

# Notes to the financial statements

for the year ended 31 December 2005

## 1. Organisation and activities

Al Ahlia Insurance Company B.S.C. ("the Company") is a public shareholding company registered with the Ministry of Industry and Commerce in the Kingdom of Bahrain and operates under commercial registration number 5091 obtained on 17 August 1976.

The Company is licensed to carry out insurance and reinsurance of all risks.

The registered office of the Company is in the Kingdom of Bahrain.

## 2. Cash and cash equivalents

	2005 Bahraini Dinars	2004 Bahraini Dinars
Cash and bank balances	2,187,645	1,264,264
Overdraft	(841,187)	–
Time deposits	–	2,930,525
	<u>1,346,458</u>	<u>4,194,789</u>

The bank balances are held in non interest bearing current accounts.

The Company has obtained an unsecured overdraft facility from a local financial institution with no fixed repayment terms and bearing interest at the rate of 6% per annum.

## 3. Statutory deposit

Statutory deposit is placed with the National Bank of Bahrain B.S.C. The deposit is made in accordance with Article 12 of Ministerial Order No. 6 of 1990, regarding the issue of regulations for implementing Legislative Decree No. 17 of 1987 with respect to insurance companies and organisations. The deposit is held in the name of the company and for the order of H.E. The Minister of Commerce, and carries interest at variable commercial rates.

## 4. Investments

	31 December 2005 Bahraini Dinars	31 December 2004 Bahraini Dinars
At 1 January	6,651,334	5,615,437
Additions during the year	11,266,379	2,451,857
Disposal during the year	(5,374,893)	(2,440,592)
Realised fair value gains	(819,716)	(273,720)
Impairment losses (Note 19)	(493,155)	(82,539)
Unrealised fair value gains recognised in investment fair value reserve	3,421,385	1,380,891
At 31 December	<u>14,651,334</u>	<u>6,651,334</u>

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## 4. Investments (continued)

	31 December 2005 Bahraini Dinars	31 December 2004 Bahraini Dinars
Analysis of investments		
Shares listed on Stock Exchanges	13,449,778	4,908,286
Managed funds	393,672	733,235
Bonds	94,257	94,257
Unquoted equity investments	713,627	915,556
	<u>14,651,334</u>	<u>6,651,334</u>

## 5. Policyholders' receivables

	2005 Bahraini Dinars	2004 Bahraini Dinars
Gross policyholders' receivables	1,124,563	993,909
Less: provision for doubtful receivables	(26,343)	(27,491)
	<u>1,098,220</u>	<u>966,418</u>

## 6. Insurance and reinsurance companies' receivables

Insurance balances receivable consist of balances due from insurance and reinsurance companies domiciled mainly in the Middle East and Europe. Two companies account for 39% (2004: 30%) of the total insurance balances receivable as at 31 December 2005. Arrangements with insurers normally require settlement on a quarterly basis.

## 7. Other receivables

	2005 Bahraini Dinars	2004 Bahraini Dinars
Accrued interest	96,284	18,848
Other receivables	117,082	118,199
Prepaid expenses	16,793	15,743
	<u>230,159</u>	<u>152,790</u>

## 8. Outstanding claims recoverable from reinsurers

	2005 Bahraini Dinars	2004 Bahraini Dinars
At 1 January	3,320,625	3,329,253
Additions	1,680,261	819,629
Received	(1,399,807)	(828,257)
At 31 December	<u>3,601,079</u>	<u>3,320,625</u>

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## 9. Outstanding claims reserve

Outstanding claims reserve movement during the year ended 31 December 2005:

Bahraini Dinars	Fire, General Accident & Engineering	Marine & Aviation	Life & Medical	Motor	2005 Total	2004 Total
At 1 January	970,673	2,005,642	194,240	2,881,692	6,052,247	5,768,031
Net claims incurred	536,374	70,604	1,332,294	1,498,583	3,437,855	2,058,901
Gross claims paid	513,060	36,078	1,110,118	1,055,081	2,714,337	1,774,685
At 31 December	993,987	2,040,168	416,416	3,325,194	6,775,765	6,052,247

Gross outstanding claims reserve at 31 December 2005:

Current year claims	191,817	51,933	376,083	1,226,585	1,846,418	1,183,275
Prior year claims	797,742	1,986,259	16,037	1,990,886	4,790,924	4,771,173
Incurred but not reported	4,428	1,976	24,296	107,723	138,423	97,799
	993,987	2,040,168	416,416	3,325,194	6,775,765	6,052,247

## 10. Unearned premiums

The movement in the unearned premium provision during the year is as follows:

Bahraini Dinars	Fire, General Accident and Engineering	Marine and Aviation	Life and Medical	Motor	2005 Total	2004 Total
At 1 January	68,612	15,023	129,721	847,510	1,060,866	825,184
Additions	156,072	32,652	188,411	909,944	1,287,079	1,060,866
Releases	(68,612)	(15,023)	(129,721)	(847,510)	(1,060,866)	(825,184)
At 31 December	156,072	32,652	188,411	909,944	1,287,079	1,060,866

Minimum unearned premiums, calculated on the basis specified by article 15 of the Insurance Legislation 1987, for the year ended 31 December 2005, is BD1,023,734 (2004: BD855,626).

## 11. Other technical provisions

Represents amounts received from reinsurance companies for settlement of their share of outstanding claims for certain underwriting years, which extinguishes their liabilities in respect of such underwriting years. The amounts received will be utilised for settlement of all claims in respect of those underwriting years.

## 12. Insurance and reinsurance companies payables

The insurance balances payable include an amount of BDNil (2004 : BD49,033) due to a related party.

# Notes to the financial statements

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## 13. Other payables

	2005 Bahraini Dinars	2004 Bahraini Dinars
Payables	391,062	203,020
Accrued expenses	131,257	216,998
Provision for leave salary and air passage	36,742	28,481
Unclaimed dividends	80,676	53,228
	<u>639,737</u>	<u>501,727</u>

## 14. Employees' terminal benefits

### Local employees

The contributions made by the Company towards the pension scheme for Bahraini nationals administered by the General Organisation for Social Insurance in the Kingdom of Bahrain for the year ended 31 December 2005 amounted to BD29,759 (2004: BD25,958).

### Expatriate employees

The movement in leaving indemnity liability applicable to expatriate employees was as follows:

	2005 Bahraini Dinars	2004 Bahraini Dinars
At 1 January	90,598	71,481
Accruals for the year	18,044	21,542
Payments during the year	(14,997)	(2,425)
At 31 December	<u>93,645</u>	<u>90,598</u>

## Number of staff

The number of staff employed by the Company at 31 December 2005 was 65 (2004: 59).

## 15. Share capital

	2005 Bahraini Dinars	2004 Bahraini Dinars
<b>Authorised share capital</b>		
50,000,000 shares of BD0.100 each (2004: 50,000,000 shares of BD0.100 each)	5,000,000	5,000,000
<b>Issued and fully paid-up share capital</b>		
30,000,000 shares of BD0.100 each (2004: 30,000,000 shares of BD0.100 each)	3,000,000	3,000,000
<b>Treasury shares</b>		
22,500 shares of BD0.100 each (2004: 22,500 shares of BD0.100 each)	(3,612)	(3,612)
	<u>2,996,388</u>	<u>2,996,388</u>

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## 15. Share capital (continued)

Additional information on shareholding pattern

i) The names and nationalities of the major shareholders, and the number of shares held in which they have an interest of 5% or more are as follows:

	Nationality	Number of shares	% holding
Hussain Ali Sajwani	United Arab Emirates	11,746,728	39.16%
Others	–	18,253,272	60.84%
		30,000,000	100.00%

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

iii) The distribution of the Company's equity shares, i.e. the number of holders and their percentage holdings as at 31 December 2005 is set out below:

	Number of shareholders	Number of shares	% of total outstanding shares
Less than 1%	2,431	11,031,843	36.77%
1% up to less than 5%	10	7,221,429	24.07%
More than 5%	1	11,746,728	39.16%
	2,442	30,000,000	100.00%

iv) Details of the Directors' interests in the Company's shares as at 31 December 2005 are as follows:

	2005 Number of shares	2004 Number of shares
<b>Name of the directors</b>		
Hussain Ali Sajwani	11,746,728	11,746,728
Dr Osama Taqi Al Baharna	347,484	347,484
Adel Hassan Ali Alaali	130,200	130,200
Sharif Mohammed Ahmadi	128,459	128,459
Abdulla Ebrahim Jamsheer	125,000	125,000
Sami Abdulla Amin (late)	113,221	113,221
Sofyan Adnan Khatib	100,000	100,000
	12,691,092	12,691,092

# Notes to the financial statements

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## 16. Statutory reserve

As required by the Bahrain Commercial Companies Law and the Bahrain Insurance Law, 10% of the net profit for the year has been transferred to the statutory reserve. The Company may resolve to discontinue such annual transfers when the reserve equals 100% of the paid up share capital of the Company. The reserve cannot be utilised for the purpose of distribution, except in such circumstances as stipulated in the Bahrain Commercial Companies Law.

## 17. Related party transactions

These represent transactions with related parties, i.e. shareholders, companies affiliated to the shareholders, directors and senior management of the company and companies of which they are principal owners. Pricing policies, terms and payment for these transactions are approved by the company's management. The significant related party transactions during the year were as follows:

	2005 Bahraini Dinars	2004 Bahraini Dinars
Reinsurance premiums ceded	–	133,714
Commission received	–	33,960
Management fees paid	–	6,233

## 18. Expenses

	Year ended 31 December 2005 Bahraini Dinars	Year ended 31 December 2004 Bahraini Dinars
Management expenses	395,427	377,695
General and administrative expenses	503,093	480,392
	<b>898,520</b>	<b>858,087</b>
Comprising of:		
Employee related costs	648,744	597,385
Administrative and other costs	211,011	221,320
Depreciation	38,765	39,382
	<b>898,520</b>	<b>858,087</b>

## 19. Investment income

	Year ended 31 December 2005 Bahraini Dinars	Year ended 31 December 2004 Bahraini Dinars
Realised gains on sale of available-for-sale securities	2,182,631	431,071
Dividends income	344,947	257,526
Interest income	51,892	77,706
Impairment loss on available-for-sale investments (Note 4)	(493,155)	(82,539)
Interest expenses	(5,238)	–
	<b>2,081,077</b>	<b>683,764</b>

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## 20. Other (expenses)/income

	Year ended 31 December 2005 Bahraini Dinars	Year ended 31 December 2004 Bahraini Dinars
Interest expense	(4,565)	(4,207)
Exchange loss	(30,590)	(2,591)
Other income	8,290	806
	<b>(26,865)</b>	<b>(5,992)</b>

## 21. Proposed appropriations

The directors propose a dividend of 20 fils (2004: 12.5 fils) per 100 fils share from the 2005 profits. These and other appropriations mentioned below are subject to the shareholders' approval at the annual general meeting:

	2005 Bahraini Dinars	2004 Bahraini Dinars
Statutory reserve	232,024	91,954
Proposed dividend	600,000	375,000
Proposed bonus shares	150,000	–
Directors' remuneration	193,822	44,000
	<b>1,175,846</b>	<b>510,954</b>

The Board of Directors in their meeting dated 28 February 2006 proposes that the Chairman be paid remuneration of BD 133,822 in consideration of efforts put by him in advising the Executive Committee and his personal involvement in managing the investment portfolio that resulted in realized and unrealized profit of BD 4,682,746 (2004: BD 1,790,935) and remaining BD 60,000 be paid to the other six directors equally for the year ended 31 December 2005.

## 22. Earnings per share

	2005	2004
Net profit for the period	BD 2,320,243	BD 919,537
Weighted average number of shares outstanding	29,977,500	29,977,500
Earnings per 100 fils share	77.4 fils	30.7 fils

The earnings per share have been computed on the basis of net profit for the year divided by the weighted average number of shares outstanding for the year.

## 23. Segmental underwriting results

The Company's insurance business is organised into four main business segments as follows:

Fire and General Accident	: Fire, General Accidents and Engineering
Marine and Aviation	: Marine Cargo, Marine Hull and Aviation
Medical and Life	: Medical Expense Cover and Life
Motor	: Third Party Liability and Motor Comprehensive

# Notes to the financial statements

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## 23. Segmental underwriting results (continued)

Bahraini Dinars					2005
	Fire and General Accident	Marine and Aviation	Medical and Life	Motor	Total
<b>Gross premiums</b>	2,057,516	1,308,906	1,715,587	2,028,986	7,110,995
Reinsurance ceded	(1,755,916)	(1,247,528)	(1,363,432)	(162,169)	(4,529,045)
Retained premiums	301,600	61,378	352,155	1,866,817	2,581,950
Unearned premium adjustment	(87,460)	(17,629)	(58,690)	(62,434)	(226,213)
<b>Net premiums earned</b>	214,140	43,749	293,465	1,804,383	2,355,737
Net earned commission income/(expense)	354,723	115,071	129,321	(32,705)	566,410
Net claims incurred	(17,891)	(23,462)	(315,843)	(1,400,400)	(1,757,596)
Management expenses	(110,740)	(49,229)	(65,976)	(169,482)	(395,427)
<b>Underwriting profit</b>	440,232	86,129	40,967	201,796	769,124
<b>Loss ratios</b>	8.35%	53.63%	107.63%	77.61%	74.61%

Bahraini Dinars					2004
	Fire and General Accident	Marine and Aviation	Medical and Life	Motor	Total
<b>Gross premiums</b>	1,881,074	1,705,095	1,392,620	1,774,639	6,753,428
Reinsurance ceded	(1,727,226)	(1,671,157)	(1,117,104)	(86,665)	(4,602,152)
Retained premiums	153,848	33,938	275,516	1,687,974	2,151,276
Unearned premium adjustment	(8,708)	(2,151)	(42,247)	(182,576)	(235,682)
<b>Net premiums earned</b>	145,140	31,787	233,269	1,505,398	1,915,594
Net earned commission income/(expense)	222,977	111,860	116,561	(27,867)	423,531
Net claims incurred	(20,370)	(12,661)	(187,096)	(1,019,146)	(1,239,273)
Management expenses	(108,327)	(42,010)	(66,953)	(160,405)	(377,695)
<b>Underwriting profit</b>	239,420	88,976	95,781	297,980	722,157
<b>Loss ratios</b>	14.0%	39.8%	80.2%	67.7%	64.7%

As the company's activities are performed on an integrated basis, a segmental analysis of assets and liabilities between these segments will not be meaningful.

# Notes to the financial statements

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## 24. Financial assets and liabilities and risk management

Financial instruments consist of financial assets and financial liabilities.

**Financial assets** of the company include cash and cash equivalents, deposits, available-for-sale investments and receivables (from policy holders, insurance and reinsurance companies).

**Financial liabilities** of the company include payable and accrued liabilities (to policyholders, insurance and reinsurance companies and other parties).

The company does not use derivative financial instruments.

Accounting policies for financial assets and liabilities are set out on pages 16 to 18.

The risks involved with financial instruments and the company's approach to managing such risks are discussed below:

### Insurance risk

Insurance risk comprises the possibility that an insured event occurs, and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The primary risk that the Company faces under such contracts is that the actual claims and benefits payments exceed the carrying amount of insurance liabilities.

The primary risk control measure in respect of insurance risk is the cession of the risk to third parties via reinsurance, including excess of loss protection programme. Reinsurance business ceded is to a number of international reputable third party insurers on a proportional basis with retention limits, varying by lines of business and geographical areas. The Company is not dependent on a single reinsurer or a reinsurance contract.

In addition, insurance risk is mitigated by:

- i) The Company's diverse portfolio of insurance contracts. Accordingly the Company is less likely to be adversely affected by a single unexpected event.
- ii) Binding underwriting and retention guidelines and limits, and clear underwriting authorities control over who is authorized and accountable for concluding insurance and reinsurance contracts. Compliance with these guidelines is closely monitored by management. Developments in the global and local markets are also monitored closely and where necessary appropriate changes are made to the Company's policy and guidelines to reflect current best practice.
- iii) All the Company's insurance contracts contain specific liability limits.

# Notes to the financial statements

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## 24. Financial assets and liabilities and risk management (continued)

### Claims Development

The development of gross insurance liabilities provides a measure of Company's ability to estimate the ultimate value of claims. The following table illustrates the Company's estimate of total claims outstanding for the years 2001 to 2005:

#### Underwriting years

	2001 Bahraini Dinars	2002 Bahraini Dinars	2003 Bahraini Dinars	2004 Bahraini Dinars	2005 Bahraini Dinars	Total Bahraini Dinars
Estimate of ultimate claims:						
At end of each reporting year	1,284,396	1,697,086	2,997,639	2,957,960	4,510,128	13,447,209
One year later	1,206,936	1,630,478	2,930,801	2,729,409	–	8,497,623
Two years later	1,208,646	1,659,191	2,884,414	–	–	5,752,252
Three years later	1,185,137	1,627,713	–	–	–	2,812,850
Four years later	1,172,794	–	–	–	–	1,172,794
Estimate of cumulative claims	1,172,794	1,627,713	2,884,414	2,729,409	4,510,128	12,924,458
Less: Cumulative payments to date	(949,116)	(1,328,355)	(2,360,906)	(2,407,393)	(2,888,641)	(9,934,410)
Liability recognized in the balance sheet	223,679	299,358	523,508	322,016	1,612,488	2,990,048
Add: Claims in respect of years prior to 2001						3,785,717
At 31 December 2005						6,775,765

Claims in respect of prior to 2001 are pending completion subject to receipt of all the necessary documentation. These claims are substantially reinsured at 31 December 2005.

### Re-insurance risk

Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit risk exposure remains with respect to reinsurance ceded to the extent that any reinsurer is unable to meet its obligations under such reinsurance arrangements. The Company reinsures business only with parties that have good credit ratings, such credit ratings are reviewed on a regular basis. A geographical analysis of the Company's reinsurance exposure at 31 December 2005 is provided below:

#### Geographical region

	2005 Bahraini Dinars	2004 Bahraini Dinars
Middle East	1,646,954	1,437,057
Europe	1,175,583	1,000,946
Rest of the World	14,953	7,065
	2,837,490	2,445,068

The five largest reinsurers account for 59% of the maximum credit exposure at 31 December 2005 (2004: 54%).

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## 24. Financial assets and liabilities and risk management (continued)

### Currency risk

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

The Bahraini Dinar is effectively pegged to the United States dollar, thus currency risk occurs only in respect of other currencies. The company does not have significant exposure in other currencies. The company does not hedge against such currency risks.

The table below summarises the exposure to currency risk excluding assets and liabilities arising from insurance and reinsurance contracts.

*Net open positions (in Bahraini Dinar equivalent)*

	2005 Bahraini Dinars	2004 Bahraini Dinars
United States Dollars	3,309,795	2,465,695
Egyptian Pound	1,973,236	–
Australian Dollars	452,464	–
Euro	155,842	326,160
Other GCC currencies	7,634,083	3,386,163
	<b>13,525,420</b>	<b>6,178,018</b>

### Interest rate risk

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

The company invests in bonds and has deposits that are subject to interest rate risk. Interest rate risk to the company is the risk of changes in market interest rates reducing the overall return on its interest bearing securities. The company limits interest rate risk by monitoring changes in interest rates in the currencies in which its cash and investments are denominated.

Details of maturities of the major classes of interest bearing financial instruments as at 31 December are as follows:

Bahraini Dinars	Less than 6 months	6 months to 1 year	1 year to 3 years	Over 3 years	Non-interest bearing	Total
<b>2005</b>						
Cash and bank balances	–	–	–	–	2,187,645	2,187,645
Bank overdraft	(841,187)	–	–	–	–	(841,187)
Time deposits	–	125,000	–	–	–	125,000
Investments	–	–	94,257	–	14,557,077	14,651,334
	<b>(841,187)</b>	<b>125,000</b>	<b>94,257</b>	<b>–</b>	<b>16,744,722</b>	<b>16,122,792</b>
<b>2004</b>						
Cash and bank balances	493,828	–	–	–	770,436	1,264,264
Time deposits	2,930,525	125,000	–	–	–	3,055,525
Investments	–	–	–	94,257	6,557,077	6,651,334
	<b>3,424,353</b>	<b>125,000</b>	<b>–</b>	<b>94,257</b>	<b>7,327,513</b>	<b>10,971,123</b>

There is no significant difference between contractual repricing or maturity dates. The effective interest rates of the time deposits and investments which are principally denominated in US Dollars and Bahraini Dinars ranges from 3.22% to 5.3% (2004: 1.00% to 2.42%).

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## 24. Financial assets and liabilities and risk management (continued)

### Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market.

The company is exposed to market risk with respect to its investments in equities, managed funds and bonds.

The company limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in international equity and bond markets. In addition, the company actively monitors the key factors that affect stock market movements, including analysis of the operational and financial performance of investees.

### Geographical concentration of investments

	2005 Bahraini Dinars	2004 Bahraini Dinars
Bahrain	2,151,253	2,108,748
Middle east	7,634,083	3,356,032
North Africa	3,681,235	–
North America	129,679	238,166
Europe	155,842	622,228
Rest of the world	899,242	326,160
	<b>14,651,334</b>	<b>6,651,334</b>

### Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The company adopts policies and procedures in order to maintain credit risk exposures within limits. These limits have been set on the basis of the types of exposures and the credit rating of the counter party and hence the company is of the opinion that no credit loss will occur. Substantially all of the company's underwriting activities are carried out in the Kingdom of Bahrain.

Substantially all of the company's cash and bank balances, time deposits and investments are placed with institutions in the Kingdom of Bahrain and Europe. Credit risk on premiums receivable is limited to policyholders in Bahrain. Credit risk on insurance balances receivable is substantially on major reinsurance companies located in the Arabian Gulf States and Europe.

For all classes of financial instruments held by the company, other than those relating to reinsurance contracts as described above, the maximum credit risk exposure to the company is the carrying value as disclosed in the financial statements at the balance sheet date.

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## 24. Financial assets and liabilities and risk management (continued)

### Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise.

### Fair values

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

Other than certain available-for-sale investments carried at cost of BD807,884 (2004: BD1,009,813), the estimated fair values of the Company's other financial instruments are not significantly different from their carrying values.

## 25. Contingent liabilities

The Company is a defendant in a number of cases brought by policyholders in respect of claims which the Company disputes. While it is not possible to predict the eventual outcome of such legal actions, the directors' have made provision which, in their opinion, is adequate.