

# Notes to the financial statements

for the year ended 31 December 2007

## 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

	2007 Bahraini Dinars	2006 Bahraini Dinars
Cash and bank balances	4,223,060	669,420
Time deposits	671,967	725,547
Call deposits	-	93,310
	<b>4,895,027</b>	<b>1,488,277</b>

The fair value of cash and cash equivalents approximate the carrying value of cash and cash equivalents as at the balance sheet date.

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

Time deposits and call deposits bear interest rates ranging from 4% to 5.5% per annum (2006: 4% to 5.5% per annum) and have a maturity period of less than 3 months.

## 3. Statutory deposit

Statutory deposit is placed with the National Bank of Bahrain B.S.C. The deposit is made in accordance with module GR paragraph number 7.1.2 of the Central Bank of Bahrain, Rule Book Volume 3 Part A. The deposit is held in the name of the Company and for the order of Central Bank of Bahrain, and carries interest at variable commercial rates.

The fair value of the statutory deposit approximates its carrying value as at the balance sheet date.

## 4. Investments

	31 December 2007 Bahraini Dinars	31 December 2006 Bahraini Dinars
At 1 January	13,316,836	14,651,334
Additions during the year	4,160,605	7,402,322
Disposals during the year	(3,321,373)	(3,757,129)
Realised fair value gains	(237,944)	(3,401,290)
Impairment losses (Note 20)	-	(1,884,255)
Unrealised fair value gains recognised in investment fair value reserve	8,599,376	305,854
At 31 December	<b>22,517,500</b>	<b>13,316,836</b>

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	31 December 2007 Bahraini Dinars	31 December 2006 Bahraini Dinars
<b>Analysis of investments</b>		
Shares listed on Stock Exchanges	20,818,421	11,935,951
Managed funds	432,118	395,166
Bonds	75,400	94,257
Unquoted equity investments	1,191,561	891,462
	<b>22,517,500</b>	<b>13,316,836</b>

Out of the above, shares listed on stock exchanges and managed funds are stated at their fair values, whereas bonds and unquoted equity investments are stated at cost.

The table below provides categorisation of investments as per internal and/or external agencies credit rating. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as non-investment grade.

Bahraini Dinars	Investment grade	Non-Investment grade	Not-rated	Total
Shares listed on Stock Exchanges	19,990,439	827,982	-	20,818,421
Managed funds	-	-	432,118	432,118
Bonds	75,400	-	-	75,400
Unquoted equity investments	-	-	1,191,561	1,191,561
	<b>20,065,839</b>	<b>827,982</b>	<b>1,623,679</b>	<b>22,517,500</b>

## 5. Policyholders' receivables

	2007 Bahraini Dinars	2006 Bahraini Dinars
Policyholders' receivables	2,170,948	1,764,869
Less: provision for doubtful receivables	(26,343)	(26,343)
	<b>2,144,605</b>	<b>1,738,526</b>

Policyholders' receivables are generally on 90 to 120 days credit terms.

As at 31 December 2007, policy holders' receivables stated at a nominal value of BD26,343 (2006:26,343) were impaired, which have been fully provided for.

The ageing of unimpaired policy holders' receivables is as follows:

Age in days	Neither past due nor impaired 2007 Bahraini Dinars	2006 Bahraini Dinars	Past due but not impaired 2007 Bahraini Dinars	2006 Bahraini Dinars
0 to 120 days	1,225,450	1,054,396	-	-
120 to 180 days	-	-	457,532	393,649
181 to 365 days	-	-	312,229	209,146
365 and above	-	-	149,394	81,335
	<b>1,225,450</b>	<b>1,054,396</b>	<b>919,155</b>	<b>684,130</b>

The fair values of unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables and the vast majority are, therefore, unsecured.

## 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 43% (2006: 36%) of the total insurance balances receivable as at 31 December 2007. Arrangements with insurers normally require settlement on a quarterly basis.

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## 6. Insurance and reinsurance companies' receivables (continued)

The ageing of insurance and reinsurance companies receivables is as follows:

Age in days	Neither past due nor impaired		Past due but not impaired	
	2007 Bahraini Dinars	2006 Bahraini Dinars	2007 Bahraini Dinars	2006 Bahraini Dinars
0 to 120 days	173,994	240,426	-	-
120 to 180 days	-	-	176,543	161,698
181 to 365 days	-	-	271,574	178,123
365 and above	-	-	153,185	102,572
	<b>173,994</b>	<b>240,426</b>	<b>601,302</b>	<b>442,393</b>

All insurance and reinsurance companies receivables are unimpaired and expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over insurance and reinsurance receivables.

## 7. Deferred reinsurance premiums

Deferred reinsurance premium movement during the year ended 31 December 2007 is as follows:

	Fire, general accident & engineering Bahraini Dinars	Marine & aviation Bahraini Dinars	Life & medical Bahraini Dinars	Motor Bahraini Dinars	2007 Total Bahraini Dinars	2006 Total Bahraini Dinars
At 1 January	897,019	97,714	611,016	85,461	1,691,210	1,542,400
Reinsurance premium received	955,036	148,113	542,798	184,554	1,830,501	1,691,210
Reinsurance premium released	(897,019)	(97,714)	(611,016)	(85,461)	(1,691,210)	(1,542,400)
At 31 December	955,036	148,113	542,798	184,554	1,830,501	1,691,210

## 8. Deferred policy acquisition cost

Deferred policy acquisition cost movement during the year ended 31 December 2007 is as follows:

	Fire, general accident & engineering Bahraini Dinars	Marine & aviation Bahraini Dinars	Life & medical Bahraini Dinars	Motor Bahraini Dinars	2007 Total Bahraini Dinars	2006 Total Bahraini Dinars
At 1 January	69,063	5,346	6,867	53,066	134,342	94,520
Commission incurred	70,572	9,585	(22,081)	93,297	151,373	134,342
Commission paid	(69,063)	(5,346)	(6,867)	(53,066)	(134,342)	(94,520)
At 31 December	70,572	9,585	(22,081)	93,297	151,373	134,342

## 9. Other receivables

	2007 Bahraini Dinars	2006 Bahraini Dinars
Accrued interest	426	5,359
Other receivables	132,267	831,235
Prepaid expenses	22,235	18,556
	<b>154,928</b>	<b>855,150</b>

Other receivables mentioned above are unimpaired and expected, on the basis of past experience, to be fully recoverable within 12 months from the balance sheet date.

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## 10. Outstanding claims recoverable from reinsurer

	2007 Bahraini Dinars	2006 Bahraini Dinars
At 1 January	3,633,216	3,601,079
Additions during the year	2,235,327	1,414,906
Received during the year	(1,472,064)	(1,382,769)
At 31 December	4,396,479	3,633,216

All outstanding claims recoverable from reinsurers are unimpaired and are expected, on the basis of past experience, to be fully recoverable.

## 11. Outstanding claims reserve

Outstanding claims reserve movement during the year ended 31 December 2007:

	Fire, general accident & engineering Bahraini Dinars	Marine & aviation Bahraini Dinars	Life & medical Bahraini Dinars	Motor Bahraini Dinars	2007 Total Bahraini Dinars	2006 Total Bahraini Dinars
At 1 January	1,382,740	2,075,226	206,378	3,882,517	7,546,861	6,775,765
Claims incurred	1,102,421	123,414	1,166,998	2,193,337	4,586,170	3,540,811
Claims paid	(413,266)	(47,475)	(1,243,113)	(2,020,620)	(3,724,474)	(2,769,715)
At 31 December	2,071,895	2,151,165	130,263	4,055,234	8,408,557	7,546,861

Gross outstanding claims reserve at 31 December 2007:

Current year claims	406,945	24,159	120,050	2,245,868	2,797,022	3,602,480
Prior year claims	1,659,054	2,125,855	3,900	1,650,197	5,439,006	3,797,829
Incurred but not reported	5,896	1,151	6,313	159,169	172,529	146,552
	2,071,895	2,151,165	130,263	4,055,234	8,408,557	7,546,861

## 12. Unearned gross premiums

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

	Fire, general accident & engineering Bahraini Dinars	Marine & aviation Bahraini Dinars	Life & medical Bahraini Dinars	Motor Bahraini Dinars	2007 Total Bahraini Dinars	2006 Total Bahraini Dinars
At 1 January	1,043,360	123,173	753,893	1,425,015	3,345,441	2,829,479
Additions	1,076,139	181,856	670,879	1,997,602	3,926,476	3,345,441
Releases	(1,043,360)	(123,173)	(753,893)	(1,425,015)	(3,345,441)	(2,829,479)
At 31 December	1,076,139	181,856	670,879	1,997,602	3,926,476	3,345,441

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## 13. Unearned commission

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

	Fire, general accident & engineering Bahraini Dinars	Marine & aviation Bahraini Dinars	Life & medical Bahraini Dinars	Motor Bahraini Dinars	2007 Total Bahraini Dinars	2006 Total Bahraini Dinars
At 1 January	189,045	33,103	103,364	4,057	329,569	243,153
Additions	220,192	50,760	18,374	20,807	310,133	329,569
Releases	(189,045)	(33,103)	(103,364)	(4,057)	(329,569)	(243,153)
At 31 December	220,192	50,760	18,374	20,807	310,133	329,569

## 14. 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.

## 15. Other payables

	2007 Bahraini Dinars	2006 Bahraini Dinars
Payables	540,806	349,189
Accrued expenses	216,889	171,915
Amount due to a related party (Note 25)	800,358	-
Provision for leave salary and air passage	55,479	44,648
Unclaimed dividends	127,080	104,751
	<b>1,740,612</b>	<b>670,503</b>

Amount due to a related party is unsecured and does not bear any interest.

## 16. 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 2007 amounted to BD40,489 (2006 : BD31,677).

### Expatriate employees

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

	2007 Bahraini Dinars	2006 Bahraini Dinars
At 1 January	116,275	93,645
Accruals for the year	17,406	22,730
Payments during the year	(7,890)	(100)
At 31 December	<b>125,791</b>	<b>116,275</b>

## Number of staff

The number of staff employed by the Company at 31 December 2007 was 72 (2006: 68).

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## 17. Share capital

	2007 Bahraini Dinars	2006 Bahraini Dinars
<b>Authorised share capital</b>		
50,000,000 shares of BD0.100 each (2006: 50,000,000 shares of BD0.100 each)	5,000,000	5,000,000
<b>Issued and fully paid-up share capital</b>		
33,075,000 shares of BD0.100 each (2006: 31,500,000 shares of BD0.100 each)	3,307,500	3,150,000
<b>Treasury shares</b>		
24,806 shares of BD0.100 each (2006: 23,625 shares of BD0.100 each)	(3,842)	(3,724)
	<b>3,303,658</b>	<b>3,146,276</b>

## 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	Percentage of total Outstanding Shares
Damac Invest Co. (LLC)	United Arab Emirates	12,845,767	38.84
Mustafa Ahmed Salman	Oman	2,921,625	8.83
Others	-	17,307,608	52.33
		33,075,000	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 2007 is set out below:

	Number of shareholders	Number of shares	Percentage of total Outstanding Shares
Less than 1%	2406	11,757,395	35.55
1% up to 5%	9	5,550,213	16.78
More than 5%	2	15,767,392	47.67
	2,417	33,075,000	100.00%

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## 17. Share capital (continued)

iv) Details of the Directors' interests in the Company's shares as at 31 December 2007 are as follows:

Name of the directors	2007 Number of shares	2006 Number of shares
Hussain Ali Sajwani	105,000	8,500,000
Dr. Osama Taqi Al Baharna	383,100	364,857
Adel Hassan Al Aali	100,000	136,710
Sharif Mohammed Ahmadi	141,626	134,882
Abdulla Ebrahim Jamsheer	137,813	131,250
Sofyan Adnan Khatib	110,205	105,000
	<b>977,744</b>	<b>9,372,699</b>

## 18. Statutory reserve

As required by the Bahrain Commercial Companies Law an amount equivalent to 10% of the Company's 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.

## 19. Expenses

	Year ended 31 December 2007 Bahraini Dinars	Year ended 31 December 2006 Bahraini Dinars
Management expenses	471,927	421,172
General and administrative expenses	650,466	577,972
	<b>1,122,393</b>	<b>999,144</b>
Comprising of:		
Employee related costs	846,303	740,003
Administrative and other costs	234,008	229,490
Depreciation	42,082	29,651
	<b>1,122,393</b>	<b>999,144</b>

## 20. Investment income

	Year ended 31 December 2007 Bahraini Dinars	Year ended 31 December 2006 Bahraini Dinars
Realised gains on sale of available-for-sale investments	2,834,394	3,508,312
Investment advisory fees(Note 25)	(800,358)	-
Dividends income	452,545	430,137
Interest income	33,342	31,480
Impairment loss on available-for-sale investments (Note 4)	-	(1,884,255)
	<b>2,519,923</b>	<b>2,085,674</b>

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## 21. Other (expenses) / income

	Year ended 31 December 2007 Bahraini Dinars	Year ended 31 December 2006 Bahraini Dinars
Profit on sale of property and equipment	11,664	-
Interest expense	(8,852)	(15,877)
Exchange (losses)/gains	(8,202)	32,273
Others	(2,089)	(28)
	<b>(7,479)</b>	<b>16,368</b>

## 22. Proposed appropriations

The Directors propose a dividend of 50 fils (2006: 20 fils) per 100 fils share from the 2007 profits. These and other appropriations mentioned below are subject to the shareholders' approval at the Annual General Meeting:

	2007 Bahraini Dinars	2006 Bahraini Dinars
Statutory reserve	330,197	255,477
Proposed dividend	1653,750	630,000
Proposed bonus shares	330,750	157,500
Directors' remuneration	105,000	214,000
	<b>2,419,697</b>	<b>1,256,977</b>

## 23. Earnings per share

	2007	2006
Net profit for the year	BD 3,301,970	BD 2,554,770
Weighted average number of shares outstanding	33,050,194	33,050,194
Earnings per 100 fils share	99.91 fils	77.30 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, net of treasury shares. There is no difference between the basic and diluted earnings per share.

## 24. 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

2007 Bahraini Dinars	Fire and General Accident	Marine and Aviation	Medical and Life	Motor	Total
Gross premiums	2,537,203	1,240,014	2,159,918	3,923,148	9,860,283
Reinsurance ceded	(2,281,885)	(1,183,830)	(1,872,368)	(344,763)	(5,682,846)
Retained premiums	255,318	56,184	287,550	3,578,385	4,177,437
Unearned premium adjustment	25,242	(8,283)	14,795	(473,498)	(441,744)
Net premiums earned	280,560	47,901	302,345	3,104,887	3,735,693
Net earned commission income/(expense)	277,754	126,778	245,877	(123,342)	527,067
Net claims incurred	(76,468)	(13,103)	(192,331)	(2,068,939)	(2,350,841)
Management expenses	(129,939)	(42,771)	(75,050)	(224,167)	(471,927)
Underwriting profit	351,907	118,805	280,841	688,439	1,439,992
Loss ratios	27.26%	27.35%	63.61%	66.63%	62.93%

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## 24. Segmental underwriting results (continued)

2006 Bahraini Dinars	Fire and General Accident	Marine and Aviation	Medical and Life	Motor	Total
Gross premiums	2,492,689	1,733,593	2,022,392	2,786,880	9,035,554
Reinsurance ceded	(2,164,367)	(1,672,042)	(1,610,748)	(156,231)	(5,603,388)
Retained premiums	328,322	61,551	411,644	2,630,649	3,432,166
Unearned premium adjustment	9,727	7,192	45,535	(429,606)	(367,152)
Net premiums earned	338,049	68,743	457,179	2,201,043	3,065,014
Net earned commission income/(expense)	317,106	120,708	136,225	(61,276)	512,763
Net claims incurred	(134,604)	(15,929)	(298,143)	(1,677,229)	(2,125,905)
Management expenses	(108,719)	(48,329)	(80,943)	(183,181)	(421,172)
Underwriting profit	411,832	125,193	214,318	279,357	1,030,700
Loss ratios	39.82%	23.17%	65.21%	76.20%	69.36%

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.

## 25. Related party transactions

Related party transactions represent transactions with shareholders, directors and senior management of the Company or companies in which they are the principal owners. Pricing policies and terms of this transaction is approved by the Company's Board of Directors.

A summary of the transactions with a related party, included in these financial statements is summarised below:

Amount due to a related party

	2007 Bahraini Dinars	2006 Bahraini Dinars
Damac Invest Co (LLC) towards investment consultancy fees	800,358	-

## 26. 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 policy holders, 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:

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## 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 authorised and accountable for concluding insurance and reinsurance contracts. Compliance with these guidelines is closely monitored by the 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 practices.
- iii) All the Company's insurance contracts contain specific liability limits.

## 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 2002 to 2007:

Underwriting years	2002 Bahraini Dinars	2003 Bahraini Dinars	2004 Bahraini Dinars	2005 Bahraini Dinars	2006 Bahraini Dinars	2007 Bahraini Dinars	Total Bahraini Dinars
Estimate of ultimate claims:							
At end of each reporting year	1,697,086	2,997,639	2,957,960	4,510,128	5,280,296	6,381,695	23,824,804
One year later	1,630,478	2,930,801	2,794,243	4,427,982	4,963,417	-	16,746,921
Two years later	1,659,191	2,938,473	2,740,206	4,440,413	-	-	11,778,283
Three years later	1,627,713	2,923,317	2,646,903	-	-	-	7,197,933
Four years later	1,633,674	2,802,606	-	-	-	-	4,436,280
Five years later	1,348,184	-	-	-	-	-	1,348,184
Estimate of cumulative claims	1,348,184	2,802,606	2,646,903	4,440,413	4,963,417	6,381,695	22,583,218
Less: Cumulative payments to date	(1,323,318)	(2,397,206)	(2,209,367)	(3,602,163)	(3,738,466)	(3,855,953)	(17,126,473)
Liability recognized in the balance sheet	24,866	405,400	437,536	838,250	1,224,951	2,525,742	5,456,745
Add: Claims in respect of years prior to 2002							2,951,812
At 31 December 2007							8,408,557

Claims in respect of years prior to 2002 are pending completion subject to receipt of all the necessary documentation. These claims are substantially reinsured at 31 December 2007.

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

### Re-insurance risk

Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policy holders 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 2007 is provided below:

### Geographical region

	2007 Bahraini Dinars	2006 Bahraini Dinars
Middle East	2,315,891	2,042,514
Europe	1,106,244	1,092,385
Rest of the World	43,129	40,243
	<b>3,465,264</b>	<b>3,175,142</b>

The five largest reinsurers account for 51% of the maximum credit exposure at 31 December 2007 (2006: 54%).

Reinsurance recoveries under each business segment are as follows:

### Outstanding claims recoverable from re-insurers under each business segment

	2007 Bahraini Dinars	2006 Bahraini Dinars
Fire, engineering and general accident	1,910,008	1,227,856
Marine and aviation	2,102,459	2,027,783
Life and medical	83,550	156,973
Motor	300,462	220,604
	<b>4,396,479</b>	<b>3,633,216</b>

### Currency rate risk

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

The Bahrain Dinar is effectively pegged to the United States Dollar, thus currency rate risk occurs only in respect of other currencies. The company does not hedge against such currency rate risks.

The table below summarises the exposure to currency rate risk excluding assets and liabilities arising from insurance and reinsurance contracts. The analysis calculates the effect of a reasonably possible movement of the Bahrain Dinar against Kuwaiti Dinar and Egyptian Pound with all the other variables held constant in the statement of income.

### Net open positions (in Bahrain Dinar equivalent)

	2007 Bahraini Dinars	2006 Bahraini Dinars
United States Dollars	4,790,135	3,482,592
Egyptian Pound	6,520,395	2,555,672
Other GCC currencies	11,911,075	7,044,349
	<b>23,221,605</b>	<b>13,082,613</b>

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Foreign exchange sensitivity analysis is as follows:

Currency	Change	Impact on profit Bahraini Dinars
Kuwait Dinar	±5%	37,697
Egyptian Pound	±5%	8,814
Kuwait Dinar	±3%	22,618
Egyptian Pound	±3%	5,289

## 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 fixed 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. The impact of any change in the market interest rates on the profits of the Company is not expected to be material by management.

## 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

	2007 Bahraini Dinars	2006 Bahraini Dinars
Kingdom of Bahrain	1,125,400	813,457
Middle East	12,265,619	7,373,447
North Africa	8,552,802	4,562,504
Rest of the World	573,679	567,428
	22,517,500	13,316,836

## 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.

Further a significant portion 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, Middle East and Europe.

# Notes to the financial statements

for the year ended 31 December 2007

## 26. 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 and liabilities as they arise.

The Company does not have any long-term borrowings. Other financial liabilities are due for payment within 12 months of the balance sheet date.

### 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.

The fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

## 27. Contingent liabilities

The Company is a defendant in a number of cases brought by policy holders 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 provisions which, in their opinion, are adequate.

## 28. Comparatives

Certain comparative figures of the previous year have been reclassified to confirm with the current year's presentation. Such regrouping does not affect either the net worth or the net profit for the previous year.