>2,794,363</b>	<b>1,723,563</b>

# Notes to the 2007 Consolidated Financial Statements

(Expressed in Bahraini Dinars)

## 16. Policyholders' investments

The Group identified specific investments as policyholders' investments. These investments represent the funding of the life assurance actuarial reserve. The Company 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 Company. The carrying value of the policyholders' investments (including investments of the staff retirement scheme) at the balance sheet date, included under "investments in securities" is as follows:

	2007	2006
<b>Investments in securities</b>	<b>3,452,926</b>	<b>3,106,011</b>
Life assurance actuarial reserve per balance sheet (note 24)	3,278,101	2,543,359

## 17. Effective interest rates on cash and bonds

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

	2007 Aggregate principal	2007 Effective rate	2006 Aggregate principal	2006 Effective rate
Cash and short-term deposits	10,229,330	4.10%	14,028,386	4.00%
Fixed rate bonds	5,797,907	5.30%	5,972,438	5.10%
Floating rate bonds (repriced within 4-6 months)	815,949	4.20%	722,193	3.75%

## 18. Investments in associates

The Group's interests in its principal associates, all of which, excluding ASIC, are unlisted, were as follows:

Name	Country	Group interest %
United Insurance Company BSC (c)	Bahrain	20.0
National Finance House BSC (c)	Bahrain	25.9
Gulf Insurance Institute BSC (c).	Bahrain	18.0
Arabian Shield Cooperative Insurance Co.	Saudi Arabia	15.0

The movements in the investment account are as follows:

	2007	2006
<b>Balance at beginning of the year</b>	<b>3,494,669</b>	<b>3,702,612</b>
Payment for acquisition of shares	4,963,560	440,000
Share of profit for the year	578,091	424,055
Dividends received	(120,000)	(318,750)
Share of investment fair value reserve	4,515	(364,581)
	<b>8,920,835</b>	<b>3,883,336</b>
Less: reclassified as Assets held for sale	-	(388,667)
<b>Total per balance sheet (equity method)</b>	<b>8,920,835</b>	<b>3,494,669</b>

# Notes to the 2007 Consolidated Financial Statements

(Expressed in Bahraini Dinars)

This balance comprises:

	2007	2006
Investment at cost	7,103,560	2,140,000
Bonus shares issued by UIC in 2001	100,000	100,000
Bonus Share of reserves at 31 December	1,717,275	1,254,669
<b>Total per balance sheet</b>	<b>8,920,835</b>	<b>3,494,669</b>

The share of profits and fair value reserve is arrived at based on unaudited financial statements of UIC and NFH as at 30 November 2007 extrapolated to the year. Results of the new associate, Gil & ASIC, based on unaudited management accounts have not been considered for equity accounting as these are not material and the investments are carried at cost

The total assets, Liabilities, Total Revenue and Profit & Loss of Associates were:

	2007	2006
Total Assets	48,644,545	21,302,154
Total Liabilities	10,524,174	8,802,032
Total revenues	5,708,292	4,408,456
Total Profit & Loss	3,653,088	2,229,175

## 19. Investment property

	2007	2006
<b>Balance at beginning of the year</b>	<b>1,909,621</b>	<b>1,997,167</b>
Amount transferred from property, plant and equipment	-	525
Depreciation for the year	(88,089)	(88,071)
<b>Total per balance sheet</b>	<b>1,821,532</b>	<b>1,909,621</b>

Investment property comprises of let out portion of the building situated in Seef District. The fair value of the Investment Property is BD. 5,634,008 (2006: BD. 3,764,826).

## 20. Property, plant and equipment

	Land and building	Plant & Machinery	Furniture, equipment & other assets	Capital Work-in-progress	2007 Total	2006 Total
<b>Cost</b>						
At 1 January	3,294,418	366,643	908,761	375,917	4,945,739	4,387,111
Additions	64,183	-	98,849	51,798	214,830	1,198,383
Disposals	-	-	-	(80,934)	(80,934)	(639,755)
Transfer to/(from)	187,049	-	23,807	(210,856)	-	-
<b>At 31 December</b>	<b>3,545,650</b>	<b>366,643</b>	<b>1,031,417</b>	<b>135,925</b>	<b>5,079,635</b>	<b>4,945,739</b>
<b>Depreciation</b>						
At 1 January	272,501	82,495	247,719	-	602,715	963,412
Charge for the year	107,071	36,664	206,300	-	350,035	259,970
Disposals	-	-	-	-	-	(620,667)
At 31 December	379,572	119,159	454,019	-	952,750	602,715
<b>Net book value at 31 December</b>	<b>3,166,078</b>	<b>247,484</b>	<b>577,398</b>	<b>135,925</b>	<b>4,126,885</b>	<b>4,343,024</b>

Capital commitments as at the balance sheet date amounted to BD 25,870 (2006: BD 60,220).



# Notes to the 2007 Consolidated Financial Statements

(Expressed in Bahraini Dinars)

## 20. Property, Plant & Equipment (continued)

### Details of properties

Name of the Property	Address	Description	Existing use	Tenure	Terms of tenant's lease	Age of the Property	Present Net book value In BD
BNH Head quarters	Road 2832, Block 428, Building 2491, Seef, Bahrain	Plot No. 5776 - Building measuring 5,546 square meters in area	Office and Head Quarters - Investment property.	Freehold	-	3 years	4,509,920
Sitra site	Bldg. No.946 Road 115, Sitra 601	Plot No. 2208 Plot area 2642 Square meters, Building measuring 420 square meters in area	Office & Salvage car yard	Lease valid till 31/08/2015	Annual Rent BD 1,148	1 years	235,860
Sanad site	Area 0601, Al Istiqlal Highway, Sanad	Plot No. 4498 Area 1820 Square meters	Office building in design stage	Freehold	-	-	489,214

## 21. Bank loan

During 2003, the Company had obtained a secured loan from a Bahraini bank for construction of the Company's Headquarters at Seef District, Bahrain. Entire sanctioned amount of BD 3.016 million (2005: BD 3.016 million) has been drawn till the previous year end. The loan amount is secured by:

- an assignment of part of the investments in bond portfolio of the Group; and
- by a mortgage of the Company's title to the building in the Seef district.

The loan was repayable over a period of three years commencing from 30 November 2004 and the last installment was paid in November 2007.

## 22. Outstanding claims

### Claim Development

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

### Insurance claims for general insurance business - Gross

Accident year	2003	2004	2005	2006	2007	Total
Estimate of ultimate claims costs:						
At end of reporting year	3,246,227	4,426,262	4,663,638	6,796,703	10,094,934	
One year later	2,967,629	4,612,589	4,507,530	7,271,586	-	
Two years later	3,376,976	4,624,475	4,685,275	-	-	
Three years later	3,285,050	4,272,491	-	-	-	
Four years later	3,269,974	-	-	-	-	
Current estimate of cumulative claims (A)	3,269,974	4,272,491	4,685,275	7,271,586	10,094,934	29,594,260

# Notes to the 2007 Consolidated Financial Statements

(Expressed in Bahraini Dinars)

## 22. Outstanding claims – gross (continued)

Accident year	2003	2004	2005	2006	2007	Total
Cumulative payments to date (B)	2,981,903	3,590,740	3,383,544	3,734,186	-	13,690,373
Total (A – B)	288,071	681,751	1,301,731	3,537,400	10,094,934	15,903,887
Liability recognized in the balance sheet						15,903,887
Reserve in respect of years prior to 2003						705,022
<b>Total reserve included in the balance sheet</b>						<b>16,608,909</b>

Insurance claims (gross) for life and medical insurance business amounting to BD 408,218 pertain to 2007.

### Insurance claims for general insurance business - Net

Accident year	2003	2004	2005	2006	2007	Total
Estimate of ultimate claims costs:						
At end of reporting year	2,107,078	1,962,114	2,301,163	3,320,841	5,049,460	
One year later	1,550,357	1,936,372	1,584,398	3,664,136	-	
Two years later	1,900,956	1,545,052	1,785,270	-	-	
Three years later	1,900,462	1,505,399	-	-	-	
Four years later	1,913,258	-	-	-	-	
Current estimate of cumulative claims (A)	1,913,258	1,505,399	1,785,270	3,664,136	5,049,460	13,917,523
Cumulative payments to date (B)	1,787,827	1,412,818	1,232,473	2,990,973	-	7,424,091
Total (A – B)	125,431	92,581	552,797	673,163	5,049,460	6,493,432
Liability recognized in the balance sheet						6,493,432
Reserve in respect of years prior to 2003						245,833
<b>Total reserve included in the balance sheet</b>						<b>6,739,265</b>

Insurance claims (net) for life and medical insurance business amounting to BD 227,262 pertain to 2007.

### Changes in insurance assets and liabilities

(a) Movements in insurance liabilities and related reinsurance assets:

	2007			2006		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Reported claims	11,051,042	6,948,191	4,102,851	8,763,152	5,245,688	3,517,464
IBNR	855,000	-	855,000	895,000	-	895,000
Total at beginning of the year	11,906,042	6,948,191	4,957,851	9,658,152	5,245,688	4,412,464
Change in liabilities	18,167,916	10,108,141	8,059,775	13,213,594	7,861,718	5,351,876
Claims settled	(13,056,831)	(7,005,732)	(6,051,099)	(10,965,704)	(6,159,215)	(4,806,489)
<b>Total at end of year</b>	<b>17,017,127</b>	<b>10,050,600</b>	<b>6,966,527</b>	<b>11,906,042</b>	<b>6,948,191</b>	<b>4,957,851</b>
Reported claims	15,594,810	10,050,600	5,544,210	11,101,042	6,948,191	4,152,851
IBNR	1,422,317	-	1,422,317	805,000	-	805,000
<b>Total at end of year</b>	<b>17,017,127</b>	<b>10,050,600</b>	<b>6,966,527</b>	<b>11,906,042</b>	<b>6,948,191</b>	<b>4,957,851</b>

### Sensitivity analysis

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

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## Sensitivity analysis (continued)

	Income Statement & Equity	
	2007	2006
General Insurance		
<b>31 December 2007</b>		
Expense rate		
1 percent increase	(29,757)	(26,077)
1 percent decrease	29,757	26,077
Expected loss ratio		
1 percent increase	(67,859)	(46,644)
1 percent decrease	67,859	46,644

	Income Statement & Equity	
	2007	2006
Life Insurance		
<b>31 December 2007</b>		
Demographic assumptions		
5 percent decrease in base mortality and morbidity rates	58,036	49,356
5 percent increase in base mortality and morbidity rates	(60,498)	(50,198)
Expense assumptions		
1 percent increase	(6,435)	(4,914)
1 percent decrease	6,435	4,914
Expected loss ratio		
1 percent increase	(12,739)	(6,874)
1 percent decrease	12,739	6,874

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 250,000 whereas in case of marine and motor losses Company's exposure to single event is limited to BD 25,000.

## 23. Unearned premiums/Unearned Commissions

### (a) Movements in Unearned premiums

	Reinsurers' share of Gross premiums		Unearned Gross Premiums	
	2007	2006	2007	2006
At 1 January	6,789,661	5,074,716	12,179,163	9,536,778
Change during the year	(1,650,339)	1,714,945	(1,211,628)	2,642,385
<b>At 31 December</b>	<b>5,139,322</b>	<b>6,789,661</b>	<b>10,967,535</b>	<b>12,179,163</b>

### (b) Movements in Unearned commissions

	2007	2006
At 1 January	311,940	300,301
Charge/ (Release) during the year	(98,643)	11,639
<b>At 31 December</b>	<b>213,297</b>	<b>311,940</b>

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## 24. Life assurance actuarial reserve and actuarial assumptions

	2007	2006
<b>a. Life assurance actuarial reserve</b>		
Balance at 1 January	2,021,728	1,581,179
Transfer of contributions	365,244	478,059
Transfer of Deferred Single premium	421,508	-
Net transfer from/(to) income statement	469,621	(37,510)
<b>Balance at 31 December</b>	<b>3,278,101</b>	<b>2,021,728</b>
<b>b. Deferred single premiums</b>		
Balance at 1 January	521,631	548,219
Premium received during the year	-	44,594
Released to income statement	(100,123)	(71,182)
Transfer to Life assurance actuarial reserve	(421,508)	-
<b>Balance at 31 December</b>	<b>-</b>	<b>521,631</b>
<b>Life assurance actuarial reserve per balance sheet</b>	<b>3,278,101</b>	<b>2,543,359</b>
<b>Actuarial estimate of the present value of future benefit obligations at 31 December</b>	<b>3,278,101</b>	<b>2,543,359</b>

The actuarial estimate has been prepared by independent actuaries, Mercer Zainal Consulting Sdn. Bhd., Malaysia based on 75% of the English life Table A4952 ( 2003: English life Table A4952 ) at an interest rate of 5% per annum for all contracts. Allowances have been made for reinsurance, guaranteed bonuses, renewal expenses unexpired risks and contingencies where appropriate.

The balance in the deferred single premium account was transferred to Life assurance actuarial reserve as the liability on these policies are included in the actuarial estimate of future obligations.

## 25. Payables and accrued liabilities - Others

	2007	2006
Premiums received in advance	285,427	237,882
Vehicle repairers and spare parts	331,558	331,849
Accrued expenses	555,284	333,691
Unclaimed dividends - prior years	104,977	307,270
Provision for employee benefits excluding leaving indemnities	568,234	419,697
Other liabilities	263,293	440,548
<b>Total per balance sheet</b>	<b>2,108,773</b>	<b>2,070,937</b>

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

	2007	2006
Balance at beginning of the year	419,697	236,466
Paid during the year	(339,379)	(280,087)
Additional amount provided during the year	487,916	463,318
<b>Balance at end of the year</b>	<b>568,234</b>	<b>419,697</b>

# Notes to the 2007 Consolidated Financial Statements

(Expressed in Bahraini Dinars)

## 26. Retirement benefits cost

The Company employed 29 expatriates (2006: 32 expatriates) and 160 Bahrainis (2006: 143 Bahrainis) as at 31 December 2007.

Bahraini employees are covered by the pension scheme of General Organisation for Social Insurance 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 2007 amounted to BD 148,041 (2006: BD 130,531), 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 2007 amounted to BD 73,177 (2006: BD 64,405). The scheme also has an additional life insurance and is administered by Bahrain National Life on behalf of the group.

The liability towards the retirement plan as at 31 December 2007 amounted to BD 261,618 (2006: BD 210,858) and is included in the Life assurance actuarial reserve (refer note 24). The liability is funded by way of contributions from the retirement scheme. The contributions received are invested as part of policyholders' investments (refer note 16).

Expatriate employees on limited-term contracts are entitled to leaving indemnities payable under the Bahrain Labour Law for the Private Sector, 1976, based on length of service and final remuneration. The liability, which is un-funded, is provided for on the basis of the notional cost had all employees left service at the balance sheet date.

Provision for employees' leaving indemnities

	2007	2006
At beginning of year	183,276	219,851
Indemnities and advances paid	(9,975)	(74,610)
Charge to income statement	35,507	38,035
<b>Balance at end of the year</b>	<b>208,808</b>	<b>183,276</b>

## 27. Gross and Retained premiums

	2007				2006	
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Written premiums						
- Direct	24,993,171	12,810,353	12,182,818	25,652,135	15,133,664	10,518,471
- Inward	2,515,705	2,097,388	418,317	2,300,251	1,869,656	430,595
Total	27,508,876	14,907,741	12,601,135	27,952,386	17,003,320	10,949,066
Adjustment for unearned premiums			(438,711)			(927,440)
<b>Total</b>			<b>12,162,424</b>			<b>10,021,626</b>

## 28. Net investment income

	2007	2006
Profit on sale of securities carried at fair value through income statement and available-for-sale securities	446,941	217,353
Valuation gains	1,335,648	547,871
Foreign exchange gains/(losses)	111,560	188,793
Amortisation of premiums on held-to-maturity securities	3,901	1,298
Interest income	851,666	869,073
Dividend income	506,446	494,354

# Notes to the 2007 Consolidated Financial Statements

(Expressed in Bahraini Dinars)

## 28. Net investment income (continued)

	2007	2006
Share of profit from associate company (Note 18)	578,091	424,055
Profit from sale of associate company shares	848,833	-
Impairment losses on investments	(35,302)	(128,637)
Other income / (expenses)	32,651	(12,309)
<b>Gross investment income</b>	<b>4,680,435</b>	<b>2,601,851</b>
Investment administration expenses	(285,892)	(207,079)
Investment property income	272,499	261,164
Investment property expenses	(171,788)	(184,017)
<b>Total net investment income per income statement</b>	<b>4,495,254</b>	<b>2,471,919</b>

## Gross investment income by segment

	2007	2006
Shares in Bahraini public companies	656,819	504,051
Other equities	791,855	275,410
Government and other bonds	411,405	417,841
Managed funds	931,998	456,724
Cash and short-term deposits	428,783	536,079
Miscellaneous Income/(expenses)	32,651	(12,309)
Share of profit from associate company	578,091	424,055
Profit from sale of associate company shares	848,833	-
<b>Gross investment income</b>	<b>4,680,435</b>	<b>2,601,851</b>

## 29. Expenses

	2007	2006
Employee costs	2,532,163	2,154,561
Depreciation	355,035	259,970
Other costs	1,078,779	1,057,036
<b>Total expenses</b>	<b>3,965,977</b>	<b>3,471,567</b>

This comprises:

	2007	2006
Departmental expenses	3,032,639	2,680,002
Corporate and financial expenses	933,338	791,565
<b>Total expenses</b>	<b>3,965,977</b>	<b>3,471,567</b>

## 30. Insurance Contracts, Financial instruments and risk management

### i Insurance Risk Management

The Group accepts insurance risk through its written insurance contracts. The Group is exposed to uncertainty surrounding the timing, frequency and severity of claims under these contracts. The Group writes general insurance (fire, marine and aviation, engineering, liability, accident, medical and motor insurance) and life insurance contracts.

The risk under an insurance contract is whether the insured event occurs and, if it occurs, the uncertainty of the ultimate amount of the resulting claim. By the very nature of an insurance contract, this risk is random, fortuitous and therefore unpredictable. The Group is exposed to uncertainty surrounding the timing, frequency and severity of claims under these contracts. The management monitors closely the reserving on case by case basis to ensure adequacy of reserves on all reported losses. To mitigate the uncertainty the management uses past experience in the form of development triangulations in order to establish any additional provisions required for future loss developments. The Group's Executive Management Committee comprising the Chief Executive Officer and the General Managers of the Group and the Risk Management Committee monitors aggregate risk and loss development data and take overall risk management decisions.

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# Notes to the 2007 Consolidated Financial Statements

(Expressed in Bahraini Dinars)

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## *30. Insurance Contracts, Financial instruments and risk management (continued)*

Two key elements of the Group's insurance risk management framework are its underwriting strategy and reinsurance strategy, as discussed below:

### **Underwriting strategy**

#### **General Insurance**

The Group's underwriting strategy is to build a balanced homogenous portfolio based on a large number of similar risks. This reduces the volatility of the portfolio's technical performance. The underwriting strategy is set out in the Group's business plan, reviewed on an annual basis, that establishes the classes of business to be written, the territories in which business is to be written and the industry sectors in which the Group is prepared to underwrite. This strategy is cascaded by the business units to individual underwriters through detailed underwriting guidelines, authorities and procedures that set out the limits that any one underwriter can write by line, size, classes of business, territory and industry in order to ensure appropriate risk selection within the portfolio. The underwriters have the right to decline, renew or alter the terms and conditions of the contract at renewal. The Group's Executive Management Committee meets periodically to review certain management information including premium income and key performance indicators and ratios by class of business.

#### **Life Insurance**

Underwriting is managed at each business unit through a dedicated underwriting department, with formal underwriting limits and appropriate training and development of underwriting staff. The underwriting policy is clearly documented, setting out risks which are unacceptable and the terms applicable for non-standard risks. Medical selection is part of the Group's underwriting procedures, whereby contributions are charged to reflect the health condition and family medical history of the applicants. Pricing is based on assumptions, such as mortality and persistency, which consider past experience and current trends. Contracts including specific risks and guarantees are tested for profitability according to predefined procedures before approval.

Products are reviewed by the business units on an annual basis to confirm, or otherwise, that pricing assumptions remain appropriate. Analysis is performed on earnings and liability movements to understand the source of any material variation in actual results from what was expected. This confirms the appropriateness of assumptions used in underwriting and pricing.

### **Reinsurance strategy**

The Group does not retain all of the risks but will pass a portion of the risk to other insurance and reinsurance companies both from the region and internationally. This reinsurance is part of the basic concept in sharing and assists the Group in controlling better its exposure to losses and protects capital resources. Ceded reinsurance contains credit risk, as discussed in the financial risk management note. The Group's Executive Management Committee decides the minimum security criteria for acceptable reinsurance and monitors the purchase of reinsurance by the business units against those criteria. The Committee monitors developments in the reinsurance programme and its ongoing adequacy. The Risk Management Committee monitors the credit ratings of all reinsurers, the exposures to each reinsurer per risk or collectively and ensures that risks are written within the acceptable levels of the reinsurance arrangements and as per the procedures.

#### **General Insurance**

The business units buy a combination of proportional and non-proportional reinsurance treaties to reduce the net exposure of the Group both for any single risk and a series of losses arising out of an event. In addition, underwriters are allowed to buy facultative reinsurance (which means reinsurance for a single risk at a time) in certain specified circumstances. All purchases of facultative reinsurance are subject to the management of the business unit prior approval. The reinsurers used both for treaty and facultative placements are vetted by the Risk Management Committee to be acceptable security based on rating from accepted international rating agencies.

#### **Life insurance**

Retention limits are set on a proportionate reinsurance treaty basis.

### **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 table below:



# Notes to the 2007 Consolidated Financial Statements

(Expressed in Bahraini Dinars)

## 30. Insurance Contracts, Financial instruments and risk management (continued)

Type of contract	Terms and conditions	Key factors affecting future cash flows
Property and Engineering	This contract indemnifies the insured against material damage, caused by specified perils, or against all risks subject to specific exclusion, to his own property including machinery and equipment.	The risk on any policy varies according to many factors such as location, age, occupancy and safety measures in place. The events insured against are fortuitous and sudden and unforeseen. Claims have to be notified within a specified period and a surveyor and loss adjustor appointed in most cases. The cost of repairing or rebuilding assets, of replacement or indemnity for the damage and the time taken to restart or resume operations to original levels, in case of business interruption losses are the 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 incurred against.	For claims under the accident policies these are generally agreed benefits or amounts easily quantified. In the case of liability claims these are very much dependant 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 policyholders' 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 reporting 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 correlated 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 judgement, and are settled within two – three years.
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 Group and amount of claim is limited to the policy value.
Unit-linked	These are issued unit-linked savings contracts that are classified as investment contracts.	All financial risk is borne by the policyholder as investment performance directly affects the value of the unit fund and hence the benefits payable. Other key factors affecting future net cash flows to the shareholders are the level of charges levied on these unit-linked funds.
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.

# Notes to the 2007 Consolidated Financial Statements

(Expressed in Bahraini Dinars)

## 30. Insurance Contracts, Financial instruments and risk management (continued)

### Risk exposure and concentration of insurance risk

General and Life insurance

The following table shows the Group's exposure to general and life insurance risk (based on the carrying value of insurance provisions at the reporting date) per category of business. The table also shows the geographical concentration of these risks and the extent to which the Group has covered these risks by reinsurance.

31 December 2007					
Geographical area	General Insurance	Motor	Medical	Life	Total
Bahrain					
Gross	11,495,052	9,507,973	2,170,630	1,819,516	24,993,871
Retained	582,397	9,099,677	1,605,097	895,647	12,182,818
Other countries					
Gross	2,515,705	-	-	-	2,515,705
Retained	418,318	-	-	-	418,318
<b>Total</b>					
Gross	14,010,757	9,507,973	2,170,630	1,819,516	27,508,876
Retained	1,000,715	9,099,677	1,605,097	895,647	12,601,136

31 December 2006					
Geographical area	General Insurance	Motor	Medical	Life	Total
Bahrain					
Gross	14,072,943	8,971,887	910,182	1,697,124	25,652,136
Retained	768,769	8,542,823	621,348	585,532	10,518,472
Other countries					
Gross	2,300,250	-	-	-	2,300,250
Retained	430,594	-	-	-	430,594
<b>Total</b>					
Gross	16,373,193	8,971,887	910,182	1,697,124	27,952,386
Retained	1,199,363	8,542,823	621,348	585,532	10,949,066

### ii Capital Management

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

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

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

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

### iii Financial Risk Management

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

- credit risk
- liquidity risk
- market risk

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

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

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

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

#### **Credit risk**

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

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

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

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

#### **Management of credit risk**

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

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

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

#### **Overall exposure to credit risk**

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

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(Expressed in Bahraini Dinars)

## 30. Insurance Contracts, Financial instruments and risk management (continued)

Financial assets	2007	2006
Receivables		
Policyholders	2,196,219	2,013,631
Insurance and reinsurance companies	2,713,705	2,680,696
Others	459,140	205,256
Outstanding claims recoverable from reinsurers	10,050,600	6,948,191
Investments		
Securities carried at fair value through income statement	1,666,499	2,257,478
Available for sale securities	2,152,994	2,712,583
Held to maturity securities	2,794,363	1,723,563
Cash and cash equivalents	11,225,630	14,931,160
<b>Total</b>	<b>33,259,150</b>	<b>33,472,558</b>

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

### Concentrations of credit risk

The Group monitors concentrations of exposures by industry sector and geographic location of the counterparty as well as by individual counterparties. Counterparty concentration occurs mainly because of the investment management and deposit accounts maintained with the various investment/commercial bankers. Geographical concentrations at the reporting date have been presented in note 32. The concentration of risk from the top 5 counterparties where receivables for any one counterparty or group of connected counterparties is BD 1.5 million or more at the year end is as follows:

	2007	2006
Top 5 counterparties	18,597,249	16,884,771

### Assets that are past due

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

Financial assets	Neither past due nor impaired			Past due but not impaired		Individually impaired		Total
	Less than 90 days	91– 180 days	More than 180 days	Gross Amount	Provision for impairment			
<b>31 December 2007</b>								
Receivables								
Policyholders	1,205,891	593,853	396,475	255,500	(255,500)			2,196,219
Insurance and Reinsurance companies	288,072	898,771	1,526,862	115,165	(115,165)			2,713,705
Others	459,140	-	-	-	-			459,140
Outstanding claims recoverable from reinsurers	506,787	1,028,441	8,515,372	175,257	(175,257)			10,050,600
<b>Total</b>	<b>2,459,890</b>	<b>2,521,065</b>	<b>10,438,709</b>	<b>545,922</b>	<b>(545,922)</b>			<b>15,419,664</b>

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Financial assets	Neither past	Past due but		Individually		Total
	due nor impaired	not impaired		impaired		
31 December 2006	Less than 90 days	91– 180 days	More than 180 days	Gross Amount	Provision for impairment	
Receivables						
Policyholders	939,652	532,012	541,967	244,031	(244,031)	2,013,631
Insurance and Reinsurance companies	1,001,081	708,451	971,164	548,384	(548,384)	2,680,696
Others	205,256	-	-	-	-	205,256
Outstanding claims recoverable from reinsurers	1,314,961	875,723	4,757,507	175,257	(175,257)	6,948,191
<b>Total</b>	<b>3,460,950</b>	<b>2,116,186</b>	<b>6,270,638</b>	<b>967,672</b>	<b>(967,672)</b>	<b>11,847,774</b>

## Liquidity risk

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

Liquidity requirements are monitored on a daily basis and the management ensures that sufficient funds are available to meet any future commitments. In the normal course of business, the Group does not normally resort to borrowings but, given its gearing, has the ability to raise funds from banks at short notice. The maturity profile of the Group's investments is set out in note 31.

## Management of liquidity risk

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

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

## Exposure to liquidity risk

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

31 December 2007	Contractual undiscounted cash flows				
	Carrying amount	Less than 1 year	1 – 2 years	2 – 5 years	Over 5 years
Financial liabilities					
Policyholders' Liabilities	163,441	126,983	36,458	-	-
Insurance/reinsurance company Payables	2,760,983	2,836,575	(44,026)	(31,566)	-
Outstanding Claims - Gross	17,017,127	10,282,003	3,603,113	2,306,739	825,272
Other payables	2,108,773	2,108,773	-	-	-

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(Expressed in Bahraini Dinars)

## 30. Insurance Contracts, Financial instruments and risk management (continued)

31 December 2006	Carrying amount	Contractual undiscounted cash flows			
		Less than 1 year	1 – 2 years	2 – 5 years	Over 5 years
Financial liabilities					
Policyholders' Liabilities	163,503	163,503	-	-	-
Insurance/reinsurance company Payables	1,982,553	1,889,048	79,823	13,682	-
Outstanding Claims - Gross	11,906,042	7,160,978	1,884,713	2,316,780	543,571
Other payables	2,070,937	2,070,937	-	-	-
Bank Loan	1,665,586	1,665,586	-	-	-

The timing for payment of liabilities towards the Life assurance actuarial reserve and Provision for employees' leaving indemnities is uncertain, but these will affect the cash flows of the group as and when they are payable/paid.

### Market risk

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

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

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

### Management of market risks

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

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

### Interest rate risk

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

The Group's short-term deposits are at fixed interest rates and mature within one year. Investments in Government bonds are at fixed interest rates. Investment in other bonds consists of both fixed and floating rate instruments. The effective interest rates on deposits and bonds are set out in note 16.

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

To hedge the interest rate risk on its bank loan, the Group has entered into a swap arrangement (which commenced in 2004) for a period covering the tenure of its bank loan, on part of the loan amount by swapping its floating rate liability for a fixed interest rate (note 21).

### Currency risk

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

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

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

The Group's exposure to currency risk, other than United States dollars and Bahraini Dinars, as well as the currency-wise concentration

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of investments, expressed in the equivalent of Bahraini dinars (excluding short-term deposits and assets and liabilities arising from insurance contracts) is summarised below:

## Net currency-wise concentration in Bahraini dinar equivalents

Assets	2007	2006
Euros	1,953,842	1,475,338
Pounds sterling	846,369	626,800
Other currencies	365,372	492,381
<b>Total open foreign exchange position at 31 December</b>	<b>3,165,583</b>	<b>2,594,519</b>
United States dollars	27,845,600	22,844,223
GCC Currencies	11,414,485	4,752,473
Bahraini dinars	24,103,263	26,529,470
<b>Total at 31 December</b>	<b>66,528,931</b>	<b>56,720,685</b>

This comprises:

	2007	2006
Securities carried at fair value through income statement	14,546,566	12,516,143
Available-for-sale securities	13,621,874	11,818,709
Held-to-maturity securities	2,794,362	1,723,563
Investment in associates	8,920,835	3,494,669
Assets held for sale	-	388,667
Cash and Bank balances	11,225,630	14,931,160
Receivables		
Policyholders	2,196,219	2,013,631
Insurance and reinsurance companies	2,713,705	2,680,696
Others	459,140	205,256
Outstanding claims recoverable from reinsurers	10,050,600	6,948,191
<b>Total</b>	<b>66,528,931</b>	<b>56,720,685</b>

Liabilities	2007	2006
United States dollars	314,545	547,670
GCC Currencies	223,569	62,505
Bahraini dinars	15,675,916	16,097,921
<b>Total at 31 December</b>	<b>16,214,030</b>	<b>16,708,096</b>

This comprises:

	2007	2006
Payables		
Policyholders liabilities	163,442	163,503
Insurance/reinsurance company payables	2,760,983	1,982,553
Unearned premiums	10,967,535	12,179,163
Unearned commissions	213,297	311,940
Other payables	2,108,773	2,070,937
<b>Totaal</b>	<b>16,214,030</b>	<b>16,708,096</b>

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



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(Expressed in Bahraini Dinars)

## 30. Insurance Contracts, Financial instruments and risk management (continued)

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

### Sensitivity analysis to market risks

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

31 December 2007	2007		2006	
	Income statement	Equity	Income statement	Equity
Interest rate risk				
+ 1 percent shift in yield curves	(17,006)	(167,129)	(27,166)	(306,284)
- 1 percent shift in yield curves	17,006	167,129	27,166	306,284
Equity price risk				
1 percent increases in equity prices	36,001	58,903	30,420	73,731
1 percent decrease in equity prices	(36,001)	(58,903)	(30,420)	(73,731)

### 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.

Receivables, Investments & Cash	2007		2006	
	Income statement	Equity	Income statement	Equity
US Dollars	226,447	48,863	187,969	34,996
Euro	17,952	1,586	11,326	3,427
Pounds Sterling	7,769	695	4,863	1,405
GCC currencies	111,869	40	45,536	1,364
Other currencies	3,653	-	4,586	3,371

## 31. Maturity profile of investments

	Less than 1 year	1-5 years	5-10 years	Over 10 years / no maturity	Total 2007	Total 2006
Equities	-	-	-	7,373,178	7,373,178	5,501,017
Government bonds	561,881	715,518	-	-	1,277,399	1,294,668
Other bonds	1,277,124	1,815,691	290,801	286,342	3,669,958	3,141,452
Managed funds	402,001	93,709	153,179	3,114,596	3,763,485	2,817,896
Unquoted equities & funds	-	-	-	9,253,052	9,253,052	4,281,908
<b>Total per balance sheet</b>	<b>2,241,006</b>	<b>2,624,918</b>	<b>443,980</b>	<b>20,027,168</b>	<b>25,337,072</b>	<b>17,036,941</b>
2006	818,681	2,982,593	535,167	12,700,500	17,036,941	

This balance comprises:

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	2007	2006
Available-for-sale securities	13,621,874	11,818,709
Held-to-maturity securities	2,794,363	1,723,563
Investment in associates	8,920,835	3,494,669
<b>Total</b>	<b>25,337,072</b>	<b>17,036,941</b>

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

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

## 32. Geographical concentration of investments

	2007	2006
Bahrain	14,422,514	11,610,085
Other GCC countries	7,453,657	2,152,634
Japan and Korea	282,306	602,134
Other Asia/Oceania	1,208,306	426,701
Europe	4,071,378	4,047,093
North America	11,491,347	10,271,947
Middle East and Africa	144,144	127,324
Global/multi-regional	809,985	703,833
<b>Total per balance sheet</b>	<b>39,883,637</b>	<b>29,941,751</b>

This comprises:

	2007	2006
Securities carried at fair value through income statement	14,546,566	12,516,143
Available-for-sale securities	13,621,874	11,818,709
Held-to-maturity securities	2,794,362	1,723,563
Investment in associates	8,920,835	3,494,669
Assets held for sale	-	388,667
<b>Total</b>	<b>39,883,637</b>	<b>29,941,751</b>

## 33. Related parties

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

Related parties include transactions with associate companies, key management personnel including Directors of the Company and companies in which the Directors are interested. Transactions with companies owned and controlled by the Directors are conducted on a normal commercial basis.

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

	2007	2006
<b>Assets</b>		
Receivable – policyholders	124,025	110,162
<b>Liabilities</b>		
Payable – policyholders	-	-
<b>Income and expenses</b>		
Gross premiums	618,551	727,490
Claims	104,781	65,494

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(Expressed in Bahraini Dinars)

## 33. Related parties (continued)

### Associates

Transactions with associates are on normal commercial terms.

Balances as at the year end are as follows:

	2007	2006
<b>Assets – receivables</b>		
United Insurance Company BSC (c)	-	104,040
National Finance House	-	3,428
Gulf Insurance Institute BSC (c)	136,769	-

### 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:-

	2007	2006
Salaries and benefits	304,821	288,272
Terminal benefits	5,081	3,979
Post employment benefits	33,142	27,632
Board remuneration	100,000	100,000
Board committee sitting fees	2,800	2,700

## 34. Commitments and Contingent Liabilities

As at 31 December 2007, the Group has commitments to make investments amounting to BD 550,000 (2006: BD 5,000,000).

## 35. New International Financial Reporting Standards and interpretations not yet adopted

During the year, the following relevant new / amended IFRS standards and interpretations have been issued, which are not yet mandatory for adoption by the Group:

- IAS 1 Presentation of Financial Statements \*
- IAS 23 Borrowing Costs \*
- IFRS 8 Operating Segments \*
- IFRIC 13 Customer Loyalty Programmes \*\*

\* Annual periods commencing on or after 1 January 2009

\*\* Annual periods commencing on or after 1 July 2008

The adoption of these standards and interpretations are not expected to have material impact on the financial statements.

## 36. Comparatives

Certain corresponding figures of 2006 have been reclassified where necessary to conform to the current year's presentation.