

Significant accounting policies

20

A summary of the significant accounting policies adopted in the preparation of these financial statements is set out below:

1. Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards as promulgated by the International Accounting Standards Board, interpretations issued by the Financial Reporting Interpretations Committee and the requirements of the Bahrain Commercial Companies Law 2001, the Central Bank of Bahrain and Financial Institutions Law 2006 and the Insurance Regulations set out in volume 3 of the Insurance Rulebook issued by the Central Bank of Bahrain.

2. Basis of preparation

The financial statements have been prepared in Bahrain Dinars on the historical cost basis, except for available-for-sale investments which are stated at their fair values. The accounting policies have been consistently applied by the Company.

INSURANCE OPERATIONS

3. Gross premiums

Gross premiums represent the total insurance business underwritten during the year.

4. Unearned premiums

Unearned premiums represent the portion of net retained premiums relating to the unexpired period of coverage. It is calculated on the sixth method for marine cargo and twenty-fourth method for other classes of business.

5. Policyholders' receivables

Policyholders' receivables are stated at cost less an allowance for impairment for uncollectible amounts. An estimate for impairment is made when collection of the full amount is no longer probable. Bad-debts are written-off as incurred. Provision for impairment is netted off against the related receivables.

6. Liability adequacy test

At each reporting date, the Company assesses the adequacy of its insurance liabilities using current estimates of future cash flows under insurance contracts. If the assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is recognised in the statement of income.

7. Reinsurance

In the ordinary course of business, the Company assumes and cedes insurance. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is effected under treaty, facultative and excess-of-loss reinsurance contracts.

Amounts receivable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured parties.

The Company assesses its reinsurance assets for impairment at each reporting date. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the statement of income.

8. Claims paid

Claims settled during the year are charged to the statement of income net of reinsurance and other recoveries.

9. Outstanding claims

Provision is made for all outstanding claims, including claims incurred but not reported. The provision for outstanding claims is based on estimates of the loss which will eventually be payable on each unpaid claim, established by management in the light of available information and on past experience and modified for changes in current conditions, increased exposure, rising claims cost and the severity and frequency of recent claims as appropriate.

Any difference between the provisions at the balance sheet date and settlements and provisions in the following year is included in the statement of income for that year.

10. Commission income

Commission income is recognised when premiums are ceded in accordance with treaty arrangements and facultative covers.

11. Commission expense

Commission expense is accounted for at the time policies are written.

12. Unearned commission

Unearned commission income is deferred based on the sixth method for marine cargo and twenty-fourth method for other insurance covers.

INVESTMENT ACTIVITIES

13. Available-for-sale investments

Available-for-sale investments are stated at their fair values, with any resultant gains or losses being recognised in the investment fair value reserve as part of shareholders' equity. In the event of sale, disposal, collection or impairment, the cumulative revaluation gains and losses recognised in equity are included in the statement of income of that year. Purchase and sale of securities are accounted for on the trade date.

14. Investments fair value reserve

Investments fair value reserve represents the unrealised gains or losses on the valuation of available-for-sale securities. In the event of sale or impairment, the cumulative gains or losses recognized in investment fair value reserve are included in the income statement for the year.

15. Investment income

Interest income is recognised on an accrual basis. Dividend income is recognised when the right to receive a dividend is established.

16. Financial instruments

Financial instruments comprise cash and cash equivalents, investments, receivables, outstanding claims, payables and certain other assets and liabilities. All financial instruments are stated at fair values. Fair values of financial instruments are based on quoted prices for marketable instruments, or estimated fair values, calculated using methods such as net present values of future cash flows.

GENERAL

17. Property and equipment

Property and equipment are stated at cost less accumulated depreciation and provision for impairment losses, if any.

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

Significant accounting policies (continued)

22

18. Depreciation

Depreciation is provided on cost by the straight line method, at annual rates which are intended to write-off the cost of the assets over their estimated useful lives, as follows:

Building	20 years
Computer equipment	4 years
Furniture and fixtures	4 years
Motor vehicles	4 years

19. Employee benefits

The Company provides for end-of-service benefits determined in accordance with the Bahrain Labour Law based on non-Bahraini employees' salaries at the time of leaving and number of years of service. Although the expected costs of these benefits are accrued over the period of employment they are only paid to employees on completion of their term of employment with the company.

Bahraini employees are covered under the General Organisation for Social Insurance Scheme and the company's obligations are limited to the amounts contributed to the scheme.

20. Treasury shares

Where the company purchases its equity share capital, the consideration paid including any attributable transaction costs are deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any profit or loss is included in shareholders' equity.

21. Foreign currencies

Transactions in foreign currencies are translated at the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date, are translated at the exchange rates prevailing at that date. Foreign exchange differences arising on translation are recognised in the statement of income. Non-monetary assets and liabilities denominated in foreign currencies that are stated at their fair values are translated to the reporting currency at the exchange rates prevailing at the dates that the values are determined.

22. Provisions

Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured. Provision for leave pay and passage is recognised for employees at the balance sheet date.

23. Impairment

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the assets is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. All impairment losses are recognised in the statement of income.

24. Dividends and directors' remuneration

Dividends and directors' remuneration are recognised as a liability in the period in which they are approved by the shareholders.

25. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at bank and short-term deposits. Cash equivalents are short-term, highly-liquid investments that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of change in value.