

Notes to the financial statements

for the year ended 31 December 2008

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20 Net investment (expenses)/income

	Year ended 31 December 2008 Bahraini Dinars	Year ended 31 December 2007 Bahraini Dinars
Realised gains on sale of available-for-sale investments	2,208,196	2,834,394
Investment advisory fees (Note 25)	-	(800,358)
Dividend income	1,250,872	452,545
Interest income	111,245	33,342
Impairment loss on available-for-sale investments (Note 4)	(4,244,155)	-
	(673,842)	2,519,923

21 Other expenses

	Year ended 31 December 2008 Bahraini Dinars	Year ended 31 December 2007 Bahraini Dinars
Profit on sale of property and equipment	-	11,664
Interest expenses	(3,320)	(8,852)
Exchange losses	(36,319)	(8,202)
Others	(643)	(2,089)
	(40,282)	(7,479)

22 Proposed appropriations

The Directors propose a dividend of 50 fils (2007: 50 fils) per share for the year 2008. These and other appropriations mentioned below are subject to the shareholders' approval at the Annual General Meeting:

	2008 Bahraini Dinars	2007 Bahraini Dinars
Statutory reserve	34,129	330,197
Proposed dividend	1,817,761	1,653,750
Proposed bonus shares	363,825	330,750
Directors' remuneration	12,000	105,000
	2,227,715	2,419,697

23 Earnings per share

	2008	2007
Net profit for the year	BD341,291	BD3,301,970
Weighted average number of shares outstanding	36,355,213	36,355,213
Earnings per 100 fils share	9.39 fils	90.83 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.

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24 Segmental underwriting results

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

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

	2008				
	Fire and general accident	Marine and aviation	Medical and life	Motor	Total
	Bahraini Dinars	Bahraini Dinars	Bahraini Dinars	Bahraini Dinars	Bahraini Dinars
Gross premiums	2,366,157	1,055,881	3,489,239	4,896,423	11,807,700
Reinsurance ceded	(2,081,206)	(992,893)	(2,663,545)	(579,074)	(6,316,718)
Retained premiums	284,951	62,988	825,694	4,317,349	5,490,982
Unearned premium adjustment	(10,052)	9,543	(187,611)	(317,485)	(505,605)
Net premiums earned	274,899	72,531	638,083	3,999,864	4,985,377
Net earned commission income/(expense)	373,729	189,668	181,004	(142,223)	602,178
Net claims incurred	(117,474)	(21,826)	(480,583)	(2,584,098)	(3,203,981)
Management expenses	(128,115)	(51,789)	(86,195)	(309,353)	(575,452)
Underwriting profit	403,039	188,584	252,309	964,190	1,808,122
Loss ratios	42.73%	30.09%	75.32%	64.60%	64.27%

	2007				
	Fire and general accident	Marine and aviation	Medical and life	Motor	Total
	Bahraini Dinars	Bahraini Dinars	Bahraini Dinars	Bahraini Dinars	Bahraini Dinars
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%

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.

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25 Related party balances and 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:

	2008 Bahraini Dinars	2007 Bahraini Dinars
Amounts due to a related party (Note 15)		
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 payables and other liabilities (to policy holders, insurance and reinsurance companies and other parties).

The Company does not use any derivative financial instruments.

Accounting policies for financial assets and liabilities are set out on pages 20 to 22.

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 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.

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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 2003 to 2008:

Underwriting years	2003 Bahraini Dinars	2004 Bahraini Dinars	2005 Bahraini Dinars	2006 Bahraini Dinars	2007 Bahraini Dinars	2008 Bahraini Dinars	Total BD
Estimate of ultimate claims:							
At end of each reporting year	2,997,639	2,957,960	4,510,128	5,280,296	6,381,695	8,306,619	30,434,337
One year later	2,930,801	2,794,243	4,427,982	4,963,417	6,271,218	-	21,387,661
Two years later	2,938,473	2,740,206	4,440,413	4,745,728	-	-	14,864,820
Three years later	2,923,317	2,646,903	4,232,479	-	-	-	9,802,699
Four years later	2,802,606	2,501,932	-	-	-	-	5,304,538
Five years later	2,665,857	-	-	-	-	-	2,665,857
Estimate of cumulative claims	2,665,857	2,501,932	4,232,479	4,745,728	6,271,218	8,306,619	28,723,833
Less: Cumulative payments to date	(2,458,173)	(2,256,837)	(3,644,912)	(4,026,074)	(4,964,720)	(5,022,135)	(22,372,851)
Liability recognized in the balance sheet	207,684	245,095	587,567	719,654	1,306,498	3,284,484	6,350,982
Add: Claims in respect of years prior to 2003							2,477,487
At 31 December 2008							8,828,469

Claims in respect of years prior to 2003 are pending completion subject to receipt of all the necessary documentation. These claims are substantially reinsured at 31 December 2008.

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 is provided below:

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26 Financial assets and liabilities and risk management (continued)

Geographical region

	2008 Bahraini Dinars	2007 Bahraini Dinars
Middle East	2,935,577	2,315,891
Europe	1,165,847	1,106,244
Rest of the World	50,280	43,129
	4,151,704	3,465,264

The five largest reinsurers account for 52% of the maximum credit exposure at 31 December 2008 (2007: 51%). Reinsurance recoveries under each business segment are as follows:

Outstanding claims recoverable from re-insurers under each business segment

	2008 Bahraini Dinars	2007 Bahraini Dinars
Fire, engineering and general accident	1,960,711	1,910,008
Marine and aviation	2,089,498	2,102,459
Life and medical	141,177	83,550
Motor	343,376	300,462
	4,534,762	4,396,479

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 Kuwait Dinar and Egyptian Pound with all the other variables held constant in the statement of income.

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Net open positions (in Bahrain Dinar equivalent)

	2008 Bahraini Dinars	2007 Bahraini Dinars
United States Dollars	2,643,030	4,790,135
Egyptian Pound	135,646	6,520,395
Kuwait Dinars	1,377,151	35,060
Other GCC currencies	14,329,665	11,876,015
	18,485,492	23,221,605

Foreign exchange sensitivity analysis is as follows:

Currency	Change	Impact on profit Bahraini Dinars
Kuwait Dinar	+/-5%	68,860
Egyptian Pound	+/-5%	6,787
Kuwait Dinar	+/-3%	41,312
Egyptian Pound	+/-3%	4,065

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.

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26 Financial assets and liabilities and risk management (continued)

Geographical region (continued)

Geographical concentration of investments

	2008 Bahraini Dinars	2007 Bahraini Dinars
Kingdom of Bahrain	1,852,999	1,125,400
Middle East	4,895,144	12,265,619
North Africa	133,714	8,552,802
Rest of the World	292,177	573,679
	7,174,034	22,517,500

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 Middle East. 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.

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, wherever necessary, to conform with the current year's presentation. Such regrouping does not affect either the net worth or the net profit for the previous year.