

Notes to the financial statements

for the year ended 31 December 2009
(Expressed in Bahrain Dinars)

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 Basis of preparation

Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as promulgated by the International Accounting Standards Board ("IASB"), interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and the requirements of the Bahrain Commercial Companies Law, Decree Number 21 of 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.

Basis of preparation

The financial statements have been prepared under the historical cost convention, modified by the remeasurement of available-for-sale investments at market value at the statement of financial position date, and freehold land at its market value at 30 June 2009.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies.

Standards, amendments and interpretations effective and adopted in 2009

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2009 and have been adopted in the preparation of these financial statements:

IAS 1 (revised), '*Presentation of financial statements*' effective 1 January 2009:

Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the statement of income and statement of comprehensive income).

The revised standard prohibits the presentation of certain items of income and expenses (that is 'non-owner changes in shareholders equity') in the statement of changes in shareholders' equity, and requiring 'non-owner changes in shareholders equity' to be presented separately from owner changes in shareholders' equity. All 'non-owner changes in shareholders equity' are required to be shown in a performance statement.

The Company has elected to present two statements: a statement of income and a statement of comprehensive income. These financial statements have been prepared under the revised disclosure requirements.

Standard or interpretation	Title	Effective for annual period beginning on or after
IAS 32	Financial instruments: Presentation	1 January 2009
IAS 39	Financial instruments: Recognition and measurement	1 January 2009
IFRS 7	Financial instruments: Disclosures	1 January 2009
IFRS 8	Operating segments	1 January 2009

Standards, amendments and interpretations effective in 2009 but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2009, but are not relevant to the Company's operations:

Notes to the financial statements

for the year ended 31 December 2009

(Expressed in Bahrain Dinars)

Standard or interpretation	Title	Effective for annual period beginning on or after
IAS 23	Borrowing costs	1 January 2009
IAS 27	Consolidated and separate financial statements	1 July 2009
IFRS 2	Share-based payment (revised)	1 January 2009
IFRIC 15	Agreement for the construction of real estate	1 January 2009

Standards, amendments and interpretations issued but not yet effective in 2009

Standard or interpretation	Title	Effective for annual period beginning on or after
IFRS 3	Business combinations	1 July 2009
IFRIC 17	Distributions of non-cash assets to owners	1 July 2009
IFRIC 18	Transfers of assets from customers	1 July 2009

3 Significant accounting policies

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

INSURANCE OPERATIONS

Gross premiums

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

Unearned premiums

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

Policyholders' receivables

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

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.

Reinsurance

In the ordinary course of business, the Company cedes insurance through reinsurance contracts. 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.

Notes to the financial statements

for the year ended 31 December 2009

(Expressed in Bahrain Dinars)

Claims paid

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

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 statement of financial position date and settlements and provisions in the following year is included in the statement of income for that year.

Commission income

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

Commission expense

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

Unearned commission

Unearned commission income is deferred based on the sixth method for marine cargo and the twenty-fourth method for other classes of business.

INVESTMENT ACTIVITIES

Available-for-sale investments

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

Investment fair value reserve

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

Investment income

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

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

Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment losses, if any, with the exception of freehold land which is stated at open market value, based on regular valuations conducted by external independent property valuers.

Expenditure subsequent to initial recognition is capitalised only when it increases future economic benefits embodied in the item of property, plant and equipment. Repairs and renewals are charged to the statement of income when the expenditure is incurred.

Notes to the financial statements

for the year ended 31 December 2009

(Expressed in Bahrain Dinars)

3 Significant accounting policies (continued)

Depreciation

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

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

Employees' terminal 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 Social Insurance Organisation scheme and the company's obligations are limited to the amounts contributed to the scheme.

Treasury shares

Where the company purchases its own 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 the statement of changes in shareholders' equity.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position 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 date that the values are determined.

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 statement of financial position date.

Impairment

The carrying amounts of the Company's assets are reviewed at each statement of financial position 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.

Dividends and directors' remuneration

Dividends and directors' remuneration are recognised as a liability in the year in which they are approved by the shareholders in the Annual General Meeting.

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.

4 Critical accounting judgment and key source of estimation uncertainty

Preparation of the financial statements in accordance with IFRS requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. The determination of estimates requires judgments which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates.

Notes to the financial statements

for the year ended 31 December 2009

(Expressed in Bahrain Dinars)

The most significant areas requiring the use of management estimates and assumptions relate to:

- ultimate liability arising from claims made under insurance contracts;
- impairment of available-for-sale-investments;
- economic useful lives of property, plant and equipment;
- allowance; and
- contingencies.

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 Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. The estimations for claims incurred but not reported (IBNR) uses statistical models including 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, and which may take longer than expected, resulting in actual payouts being higher than estimated.

Available-for-sale investments

The management assesses quarterly whether there is objective evidence that a financial asset or a group of financial assets is impaired. The assessment is based on the significant or prolonged decline in the fair value of the investment below present book value.

Economic useful lives of property, plant and equipment

The Company property, plant and equipment are depreciated on a straight-line basis over their economic useful lives. Economic useful lives of property, plant and equipment are reviewed by management quarterly. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Company.

Allowance

At 31 December 2009, in the opinion of the Company management, no allowance for doubtful receivables is required (2008: BD NIL). When evaluating the adequacy of an allowance for doubtful receivables, management bases its estimate on current overall economic conditions, ageing of the receivables balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for impaired trade receivables recorded in the financial statements.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

5 Cash and cash equivalents

	31 December 2009	31 December 2008
Time deposits	1,577,122	10,426,854
Cash and bank balances	840,593	228,091
	2,417,715	10,654,945

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

Time deposits bear interest rates ranging between 1% and 6% (2008: between 1% and 7.2%) per annum and have maturity periods of less than 3 months.

6 Statutory deposit

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. A sum of BD125,000 (2008: BD125,000) has been deposited with National Bank of Bahrain in the name of the Company and for the order of Central Bank of Bahrain and carries a fixed rate of return.

Notes to the financial statements

for the year ended 31 December 2009

(Expressed in Bahrain Dinars)

7 Available-for-sale investments

	31 December 2009	31 December 2008
At 1 January	7,174,034	22,517,500
Additions during the year	10,502,769	6,996,123
Disposals during the year	(2,882,158)	(16,378,539)
Impairment loss for the year (Note 27)	-	(4,244,155)
Unrealised fair value gains/(losses) recognised in statement of comprehensive income	880,111	(1,716,895)
At 31 December	15,674,756	7,174,034

The Company has performed an impairment test of its available-for-sale investments during the year ended 31 December 2009 and concluded that none of the investments were impaired. Accordingly, no impairment loss (2008:BD4,244,155) has been charged to the statement of income.

	31 December 2009	31 December 2008
Analysis of available-for-sale investments		
Shares listed on stock exchanges	13,890,526	5,231,859
Managed funds	-	184,432
Unquoted equity investments	1,784,230	1,757,743
	15,674,756	7,174,034

8 Policyholders' receivables

	31 December 2009	31 Decembe 2008
Policyholders' receivables	2,641,999	2,163,195
Less: provision for doubtful receivables	(20,751)	(20,751)
	2,621,248	2,142,444

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

The movement in provision for doubtful receivables is as follows:

	31 December 2009	31 December 2008
At 1 January	20,751	26,343
Written-off during the year	-	(5,592)
At 31 December	20,751	20,751

Notes to the financial statements

for the year ended 31 December 2009
(Expressed in Bahrain Dinars)

The ageing of policy holders' receivables not provided for is as follows:

Age in days	Current		Overdue	
	2009	2008	2009	2008
0 to 120 days	1,359,873	1,389,272	-	-
120 to 180 days	-	-	163,334	286,339
181 to 365 days	-	-	784,545	280,048
365 and above	-	-	313,496	186,785
	1,359,873	1,389,272	1,261,375	753,172

The fair values of policyholder's 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.

9 Insurance and reinsurance companies receivables

Receivables consist of balances due from insurance and reinsurance companies domiciled mainly in the Middle East and Europe. Two companies account for 54% (2008: 43%) of the total insurance balances receivable as at 31 December 2009. Arrangements with insurers normally requires settlement on a quarterly basis.

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

Age in days	Current		Overdue	
	2009	2008	2009	2008
0 to 120 days	243,279	448,731	-	-
120 to 180 days	-	-	159,105	236,964
181 to 365 days	-	-	391,294	299,533
365 and above	-	-	573,617	305,150
	243,279	448,731	1,124,016	841,647

All insurance and reinsurance companies' 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 insurance and reinsurance receivables.

10 Deferred reinsurance premiums

The movement in deferred reinsurance premiums during the year ended 31 December 2009 is as follows:

	Fire, general accident and engineering	Marine and aviation	Life and medical	Motor	2009 Total	2008 Total
At 1 January	776,560	135,391	950,047	293,878	2,155,876	1,830,501
Reinsurance premium deferred	767,852	76,517	1,375,482	232,964	2,452,815	2,155,876
Reinsurance premium released	(776,560)	(135,391)	(950,047)	(293,878)	(2,155,876)	(1,830,501)
At 31 December	767,852	76,517	1,375,482	232,964	2,452,815	2,155,876

Notes to the financial statements

for the year ended 31 December 2009

(Expressed in Bahrain Dinars)

11 Deferred policy acquisition costs

The movement in deferred policy acquisition costs during the year ended 31 December 2009 is as follows:

	Fire, general accident and engineering	Marine and Aviation	Life and medical	Motor	2009 Total	2008 Total
At 1 January	79,806	8,719	92,486	139,072	320,083	151,373
Commission incurred	52,292	5,208	160,343	92,405	310,248	320,083
Commission paid	(79,806)	(8,719)	(92,486)	(139,072)	(320,083)	(151,373)
At 31 December	52,292	5,208	160,343	92,405	310,248	320,083

12 Other receivables

	31 December 2009	31 December 2008
Accrued interest	11,799	27,243
Other receivables	372,238	234,543
Prepaid expenses	29,834	28,989
	413,871	290,775

Other receivables are unimpaired and expected, on the basis of past experience, to be fully recoverable within 12 months from the statement of financial position date.

13 Outstanding claims recoverable from reinsurers

	31 December 2009	31 December 2008
At 1 January	4,534,762	4,396,479
Additions during the year	1,521,057	1,761,140
Received during the year	(2,055,809)	(1,622,857)
At 31 December	4,000,010	4,534,762

All outstanding claims recoverable from reinsurers are unimpaired and are expected, on the basis of past experience, to be fully recoverable within 12 months from the statement of financial position date.

14 Property, plant and equipment

The land at Salmabad was revalued by two independent property valuers on 30 June 2009 at open market values. The directors have conservatively recorded a valuation of 10% less than the lowest value. The revaluation surplus arising of BD747,312 (2008: BD NIL) has been credited through the statement of comprehensive income to the fair value reserve in shareholders' equity.

Notes to the financial statements

for the year ended 31 December 2009

(Expressed in Bahrain Dinars)

15 Outstanding claims reserve

The movement in the outstanding claims reserve during the year ended 31 December 2009 is as follows:

	Fire, general accident and engineering	Marine and aviation	Life and Medical	Motor	2009 Total	2008 Total
At 1 January	2,186,001	2,147,604	179,884	4,314,980	8,828,469	8,408,557
Claims incurred	(234,410)	36,855	2,269,078	3,259,763	5,331,286	4,965,107
Claims paid	(439,818)	(65,733)	(2,011,268)	(3,446,700)	(5,963,519)	(4,545,195)
At 31 December	1,511,773	2,118,726	437,694	4,128,043	8,196,236	8,828,469

The gross outstanding claims reserve at 31 December 2009 is as follows:

Current year claims	611,537	14,472	26,045	3,133,912	3,785,966	2,850,281
Prior year claims	894,932	2,103,987	403,950	748,625	4,151,494	5,756,552
Incurred but not reported	5,304	267	7,699	245,506	258,776	221,636
	1,511,773	2,118,726	437,694	4,128,043	8,196,236	8,828,469

16 Unearned gross premiums

The movement in unearned gross premiums during the year ended 31 December 2009 is as follows:

	Fire, general accident and engineering	Marine and aviation	Life and medical	Motor	2009 Total	2008 Total
At 1 January	907,715	159,591	1,265,739	2,424,411	4,757,456	3,926,476
Premiums received	886,898	96,057	1,847,971	1,976,110	4,807,036	4,757,456
Premiums released	(907,715)	(159,591)	(1,265,739)	(2,424,411)	(4,757,456)	(3,926,476)
At 31 December	886,898	96,057	1,847,971	1,976,110	4,807,036	4,757,456

17 Unearned commissions

The movement in unearned commissions during the year ended 31 December 2009 is as follows:

	Fire, general accident and engineering	Marine and aviation	Life and medical	Motor	2009 Total	2008 Total
At 1 January	227,883	47,951	140,043	70,409	486,286	310,133
Commission received	184,574	25,289	225,758	61,613	497,234	486,286
Commission earned	(227,883)	(47,951)	(140,043)	(70,409)	(486,286)	(310,133)
At 31 December	184,574	25,289	225,758	61,613	497,234	486,286

Notes to the financial statements

for the year ended 31 December 2009

(Expressed in Bahrain Dinars)

18 Other technical provisions

Other technical provisions represent a provision for 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.

19 Other payables

	31 December 2009	31 December 2008
Payables	415,766	286,839
Accrued expenses	285,449	226,818
Provision for leave salary and air passage	63,740	58,647
Unclaimed dividends	287,493	171,145
	1,052,448	743,449

20 Employees' terminal benefits

Local employees

The contributions made by the Company towards the pension scheme for Bahraini nationals administered by the Social Insurance Organisation in the Kingdom of Bahrain for the year ended 31 December 2009 amounted to BD61,897 (2008: BD54,652).

Expatriate employees

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

	31 December 2009	31 December 2008
At 1 January	137,106	125,791
Accruals for the year	13,380	37,613
Payments during the year	(854)	(26,298)
At 31 December	149,632	137,106
Number of staff employed by the Company	77	79

21 Share capital

	31 December 2009	31 December 2008
Authorised share capital 50,000,000 shares of 100fils each (2008: 50,000,000 shares of 100fils each)	5,000,000	5,000,000
Issued and fully paid-up share capital 40,020,750 shares of 100fils each (2008: 36,382,500 shares of 100fils each)	4,002,075	3,638,250
Treasury shares	(3,724)	(3,724)
	3,998,351	3,634,526

Notes to the financial statements

for the year ended 31 December 2009

(Expressed in Bahrain Dinars)

Additional information on shareholding pattern

i) The names and nationalities of the major shareholders holding 5% or more are as follows:

	Nationality	Number of shares	Percentage of holding interest
Damac Invest Co. (LLC)	United Arab Emirates	15,543,378	38.84%
Mustafa Ahmed Salman	Oman	3,435,167	8.58%
Taqi Mohamed Al Baharna	Bahrain	2,302,306	5.75%
Others	-	18,739,899	46.83%
		40,020,750	100%

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 shareholdings as at 31 December 2009 is set out below:

	Number of shareholders	Number of shares	Percentage of total outstanding shares
Less than 1%	2,384	11,205,939	28%
More than 1% up to less than 5%	7	7,533,960	19%
More than 5%	3	21,280,851	53%
	2,394	40,020,750	100%

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

Name of the directors	2009 Number of shares	2008 Number of shares
Hussain Ali Sajwani	127,050	115,500
Dr Osama Taqi Albaharna	156,837	142,579
Adil Hassan Ali Alaali	121,000	110,000
Sofyan Adnan Khatib	133,403	121,275
Adil Taqi	100,000	-
	638,290	489,354

22 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. During the year, an amount of BD201,793 (2008: BD34,129) has been transferred to the statutory reserve.

23 Fair value reserve

Investment fair value reserve

The fair value reserve includes the gains and losses arising from changes in fair value of available-for-sale investments are recognised in the statement of comprehensive income. During the year, a fair value gain of BD880,111 (2008: fair value loss of BD1,716,895) has been transferred to the investment fair value reserve.

Revaluation reserve

The fair value reserve includes the net surplus arising on revaluation of freehold land (Note 14). This reserve is not available for distribution. During the year a revaluation surplus of BD747,312 (2008: BD NIL) has been transferred to revaluation reserve.

Notes to the financial statements

for the year ended 31 December 2009

(Expressed in Bahrain Dinars)

24 Proposed appropriations

The Directors propose a dividend of 5 fils (2008: 50 fils) per share for the year 2009. The dividend, and other appropriations mentioned below and the directors' remuneration are subject to the shareholders' approval at the Annual General Meeting:

	31 December 2009	31 December 2008
Proposed dividend	199,953	1,817,761
Proposed bonus shares	1,400,726	363,825
	1,600,679	2,181,586

Appropriations are only accounted for after shareholder approval at the Annual General Meeting has been obtained, hence the proposed 2008 appropriation are only accounted for in 2009.

During the year, the Board of Directors have proposed and provided Director's remuneration of BD48,000 for the year ended 31 December 2009. This is subject to shareholders' approval in the Annual General Meeting. The proposed Director's remuneration approved in the Annual General Meeting for the year ended 31 December 2008 amounting to BD12,000 (BD105,000 for the year ended 31 December 2007) has been accounted in the statement of income for the year ended 31 December 2009.

25 Segmental underwriting results

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

- Fire, general accident and engineering
- Marine cargo, marine hull and aviation
- Life and medical expense cover

Motor - Third party liability and comprehensive

	31 December 2009				
	Fire and general accident and engineering	Marine and aviation	Life and medical	Motor	Total
Gross premiums	2,183,328	1,595,863	5,380,978	4,292,089	13,452,258
Reinsurance ceded	(1,909,527)	(1,552,735)	(4,162,761)	(514,800)	(8,139,823)
Retained premiums	273,801	43,128	1,218,217	3,777,289	5,312,435
Adjustment in unearned premium	12,110	4,660	(156,797)	387,387	247,360
Net premiums earned	285,911	47,788	1,061,420	4,164,676	5,559,795
Net earned commission income/ (expense)	340,839	153,330	171,138	(92,961)	572,346
Net claims incurred	(68,961)	(1,605)	(548,083)	(3,191,579)	(3,810,228)
Management expenses	(119,517)	(38,352)	(83,050)	(330,300)	(571,219)
Underwriting profit before movement in technical Provision	438,272	161,161	601,425	549,836	1,750,694
Movement in technical Provision	-	-	-	-	200,000
Underwriting profit after movement in technical Provision	438,272	161,161	601,425	549,836	1,950,694
Loss ratios	24.12%	3.36%	51.64%	76.63%	68.53%
Identifiable assets	2,139,621	2,150,463	1,883,468	589,528	6,763,080
Identifiable liabilities	3,257,472	2,268,950	2,253,613	6,352,703	14,132,738

Assets amounting to BD 23,501,648 and liabilities amounting to BD 3,469,192 are not specifically identifiable with general and life insurance business.

Notes to the financial statements

for the year ended 31 December 2009
(Expressed in Bahrain Dinars)

31 December 2008

	Fire and general accident and engineering	Marine and aviation	Life and medical	Motor	Total
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
Adjustment in unearned premium	(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%
Identifiable assets	2,817,077	2,233,608	1,183,710	776,326	7,010,721
Identifiable liabilities	3,321,599	2,355,146	1,585,666	6,809,800	14,072,211

Assets amounting to BD 21,817,812 and liabilities amounting to BD 3,430,282 are not specifically identifiable with general and life insurance business.

26 Expenses

	Year ended 31 December 2009	Year ended 31 December 2008
Management expenses	571,219	575,452
General and administrative expenses	744,438	752,707
	1,315,657	1,328,159
Comprising:		
Employee related costs	979,041	1,005,919
Administrative and other costs	289,823	276,502
Depreciation	46,793	45,738
	1,315,657	1,328,159

27 Net investment income

	Year ended 31 December 2009	Year ended 31 December 2008
Realised gains on sale of available-for-sale investments	441,730	2,208,196
Dividend income	280,635	1,250,872
Interest income	223,527	111,245
Impairment loss on available-for-sale investments (Note 7)	-	(4,244,155)
	945,892	(673,842)

Notes to the financial statements

for the year ended 31 December 2009

(Expressed in Bahrain Dinars)

28 Other expenses

	Year ended 31 December 2009	Year ended 31 December 2008
Interest expenses	-	3,320
Exchange losses	74,143	36,319
Other	72	643
	74,215	40,282

29 Earnings per share

	Year ended 31 December 2009	Year ended 31 December 2008
Net profit for the year	2,017,933	236,291
Weighted average number of shares outstanding	39,990,734	39,990,734
Basic and diluted earnings per 100 fils share	50 fils	6 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 30,016 treasury shares. There is no difference between the basic and diluted earnings per share.

30 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.

There are no transactions with related party during the year end 31 December 2009 (2008 : BD NIL)

31 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, statutory deposits, available-for-sale investments and receivables from policyholders, insurance and reinsurance companies.

Financial liabilities of the Company include payables and other liabilities to policyholders, insurance and reinsurance companies and other parties.

The Company does not use any derivative financial instruments.

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.

Notes to the financial statements

for the year ended 31 December 2009

(Expressed in Bahrain Dinars)

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 the 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 2004 to 2009:

Underwriting years	2004	2005	2006	2007	2008	2009	Total
Estimate of ultimate claims:							
At end of each reporting year	2,957,960	4,510,128	5,280,296	6,381,695	8,306,619	9,045,486	36,482,184
One year later	2,794,243	4,427,982	4,963,417	6,271,218	8,325,249	-	26,782,109
Two years later	2,740,206	4,440,413	4,745,728	5,802,459	-	-	17,728,806
Three years later	2,646,903	4,232,479	4,359,164	-	-	-	11,238,546
Four years later	2,501,932	3,835,874	-	-	-	-	6,337,806
Five years later	2,343,090	-	-	-	-	-	2,343,090
Estimate of cumulative claims	2,343,090	3,835,874	4,359,164	5,802,459	8,325,249	9,045,486	33,711,322
Less: Cumulative payments to date	(2,287,010)	(3,704,757)	(4,146,380)	(5,136,020)	(6,803,661)	(5,574,994)	(27,652,822)
Liability recognized in the statement of financial position	56,080	131,117	212,784	666,439	1,521,588	3,470,492	6,058,500
Add: Claims in respect of years prior to 2004							2,137,736
At 31 December 2009							8,196,236

Claims in respect of years prior to 2004 are pending completion subject to receipt of all the necessary documentation. These claims are substantially reinsured at 31 December 2009.

Reinsurance 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:

Geographical region

	31 December 2009	31 December 2008
Middle East	2,790,186	2,935,577
Europe	752,335	1,165,847
Rest of the World	60,999	50,280
	3,603,520	4,151,704

The five largest reinsurers account for 60% of the maximum credit exposure at 31 December 2009 (2008: 52%).

Notes to the financial statements

for the year ended 31 December 2009

(Expressed in Bahrain Dinars)

31 Financial assets and liabilities and risk management (continued)

Reinsurance recoveries under each business segment are as follows:

Outstanding claims recoverable from reinsurers under each business segment

	31 December 2009	31 December 2008
Fire, general accident and engineering	1,319,477	1,960,711
Marine and aviation	2,068,731	2,089,498
Life and medical	347,643	141,177
Motor	264,159	343,376
	4,000,010	4,534,762

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.

Net open positions (in Bahrain Dinar equivalent)

	31 December 2009	31 December 2008
United States Dollars	2,320,945	2,643,030
Egyptian Pound	820,065	135,646
Kuwait Dinars	-	1,377,151
Other GCC currencies	14,110,868	14,329,665
	17,251,878	18,485,492

Foreign exchange sensitivity analysis is as follows:

Currency	Change	Impact on profit
Egyptian Pound	+/-5%	41,003
Egyptian Pound	+/-3%	24,602

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.

Notes to the financial statements

for the year ended 31 December 2009

(Expressed in Bahrain Dinars)

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

	31 December 2009	31 December 2008
Kingdom of Bahrain	1,800,920	1,852,999
Middle East	12,382,825	4,895,144
North Africa	820,065	133,714
Rest of the World	670,946	292,177
	15,674,756	7,174,034

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.

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 statement of financial position.

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.

32 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.

33 Subsequent events

No events have arisen subsequent to 31 December 2009 that would have significant effect on the financial statements as at 31 December 2009.