TRUST RE ANNUAL REPORT
2011

TRUST INTERNATIONAL INSURANCE AND REINSURANCE COMPANY B.S.C. (c) TRUST RE

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INSURANCE & REINSURANCE COMPANY
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CONSOLIDATED AND COMPANY'S SEPARATE FINANCIAL STATEMENTS 31 DECEMBER, 2011

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Sea admirals and tales of their explorations and voyages have long been a fascinating topic for humankind. In this Annual Report, Trust Re pays tribute to ZHENG HE, a 15th century Chinese admiral considered by some to be China's most famous maritime explorer. Fleets commanded and led by ZHENG HE reached Southeast Asia, East Africa and the Arabian Peninsula, astounding Arabian navigators of the time and taking by surprise Venetian businessmen voyaging between Hormuz and Aden. ZHENG HE's extraordinary ability and vision are still looked upon with awe today. Here, we highlight some of the territories whose shores ZHENG HE visited on his seven nautical voyages and where Trust Re also has a presence.

ZHENG HE

Between the third year of the Yongle reign period (1405) and the eighth year of the Xuande reign period (1433), ZHENG HE led seven great maritime expeditions. Historical evidence suggests that he visited over thirty Asian and African countries and regions. ZHENG HE crossed the South China Sea and the Indian Ocean into the Arabian Sea and the Red Sea, reaching as far west as the east coast of Africa. During the expeditions, his fleets offered gifts of gold, silver, porcelain and silk and received offerings ranging from ostriches to ivory in return. All seven voyages were unprecedented in terms of fleet size and organisation.

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Mount Kilimanjaro, Tanzania

Kilimanjaro, with its three volcanic cones, Kibo, Mawenzi and Shira, is a dormant volcano in Kilimanjaro National Park, on the northern boundary of Tanzania. Standing at 5,895 metres above sea level, it is the highest mountain in Africa and amongst the highest freestanding mountains in the world. Its climate, vegetation, animal life and climbing conditions are strongly influenced by its location on an open plain close to the Indian Ocean and its great size and height.

One of Trust Re's professional links with Africa is the AIO (African Insurance Organisation), a non-governmental organisation with 326 members; 315 of them from 45 countries in Africa and 11 associate members from 7 overseas countries. Expected growth from Africa is the highest for the whole of Trust Re's portfolio.

No specific mention is made of ZHENG HE having journeyed to Tanzania, however, his last four voyages between 1413 and 1433 all took in the coast of East Africa. It is extremely likely that the great flotilla of ZHENG HE rounded the Cape of Good Hope, in which case, Tanzania may well have been visited by HE and his fleet.

COMPANY PROFILE

Trust International Insurance and Reinsurance Company B.S.C. (c) Trust Re, was incorporated in 1989 in the Kingdom of Bahrain as an exempt company with a fully paid up share capital of US$ 15 million. Following the successful development of the business and the excellent results of the operation, the paid up capital was increased to US$ 50 million in 1996 and now stands at US$ 100 million.

The majority of the issued share capital (98.75%) is owned by Nest Investments (Holdings) Ltd. Jersey.

In addition to the security provided by the share capital, through its successful operations over the years, **Trust Re** has accumulated significant capital reserves to show total equity of more than twice its paid up capital. The Company enjoys strong relationships with blue-chip, international Reinsurers, amongst which Lloyd's of London market participants are included. This further enhances its security, already provided for by its strong capital position.

Trust Re operates in the Afro-Asian markets (including the Middle East and North Africa (MENA) region), Russia, Central and Eastern Europe (CEE) and Commonwealth of Independent States (CIS) countries, Cyprus and Turkey. **Trust Re** provides reinsurance protection to many leading direct insurance companies in its geographical area of operation, in the form of annual Treaties on proportional and non-proportional bases with a sizable underwriting capacity. The Company offers Facultative reinsurance in the following classes: Oil & Energy (offshore and onshore), Marine, Renewable Energy, Engineering, Property and Casualty.

From its early days, **Trust Re** has positioned itself to play a leading role in the Oil & Energy insurance business. The Company has obtained particular knowledge and expertise in the Afro-Asian markets to the extent that the Federation of Afro-Asian Insurers & Reinsurers (FAIR) chose **Trust Re** to manage the FAIR Oil & Energy Insurance Syndicate.

VISION, MISSION AND VALUES

Vision: "To be the Reinsurer of Choice"

Mission: To provide innovative reinsurance solutions and prompt responses, always

Values:

. Trust

. Innovation

. Our People

. Team Spirit

. Openness

. Justice

. Compliance

A MESSAGE FROM THE CHAIRMAN

Against a global backdrop of lingering financial uncertainty, conditions remained challenging for our business environment in 2011. Nonetheless, our stance remains spirited as we move closer towards our vision of being "**Reinsurer of Choice**" in our chosen markets.

Under such demanding market conditions, the innovation and expertise of our professionals is ever more important. In dealing with these long-term effects, we recognise the necessity of reviewing our portfolio mix and altering it in order to remain competitive. Moving on, we will remain vigilant about the long-term effects of the Natural Catastrophe (NAT CAT) disasters of this year and the prevailing political climate in the Middle East and North Africa (MENA).

Testament to the measured course that Trust Re practised during 2011 is the rise in the Company's shareholder equity to US$ 211.8 million from last year's US$ 206.2 million.

We maintained an ambitious standpoint regarding the leading of business both in Treaty and in Facultative, especially Energy where over 30% of the business written was as a leader. This brings Trust Re onto a global stage with Brokers in the London, Middle East and Singapore markets who look to us to quote terms on the business we write.

Our vision, "**Reinsurer of Choice**", is always at the forefront of our strategic direction. Further factors which had an impact on our performance during 2011 included our dynamic three-year rolling business plan which allowed us to enhance and fine-tune long term goals and tactics whilst monitoring Key Performance Indicators (KPIs). Moreover, the Company's sound underwriting performance continues to be supported by reserve strengthening. We are thus in a solid position to achieve the targets set out in the business plan over the coming three years.

Consistent with our desire to foster a strong Enterprise Risk Management (ERM) culture, the Underwriting Team and Quality Assurance Department began developing a risk-based Discretionary Authority Limit (DAL) in the first quarter of 2011. ERM provides us with a platform on which to build shareholder value by aligning strategy, processes, people and technology to better manage the uncertainty we face in our chosen markets. Adherence to such a culture will help us to achieve our vision to be "**Reinsurer of Choice**".

Furthermore, the Executive Council has begun to implement overall strategies and projects that clearly voice the risk appetite of the Board. With this clear direction and strategy, we are confident that we are on steady ground as we pursue our vision.

Regarding capitalisation our focus has been, and will continue to be, on developing an asset-liability model to create the intelligence regarding capital adequacy and optimisation of capital utilisation to match growth and exposure to liability.

With regards to investments, our aim is to further develop our investment policy around international standards for a non-life reinsurer. This process started in 2011 with an anticipated fixed income portfolio attuned to the size of our Company.

We place much emphasis on supporting our clients by means of sharing our technical know-how and providing them with in-house training.

A further area that we at Trust Re firmly believe in is Corporate Social Responsibility. To this end we have taken on many worthy projects in the places in which we live and work.

Lastly, and on behalf of the Board of Directors, I would like to thank all our clients, producers, business associates and staff for their continued trust and support.

Kamel Abunahl
Chairman
25th March, 2012

BOARD OF DIRECTORS

The Board of Directors consists of three distinct groups namely Shareholder Representatives, Executive Directors and independent non-executive Directors. The Board's role is to set the overall strategic direction, approve business plans and monitor the overall performance of the business against the approved plans and within a framework of sound corporate governance. Non-executive members are elected for 3 year terms. They enhance the overall knowledge and expertise of the Board, guide the Executive members and provide an independent perspective on the deliberation and decision making process.

During 2011, the Board of Directors held 5 meetings, 3 of which were in Bahrain. On each occasion, the meeting was preceded by a meeting of the Nomination & Remuneration (N&RC), Audit (AC) and Risk Committees (RC).

BOARD COMPOSITION

Name	Position	Committee Role	Attendance In 2011
Kamel Abunahl	Chairman		4
Fadi Abunahl	Chief Executive Officer		4
Ghazi Abunahl	Member (Shareholder Representative)	Member of N&RC	4
Mehran Eftekhar	Member and Board Secretary (Shareholder Representative)	Member of AC & RC	5
Jamal Abunahl	Member (Independent Non-Executive)	Member of N&RC	4
Frixos Savvides	Member (Independent Non-Executive)	Chairman of N&RC	5
Prof. Derek Atkins	Member (Independent Non-Executive)	Chairman of RC and member of AC	5
Farid Benbouzid	Member (Independent Non-Executive)	Chairman of AC and member of RC	5

Kamel Abunahl has been active in the insurance industry for more than 15 years, including a period of secondment in a Lloyd's Syndicate in London.

Ghazi Abunahl's experience in the insurance industry spans over 40 years, including membership of Lloyd's of London, as a Name. In 2008, Mr. Ghazi Abunahl was elected Chairman of the Board of Directors of the World Trade Center Association New York.

Fadi Abunahl has been working in the insurance industry for 14 years including a period with a leading Insurance Broker in the UK.

Jamal Abunahl has 28 years of experience in investment and related fields, including real estate. For the majority of that time, his responsibilities have been for investment matters in the insurance field.

Frixos Savvides is a Fellow Member of the Institute of Chartered Accountants in England and Wales (ICAEW) with more than 35 years of experience in a public auditing firm as well as the public sector, including 4 years as Minister of Health in the Cypriot government. He serves as an independent, non-executive Board member on a number of publicly quoted companies listed on the stock exchange in London and in New York.

Professor Derek Atkins teaches risk management, reputational risk and insurance at CASS Business School, London, UK. He is the co-author of many esteemed publications on risk management and insurance. Previously he held the position of Director of Strategy of a major insurance company in the UK.

Farid Benbouzid has a distinguished career of over 35 years in public service, insurance and reinsurance, and banking. He also serves on various Boards as a non-executive Director and Chairman.

Mehran Eftekhar is a Fellow Member of the Institute of Chartered Accountants in England and Wales (ICAEW). His near 40 year experience is in the professional and private sector of finance and corporate matters. He serves as a non-executive director for a number of Group companies. Mehran is also Head of Group Corporate Services at parent company level.

BOARD COMMITTEES

The Board's oversight committees, namely Nomination & Remuneration, Audit and Risk are an essential part of the Corporate Governance and Risk Management processes. They ensure that the Company always conducts itself appropriately whilst achieving commercial targets.

The Committees assist the Board with its decisions and actions by providing detailed and up-to-date information. All committees met at least 4 times during the past year and submitted written reports to the Board of Directors for full consideration.

NOMINATION AND REMUNERATION COMMITTEE

Frixos Savvides	Chairman
Ghazi Abunahl	Member
Jamal Abunahl	Member
Mufid Sukkar	Secretary

The Committee's primary functions are to: assess required and necessary competencies of Board members, review Board succession plans, evaluate the Board's performance and make recommendations to the Board on executive remuneration and incentive policies, remuneration packages of senior management, recruitment, retention and termination policies for senior management, incentive schemes, pension arrangements and the remuneration framework for the directors. Lastly, the Committee monitors the overall organisational structure and ensures that executive succession planning is in place.

AUDIT COMMITTEE

Farid Benbouzid	Chairman
Professor Derek Atkins	Member
Mehran Eftekhar	Member
Rizami Annuar	Secretary

The Audit Committee, consisting of independent or non-executive Directors, assists the Board in fulfilling its oversight responsibilities for financial reporting, internal control processes and the risk-based internal audit cycles.

RISK COMMITTEE

Professor Derek Atkins	Chairman
Farid Benbouzid	Member
Mehran Eftekhar	Member

Committee Secretary & Risk Champion: Michail Karafoulidis

Fadi Abunahl, the Company's CEO, is the Risk sponsor.

The Risk Committee, (whose members are the same as those of the Audit Committee, but with a different Chairman), assists the Board in fulfilling its oversight responsibilities for the identification, analysis, assessment, embedding and management of all the risk processes which the Company faces, both operational and technical, and which may have a financial impact on operations.

The Committee also monitors the compliance and anti-money laundering processes with the laws and regulations as well as the code of conduct.

ROLES OF THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

The Company follows a policy of segregating the roles of the Chairman of the Board and the Chief Executive Officer (CEO).

The Chairman of the Board, Kamel Abunahl, is responsible for leading and ensuring the effectiveness of the Board functions, in line with the Board terms of reference as well as their conduct and meetings.

The CEO, Fadi Abunahl, is responsible for the executive leadership and operational management of the Company. The CEO is accountable to the Board for the development, recommendation and implementation of the strategies, policies and the framework of controls.

CORPORATE GOVERNANCE

At Trust Re, we believe in strong and ethical corporate governance, promoting transparency and responsibility. As a large corporation we rely on our Board of Directors to guide and supervise our general operation and long-term vision, to be "The Reinsurer of Choice". We strive to implement the best international practices in our workplace to ensure full and effective business continuity.

To a large extent, this Annual Report reflects our accomplishments in corporate governance in terms of Board composition, the work of the Board Oversight Committees, the degree to which international standards have been met and compliance with the Central Bank of Bahrain (CBB) regulations. In addition, our comprehensive policies and procedures are further proof that not only do we recognise the importance of good corporate governance principles but that we have also come a long way towards fully implementing these principles.

RISK MANAGEMENT

Our Risk Management function is responsible for implementing the risk management policy as defined by the Board. It is responsible for ensuring our internal risk policies and structures are established within the various departments along with reviewing and monitoring on a regular basis.

As part of the ongoing ERM implementation plan, the department is responsible for building a risk awareness culture within Trust Re and reporting to the Risk Committee on all areas relating to the management of risk.

COMPANY STRUCTURE

Trust Re is structured around three pillars namely **Corporate Services, Operations** and **Planning & Business Development**, each with its own specific focus. The heads of the three pillars report directly to the CEO.

Corporate Services departments provide support to the other operating functions of the Company by means of optimal IT infrastructure, human resources and training to enable them to meet their targets. Moreover, a strong finance team supports the underwriting by providing administrative and investment expertise.

Operations comprising Underwriting, Retrocession and Claims departments, is the core of Trust Re. The Head Office and our branches in Cyprus and Labuan (Malaysia) each have their own territorial scope with regards to underwriting.

The **Planning and Business Development** pillar concentrates on forward planning and external relations of the organisation. Its functions comprise the Actuarial and Risk Department which provides the business intelligence to develop our Company; Quality Assurance (QA) ensures that agreed and approved Company strategies are applied throughout each department whilst Corporate Communication is responsible for maximising the value of our established and well recognised brand.

Outside the scope of the three pillars, Trust Re has three **oversight functions**: Internal Audit, Compliance and Legal.

RISK-BASED INTERNAL AUDIT

The Internal Audit Department provides systematic, independent and objective examination and evaluation of the effectiveness of risk management, control and governance processes.

Furthermore, the department aims to promote the efficiency and effectiveness of internal controls of various departments. The internal audit review process is methodically undertaken based on the risk-based annual audit plan approved by the Audit Committee.

With regards to technology, the internal audit workflow uses TeamMate (an audit management system for managing work papers and documenting audit evidence, supporting documents and reporting.)

The Internal Audit Department is independent from the management and reports directly to the Audit Committee. All of its activities are consistent with the audit methodology of the Group Internal Audit Department. The internal audit review process is structured based on the risk-based annual audit plan approved by the Audit Committee.

COMPLIANCE

Trust Re's Compliance Department ensures that the Company complies with the relevant internal and external requirements, rules and regulations, including matters relating to money laundering. The Compliance department provides advice to senior management on issues relating to business dealings, legal and compliance risk controls, as well as ensuring that all work is done within regulatory requirements.

As always, our Compliance Officer ensures compliance with applicable requirements under the Kingdom of Bahrain's legislation and those set by the Central Bank of Bahrain (CBB), as well as those established under any other statute or regulator to which Trust Re is subject.

Through this function at Trust Re, we make sure that we maintain and adhere to high standards and legal requirements in all our services. These standards are derived from internationally accepted principles of best advice and best practice and the regulatory requirements of the financial supervisory bodies in the territories in which we operate.

Among the responsibilities that come under Compliance are ensuring that we follow the policies, procedures and guidelines of the Anti-Money Laundering Manual, and the Financial Crime Module of the Insurance Rulebook as issued by the CBB. In addition, Compliance also keeps us abreast of relevant updates issued by the CBB.

LEGAL

During 3rd Quarter 2011, Trust Re established its own Legal Department and a Legal Counsel was employed to lead the department. The main role of the department is consultancy on legal matters or potential legal matters, in Bahrain and in other countries where Trust Re has a strategic interest. The Department is responsible for managing all the legal aspects of the Company with its stakeholders.

ACTUARIAL AND RISK

Significant progress was made during 2011 in embedding the philosophy of Enterprise Risk Management (ERM) in the Company.

One of the main focal points of this department is the development of our internal capital model. The model will provide various benefits including assessing the risk adjusted returns from our various profit centres; optimising our reinsurance purchasing; allocating our capital to match growth and increasing our understanding of the risks we face. In addition, the model will assist senior management in making informed business decisions and helping fine-tune strategies.

As part of integrating risk management into the underwriting activities, rating tools have been developed to empower our underwriters to make decisions based not only on expected losses but also on the impact on Trust Re's capital requirements.

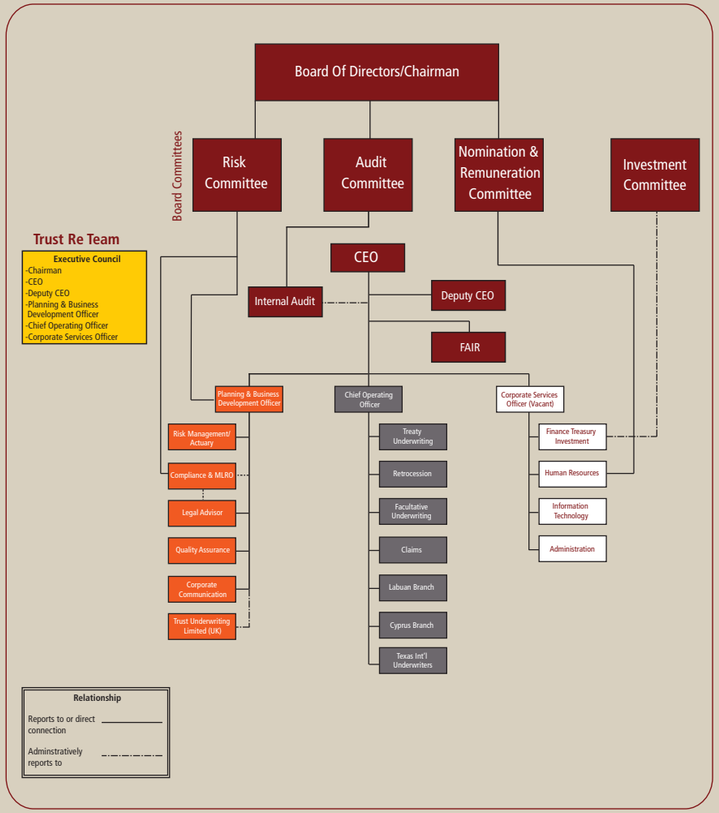
Developments have been made on assessing our aggregate risk exposures including the benefits of improving geographical diversification. With assistance from our external partners we have access to the latest catastrophe models from companies such as RMS, EQECAT and AIR.

Given the prevailing political conditions in our areas of operation, the team continued with efforts to improve the Company's continuity plans and ensure that the Company was managing and dynamically responding to this risk. This strategy proved to be successful as the team's proactive response allowed us to emerge virtually unscathed from the aforementioned prevailing political conditions in areas where we do business.

Supporting our continuous quest for improved risk analytics, the Group has invested significantly in Business Intelligence tools. Over the coming years, these tools will provide the means to monitor, measure and manage our risk exposures in a way that reflects the ERM philosophy of an integrated approach to risk management.

ORGANISATIONAL CHART

Trust Re Bahrain
Organisational Chart 2011



A MESSAGE FROM THE CEO

At the heart of Trust Re are our people. In this annual message, I would like to express my gratitude for their contribution during 2011 and to encourage every single team member to continue to live our vision of being "**Reinsurer of Choice**" in the markets in which we operate.

At the core of our vision is our commitment to our clients and business partners to whom we pledge superior service. In this regard, one of the biggest successes of the year was the leadership workshop held in September. It focused on empowering individuals across all functions to become leaders through sound decision making and innovative thinking. Furthermore, we continue to place great emphasis on our graduate trainee programme; we are focused on cultivating and developing young talent to ensure that we have sufficient human capital for our operations, both current and future.

We firmly believe that our uniqueness continues to set us apart from our competitors. Again this year, Facultative core business (Energy and Property) continued to be the main force behind the Company's profitability. We witnessed growth in Africa, China, Iraq and Russia. By establishing ourselves as specialist leaders in underwriting Energy and Property damage risks, we continue to distinguish ourselves from other regional players.

In the second half of 2011, and in line with our strategy to continuously expand our geographical scope, we began to offer substantial reinsurance underwriting capacity from countries in Central and Eastern Europe (CEE). Our Cyprus branch office is the hub for business in these areas as it provides us with better and easier access to the new markets.

Despite ever more frequent and severe challenges to our business environment, which in 2011 took the form of devastating natural catastrophes and the prevailing political situation in the Middle East and North Africa (MENA) region, we are pleased to report a satisfactory year of operations for our Company.

Gross written premium (GWP) was 22.9% higher (excluding Trust Underwriting Limited [TUL] Quota Share [QS]) than last year and our strategy of being a greater risk carrier was reflected in our retention ratio which was both higher than budgeted and higher when compared to 2010 levels.

Investment and finance income increased by 43.5% to US$ 7.3 million compared to 2010. This was due to higher diversification of the Company's asset portfolio into fixed income securities and the substantial cash flow generation during the year.

We constantly review our asset allocation to ensure investments comply with our strict risk parameters and hence we do not unnecessarily shift capital from our core activity of underwriting.

During the coming years, we will continue to put emphasis on enhancing the overall profitability of the Company through sound risk management. In 2011, the initial stages of our Group's (Nest Investments Holdings) Business Intelligence platform, Financial Reporting and Management Environment (FRAME) were implemented in Trust Re.

Creativity and innovation are further values which we epitomise in our quest to become "**Reinsurer of Choice**". We are constantly exploring new lines of business and new products in order to enhance our underwriting abilities and to sharpen our competitive edge. Liability, one of our newest lines of business, grew successfully during 2011 further strengthening our service offering to our clients. Furthermore our new, tailor-made product, Cap Medex which targets the Medex market (and thus reduces our reliance on business driven by natural catastrophe risks) was successfully launched during 2011. Over the last 12 months, we enhanced our presence in the biggest regional market, the Kingdom of Saudi Arabia, through a number of proportional and non-proportional involvements.

In addition, we also successfully diversified our portfolio in writing new products such as Agriculture Excess of Loss (XOL) and Health XOL covers, even though on a small scale.

Furthermore, we saw an increase in Renewable Energy offerings, particularly from the Far East and Turkey. Premium income from this line of business in 2011 more than doubled compared to 2010.

As a committed and leading reinsurer, we maintain close relationships with all our stakeholders and community partners, in all regions of our international operation. Moving forwards, we will keep on enhancing our two main branches in Cyprus and Labuan, Malaysia so that we can have even more frequent, closer contact with our clients.

I would like to take this opportunity to thank you, our clients and business associates, for your support. May we carry on being your **"Reinsurer of Choice"**.

Thank you

Fadi Abunahl
Chief Executive Officer
25th March, 2012

THE GROUP RESULTS

The Group's gross written premium in 2011 reached US$ 348.8 million compared to US$ 304.7 million in 2010. This represents a 14.5% year-on-year growth.

The retention ratio of the Group has increased by 4.7 percentage points from 63% in 2010 to 67.7% during last year. In 2011, the combined ratio stood at 95.6% as opposed to 89.2% in 2010. The major drive behind the increase in the combined ratio was the jump in the loss ratio from 60% in 2010 to 70% in 2011.

The overall profit after tax has improved by 26.4% to US$ 16.9 million from US$ 13.3 million in 2010. A significant contributor to this improvement was increased investment and other non-technical income.

THE COMPANY RESULTS

The Company's gross written premium in 2011 amounted to US$ 336.7 million compared to US$ 290.8 million in 2010. The retention ratio of the Company rose by 5.4 percentage points from 62.4% in 2010 to 67.8% in 2011.

The Company's combined ratio for 2011 stood at 95.5% compared to 89% in 2010. The rise in the combined ratio is due to the 7.9 percentage point increase in the loss ratio from 61.6% in 2010 to 69.5% in 2011.

Overall profit after tax stood at US$ 19 million compared to US$ 13.8 million in 2010, an increase of 37.7%, primarily due to a rise in investment and other non-technical income.

THE GROUP FINANCIAL STRENGTH

The Group's net technical reserves increased by 41.2% on a year-to-year basis to reach US$ 326 million in 2011 as opposed to US$ 231 million as at December 2010.
Cash and bank balances amounted to US$ 153.8 million at December 2011, compared to US$ 112.7 million as at December 2010.

Investments held in equities and fixed income securities increased by 14.4% to US$ 171.6 million as at December 2011, compared to US$ 150.1 million as at December 2010.
Shareholders' equity showed a slight improvement to US$ 206.2 million as at December 2011 compared to US$ 205.7 million as at December 2010.

KEY RATIOS FOR THE YEAR WERE
Performance Ratios %

	Note	2011	2010
Retention Ratio	1	67.7	63
Combined Ratio	2	95. 6	89.2
Underwriting Profit	3	4.4	10.8
Return on Equity	4	8.2	6.5

THE COMPANY'S FINANCIAL STRENGTH

In 2011, the Company's net technical reserves reached US$ 266.4 million. This represents a 50.2% increase from US$ 177.4 million in 2010. The pace of growth was almost twice that of the Net Written Premium (25.9%).

Cash and bank balances grew 46.3% to US$ 145.4 million as at December 2011, from US$ 99.4 million in 2010.

Investments held in equities and fixed income securities increased by 20% to reach US$ 126.3 million in 2011 from US$ 105.3 million in 2010.

The shareholders' equity expanded by 2.7% to end the year at US$ 211.8 million compared to US$ 206.2 million in 2010.

KEY RATIOS FOR THE YEAR WERE
Performance Ratios %

	Note	2011	2010
Retention Ratio	1	67. 8	62.4
Combined Ratio	2	95.5	89
Underwriting Profit	3	4.5	11
Return on Equity	4	9.1	6.9

Significance of Ratios:

1- Retention Ratio: This ratio indicates the extent of dependence on reinsurance.
2- Combined Ratio: The combined ratio aggregates the cost ratio (acquisition costs and operating costs) and the loss ratio (net incurred claims).
3- Underwriting Profit: This ratio compares underwriting profit to net earned premium.
4- Return on Equity: Computed as a proportion of net profit to average shareholders' equity.

INVESTMENT

FIXED INCOME SECURITIES

During 2011, the Company significantly increased its bond portfolio, driven by the in-house asset- liability matching (ALM) model. The Company's attitude towards fixed income investment is conservative and this is reflected in the key parameters of its portfolio. The average rating of the portfolio stood at 'A', the modified duration was less than 5 and the income yield stood at 5.9%. The defensive characteristics of the portfolio became apparent through its resilient performance during the market downturn. Its market value stood at US$ 47.9 million at 31st December, 2011.

EQUITIES

Historically the Company's equity investment focused on related, unlisted companies and Gulf Cooperation Council (GCC) bourses with a strong emphasis in Qatar. During 2011, the Company shifted most of its unlisted holdings to the parent in order to save risk-based capital. The remainder of its equity portfolio (listed) was distributed as follows: 85.9% in Qatar, 8.8% in Oman and 5.3% in various (mainly European). The total market value stood at US$ 74.2 million as at 31st December, 2011.

Throughout 2011, the portfolio registered a 7.6% capital appreciation, mainly driven by the strong performance of QGIRC. The dividend yield of the portfolio (received during the year) was 6.2% of the equity investment at cost. As at the year end, the total capital gain shown by the equity portfolio was US$ 41.7 million or 127.9% of the initial investment.

REAL ESTATE

Trust Tower in Bahrain, the building which houses our Head Office, was sold to the parent company, Nest Investments Holdings for a consideration of US$ 35.5 million. The transaction was carried at the latest book value.
The Company also owns two plots of land in Bahrain which are being kept for future development.

SUBSIDIARIES

TRUST UNDERWRITING LIMITED

Trust Underwriting Limited (TUL) is a wholly owned subsidiary in the UK. Its main activity is the participation in the Lloyd's market as a corporate capital provider to a number of syndicates.

TUL has a 70% Quota Share (QS) arrangement with Trust Re that is renewed annually.

During 2011, total written premium ceded from TUL to Head Office (HO) in Bahrain amounted to US$ 30.4 million. This is 27% less than last year in line with the reduced stamp in 2011 year of account.

Over the years, the QS arrangement with TUL has provided HO with significant profitability and income distribution. In 2011, however, the relationship yielded losses reflecting the impact of the remarkably high level of natural catastrophe (NAT CAT) losses affecting the Lloyd's market.

For the 2012 year of account, the total stamp of TUL stands at £26.7 million which is a negligible reduction from £27 million for the 2011 year of account.

Following the 2011 autumn auctions at Lloyd's, the market value of TUL's capacity stood at £7.7 million.

TUL operations are supported by a guarantee issued by Lloyds TSB Bank in the UK on behalf of the parent company in Bahrain. The guarantee is backed by Trust Re assets as well as by assets of the parent of Trust Re (Nest Investments Holdings). The part of the guarantee backed by Trust Re assets amounted to £9 million.

VENTURA DEL MAR

Ventura del Mar is a UK subsidiary which owns premium residential apartments in Marbella, Spain.

Despite the economic downturn in Europe, the value of our investment has been resilient due to its defensive characteristics, namely its prime location and its focus on high-net-worth individuals.

Moreover, Ventura SA, which is a direct subsidiary of Trust Re, completed the acquisition of the freehold title of the Beach Bar last year.

As a result, the current valuation of the Beach Bar with the freehold title has significantly underpinned the whole Ventura enterprise.

AFRO ASIAN ASSISTANCE

This venture was launched in 2010 with the aim of providing the MENA markets with Travel Assistance and Personal Accident (PA) products. Business was badly affected in the first half of 2011 by the social and political unrest in its target markets. Recovery was slow yet steady during the second half of the year. Stability resumed and meaningful contracts started to be generated. Since the year end, business momentum has gathered pace and we feel optimistic about the success of its business model.

MANAGEMENT TEAM

Trust Re has a high-calibre management team to run its operational activities. The following are the members of the management team:

Executive Council

Kamel Abunahl, Chairman

Kamel has been in the insurance industry for more than 15 years, including a period of secondment in a Lloyd's Syndicate in London.

Fadi Abunahl, CEO

Fadi has been working in the insurance industry for 14 years including a period with a leading Insurance Broker in the UK.

Romel Tabaja, Deputy CEO

Romel has been working in the insurance and reinsurance industry for more than 10 years. He held various senior underwriting and managerial positions before being appointed Deputy CEO in April 2011.

Paul Cotterill, COO

Before being appointed as COO of Trust Re in 2010, Paul spent 45 years in the insurance and reinsurance industry. He has worked with companies such as BP, Shell, Exxon Mobil, CNOOC and ENICHEM.

Michail Karafoulidis, Planning & Business Development Officer

Michail has more than 20 years of actuarial experience including in London and other international markets.

Samir Shaman, Executive Consultant

Samir is a Civil Engineer by education and holds the ACII professional qualification. His experience spans over 40 years in the insurance and reinsurance industry with various such companies in the Middle East.

Members of the Management Team

Nabil Hajjar, Director of FAIR Oil & Energy Insurance Syndicate

During the 34 years of his career, Nabil has held senior positions in many reputable insurance and reinsurance companies in the UAE, USA, Cyprus and Bahrain.

Thommy Thomas, Chief Underwriter

Thommy, a Fellow of the Chartered Insurance Institute (FCII) UK and Associate in Marine Insurance Management (AMIM) USA, has been working with Trust Re since its inception in 1989.

Malcolm Fonseca, Head of Retrocession

Malcolm, a Fellow Member of the III and associate of the CII, has over 34 years of industry experience covering a variety of insurance and reinsurance disciplines.

Kuriyan Oomman, Claims Manager

Kuriyan has been working with Trust Re since its inception in 1989. His 31 year career in the insurance and reinsurance industry also includes 9 years with Qatar General Insurance and Reinsurance.

Selastin Anthoniappan, Finance Manager

Selastin is a Fellow Chartered Accountant from India and a Certified Internal Auditor. His experience includes 9 years in audit and 15 years in reinsurance with Trust Re.

Yazid Bitar, Head of Corporate Communication

Yazid has over 25 years of experience in marketing communication, advertising and public relations in all GCC and MENA markets.

Mark Buisseret, Head of Actuarial and Risk

Mark is a UK graduate in Actuarial Science. He started his professional career at SCOR and has acquired more than 15 years of experience working for various international reinsurance companies.

Constantinos Hadjigeorgiou, Head of Quality Assurance

Constantinos is a professional engineer (Greece) and ACII (UK) with 15 years international experience in project management, engineering consulting and Information Systems in various senior positions. Constantinos took over this position, previously held by Hussain Matooq, in the third quarter of 2011.

Mourad Hammami, Compliance and Money Laundering Reporting Officer

Mourad holds a Masters Degree in Insurance (IFID Diploma) and a Bachelor in Economics (Tunisia). He has worked in the insurance (including Takaful) industry for over 14 years, mostly as an insurance legal and regulatory official.

Ashraf Ibrahim, Head of Legal Department

Since 2011, Ashraf has been the Head of Legal Department at Trust Re. His legal experience in Egyptian law and the laws of the GCC is extensive and spans more than 18 years.

Mahmoud Otoum, IT Communications Manager

Mahmoud holds a Bachelor's degree in Computer Science and has 11 years of experience in progressively senior positions.

Rizami Annuar, Internal Audit Manager

Rizami qualified for his CPA from Australia and has worked in the insurance and reinsurance industry for over 10 years.

Steven Lau, General Manager, Labuan Branch, Malaysia

Steven joined Trust Re in our Labuan Branch in May 2006. He has over 20 years experience in the underwriting of property and casualty insurance and reinsurance lines of business as well as Treaty underwriting in the region.

Sinisa Lovrincevic, Head of Business Development, Cyprus Branch

Sinisa has 15 years of reinsurance experience on an international scale, leading teams at the highest level.

COMPANY'S SOLVENCY STATEMENT

This summarised Solvency Statement seeks to compare Trust Re's available capital to its solvency margin requirements. Both these have been determined in accordance with the regulatory provisions prescribed by the Central Bank of Bahrain.

Available capital is determined as the aggregate of two tiers of capital funds. Tier 1, or core capital, comprises the highest quality capital. Tier 2, or supplementary capital, comprises other instruments that, to varying degrees, fall short of the quality of Tier 1 capital but, nonetheless, contribute to the overall financial strength of the Company.

For general insurance business, solvency margin requirements are determined by taking the higher of premium basis and claim basis calculations that are prescribed by the Central Bank of Bahrain. Where these calculations result in solvency margin requirements falling below the minimum fund size prescribed by regulations, such minimum fund size is considered as the required margin of solvency. Total available capital is then compared with the required margin of solvency and the total excess or deficiency determined. As at 31 December 2011, the Company's summarised solvency position remains strong as shown in the table below.

	31.12.2011 US$'000	31.12.2010 US$'000
Capital available	146,386	132,007
Required margin of solvency	41,881	34,993
Excess of Capital available over the required solvency margin	104,505	97,014
Cover	3.50 x	3.77x

CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility (CSR) is an expanding and integral part of Trust Re's operations. We firmly believe that CSR mirrors our vision, mission and values and serves as a guide to what Trust Re stands for and what we uphold to our customers. Our approach to CSR is multi-faceted and we endeavour to build on all of these aspects.

Community

Part of our approach is community based, where we work in the community to share what we have. In this regard, on 30th June 2011, 37 employees took part in a blood donation campaign at Trust Tower, run under the auspices of medical staff from the central blood bank at Salmaniya Medical Centre. In the future, we plan to hold this event at least twice a year and encourage businesses in the same field to participate too.

In addition, Trust Re takes sporting activity seriously. This past Ramadan we were the proud gold sponsors of the 3rd Ramadan Insurance Football tournament. Also, since 2009 Trust Re has sponsored a promising young tennis star based in the UK. He plays junior tennis at international level. Furthermore, sponsorship money was given to a senior staff member who took part in marathon running.

Environment

As a CSR focused business we proactively encourage community growth and development and voluntarily adopt environmentally friendly practices. To be more specific, we introduced a Document Management System with the aim of moving towards a predominantly paperless workplace. We also introduced an extensive recycling initiative. Furthermore Trust Re entered teams in the Annual Environmental Treasure Hunt; held under the patronage of H.H. Sheikh Abdullah bin Hamad Al Khalifa, Head of the Public Commission for the Protection of Marine Resources, Environment and Wildlife.

Philanthropy

Another angle is philanthropic which includes monetary donations to purchase food baskets which our staff members distribute to less privileged people during the Holy month of Ramadan. We also host an Iftar buffet for orphaned children whereby we break our fast with the orphans, play games with them and share educational gifts. Children of families working with us are encouraged to participate. In 2011, we were pleased to have the support of the Central Bank of Bahrain (CBB) and in future years we aim to have other companies in the Bahrain insurance and reinsurance field participate too.

ACKNOWLEDGEMENTS

The Board of Directors expresses its sincere appreciation of all our valued clients, reinsurers, brokers, business partners and collaborators, the Ministry of Industry and Commerce and the Central Bank of Bahrain for their support and cooperation. The Board looks forward to the continued encouragement of all these parties in the future. Ultimately, the success of the Company is the result of the combined efforts and professional skills and ideas of all the employees of the Company, its advisors and operational management. On behalf of the Board of Directors and the Executive Management, we would like to thank them, and particularly all our staff, for their commitment and valuable contribution.

On behalf of the Board
Fadi Abunahl
Chief Executive Officer
25th March, 2012

REMUNERATION AND FEES

The Directors' remuneration is fixed in accordance with Legislative Decree No (21) of 2001 of Commercial Companies Law. The amount is capped at 10% of the net profit, after deduction of prescribed legal reserves and a minimum cash dividend distribution.

The Board of Directors will propose to the Annual General Meeting a fee of US$ 200,000 to be paid to the Directors for the year 2011.

The management fees paid to the Executive Management team and the holding company in 2011 amounted to US$ 2.1 million (US$ 1.8 million in 2010).

AUDITORS

Ernst & Young Bahrain were appointed as the new auditors of the Company in 2011.

DIVIDEND

The Board of Directors will propose to the Annual General Meeting a cash dividend of US$ 10 million i.e. 10% of the Company's paid up capital for the year ended 31 December 2011.

02 AUDITORS' REPORT TO THE SHAREHOLDERS OF TRUST INTERNATIONAL INSURANCE & REINSURANCE COMPANY B.S.C.(c) TRUST RE

Fort Jesus, Mombasa, Kenya

Located along the coastline near the Old Town is the striking Fort Jesus, built in the 16th century by the Portuguese. The fort was built to protect the port of Mombasa and is one of the most impressive and best preserved examples of Portuguese military fortification of the time. Inscribed on UNESCO's World Heritage List in 2011, the fort's museum showcases artefacts from the time when Mombasa was a transit point for various commodities. The property covers an area of just over 2 hectares and includes the fort's moat and immediate surroundings.

From its early days, Trust Re has been present in Africa and is a member of the Federation of African National Insurance Companies (FANAF).

It is not known whether ZHENG HE visited Mombasa, however, several accounts document that he did visit the Kenyan port of Malindi which lies 120 kilometres northeast of Mombasa, on his fourth and fifth voyages.

REPORT ON THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

We have audited the accompanying consolidated and separate financial statements of Trust International Insurance & Reinsurance Company B.S.C. (c) Trust Re ("the Company") and its subsidiaries (together "the Group"), which comprise the Group's consolidated and Company's separate statement of financial position as at 31 December 2011, and the consolidated and separate statements of income, comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Responsibility of the board of directors for the consolidated and separate financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated and separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Group and the Company as at 31 December 2011, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The Group's consolidated and the Company's separate financial statements as of 31 December 2010 were audited by another auditor who expressed an unmodified opinion on those financial statements on 9 March 2011.

Report on other regulatory requirements

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 3), we report that:

a- the Company has maintained proper accounting records and the financial statements are in agreement therewith; and

b- the financial information contained in the Report of the Board of Directors is consistent with the consolidated and separate financial statements.

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 3 and applicable provisions of Volume 6) and CBB directives or the terms of the Company's memorandum and articles of association during the year that might have had a material adverse effect on the business of the Group and the Company or on their financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests.

25th March, 2012
Manama, Kingdom of Bahrain

GENERAL INFORMATION

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Marfin Popular Bank
Middle East Africa Bank
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03 STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER, 2011

Phong Nha Cave, Vietnam

Phong Nha is a cave in Phong Nha-Ke Bang National Park, a UNESCO World Heritage Site in Quang Binh Province, Vietnam. It is 7,729 metres long and contains 14 grottos, as well as a 13,969 metre underground river. The karst formations stretching throughout the surrounding Ke Bang National Park were formed approximately 400 million years ago, making them amongst the oldest in Asia.

Given that Trust Re has an ever larger portfolio of facultative and treaty business in the Far East, it is only right to feature a nation such as Vietnam. During 2011, 54.6% of Marine Hull business was written in Far Eastern countries. In the same time period, renewable energy offerings increased in this region too.

During the first voyage of 1405-1407, ZHENG HE's first port of call was in Champa, a port in current day Vietnam.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION At 31 December 2011

	Note	2011 Group US$ '000	2010 Group US$ '000 Restated
ASSETS			
Cash and bank balances	7	153,774	112,729
Available for sale investments	8	171,624	150,060
Due from parent	9	76,003	15,021
Insurance and other receivables	10	192,408	197,638
Gross deferred acquisition costs	11	42,421	38,264
Reinsurers' share of technical reserves	12	259,866	217,984
Investment properties	13	1,707	22,647
Properties held for sale	14	8,686	8,954
Property and equipment	15	12,918	31,775
Intangible assets	16	416	738
Goodwill	17	24,645	24,645
TOTAL ASSETS		944,468	820,455

The attached notes 1 to 33 form part of these consolidated and Company's separate financial statements

	Note	2011 Group US$ '000	2010 Group US$ '000 Restated
EQUITY AND LIABILITIES			
Equity			
Share capital	18	100,000	100,000
Statutory reserve	18	23,687	21,792
Retained earnings		45,658	45,679
Cumulative changes in fair value		41,226	33,395
Revaluation reserve		-	5,994
Foreign currency translation reserve		(4,467)	(1,319)
Equity attributable to shareholders of the parent		206,104	205,541
Non-controlling interests		52	122
Total equity		206,156	205,663
Liabilities			
Gross technical reserves	12	585,914	448,958
Reinsurers' share of deferred acquisition cost	19	16,738	20,423
Reinsurance payables		23,041	18,631
Insurance and other payables	20	111,335	125,278
Borrowings		1,284	1,502
Total liabilities		738,312	614,792
TOTAL EQUITY AND LIABILITIES		944,468	820,455

Kamel Ghazi Abunahl
Chairman

Fadi Ghazi Abunahl
Director & Chief Executive Officer

The attached notes 1 to 33 form part of these consolidated and Company's separate financial statements

COMPANY'S SEPARATE STATEMENT OF FINANCIAL POSITION At 31 December 2011

	Note	2011 Company US$ '000	2010 Company US$ '000 Restated
ASSETS			
Cash and bank balances	7	145,369	99,351
Available for sale investments	8	126,324	105,307
Investment in subsidiaries		28,882	28,401
Due from parent	9	76,003	15,021
Insurance and other receivables	10	178,840	195,769
Gross deferred acquisition costs	11	38,036	33,772
Reinsurers' share of technical reserves	12	246,437	207,164
Investment properties	13	1,707	22,647
Property and equipment	15	10,612	26,339
TOTAL ASSETS		852,210	733,771
EQUITY AND LIABILITIES			
Equity			
Share capital	18	100,000	100,000
Statutory reserve	18	23,687	21,792
Retained earnings		48,089	46,203
Cumulative changes in fair value		40,032	32,201
Revaluation reserve		-	5,994
Total equity		211,808	206,190

The attached notes 1 to 33 form part of these consolidated and Company's separate financial statements

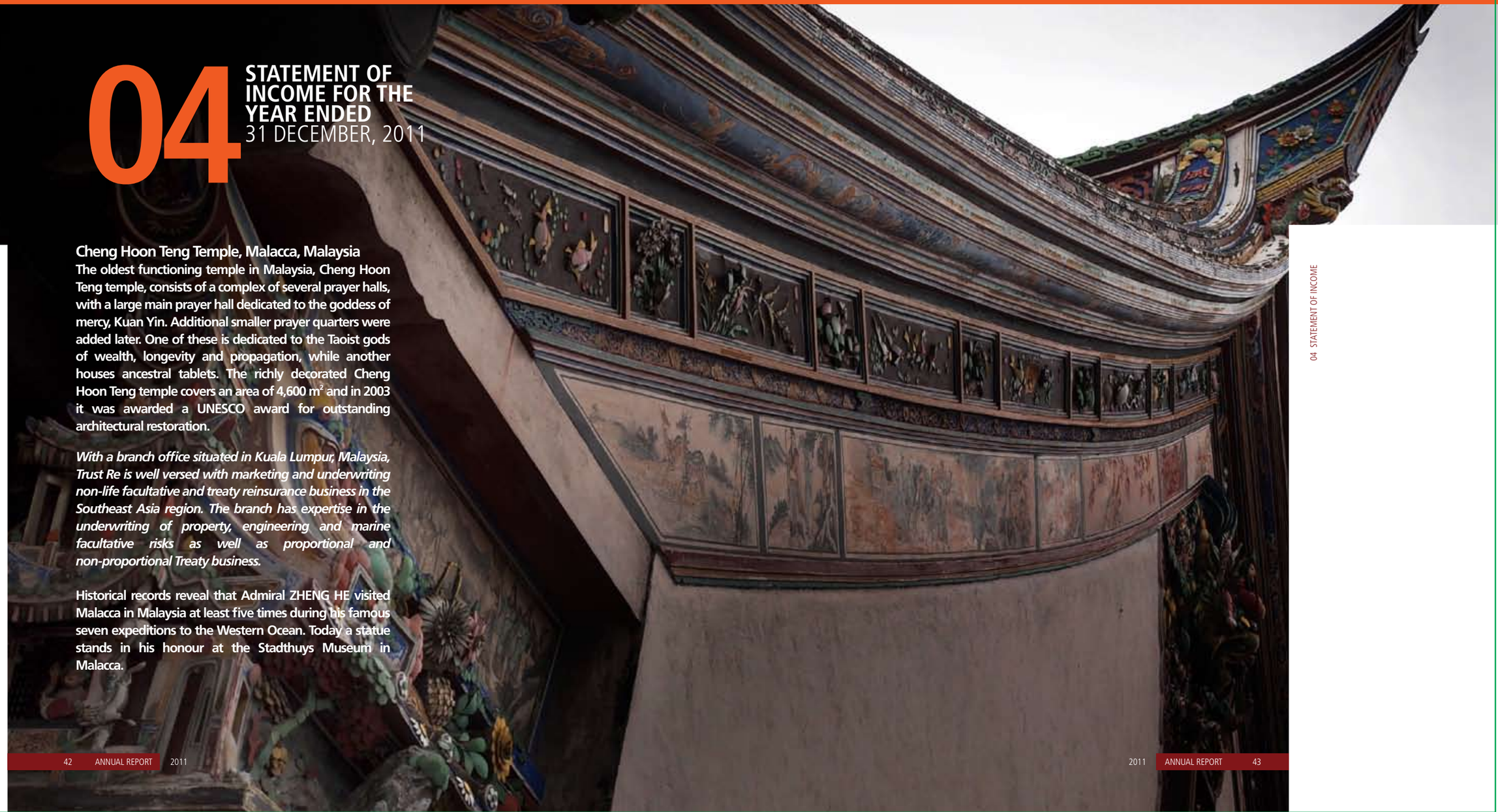
	Note	2011 Company US$ '000	2010 Company US$ '000 Restated
Liabilities			
Gross technical reserves	12	512,826	384,573
Reinsurers' share of deferred acquisition cost	19	16,738	20,423
Reinsurance payables		18,187	14,661
Insurance and other payables	20	92,651	107,924
Total liabilities		640,402	527,581
TOTAL EQUITY AND LIABILITIES		852,210	733,771

Kamel Ghazi Abunahl
Chairman

Fadi Ghazi Abunahl
Director & Chief Executive Officer

The attached notes 1 to 33 form part of these consolidated and Company's separate financial statements

04 STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER, 2011



Cheng Hoon Teng Temple, Malacca, Malaysia

The oldest functioning temple in Malaysia, Cheng Hoon Teng temple, consists of a complex of several prayer halls, with a large main prayer hall dedicated to the goddess of mercy, Kuan Yin. Additional smaller prayer quarters were added later. One of these is dedicated to the Taoist gods of wealth, longevity and propagation, while another houses ancestral tablets. The richly decorated Cheng Hoon Teng temple covers an area of 4,600 m^2 and in 2003 it was awarded a UNESCO award for outstanding architectural restoration.

With a branch office situated in Kuala Lumpur, Malaysia, Trust Re is well versed with marketing and underwriting non-life facultative and treaty reinsurance business in the Southeast Asia region. The branch has expertise in the underwriting of property, engineering and marine facultative risks as well as proportional and non-proportional Treaty business.

Historical records reveal that Admiral ZHENG HE visited Malacca in Malaysia at least five times during his famous seven expeditions to the Western Ocean. Today a statue stands in his honour at the Stadthuys Museum in Malacca.

CONSOLIDATED STATEMENT OF INCOME Year ended 31 December 2011

	Note	2011 Group US$ '000	2010 Group US$ '000 Restated
Gross premiums written	12	348,773	304,681
Premiums ceded	12	(112,515)	(112,663)
Net premiums written		236,258	192,018
Unearned premium adjustments		(22,626)	(26,422)
Net earned premium		213,632	165,596
Gross claims paid	12	(166,344)	(165,398)
Recoveries on premiums ceded	12	77,757	87,309
Outstanding claims adjustments		(60,886)	(21,272)
Claims and related expenses		(149,473)	(99,361)
Commission income	19	31,935	29,543
Policy acquisition costs	11	(73,819)	(61,020)
Other operating income		1,440	-
Operating expenses	22	(13,201)	(15,786)
Finance cost		(1,032)	(1,028)
		(54,677)	(48,291)
Underwriting profit		9,482	17,944

The attached notes 1 to 33 form part of these consolidated and Company's separate financial statements

	Note	2011 Group US$ '000	2010 Group US$ '000 Restated
Investment income - net	23	4,993	4,065
Gain (loss) on investment properties - net	24	973	(4,231)
General and administration expenses	25	(5,813)	(4,609)
Loss on revaluation of property and equipment		(799)	(4,211)
Finance income		2,354	2,234
Foreign exchange (loss) gain		(2,431)	680
Other income	26	7,610	1,256
Profit before tax		16,369	13,128
Income tax credit	27	481	200
PROFIT FOR THE YEAR		16,850	13,328
Attributable to:			
Shareholders of the parent		16,971	13,391
Non-controlling interests		(121)	(63)
		16,850	13,328

The attached notes 1 to 33 form part of these consolidated and Company's separate financial statements

COMPANY'S SEPARATE STATEMENT OF INCOME Year ended 31 December 2011

	Note	2011 Company US$ '000	2010 Company US$ '000 Restated
Gross premiums written	12	336,727	290,757
Premiums ceded	12	(108,487)	(109,458)
Net premiums written		228,240	181,299
Unearned premium adjustments		(24,235)	(27,056)
Net earned premium		204,005	154,243
Gross claims paid	12	(139,572)	(146,125)
Recoveries on premiums ceded	12	61,331	83,979
Outstanding claims adjustments		(64,745)	(32,863)
Claims and related expenses		(142,986)	(95,009)
Commission income	19	31,935	29,543
Policy acquisition costs	11	(71,140)	(57,364)
Other operating income		1,688	-
Operating expenses	22	(13,201)	(13,460)
Finance cost		(1,032)	(1,028)
		(51,750)	(42,309)
Underwriting profit		9,269	16,925

The attached notes 1 to 33 form part of these consolidated and Company's separate financial statements

	Note	2011 Company US$ '000	2010 Company US$ '000 Restated
Investment income - net	23	4,993	2,891
Gain (loss) on investment properties - net	24	973	(4,231)
General and administration expenses	25	(3,492)	(2,903)
Loss on revaluation of property and equipment		(799)	(4,211)
Finance income		2,345	2,222
Foreign exchange (loss) gain		(2,432)	1,325
Other income	26	8,093	1,777
Profit before tax		18,950	13,795
Income tax expense	27	-	(33)
PROFIT FOR THE YEAR		18,950	13,762

The attached notes 1 to 33 form part of these consolidated and Company's separate financial statements

05 STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER, 2011

Old City of Sana'a, Yemen

Inhabited for more than 2,500 years and situated in a mountain valley at an altitude of 2,200 metres the old city of Sana'a is defined by an extraordinary density of rammed earth and burnt brick towers. They rise several stories above stone-built ground floors and are strikingly decorated with geometric patterns of fired bricks and white gypsum. The houses and public buildings of Sana'a are a prime example of a traditional, Islamic human settlement.

Trust Re has had a long relationship with Yemen; in 1995, our Yemeni affiliate, Trust Yemen Insurance and Reinsurance Co. (YSC) was established.

In the autumn of 1413, ZHENG HE set out with 30,000 men to Arabia on his fourth and most ambitious voyage. It was the first time for his armada to travel west of India, and Hormuz was its destination. From Hormuz, he travelled to Aden in present day Yemen, at the mouth of the Red Sea.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME Year ended 31 December 2011

	Note	2011 Group US$ '000	2010 Group US$ '000 Restated
Profit for the year		16,850	13,328
Other comprehensive income			
Available for sale investments: Fair value changes arising during the year		7,831	17,477
Revaluation reserve: Transfer to consolidated statement of income on disposal / impairment		(5,994)	(2,160)
		1,837	15,317
Currency translation adjustments		(3,148)	(1,654)
Directors' remuneration		(169)	(150)
Other comprehensive (loss) income for the year		(1,480)	13,513
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		15,370	26,841
Attributable to:			
Shareholders of the parent		15,491	26,904
Non-controlling interests		(121)	(63)
		15,370	26,841

The attached notes 1 to 33 form part of these consolidated and Company's separate financial statements

COMPANY'S SEPARATE STATEMENT OF COMPREHENSIVE INCOME Year ended 31 December 2011

	Note	2011 Company US$ '000	2010 Company US$ '000 Restated
Profit for the year		18,950	13,762
Other comprehensive income			
Available for sale investments: Fair value changes arising during the year		7,831	17,477
Revaluation reserve: Transfer to Company's separate statement of income on disposal / impairment		(5,994)	(2,160)
		1,837	15,317
Directors' remuneration		(169)	(150)
Other comprehensive income for the year		1,668	15,167
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		20,618	28,929

The attached notes 1 to 33 form part of these consolidated and Company's separate financial statements

06 STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER, 2011

Samarra, Iraq

Medieval Islamic writers were of the opinion that the name Samarra is derived from the Arabic phrase "Surra man ra'a" which in English translates to "A joy for all who see". Since 2007, Samarra has been named as one of UNESCO's World Heritage Sites. One of the four Islamic Holy Cities of Iraq, Samarra is reckoned to be the largest ancient city in the world. Its magnificent ruins extend over a site approximately 9 km wide and 34 kilometres long, by the eastern side of the River Tigris. The minaret of the Great Mosque of Samarra is an immense, spiralling cone, reaching a height of 52 metres.

Iraq is a unique, re-emerging market for investment and commerce; potential in its energy sector will be especially significant for years to come. Fittingly, as one of the leading regional reinsurers, Iraq is a country where Trust Re actively seeks to do more business. An increase in income from Facultative Energy and Property accounts, due to new accounts (including new accounts in Iraq), contributed to higher revenue for the overall Trust portfolio.

Interestingly, imports of pottery from the dynasties of Emperors Tang, Song and Ming reached Samarra through ZHENG HE. The influence of the Chinese style on ceramics can be seen on some early white wares excavated at Samarra.

CONSOLIDATED STATEMENT OF CASH FLOWS Year ended 31 December 2011

	Note	2011 Group US$ '000	2010 Group US$ '000 Restated
OPERATING ACTIVITIES			
Profit before tax		16,369	13,128
Adjustments for:			
Depreciation		1,262	1,033
Amortisation of intangible assets	16	210	230
Provision for bad debts - net		459	(839)
Provision for liability to contractor		-	(530)
Gain on disposal of available for sale investments	23	(1,059)	(202)
Gain on disposal of property and equipment	26	(5,994)	(6)
Revaluation of investment properties	13	(388)	3,391
Gain on disposal of intangible assets		-	(186)
Loss on revaluation of property and equipment		799	4,211
Change in unearned premium		19,990	36,590
Change in reinsurers' share of unearned premium		(3,652)	(12,567)
Deferred acquisition costs - net		(7,842)	(1,940)
Statutory deposits paid		-	(398)
Operating profit before changes in operating assets and liabilities		20,154	41,915

The attached notes 1 to 33 form part of these consolidated and Company's separate financial statements

	Note	2011 Group US$ '000	2010 Group US$ '000 Restated
Changes in operating assets and liabilities:			
Outstanding claims		116,966	7,638
Reinsurers' share of outstanding claims		(38,230)	8,948
Properties held for sale		268	575
Insurance and other receivables		6,093	(17,951)
Due from parent		(60,982)	2,671
Insurance and other payables		(15,389)	17,278
Reinsurance payables		4,410	(2,461)
		33,290	58,613
Directors' remuneration		(169)	(150)
Taxation		481	200
Net cash from operating activities		33,602	58,663

The attached notes 1 to 33 form part of these consolidated and Company's separate financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS Year ended 31 December 2011 (continued)

	Note	2011 Group US$ '000	2010 Group US$ '000 Restated
INVESTING ACTIVITIES			
Purchase of available for sale investments		(39,109)	(15,615)
Proceeds from disposal of intangible assets		112	228
Proceeds from sale of available for sale investments		26,435	14,534
Proceeds from sale of investment property	13	21,364	-
Purchase of property and equipment	15	(604)	(1,830)
Proceeds from disposal of property and equipment		17,343	-
Additions to investment properties	13	(36)	(12)
Bank deposits with maturity of more than three months		(14,632)	(10,455)
Net cash from (used in) investing activities		10,873	(13,150)
FINANCING ACTIVITIES			
Repayment of borrowings		(218)	(298)
Dividends paid		(15,000)	(15,000)
Cash used in financing activities		(15,218)	(15,298)
Foreign currency translation adjustments		(2,844)	(1,927)
NET CHANGE IN CASH AND CASH EQUIVALENTS		26,413	28,288
Cash and cash equivalents at beginning of the year		101,885	73,597
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	7	128,298	101,885

The attached notes 1 to 33 form part of these consolidated and Company's separate financial statements

COMPANY'S SEPARATE STATEMENT OF CASH FLOWS Year ended 31 December 2011

	Note	2011 Company US$ '000	2010 Company US$ '000 Restated
OPERATING ACTIVITIES			
Profit before tax		18,950	13,795
Adjustments for:			
Depreciation		1,057	948
Provision for bad debts less write offs		459	(839)
Provision for liability to contractor		-	(530)
Gain on disposal of investments		(1,059)	(202)
Gain on disposal of property and equipment	26	(5,994)	(6)
Revaluation of investment properties	24	(388)	3,391
Loss on revaluation of property and equipment		799	4,211
Change in unearned premium		19,935	40,508
Change in reinsurers' share of unearned premium		4,300	(13,452)
Deferred acquisition costs		(7,949)	(2,911)
Statutory deposits paid		-	(398)
Operating profit before changes in operating assets and liabilities		30,110	44,515

The attached notes 1 to 33 form part of these consolidated and Company's separate financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS Year ended 31 December 2011 (continued)

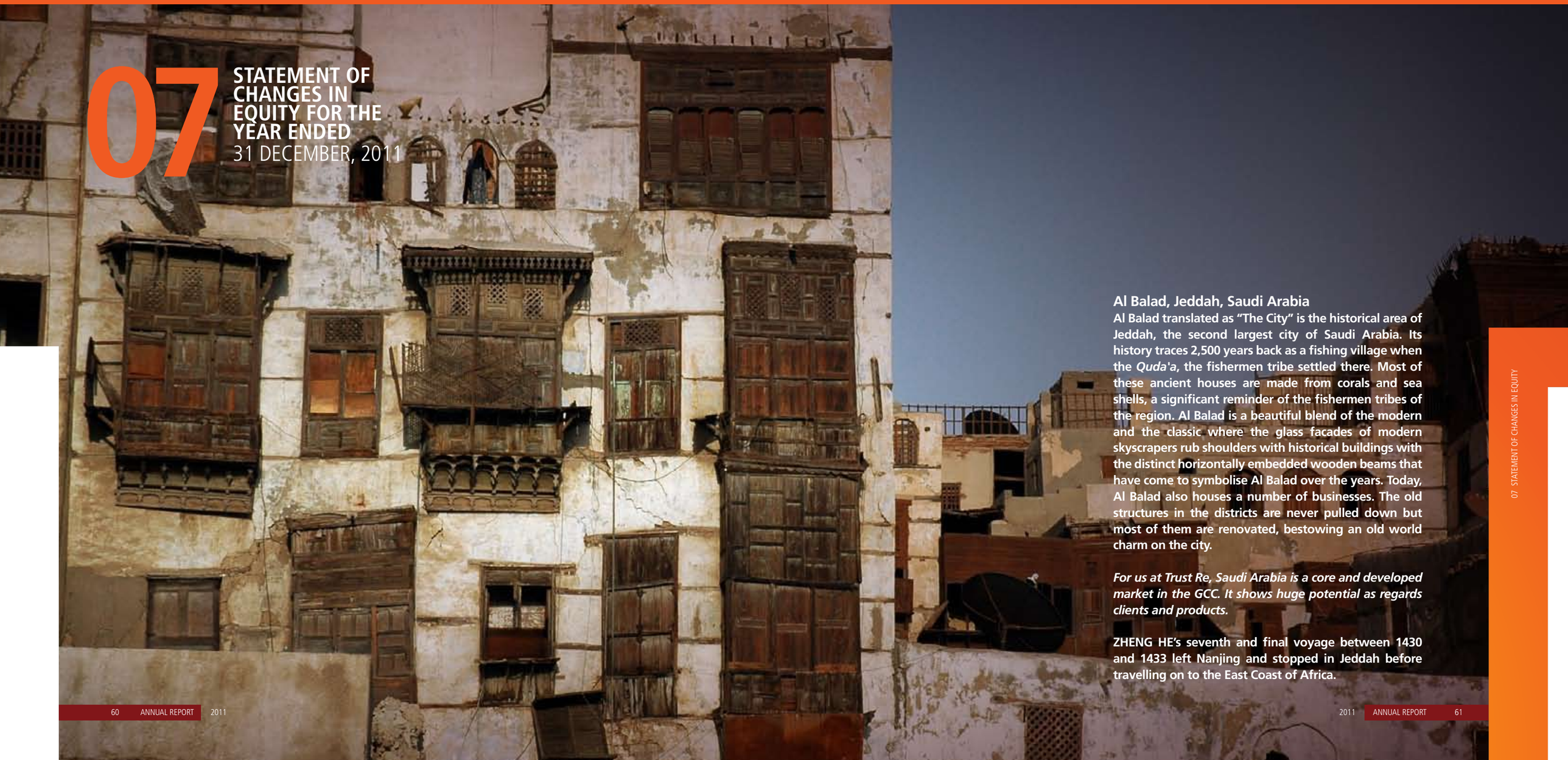
	Note	2011 Company US$ '000	2010 Company US$ '000 Restated
Changes in operating assets and liabilities:			
Outstanding claims		108,319	26,394
Reinsurers' share of outstanding claims		(43,573)	6,468
Insurance and other receivables		16,469	(27,392)
Due from parent		(60,982)	2,671
Insurance and other payables		(15,273)	8,311
Reinsurance payables		3,526	(1,208)
		38,596	59,759
Directors' remuneration		(169)	(150)
Taxation		-	(33)
Net cash from operating activities		38,427	59,576
INVESTING ACTIVITIES			
Purchase of available for sale investments		(38,562)	(15,626)
Proceeds from sale of available-for-sale investments		26,435	7,364
Proceeds from sale of investment property	13	21,364	-
Purchase of investment properties		(36)	(12)
Purchase of property and equipment		(348)	(256)
Proceeds from sale of property and equipment		14,219	-
Investment in a subsidiary		(481)	-

The attached notes 1 to 33 form part of these consolidated and Company's separate financial statements

	Note	2011 Company US$ '000	2010 Company US$ '000 Restated
Bank deposits with maturity of more than three months		(14,632)	(10,445)
Net cash from (used in) investing activities		7,959	(18,975)
FINANCING ACTIVITY			
Dividends paid		(15,000)	(15,000)
Cash used in financing activity		(15,000)	(15,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS		31,386	25,601
Cash and cash equivalents at beginning of the year		88,507	62,906
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	7	119,893	88,507

The attached notes 1 to 33 form part of these consolidated and Company's separate financial statements

07 STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER, 2011



Al Balad, Jeddah, Saudi Arabia

Al Balad translated as "The City" is the historical area of Jeddah, the second largest city of Saudi Arabia. Its history traces 2,500 years back as a fishing village when the *Quda'a*, the fishermen tribe settled there. Most of these ancient houses are made from corals and sea shells, a significant reminder of the fishermen tribes of the region. Al Balad is a beautiful blend of the modern and the classic where the glass facades of modern skyscrapers rub shoulders with historical buildings with the distinct horizontally embedded wooden beams that have come to symbolise Al Balad over the years. Today, Al Balad also houses a number of businesses. The old structures in the districts are never pulled down but most of them are renovated, bestowing an old world charm on the city.

For us at Trust Re, Saudi Arabia is a core and developed market in the GCC. It shows huge potential as regards clients and products.

ZHENG HE's seventh and final voyage between 1430 and 1433 left Nanjing and stopped in Jeddah before travelling on to the East Coast of Africa.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY Year ended 31 December 2011

	Attributable to shareholders of the parent								
	Share capital US$ '000	Statutory reserve US$ '000	Retained earnings US$ '000	Cumulative changes in fair value US$ '000	Revaluation reserve US$ '000	Foreign currency translation reserve US$ '000	Total US$ '000	Non - controlling interests US$ '000	Total equity US$ '000
Balance at 1 January 2011	100,000	21,792	45,679	33,395	5,994	(1,319)	205,541	122	205,663
Profit (loss) for the year	-	-	16,971	-	-	-	16,971	(121)	16,850
Other comprehensive (loss) income	-	-	(169)	7,831	(5,994)	(3,148)	(1,480)	-	(1,480)
Total comprehensive income (loss)	-	-	16,802	7,831	(5,994)	(3,148)	15,491	(121)	15,370
Transfer to statutory reserve (note 18)	-	1,895	(1,895)	-	-	-	-	-	-
Dividend paid during the year for 2010 (note 18)	-	-	(15,000)	-	-	-	(15,000)	-	(15,000)
Exchange difference	-	-	72	-	-	-	72	51	123
Balance at 31 December 2011	**100,000**	**23,687**	**45,658**	**41,226**	**-**	**(4,467)**	**206,104**	**52**	**206,156**
Balance at 1 January 2010	100,000	19,995	49,182	15,918	8,154	335	193,584	126	193,710
Profit (loss) for the year	-	-	13,391	-	-	-	13,391	(63)	13,328
Other comprehensive (loss) income	-	-	(150)	17,477	(2,160)	(1,654)	13,513	-	13,513
Total comprehensive income (loss)	-	-	13,241	17,477	(2,160)	(1,654)	26,904	(63)	26,841
Transfer to statutory reserve (note 18)	-	1,797	(1,797)	-	-	-	-	-	-
Dividend paid during the year for 2009 (note 18)	-	-	(15,000)	-	-	-	(15,000)	-	(15,000)
Exchange difference	-	-	53	-	-	-	53	59	112
Balance at 31 December 2010	100,000	21,792	45,679	33,395	5,994	(1,319)	205,541	122	205,663

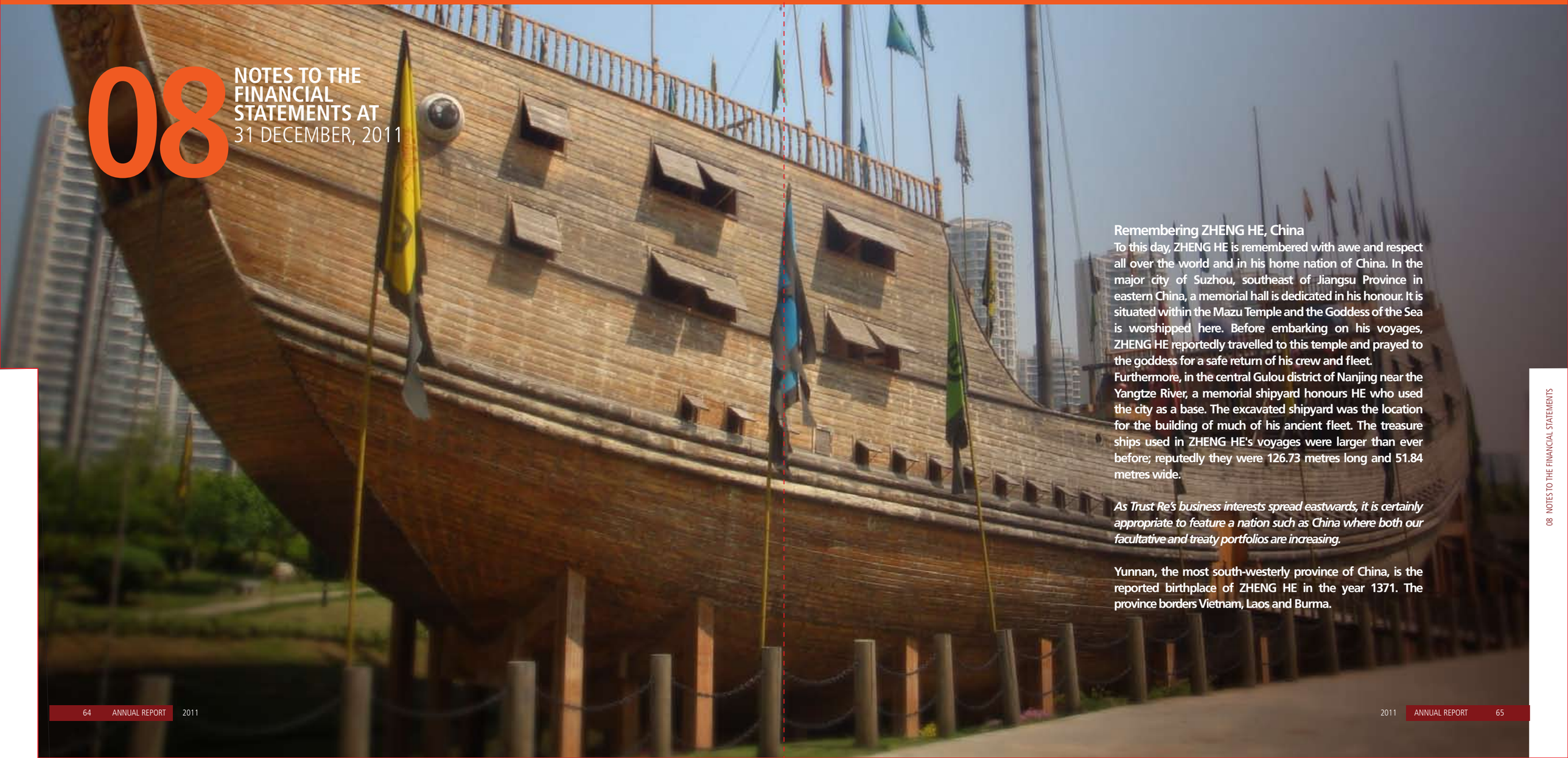
The attached notes 1 to 33 form part of these consolidated and Company's separate financial statements

COMPANY'S SEPARATE STATEMENT OF CHANGES IN EQUITY Year ended 31 December 2011

	Share capital US$ '000	Statutory reserve US$ '000	Retained earnings US$ '000	Cumulative changes in fair value US$ '000	Revaluation reserve US$ '000	Total US$ '000
Balance at 1 January 2011	100,000	21,792	46,203	32,201	5,994	206,190
Profit for the year	-	-	18,950	-	-	18,950
Other comprehensive (loss) income	-	-	(169)	7,831	(5,994)	1,668
Total comprehensive income (loss)	-	-	18,781	7,831	(5,994)	20,618
Transfer to statutory reserve (note 18)	-	1,895	(1,895)	-	-	-
Dividend paid during the year for 2010 (note 18)	-	-	(15,000)	-	-	(15,000)
Balance at 31 December 2011	**100,000**	**23,687**	**48,089**	**40,032**	**-**	**211,808**
Balance at 1 January 2010	100,000	19,995	49,388	14,724	8,154	192,261
Profit for the year	-	-	13,762	-	-	13,762
Other comprehensive (loss) income	-	-	(150)	17,477	(2,160)	15,167
Total comprehensive income (loss)	-	-	13,612	17,477	(2,160)	28,929
Transfer to statutory reserve (note 18)	-	1,797	(1,797)	-	-	-
Dividend paid during the year for 2009 (note 18)	-	-	(15,000)	-	-	(15,000)
Balance at 31 December 2010	100,000	21,792	46,203	32,201	5,994	206,190

The attached notes 1 to 33 form part of these consolidated and Company's separate financial statements

08 NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER, 2011



Remembering ZHENG HE, China

To this day, ZHENG HE is remembered with awe and respect all over the world and in his home nation of China. In the major city of Suzhou, southeast of Jiangsu Province in eastern China, a memorial hall is dedicated in his honour. It is situated within the Mazu Temple and the Goddess of the Sea is worshipped here. Before embarking on his voyages, ZHENG HE reportedly travelled to this temple and prayed to the goddess for a safe return of his crew and fleet.

Furthermore, in the central Gulou district of Nanjing near the Yangtze River, a memorial shipyard honours HE who used the city as a base. The excavated shipyard was the location for the building of much of his ancient fleet. The treasure ships used in ZHENG HE's voyages were larger than ever before; reputedly they were 126.73 metres long and 51.84 metres wide.

As Trust Re's business interests spread eastwards, it is certainly appropriate to feature a nation such as China where both our facultative and treaty portfolios are increasing.

Yunnan, the most south-westerly province of China, is the reported birthplace of ZHENG HE in the year 1371. The province borders Vietnam, Laos and Burma.

1. INCORPORATION AND ACTIVITIES

Trust International Insurance & Reinsurance Company B.S.C. (c) Trust Re ("Trust Re" or "the Company") is incorporated in the Kingdom of Bahrain under Commercial Registration Number 11503. The registered office of the Company is at Trust Tower, PO Box 10002, Building 125, Road 1702, Diplomatic Area 317, Manama, Kingdom of Bahrain. The Company is licensed as an insurance and reinsurance entity and is regulated by the Central Bank of Bahrain (CBB).

The Company and its subsidiaries (together the "Group") mainly provide insurance, reinsurance and related products and services to direct clients, insurance companies and others through insurance and reinsurance brokers through its network of offices in London, Cyprus and Labuan. Details of the Group's subsidiaries are further disclosed in note 3.

The Company is a wholly owned subsidiary of Nest Investments (Holdings) Ltd, incorporated in Jersey, Channel Islands.

The consolidated financial statements were authorised for issue by the Board of Directors on 25th March, 2012.

2. BASIS OF PREPARATION

Statement of compliance

The consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the relevant provisions of the Bahrain Commercial Companies Law, the Insurance Regulations contained in Volume 3 and applicable provisions of Volume 6 of the Central Bank of Bahrain's (CBB) rulebook, CBB directives and the Central Bank of Bahrain and Financial Institutions Law.

Accounting convention

The consolidated and separate financial statements have been prepared under the historical cost convention modified to include the measurement at fair value of properties (land and buildings and leasehold properties) and available for sale investments.

Functional and presentation currency

The consolidated and separate financial statements have been presented in United States Dollar (US$) being the functional currency of the Group and Company and are rounded to the nearest US$ thousands (US$ '000) except when otherwise indicated.

3. BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries as at 31 December 2011. Subsidiaries are those entities controlled by the Company, other than in a fiduciary capacity. The reporting dates of the subsidiaries and the Company are identical and the subsidiaries' accounting policies conform to those used by the Company for like transactions and events in similar circumstances.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intragroup transactions are eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group holds the majority of the voting rights and has the power to govern the financial and operating policies of an entity so as to obtain the benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it:

a) Derecognises the assets (including goodwill) and liabilities of the subsidiary;
b) Derecognises the carrying amount of any non-controlling interest;
c) Derecognises the cumulative translation differences, recorded in equity;
d) Recognises the fair value of consideration received;
e) Recognises the fair value of any investment retained;
f) Recognises any surplus or deficit in the consolidated statement of income; and
g) Reclassifies the parents share of a component previously recognised in consolidated other comprehensive income to consolidated statement of income.

Name of the subsidiary	Country of incorporation	Effective ownership		Principal activity
		2011	2010	
Trust Underwriting Limited	United Kingdom	100%	100%	Corporate member of Lloyd's of London
Texas International Underwriters Inc.	United States of America	100%	100%	Insurance agency
Aegean Properties Ltd	Guernsey	88.33%	88.33%	Investment holding company
Ventura Del Mar S.A.	Spain	88.33%	88.33%	Real estate and hospitality
Ventura Del Mar S.A. Limited	United Kingdom	100%	100%	Property ownership
Ribera De Marbella S.L.	Spain	100%	100%	Service company
Afro Asian Assistance B.S.C. (c)	Kingdom of Bahrain	90%	90%	Travel assistance

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted are consistent with those of the previous financial year, except as noted below:

IAS 24 Related Party Disclosures (amendment)
The IASB has issued an amendment to IAS 24 that clarifies the identification of related party relationships, particularly in relation to significant influence or joint control. The new definitions emphasise a symmetrical view on related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. The amendment also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group or the Company.

IAS 32 Financial Instruments: Presentation (amendment)
The amendment alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro-rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

The amendment has had no effect on the financial position or performance of the Group or the Company as neither the Group nor the Company have issued these type of instruments.

IFRS 7 Financial Instruments: Disclosures (amendment)
These amendments introduced new disclosure requirements for transfers of financial assets, including disclosures for:
- financial assets that are not derecognised in their entirety; and
- financial assets that are derecognised in their entirety but for which the entity retains continuing involvement.

The amendment has had no effect on the disclosures made by the Group or the Company as the Group or the Company have not issued these types of instruments.

Improvements to IFRSs
In May 2010 the Board issued its third omnibus amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Group or the Company.

- IFRS 3 Business Combinations: The measurement options available for non-controlling interest (NCI) have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation must be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

- IFRS 7 Financial Instruments – Disclosures: The amendment was intended to simplify the disclosures provided, by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments.

- IAS 1 Presentation of Financial Statements: The amendment clarifies that an analysis of each component of other comprehensive income may be presented either in the statement of changes in equity or in the notes to the financial statements;

Other amendments resulting from improvements to the following standards did not have any impact on the accounting policies, financial position or performance of the Group or the Company:

- IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IRS 3 (as revised in 2008);
- IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment award);
- IAS 27 Consolidated and Separate Financial Statements;
- IAS 34 Interim Financial Reporting; and
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand and at bank and short-term deposits with original maturities of three months or less.

Investment in subsidiaries

Investment in subsidiaries are stated at cost less impairment.

Available for sale investments

Available for sale financial assets are non-derivative financial assets that are designated as available for sale. These investments are initially recorded at fair value. After initial measurement, available for sale financial assets are remeasured at fair value. Fair value gains and losses are reported as a separate component in consolidated and separate other comprehensive income until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative fair value gains and losses previously reported in consolidated and separate other comprehensive income are transferred to the consolidated and separate statements of income.

Insurance and reinsurance receivables

Insurance and reinsurance receivables are recognised when due and are measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the consolidated and separate statements of income.

Deferred acquisition costs

Those direct and indirect costs incurred during the financial period arising from the writing or renewing of reinsurance contracts are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

Subsequent to initial recognition, these costs are amortised over the period in which the related revenues are earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as explained above. Amortisation is recorded in the consolidated statement of income.

Technical reserves

i) Outstanding claims reserve

The outstanding claims reserve is made up of:

- Case reserves

- Incurred But Not Reported (IBNR)
  - Pure Incurred But Not Reported (Pure IBNR)
  - Incurred But Not Enough Reported (IBNER)

The outstanding claims reserve is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

Any differences between the estimated cost and subsequent settlement of claims are included in the revenue account of the year of settlement. Subsequent re-estimations are dealt with in the same manner.

ii) Unearned premium reserve

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract and is calculated as follows:

- For Facultative business and Treaty Non-Proportional business, these premiums are calculated for each insurance policy on a pro-rata temporis basis using the 365ths method.

- For treaty proportional business the same approach is used, however one extra year is allowed from the expiry date of the policy.

Investment properties

All properties held for rental or for capital appreciation purposes, or both, are classified as investment properties. Where a property is partially occupied by the Group or the Company and the portions could be sold separately, the Group or the Company accounts for the portions separately either as an investment property or property and equipment, as appropriate. If the portions cannot be sold separately, the property is classified as an investment property only if an insignificant portion is held for own use.

The Group applies the fair value model of accounting for investment properties. All investment properties are initially recorded at cost, including acquisition expenses associated with the property.

Subsequent to initial recognition, all investment properties are remeasured at fair value and changes in fair value are recognised in the consolidated and separate statements of income. The Group engages independent valuation specialists to determine the fair value of investment properties.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of IFRIC 4.

Group or Company as a lessee
Finance leases that transfer to the Group or the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the consolidated and separate statements of income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group or the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the consolidated and separate statements of income on a straight-line basis over the lease term.

Properties held for sale
Properties held for sale are valued at the lower of cost and net realisable value and include expenses incurred in respect of the transfer fees and the repairs and renovations of real estate by the Group or the Company. Expenditure on maintaining the properties in their current condition during marketing of the real estate for sale is capitalised up to the date when the properties are sold. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

Property and equipment
Property and equipment, including owner-occupied property, is stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment losses. Replacement or major inspection costs are capitalised when incurred and if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

On revaluation, any increase in the carrying amount of the asset is carried in the consolidated and separate statements of changes in equity, under revaluation reserve and any decrease is recognised as an expense, except to the extent that it reverses a previous increase recognised in equity. The balance in the revaluation reserve is transferred to the consolidated or separate statements of income upon sale of the property and realisation of profit.

The assets' residual values and useful lives and method are reviewed and adjusted if appropriate at each financial year end. Stated below are the estimated useful life of the assets:

	Years
Motor vehicles	4
Furniture, fittings and equipment	4
Computer hardware and software	3 - 4

Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. Impairment losses are recognised in the consolidated and separate statements of income as an expense.

An item of property and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated and separate statements of income in the year the asset is derecognised.

Intangible assets
Intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimates being accounted for on a prospective basis. Estimated useful life of intangible assets is three years.

Business combinations
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in the consolidated statement of income or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill
Goodwill represents the excess of the cost of acquisition over the Group's share of the fair value of the net identifiable assets of the acquired subsidiary, associate or joint venture at the date of the acquisition. Goodwill arising on the acquisition of an associate or a joint venture is included in the carrying amount of the respective associate or joint venture and, therefore, is not separately tested for impairment. Goodwill arising on the acquisition of a subsidiary is recognised as a separate asset in the consolidated statement of financial position. Any excess, at the date of acquisition, of the Group's share in the fair value of the net identifiable assets acquired over the cost of the acquisition is recognised as negative goodwill. Negative goodwill arising on an acquisition is recognised immediately in the consolidated statement of income.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Goodwill is stated at cost less impairment losses. Goodwill of subsidiaries is allocated to cash-generating units and is tested annually for impairment. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. The recoverable amount of a cash-generating unit is the higher of the cash-generating unit's fair value less costs to sell, and its value in use. Any impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a part of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Dividends on share capital
Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders.

Dividends for the year that are approved after the consolidated and separate statement of financial position date are dealt with as an event after the reporting period.

Foreign currency translation
The financial statements are presented in US$ which is the functional currency of the Group and the Company. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the consolidated and separate statement of financial position date. All differences are taken to the consolidated and separate statements of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to the consolidated and separate statements of income, except for differences relating to items where gains or losses are recognised directly in equity, in which case the gain or loss is recognised net of the exchange component in equity.

The assets and liabilities of the subsidiaries are translated into US$ at the rate of exchange prevailing at the consolidated statement of financial position date and the consolidated statement of income is translated at average exchange rates for the period. The exchange differences arising on the translation are taken directly to a separate component of equity.

Borrowings
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Insurance and reinsurance payables
Insurance and reinsurance payables are stated at amounts which they are expected to be settled.

Employees' end of service benefits
The Group and Company provide end of service benefits to their expatriate employees in accordance with the relevant regulations. The entitlement to these benefits is based upon the employees' final salaries and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment based on the notional amount payable if all employees had left at the consolidated and separate statement of financial position date.

With respect to its national employees, the Group and the Company make contributions to the Social Insurance Organisation calculated as a percentage of the employees' salaries in accordance with the relevant regulations. The Group's and the Company's obligations are limited to these contributions, which are expensed when due.

Provisions
Provisions are recognised when the Group or the Company have present obligations (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Revenue recognition
Revenues earned by the Group and Company are recognised on the following basis:

Gross premiums written
Gross premiums written comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period. They are recognised on the date on which the policy commences. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods. Included in this amount are estimates of pipeline premiums which are premiums written but not booked as at the reporting date. Pipeline premiums are recorded as accrued insurance premiums.

Commission income
Commission income is recognised as revenue over the period in which the related services are performed. If the commissions are for services provided in future periods then they are deferred and amortised over the life of the related reinsurance policy.

Interest income
Interest income is recognised on a time proportion basis using the effective interest method.

Dividend income
Dividend income is recognised when the right to receive payment is established.

Rental income
Rental income is recognised on an accrual basis.

Reinsurance ceded
The Group and the Company cede reinsurance risk in the normal course of business for all of their businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group or the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group or Company will receive from the reinsurer. The impairment loss is recorded in the consolidated and separate statement of income.

Gains or losses on ceding reinsurance are recognised in the consolidated and separate statements of income immediately at the date of purchase and are not amortised.

Ceded reinsurance arrangements do not relieve the Group or the Company from their obligations to policyholders.

The Group and the Company also assume reinsurance risk in the normal course of business for non-life insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Reinsurance contracts that do not transfer significant insurance risk are accounted for directly through the consolidated and separate statements of financial position. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicit identified premiums or fees to be retained by the reinsured. Investment income on these contracts is accounted for using the effective interest rate method when accrued.

Non-controlling interests
Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Group and are presented separately in the consolidated statements of income and comprehensive income and within equity, separately from the parent's shareholders' equity.

Commissions paid
Commissions are recognised at the time policies are written.

Claims
Claims include all claims occurring during the year, whether reported or not, related claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Reinsurance claims are recognised when the related gross reinsurance claim is recognised according to the terms of the relevant contracts.

When the salvage amount is known at the time of claims settlement, it is deducted from the claim amount and the net amount is credited to the reinsured. If salvage recovery is done later, the amount is credited to the claims paid account by charging the reinsured account. Subrogation and other recoveries, which will take place after claims settlement, are treated as above.

The corresponding refund to the reinsurers is done simultaneously with the accounting of recoveries for salvage, subrogation etc and other recoveries from third parties.

Taxation
There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided in accordance with the fiscal regulations of the respective countries in which the Group operates.

Liability adequacy test
At each reporting date the Group and the Company review their unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant technical provisions. If these estimates indicate that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate the deficiency is recognised in the consolidated and separate statements of income by creating a provision for liability adequacy.

Years of account
This accounting policy relates to the Group's subsidiary Trust Underwriting Limited which is a corporate member of Lloyd's of London.

Closed years of account
At the end of the third year, the underwriting account is normally closed by reinsurance into the following year of account. The amount of the reinsurance to close premium payable is determined by the managing agent, generally by estimating the cost of claims notified but not settled as of the reporting date, together with the estimated cost of claims incurred but not reported at that date, and an estimate of future claims handling costs. Any subsequent variation in the ultimate liabilities of the closed year of account is borne by the underwriting year into which it is reinsured.

The payment of reinsurance to close premium does not eliminate the liability of the closed year for outstanding claims. If the reinsurance syndicate was unable to meet its obligations, and other elements of Lloyd's chain of security were to fail, then the closed underwriting account would have to settle outstanding claims.

The Directors consider that the likelihood of such a failure of the reinsurance to close is extremely remote, and consequently the reinsurance to close has been deemed to settle the liabilities outstanding at the closure of an underwriting account. The Lloyd's Corporate capital subsidiary has included its share of the reinsurance to close premiums payable as technical provisions at the end of the current period, and no further provision is made for any potential variation in the ultimate liability of that year of account.

Run-off years of account
Where an underwriting year of account is not closed at the end of the third year (a "run-off" year of account) a provision is made for the estimated cost of all known and unknown outstanding liabilities of that year. The provision is determined initially by the managing agent on a similar basis to the reinsurance to close. However, any subsequent variation in the ultimate liabilities for that year remains with the corporate member participating therein. As a result, any run-off year will continue to report movements in its results after the third year until such time as it secures a reinsurance to close.

Offsetting
Financial assets and financial liabilities are offset and the net amount reported in the consolidated and separate statements of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

Income and expense is not offset in the consolidated or separate statements of income unless required or permitted by any accounting standard or interpretation.

Fair value of financial instruments
Fair values of financial instruments are based on quoted prices for marketable instruments, or estimated fair values calculated by using methods such as net present values of future cash flows.

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the consolidated and separate statement of financial position date, without any deduction for transaction costs.

For financial instruments where there is no active market, the fair value is determined by using valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, option pricing models, credit models and other relevant valuation models. Certain financial instruments are recorded at fair value using valuation techniques because current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Group's best estimate of the most appropriate model assumptions.

For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument. The use of different pricing models and assumptions could produce materially different estimates of fair values.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

Impairment of financial assets
The Group and the Company assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost
If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the loss is recorded in the consolidated and separate statements of income.

The Group and the Company first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The impairment assessment is performed at each reporting date.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated and separate statements of income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Available for sale financial assets
If an available for sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in other comprehensive income, is transferred from other comprehensive income to the consolidated and separate statements of income. Reversals in respect of equity instruments classified as available for sale are not recognised in the consolidated and separate statements of income. Reversals of impairment losses on debt instruments classified as available for sale are reversed through the consolidated and separate statements of income if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in the consolidated and separate statements of income.

Derecognition of financial assets and financial liabilities
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or

- the Group or Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group or Company has transferred substantially all the risks and rewards of the asset, or (b) the Group or Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group or Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's or Company's continuing involvement in the asset.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated and separate statements of income.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the consolidated and separate financial statements are listed below. This listing is of standards and interpretations issued, which the Group and the Company reasonably expect to be applicable at a future date. The Group and the Company intend to adopt those standards (where applicable) when they become effective:

IAS 1 Financial statement presentation
The amendments become effective for annual periods beginning on or after 1 July 2012 and require that an entity present separately, the items of other comprehensive income that would be reclassified (or recycled) to profit or loss in the future if certain conditions are met (for example, upon derecognition or settlement), from those that would never be reclassified to profit or loss. The amendment affects presentation only, therefore, will have no impact on the Group's or Company's financial position or performance.

IAS 19 Employee benefits
The IASB has issued numerous amendments to IAS 19, which are effective for annual periods beginning on or after 1 January 2013. These include the elimination of the corridor approach and recognising all actuarial gains and losses in other comprehensive income as they occur; immediate recognition of all past service costs; and replacement of interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset); and certain clarifications and re-wording. The Group and the Company are currently assessing the full impact of these amendments.

IFRS 9 Financial instruments
IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39.

It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

For financial liabilities, the standard retains most of the IAS 39 requirements.

The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

It also includes those paragraphs of IAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of IFRIC 9 Reassessment of Embedded Derivatives.

The IASB issued amendments to IFRS 9 that defer the mandatory effective date from 1 January 2013 to 1 January 2015 with early application continuing to be permitted. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets.

The Group and the Company will quantify the effect of adoption of this Standard, in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated financial statements
IFRS 10 introduces a new approach to determining which investees should be consolidated and provides a single consolidation model that identifies control as the basis for consolidation for all types of entities.

An investor controls an investee when:

- it is exposed or has rights to variable returns from its involvement with that investee;

- it has the ability to affect those returns through its power over that investee; and

- there is a link between power and returns.

Control is re-assessed as facts and circumstances change.

IFRS 10 replaces IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities. IFRS 10 is effective for annual periods beginning on or after 1 January 2013 and earlier application is permitted. The Group and the Company are currently assessing the full impact of these amendments.

IFRS 11 Joint arrangements
IFRS 11 establishes principles for financial reporting by parties to a joint arrangement and improves on IAS 31 by establishing principles that are applicable to the accounting for all joint arrangements.

IFRS 11 classifies joint arrangements into two types – joint operations and joint ventures; and defines joint control as the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (i.e. activities that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control.

IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 is effective for annual periods beginning on or after 1 January 2013 and earlier application is permitted. The Group and the Company assess that there will be no impact of this new standard as the Group and the Company do not have any investment in such arrangements.

IFRS 12 Disclosure of interests in other entities
IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. As a consequence of these new IFRSs, the IASB also issued, amended and retitled IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures.

IFRS 12 aims to provide information to enable users to evaluate:
- the nature of, and risks associated with, an entity's interests in other entities; and
- the effect of those interests on the entity's financial position, financial performance and cash flows.

IFRS 12 is effective for annual periods beginning on or after 1 January 2013 and earlier application is permitted. The Group and the Company are currently assessing the full impact of these amendments.

IFRS 13 Fair value measurement
IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs. IFRS 13 does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013 and earlier application is permitted. The Group and the Company are currently assessing the full impact of this new standard.

IAS 27 Separate financial statements (as revised in 2011)
IAS 27 (2011) supersedes IAS 27 (2008). As a consequence of the new IFRS 10 and IFRS 12 aforementioned, IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications.

IAS 27 (2011) is effective for annual periods beginning on or after 1 January 2013 and earlier application is permitted.The Group and the Company are currently assessing the full impact of these amendments.

IAS 28 Investments in associates and joint ventures separate financial statements (as revised in 2011)
IAS 28 (2011) supersedes IAS 28 (2008). As a consequence of the new IFRS 11 and IFRS 12 (refer above), IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates.

IAS 28 (2011) is effective for annual periods beginning on or after 1 January 2013 and earlier application is permitted. The Group assesses that there will be no impact of this new standard as the Group does not have any investment in such arrangements.

6. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS
The preparation of the consolidated and separate financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. The most significant uses of judgements and estimates are as follows:

The ultimate liability arising from claims made under reinsurance contracts
The estimation of the ultimate liability arising from claims made under reinsurance contracts is the Group's and Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in estimating the liability that the Group and Company will ultimately pay for such claims. The provision for claims incurred but not reported is an estimation of claims which are expected to be reported subsequent to the consolidated and separate statement of financial position date, for which the insured event has occurred prior to the consolidated and separate statement of financial position date.

All reinsurance contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

Impairment losses on available for sale investments
The Group and Company determine that available for sale equity investments and managed funds are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgement. Where fair values are not available, the recoverable amount of such investment is estimated to test for impairment. In making this judgement, the Group and Company evaluate, amongst other factors, the normal volatility in share price, evidence of deterioration in the financial health of the investee, industry and sector performance and operating and financing cash flows.

Impairment losses on receivables
The Group and Company assess receivables that are individually significant and receivables included in a group of financial assets with similar credit risk characteristics for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. This assessment of impairment requires judgement. In making this judgement, the Group and Company evaluate credit risk characteristics that consider past-due status being indicative of the inability to pay all amounts due as per contractual terms.

Revaluation of investment properties and property and equipment
The Group and Company carry their investment properties at fair value, with changes in fair value being recognised in the consolidated and separate statement of income. In addition, land and building and property held for future use as owner occupied property at revalued amounts with changes in fair value being recognised in the consolidated and separate statements of comprehensive income. The Group and Company engaged independent valuation specialists to determine fair value as at 31 December 2011. For the investment property, the valuer used a valuation technique based on a discounted cash flow model as there is a lack of comparable market data because of the nature of the property.

Going concern
The Group's and Company's management have made an assessment of the Group's and Company's ability to continue as a going concern and is satisfied that the Group and Company has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's or Company's ability to continue as a going concern. Therefore, the consolidated and separate financial statements continue to be prepared on the going concern basis.

Consolidation of a subsidiary
The financial statements of the Group's subsidiary, Trust Underwriting Limited, are consolidated based on actual results of the subsidiary up to 30 September each year and an estimation of the results for the period from 1 October to 31 December each year.

Any material changes to these estimates could result in changes in amounts used for consolidation which will only be adjusted in the following accounting year.

7. CASH AND BANK BALANCES

	2011 Group US$ '000	2011 Company US$ '000	2010 Group US$ '000	2010 Company US$ '000
Cash in hand	22	22	13	13
Bank balances	128,276	119,871	101,872	88,494
Cash and cash equivalents	128,298	119,893	101,885	88,507
Statutory deposits (note 7.1)	398	398	398	398
Deposits with banks (note 7.2)	25,078	25,078	10,446	10,446
	153,774	145,369	112,729	99,351

7.1 Statutory deposit is maintained with regulator in Kingdom of Bahrain. This balance is not available for day-to-day use in the Group's or the Company's operations.

7.2 The Group has issued a guarantee on behalf of its subsidiary for approximately US$ 13.9 million (Stg £9.0 million) [2010: US$ 10.42 million (Stg £6.7 million)] which is secured by, among others, this bank deposit. This deposit is of a long term nature and is unavailable for the Group's and the Company's day to day operations.

8. AVAILABLE FOR SALE INVESTMENTS

	2011 Group US$ '000	2011 Company US$ '000	2010 Group US$ '000	2010 Company US$ '000
Quoted				
Equity	82,330	74,215	113,634	70,589
Debt	80,764	45,209	14,705	14,705
Unquoted				
Equity	5,877	4,247	19,067	17,359
Debt	2,653	2,653	2,654	2,654
	171,624	126,324	150,060	105,307

Unquoted available for sale equity investments are carried at cost less impairment in the absence of a reliable measure of fair value. It is not practical to obtain a reliable measure of fair value for these investments due to their illiquid nature. There are no markets for these investments and the Group intends to exit these investments when an appropriate opportunity arises in the future.

During the year the Group sold certain quoted and unquoted equity investments with a carrying value of US$ 17.9 million to the parent (note 30).

9. DUE FROM PARENT
Due from parent relates to amounts receivable from Nest Investments (Holdings) Ltd, the ultimate parent. These are unsecured, interest free and are settled on an ongoing basis.

10. INSURANCE AND OTHER RECEIVABLES

	2011 Group US$ '000	2011 Company US$ '000	2010 Group US$ '000	2010 Company US$ '000
Insurance receivables	37,384	27,605	30,143	19,370
Reinsurance receivables	18,699	10,126	16,695	10,439
Less: Provision for doubtful debts	(3,365)	(3,365)	(2,431)	(2,431)
	52,718	34,366	44,407	27,378
Inward pipeline premium accruals	102,620	102,619	97,873	97,873
Inward treaty premium reserve and loss deposit	28,165	27,636	26,632	26,632
Due from related parties (note 30)	-	12,027	11,332	32,076
Other debtors and prepayments	8,442	2,192	17,061	11,810
Deferred tax asset (note 21)	463	-	333	-
	192,408	178,840	197,638	195,769

At 31 December 2011, the gross amount of impaired insurance and resinsurance receivables amounted to US$ 3.4 million (2010: US$ 2.4 million).

Movements in the allowance for impairment of insurance and reinsurance receivables were as follows:

	2011 Group US$ '000	2011 Company US$ '000	2010 Group US$ '000	2010 Company US$ '000
At 1 January	2,431	2,431	3,270	3,270
Charge for the year	709	709	250	250
Recoveries/(write off)	225	225	(1,089)	(1,089)
At 31 December	3,365	3,365	2,431	2,431

At 31 December, the ageing of unimpaired insurance and reinsurance receivables was as follows:

a) Group	Total US$ '000	Less than 120 days US$ '000	121 to 180 days US$ '000	181 to 365 days US$ '000	More than 365 days US$ '000
2011	56,083	33,291	2,780	15,830	4,182
2010	46,838	30,732	862	14,307	937

b) Company	Total US$ '000	Less than 120 days US$ '000	121 to 180 days US$ '000	181 to 365 days US$ '000	More than 365 days US$ '000
2011	37,731	29,458	2,780	238	5,255
2010	29,809	26,228	862	1,057	1,662

11. GROSS DEFERRED ACQUISITION COSTS

	2011 Group US$ '000	2011 Company US$ '000	2010 Group US$ '000	2010 Company US$ '000
At 1 January	38,264	33,772	34,739	29,275
Acquisition costs	77,976	75,404	64,545	61,861
Amortisation for the year	(73,819)	(71,140)	(61,020)	(57,364)
At 31 December	42,421	38,036	38,264	33,772

12. TECHNICAL RESERVES

a) Group	2011			2010		
	Gross US$ '000	Reinsurers' share US$ '000	Net US$ '000	Gross US$ '000	Reinsurers' share US$ '000	Net US$ '000
Unearned premium reserve	185,238	(72,537)	112,701	165,248	(68,885)	96,363
Outstanding claims reserve	400,676	(187,329)	213,347	283,710	(149,099)	134,611
	585,914	(259,866)	326,048	448,958	(217,984)	230,974

Unearned premium reserve	2011			2010		
	Gross US$ '000	Reinsurers' share US$ '000	Net US$ '000	Gross US$ '000	Reinsurers' share US$ '000	Net US$ '000
At 1 January	165,248	(68,885)	96,363	128,658	(56,319)	72,339
Premiums written	348,773	(112,515)	236,258	304,681	(112,663)	192,018
Premiums earned	(328,783)	108,863	(219,920)	(268,091)	100,097	(167,994)
At 31 December	185,238	(72,537)	112,701	165,248	(68,885)	96,363

Outstanding claims reserve	2011			2010		
	Gross US$ '000	Reinsurers' share US$ '000	Net US$ '000	Gross US$ '000	Reinsurers' share US$ '000	Net US$ '000
At 1 January						
Reported claims	231,241	(126,244)	104,997	232,899	(131,216)	101,683
Incurred But Not Reported claims	52,470	(22,855)	29,615	43,174	(26,830)	16,344
	283,711	(149,099)	134,612	276,073	(158,046)	118,027
Incurred during the year	283,309	(115,987)	167,322	173,035	(78,362)	94,673
Paid during the year	(166,344)	77,757	(88,587)	(165,398)	87,309	(78,089)
At 31 December	400,676	(187,329)	213,347	283,710	(149,099)	134,611
At 31 December						
Reported claims	293,041	(128,763)	164,278	231,241	(126,244)	104,997
Incurred But Not Reported claims	107,635	(58,566)	49,069	52,469	(22,855)	29,614
	400,676	(187,329)	213,347	283,710	(149,099)	134,611

b) Company

	2011			2010		
	Gross US$ '000	Reinsurers' share US$ '000	Net US$ '000	Gross US$ '000	Reinsurers' share US$ '000	Net US$ '000
Unearned premium reserve	165,209	(61,797)	103,412	145,274	(66,097)	79,177
Outstanding claims reserve	347,617	(184,640)	162,977	239,299	(141,067)	98,232
	512,826	(246,437)	266,389	384,573	(207,164)	177,409

Unearned premium reserve

	2011			2010		
	Gross US$ '000	Reinsurers' share US$ '000	Net US$ '000	Gross US$ '000	Reinsurers' share US$ '000	Net US$ '000
At 1 January	145,274	(66,097)	79,177	104,766	(52,645)	52,121
Premiums written	336,727	(108,487)	228,240	290,757	(109,458)	181,299
Premiums earned	(316,792)	112,787	(204,005)	(250,249)	96,006	(154,243)
At 31 December	165,209	(61,797)	103,412	145,274	(66,097)	79,177

Outstanding claims reserve

	2011			2010		
	Gross US$ '000	Reinsurers' share US$ '000	Net US$ '000	Gross US$ '000	Reinsurers' share US$ '000	Net US$ '000
At 1 January						
Reported claims	186,829	(118,213)	68,616	169,730	(120,705)	49,025
Incurred But Not Reported claims	52,470	(22,854)	29,616	43,174	(26,831)	16,343
	239,299	(141,067)	98,232	212,904	(147,536)	65,368
Incurred during the year	247,890	(104,904)	142,986	172,520	(77,510)	95,010
Paid during the year	(139,572)	61,331	(78,241)	(146,125)	83,979	(62,146)
At 31 December	347,617	(184,640)	162,977	239,299	(141,067)	98,232
At 31 December						
Reported claims	239,982	(126,075)	113,907	186,829	(118,213)	68,616
Incurred But Not Reported claims	107,635	(58,565)	49,070	52,470	(22,854)	29,616
	347,617	(184,640)	162,977	239,299	(141,067)	98,232

The Group's and the Company's technical reserves are reviewed annually for adequacy by a qualified actuary registered with the Central Bank of Bahrain.

The adequacy of technical reserves as of 31 December 2011 and 31 December 2010 were also peer reviewed by an international firm of actuaries.

Claims development - Group

The following tables show the estimate of cumulative incurred claims, including both claims notified and IBNR for each successive underwriting year at each consolidated statement of financial position date, together with cumulative payments to date. The cumulative claims estimates and cumulative payments are translated to the presentation currency at average exchange rates of the current financial year.

Gross	Underwriting year							
	2005 US$ '000	2006 US$ '000	2007 US$ '000	2008 US$ '000	2009 US$ '000	2010 US$ '000	2011 US$ '000	Total US$ '000
At end of underwriting year	14,572	1,649	468	3,672	1,400	3,084	1,485	-
One year later	44,169	44,205	36,439	63,158	73,498	85,848	-	-
Two years later	74,006	68,776	77,499	107,420	150,409	-	-	-
Three years later	85,368	70,549	87,837	118,853	-	-	-	-
Four years later	87,105	69,368	86,930	-	-	-	-	-
Five years later	87,149	66,914	-	-	-	-	-	-
Six years later	87,159	-	-	-	-	-	-	-
Current estimate of cumulative claims incurred	87,159	66,914	86,930	118,853	150,409	85,848	1,485	597,598
Cumulative payments to date	(82,444)	(58,728)	(71,691)	(81,406)	(86,590)	(12,461)	929	(392,391)
Incurred But Not Reported	178	(249)	985	3,213	18,744	77,156	7,977	108,004
Liability recognised in the consolidated statement of financial position	4,893	7,937	16,224	40,660	82,563	150,543	10,391	313,211
Liability in respect of prior years								34,406
								347,617
Trust Underwriting Ltd.								53,059
Total liability in the consolidated statement of financial position								400,676

Net	Underwriting year							
	2005 US$ '000	2006 US$ '000	2007 US$ '000	2008 US$ '000	2009 US$ '000	2010 US$ '000	2011 US$ '000	Total US$ '000
At end of accident year	3,691	682	302	2,508	484	2,067	1,005	-
One year later	11,324	8,311	15,463	26,244	35,089	58,677	-	-
Two years later	18,411	15,002	33,611	46,140	79,171	-	-	-
Three years later	21,503	16,238	34,660	47,975	-	-	-	-
Four years later	22,026	16,007	34,847	-	-	-	-	-
Five years later	22,177	15,448	-	-	-	-	-	-
Six years later	22,174	-	-	-	-	-	-	-
Current estimate of cumulative claims incurred	22,174	15,448	34,847	47,975	79,171	58,677	1,005	259,297
Cumulative payments to date	(21,059)	(13,548)	(29,271)	(35,335)	(39,964)	(9,447)	743	(147,881)
Incurred But Not Reported	35	(96)	335	1,168	8,549	31,988	6,158	48,137
Liability recognised in the consolidated statement of financial position	1,150	1,804	5,911	13,808	47,756	81,218	7,906	159,553
Liability in respect of prior years								3,423
								162,976
Trust Underwriting Limited years								50,371
Total liability included in the consolidated statement of financial position								213,347

Claims development - Company

The following tables show the estimate of cumulative incurred claims, including both claims notified and IBNR for each successive underwriting year at each separate statement of financial position date, together with cumulative payments to date. The cumulative claims estimates and cumulative payments are translated to the presentation currency at average exchange rates of the current financial year.

Gross	Underwriting year							
	2005 US$ '000	**2006** US$ '000	**2007** US$ '000	**2008** US$ '000	**2009** US$ '000	**2010** US$ '000	**2011** US$ '000	**Total** US$ '000
At end of underwriting year	14,572	1,649	468	3,672	1,400	3,084	1,485	-
One year later	44,169	44,205	36,439	63,158	73,498	85,848	-	-
Two years later	74,006	68,776	77,499			-	-	-
Three years later	85,368	70,549	87,837		-	-	-	-
Four years later	87,105	69,368	86,930	-	-	-	-	-
Five years later	87,149	66,914	-	-	-	-	-	-
Six years later	87,159	-	-	-	-	-	-	-
Current estimate of cumulative claims incurred	87,159	66,914	86,930			85,848	1,485	
Cumulative payments to date							929	
Incurred But Not Reported	178	(249)	985	3,213	18,744	77,156	7,977	
Liability recognised in the consolidated statement of financial position	4,893	7,937	16,224	40,660	82,563		10,391	
Liability in respect of prior years								34,406
Total liability included in the company's separate statement of financial position								

Net	Underwriting year							
	2005 US$ '000	**2006** US$ '000	**2007** US$ '000	**2008** US$ '000	**2009** US$ '000	**2010** US$ '000	**2011** US$ '000	**Total** US$ '000
At end of accident year	3,691	682	302	2,508	484	2,067	1,005	-
One year later	11,324	8,311	15,463	26,244	35,089	58,677	-	-
Two years later	18,411	15,002	33,611	46,140	79,171	-	-	-
Three years later	21,503	16,238	34,660	47,976	-	-	-	-
Four years later	22,026	16,007	34,847	-	-	-	-	-
Five years later	22,177	15,448	-	-	-	-	-	-
Six years later	22,174	-	-	-	-	-	-	-
Current estimate of cumulative claims incurred	22,174	15,448	34,847	47,976	79,171	58,677	1,005	259,298
Cumulative payments to date	(21,059)	(13,548)	(29,271)	(35,335)	(39,964)	(9,447)	743	(147,881)
Incurred But Not Reported	35	(96)	335	1,168	8,549	31,988	6,158	48,137
Liability recognised in the consolidated statement of financial position	1,150	1,804	5,911	13,809	47,756	81,218	7,906	159,554
Liability in respect of prior years								3,423
								162,977

13. INVESTMENT PROPERTIES

Group and Company	Land and buildings US$ '000	Leasehold properties US$ '000	Total US$ '000
At 1 January 2010	24,480	1,546	26,026
Additions during the year	12	-	12
Change in fair value during the year	(3,164)	(227)	(3,391)
At 31 December 2010	21,328	1,319	22,647
Additions during the year	36	-	36
Disposals (note 31)	(21,364)	-	(21,364)
Change in fair value during the year	-	388	388
At 31 December 2011	-	1,707	1,707

The Group's and the Company's two leasehold properties are located in the United Kingdom (UK). The duration of the first lease is for 125 years starting from 1984. The second lease was initially for 99 years starting from 1974. However, the lease period was extended for another 90 years starting from the year 2073 (2010: same terms).

These properties are valued every two years by an independent firm of professional valuers. The external valuation performed at the end of 2011 assessed the value of the properties at approximately US$ 1.71 million (£1.10 million) [2010: US$ 1.32 million (Stg£ 850 thousand)].

The building represented 60% (2010: 60%) interest in the Group's and the Company's property "Trust Tower" in the Kingdom of Bahrain, the remaining 40% being self occupied. During the year, the ownership of the building was transferred to the Group's ultimate parent, at its fair value of US$ 21.3 million determined as of 31 December 2010 (note 30). The revaluation gain previously recognised in the consolidated and separate statements of comprehensive income was recycled to the consolidated and separate statements of income during the year.

14. PROPERTIES HELD FOR SALE

Properties held for sale comprise of residential properties. The movement in properties held for sale is as follows:

Group	2011 US$ '000	2010 US$ '000
Balance at 1 January	8,954	9,530
Additions during the year	20	54
Exchange difference	(288)	(630)
Balance at 31 December	8,686	8,954

The Group reviewed the carrying value of the properties held for sale with reference to their net realisable values (NRV) as of 31 December 2011. The NRV has been determined based on valuation performed by independent real estate valuation consultants.

15. PROPERTY AND EQUIPMENT

Group	Land and Building US$ '000	Motor vehicles US$ '000	Computer hardware and software US$ '000	Furniture and fixtures US$ '000	Construction work in progress US$ '000	Total US$ '000
Cost						
At 1 January 2011	28,160	376	1,947	4,493	1,547	36,523
Additions	229	111	204	60	-	604
Transfers / Write offs	(17,342)	(53)	-	-	-	(17,395)
Loss on revaluation	(799)	-	-	-	-	(799)
Exchange differences	(54)	-	(2)	(10)	-	(66)
At 31 December 2011	10,194	434	2,149	4,543	1,547	18,867

PROPERTY AND EQUIPMENT (continued)

Group	Land and Building US$ '000	Motor vehicles US$ '000	Computer hardware and software US$ '000	Furniture and fixtures US$ '000	Construction work in progress US$ '000	Total US$ '000
Depreciation						
At 1 January 2011	-	312	1,209	3,227	-	4,748
Charge for the year	-	64	420	778	-	1,262
Transfers / Write offs	-	(52)	-	-	-	(52)
Exchange differences	-	-	(2)	(7)	-	(9)
At 31 December 2011	-	324	1,627	3,998	-	5,949
Net book value						
At 31 December 2011	10,194	110	522	545	1,547	12,918
At 31 December 2010	28,160	64	738	1,266	1,547	31,775

Company	Land and Building US$ '000	Motor vehicles US$ '000	Computer hardware and software US$ '000	Furniture and fixtures US$ '000	Construction work in progress US$ '000	Total US$ '000
Cost						
At 1 January 2011	23,355	333	1,405	4,031	1,547	30,671
Additions		111	176	61	-	348
Transfers / Write offs	(14,218)	(53)	-	-	-	(14,271)
Fair value change	(799)	-	-	-	-	(799)
At 31 December 2011	8,338	391	1,581	4,092	1,547	15,949

Company	Land and Building US$ '000	Motor vehicles US$ '000	Computer hardware and software US$ '000	Furniture and fixtures US$ '000	Construction work in progress US$ '000	Total US$ '000
Depreciation						
At 1 January 2011	-	294	1,099	2,939	-	4,332
Charge for the year	-	64	251	742	-	1,057
Transfers / Write offs	-	(52)	-	-	-	(52)
At 31 December 2011	-	306	1,350	3,681	-	5,337
Net book value						
At 31 December 2011	8,338	85	231	411	1,547	10,612
At 31 December 2010	23,355	39	306	1,092	1,547	26,339

During the year, the Company sold building amounting to US$ 14,218 thousand to the Parent (note 30) (2010:nil).

16. INTANGIBLE ASSETS

Group	Licence US$ '000	Underwriting Capacity US$ '000	Total US$ '000
Cost			
At 1 January 2010	20	2,496	2,516
Disposals	-	(127)	(127)
Exchange difference	(1)	(62)	(63)
At 31 December 2010	19	2,307	2,326

INTANGIBLE ASSETS (continued)

Group	Licence US$ '000	Underwriting Capacity US$ '000	Total US$ '000
Disposals	-	(213)	(213)
Exchange difference	-	(1)	(1)
At 31 December 2011	19	2,093	2,112
Amortisation			
At 1 January 2010	-	1,481	1,481
Charge for the year	-	230	230
Disposals	-	(85)	(85)
Exchange difference	(1)	(37)	(38)
At 31 December 2010	(1)	1,589	1,588
Charge for the year	-	210	210
Disposals	-	(101)	(101)
Exchange difference	-	(1)	(1)
At 31 December 2011	(1)	1,697	1,696
Carrying value			
At 31 December 2011	20	396	416
At 31 December 2010	20	718	738

Underwriting capacity relates to the Group's subsidiary Trust Underwriting Limited which is a corporate member of Lloyd's of London and represents costs incurred to acquire rights to participate on various syndicate capacities.

17. GOODWILL

Goodwill arose on acquisition of a controlling stake in Ventura Del Mar, the Group's subsidiary engaged in property development. The goodwill is annually tested for impairment by reference to the fair value of the underlying properties. As of 31 December 2011 and 31 December 2010 no indications of impairment were observed. Goodwill is entirely allocated to a single cash generating unit (CGU) of the Group.

18. EQUITY AND RESERVES

Share capital	2011 US$ '000	2010 US$ '000
Authorised, issued and fully paid 1,000,000 shares of US$ 100 each	100,000	100,000

Statutory reserve

As required by the Bahrain Commercial Companies Law and the Insurance Regulations contained in Volume 3 of the Central Bank of Bahrain Rulebook, 10% of the profit for the year is to be transferred to a statutory reserve until such time as the reserve equals 50% of the paid up share capital. The reserve is not available for distribution except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the CBB.

Dividend

Dividends paid in 2011 amounted to US$ 15 million (US$ 15 per share) [2010: US$ 15 million (US$ 15 per share)].

Proposed dividend

The Board of Directors, at a meeting held on 25th March 2012, recommended the following appropriations, which are subject to approval of the shareholders at the Annual General Meeting to be held on 26 March 2012.

	2011 US$ '000	2010 US$ '000
Cash dividend of US$ 10 per share (2010: US$ 15 per share)	10,000	15,000
Board of Directors remuneration	200	169

19. REINSURERS' SHARE OF DEFERRED ACQUISITION COSTS

	2011 Group US$ '000	2011 Company US$ '000	2010 Group US$ '000	2010 Company US$ '000
At 1 January	20,423	20,423	18,839	18,839
Acquisition costs - reinsurer	28,250	28,250	31,127	31,127
Amortisation for the year - reinsurer	(31,935)	(31,935)	(29,543)	(29,543)
At 31 December	16,738	16,738	20,423	20,423

20. INSURANCE AND OTHER PAYABLES

	2011 Group US$ '000	2011 Company US$ '000	2010 Group US$ '000	2010 Company US$ '000
Insurance payables	18,394	15,554	22,520	18,299
Outward pipeline premium provision	37,152	37,152	39,324	39,324
Outward treaty premium reserves and loss deposit	34,398	34,398	36,118	36,118
Due to related parties (note 30)	87	-	3,125	4,990
Other accounts payable and accruals	21,096	5,547	23,634	9,193
Deferred tax liability (note 21)	208	-	557	-
	111,335	92,651	125,278	107,924

21. DEFERRED TAXATION

The movement in deferred taxation is as follows:

Deferred tax asset	2011 US$ '000	2010 US$ '000
At 1 January	333	179
Released during the year	141	171
Exchange difference	(11)	(17)
At 31 December 2011	463	333

Deferred tax liability	Tax losses carried forward US$ '000	Underwriting profits not subject to taxation US$ '000	Oveseas tax incurred US$ '000	Claims equalisation US$ '000	Total US$ '000
At 1 January 2010	-	763	(105)	-	658
Released during the year	-	(289)	104	99	(86)
Exchange difference	-	(15)	1	(1)	(15)
At 31 December 2010	-	459	-	98	557
Released during the year	(202)	(257)	-	110	(349)
At 31 December 2011	(202)	202	-	208	208

22. OPERATING EXPENSES

	2011 Group US$ '000	2011 Company US$ '000	2010 Group US$ '000	2010 Company US$ '000
Staff costs	8,310	8,310	7,466	7,466
Corporate costs	1,319	1,319	1,362	1,362
Administration expenses	961	961	4,552	2,227
Marketing and business travel	899	899	1,076	1,076
Professional expenses	816	816	584	584
Occupancy costs	675	675	489	489
Information technology costs	221	221	257	256
	13,201	13,201	15,786	13,460

23. INVESTMENT INCOME

	2011 Group US$ '000	2011 Company US$ '000	2010 Group US$ '000	2010 Company US$ '000
Dividend income	2,123	2,123	3,344	2,170
Gain on sale of available for sale investments	1,059	1,059	202	202
Interest income on debt securities	1,811	1,811	519	519
	4,993	4,993	4,065	2,891

24. GAIN (LOSS) ON INVESTMENT PROPERTIES - NET

	2011 Group US$ '000	2011 Company US$ '000	2010 Group US$ '000	2010 Company US$ '000
Rental income	585	585	232	232
Provision for liability to a contractor	-	-	(795)	(795)
Other income	-	-	82	82
Revaluation of investment properties	388	388	(3,391)	(3,391)
Investment property expenses	-	-	(359)	(359)
	973	973	(4,231)	(4,231)

25. GENERAL AND ADMINISTRATION EXPENSES

	2011 Group US$ '000	2011 Company US$ '000	2010 Group US$ '000	2010 Company US$ '000
Employee related costs	1,999	1,999	1,785	1,785
Depreciation (note 15)	187	187	188	188
Other	3,627	1,306	2,636	930
	5,813	3,492	4,609	2,903

26. OTHER INCOME

	2011 Group US$ '000	2011 Company US$ '000	2010 Group US$ '000	2010 Company US$ '000
Gain on disposal of property and equipment	5,994	5,994	6	6
Management fees	1,431	2,033	496	1,017
Miscellaneous income	185	66	754	754
	7,610	8,093	1,256	1,777

27. TAXATION

The Group's branch in Cyprus is subject to a taxation charge of 10% on its chargeable income for the year. A further 10% charge is levied on its interest earnings. The branch has incurred a loss during the year and therefore no tax liability is applicable for the year. The branch in Labuan, Malaysia elected not to pay any tax this and the previous year. Based on confirmation received from Spanish tax authorities and accepted by the UK tax authorities, the control and management of Ventura Del Mar SA Ltd, a company registered in the UK, is in Spain and therefore no tax liabilities will arise in the UK. The subsidiary has tax losses of approximately US$ 471 thousand (€364 thousand) [2010: US$ 541 thousand (€408 thousand)] arising in Spain. The other subsidiaries in the USA and Spain are also subject to local taxation.

The tax charge is analysed as follows:

	2011 Group US$ '000	2011 Company US$ '000	2010 Group US$ '000	2010 Company US$ '000
Corporation tax (including previous years)	31	-	44	21
Defence contribution	-	-	13	12
Deferred tax charge	(512)	-	(257)	-
	(481)	-	(200)	33

28. CLASSIFICATION OF FINANCIAL INSTRUMENTS

At 31 December 2011 and 31 December 2010, financial instruments have been classified for the purpose of measurement under IAS 39 'Financial Instruments: Recognition and Measurement' as follows:

a) Group

	2011		
	Available for sale US$ '000	Loans and receivables / amortised cost US$ '000	Total US$ '000
Financial assets			
Cash and bank balances	-	153,774	153,774
Available for sale investments	171,624	-	171,624
Due from the parent	-	76,003	76,003
Insurance and other receivables	-	192,408	192,408
Reinsurers' share of outstanding claims reserve	-	187,329	187,329
	171,624	609,514	781,138
Financial liabilities			
Outstanding claims reserve	-	400,676	400,676
Reinsurance payables	-	23,041	23,041
Insurance and other payables	-	111,335	111,335
Borrowings	-	1,284	1,284
	-	536,336	536,336

a) Group (continued)

	2010		
	Available for sale US$ '000	Loans and receivables / amortised cost US$ '000	Total US$ '000
Financial assets			
Cash and bank balances	-	112,729	112,729
Available for sale investments	150,060	-	150,060
Due from the parent	-	15,021	15,021
Trade and other receivables	-	197,638	197,638
Reinsurers' share of outstanding claims reserve	-	149,099	149,099
	150,060	474,487	624,547
Financial liabilities			
Outstanding claims reserve	-	283,710	283,710
Reinsurance payables	-	18,631	18,631
Trade and other payables	-	125,278	125,278
Borrowings	-	1,502	1,502
	-	429,121	429,121

b) Company

	2011		
	Available for sale US$ '000	Loans and receivables / amortised cost US$ '000	Total US$ '000
Financial assets			
Cash and bank balances	-	145,369	145,369
Available for sale investments	126,324	-	126,324
Due from the parent	-	76,003	76,003
Trade and other receivables	-	178,840	178,840
Reinsurers' share of outstanding claims reserve	-	184,640	184,640
	126,324	584,852	711,176
Financial liabilities			
Outstanding claims reserve	-	347,617	347,617
Reinsurance payables	-	18,187	18,187
Trade and other payables	-	92,651	92,651
	-	458,455	458,455

b) Company (continued)

	2010		
	Available for sale US$ '000	Loans and receivables / amortised cost US$ '000	Total US$ '000
Financial assets			
Cash and bank balances	-	99,351	99,351
Available for sale investments	105,307	-	105,307
Due from the parent	-	28,401	28,401
Insurance and other receivables	-	195,769	195,769
Reinsurers' share of outstanding claims reserve	-	141,067	141,067
	105,307	464,588	569,895
Financial liabilities			
Outstanding claims reserve	-	239,299	239,299
Reinsurance payables	-	14,661	14,661
Trade and other payables	-	107,924	107,924
	-	361,884	361,884

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and the fair value estimates. Underlying the definition of fair value is the presumption that the Group and the Company are a going concern without any intention or requirement to curtail materially the scale of their operation or to undertake a transaction on adverse terms.The Group and the Company use the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

a) Group

	2011		
	Level 1 US$ '000	Level 2 US$ '000	Total US$ '000
Available for sale investments			
Quoted equities	80,846	1,484	82,330
Quoted debt	73,746	7,018	80,764
	154,592	8,502	163,094

	2010		
	Level 1 US$ '000	Level 2 US$ '000	Total US$ '000
Available for sale investments			
Quoted equities	113,634	-	113,634
Quoted debt	9,755	4,950	14,705
	123,389	4,950	128,339

b) Company

	2011		
	Level 1 US$ '000	Level 2 US$ '000	Total US$ '000
Available for sale investments			
Quoted equities	72,731	1,484	74,215
Quoted debt	38,191	7,018	45,209
	110,922	8,502	119,424

	2010		
	Level 1 US$ '000	Level 2 US$ '000	Total US$ '000
Available for sale investments			
Quoted equities	70,589	-	70,589
Quoted debt	9,755	4,950	14,705
	80,344	4,950	85,294

None of the Group's and the Company's financial instruments carried at fair value at 31 December 2011 and 31 December 2010 qualify under Level 3 of the fair value hierarchy.

During the year ended 31 December 2011, there were no transfers between Level 1 and Level 2 fair value hierarchies.

30. RELATED PARTY TRANSACTIONS

a) Group

Related parties represent major shareholders, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. All transactions with such related parties are conducted on normal terms and conditions.

Transactions with related parties included in the consolidated statement of income are as follows:

	Entities related to shareholders	
	2011 US$ '000	2010 US$ '000
Gross premiums written	8,054	5,767
Premiums ceded	3,097	2,192
Gross claims paid	1,807	-
Recoveries on premiums ceded	758	-
Commission income	558	438
Policy acquisition costs	1,197	761

Balances with related parties included in the consolidated statement of financial position are as follows:

	Shareholders 2011 US$ '000	Entities related to shareholders 2011 US$ '000	Shareholders 2010 US$ '000	Entities related to shareholders 2010 US$ '000
Insurance and other receivables	-	-	-	11,332
Insurance and other payables	-	87	-	3,125
Due from parent	76,003	-	15,021	-

Due from parent mainly relates to amounts receivable towards transfer of the Group's property and equipment (note 15), investment properties (note 13) and certain investments (note 8).

Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the year was as follows:

	2011 US$ '000	2010 US$ '000
Directors' remuneration	169	150
Salaries and benefits	1,023	825
End of service benefits	116	20
	1,308	995

b) Company

Related parties represent major shareholders, directors and key management personnel of the Company and entities controlled, jointly controlled or significantly influenced by such parties. All transactions with such related parties are conducted on normal terms and conditions.

Transactions with related parties included in the statement of income are as follows:

	Entities related to shareholders	
	2011 US$ '000	**2010 US$ '000**
Gross premiums written	8,054	5,767
Premiums ceded	3,097	2,192
Gross claims paid	1,807	-
Recoveries on premiums ceded	758	-
Commission income	558	438
Policy acquisition costs	1,197	761

Balances with related parties included in the statement of financial position are as follows:

	Shareholders 2011 US$ '000	**Entities related to shareholders 2011 US$ '000**	**Shareholders 2010 US$ '000**	**Entities related to shareholders 2010 US$ '000**
Insurance and other receivables	-	12,027	-	32,076
Insurance and other payables	-	-	-	4,990
Due from parent	76,003	-	15,021	-

Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the year was as follows:

	2011 US$ '000	2010 US$ '000
Directors' remuneration	169	150
Salaries and benefits	1,023	825
End of service benefits	116	20
	1,308	995

31. CONTINGENT LIABILITIES

The Group has issued a guarantee on behalf of a subsidiary for approximately US$ 13.9 million (Stg£ 9.0 million) [(2010: US$ 11.30 million (Stg£ 6.7 million)] which is secured by the Group's bank balances and other securities provided by the ultimate parent. The Company's directors are satisfied that the prospect of any loss arising under this guarantee is unlikely.

The Group has also issued a guarantee of approximately US$ 1.1 million (€875 thousand) [2010: US$ 1.3 million (€875 thousand)} as a statutory requirement by the Superintendent of Insurance in Cyprus in respect of its branch.

32. RISK MANAGEMENT

Governance framework

The primary objective of the Group's and Company's risk and financial management framework is to protect the Group's shareholders from events that hinder the sustainable achievement of financial performance objectives. The Group and the Company have established an efficient and effective risk management system based on terms of reference from the Board of Directors and its sub-committees. The Group has formed a Risk committee which is responsible for ensuring that the Group's overall risk management functions are operating effectively.

This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the Board of Directors to executive management committees and senior managers. Lastly, a Group policy framework which sets out the risk profiles for the Group and the Company, risk management, control and business conduct standards for the Group's and the Company's operations have been implemented. As part of the Group's and the Company's enterprise wide risk management implementation, the Group's risk management department is also responsible for building a risk awareness culture and reporting to the Risk Committee.

The Group has also developed adequate policies and procedures, delegation of authority and limit systems to ensure appropriate quality and diversification of assets, align underwriting and reinsurance strategies to Group's goals and objectives and specify reporting requirements.

Regulatory framework

The Company is regulated by the Central Bank of Bahrain and its subsidiary, Trust Underwriting Limited, is regulated by the Financial Services Authority of the United Kingdom. Regulatory intervention helps the Group and the Company in protecting the rights of policyholders and other counterparties as well as ensuring that the Group maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks and catastrophies which could significantly impact the Group's and the Company's operations.

The various risks that the Group and the Company are exposed to are discussed in the following sections.

Reinsurance risk

In order to control financial exposure arising from large claims, the Group and the Company in their normal course of business enter into agreements with other parties for reinsurance purposes. This is a common practice in the reinsurance industry.

Reinsurance ceded contracts do not relieve the Group or the Company from their obligations to policyholders and consequently the Group and the Company remain liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements.

In order to limit their exposure to significant losses that might arise from large claims from insolvent reinsurers, the Group and the Company continuously evaluate their reinsurers' financial condition and follow up developments in their areas of operations.

Concentration of reinsurance risk

The Group and the Company have neither a single reinsurance contract nor a small number of related contracts that cover low frequency, high-severity risks such as earthquakes, nor reinsurance contracts covering risks for single incidents that expose the Group or the Company to multiple insurance risks. The Group and the Company has adequately reinsured for reinsurance risks that may involve significant litigation. A 5% change in the average claims ratio will have no material impact on the statement of income (2010: same).

Syndicate risk (Trust Underwriting Limited)

The syndicate's activities expose one subsidiary to a variety of financial and non-financial risks. The Managing Agent is responsible for managing the syndicate's exposure to these risks and, where possible, introducing controls and procedures that mitigate the effects of the exposure to risk. Each year, the Managing Agent prepares an Individual Capital Assessment (ICA) for the syndicate, the purpose of this being to agree capital requirements with Lloyd's based on an agreed assessment of the risks from a quantitative and qualitative perspective. The risks described below are typically reflected in the ICA; and typically the majority of the total assessed value of the risks concerned is attributable to Insurance Risk.

The insurance risks faced by a syndicate include the occurrence of catastrophic events, downward pressure on pricing of risks, reductions in business volumes and the risk of inadequate reserving. Reinsurance risks arise from the risk that a reinsurer fails to meet the share of a claim. The management of the syndicate's funds is exposed to risks of investment, liquidity, currency and interest rates leading to financial loss. The syndicate is also exposed to regulatory and operational risks including its ability to continue to trade. However, supervision by Lloyd's and the Financial Services Authority provide additional controls over the syndicate's management of risks.

The Group manages the risks faced by the syndicates on which it participates by monitoring the performance of the syndicates it supports. This commences in advance of committing to support a syndicate for the following year, with a review of the business plan prepared for each syndicate by its Managing Agent. In addition quarterly reports and annual accounts together with any other information made available by the Managing Agent are monitored and if necessary enquired to. If the Group considers that the risks being run by the syndicate are excessive it will seek confirmation from the Managing Agent that adequate management of the risk is in place and if considered appropriate will withdraw support from the next underwriting year.

Financial risks

a) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's and the Company's principal transactions are carried out in US$, Euro (€) and British Pound (£) and their exposure to foreign exchange risk arises primarily because these currencies are not pegged to the United States Dollar. The table below summarises the Group's and the Company's exposure to foreign currency exchange rate risk at the consolidated and separate statement of financial position date by categorising monetary assets and liabilities by major currencies.

Currency risk - Group	31 December 2011				
	US Dollars US$ '000	Euro US$ '000	British Pound US$ '000	Other US$ '000	Total US$ '000
ASSETS					
Cash and bank balances	113,796	11,022	23,454	5,502	153,774
Available for sale investments	78,445	-	13,590	79,589	171,624
Due from parent	76,003	-	-	-	76,003
Insurance and other receivables	40,559	2,215	10	18,839	61,623
Reinsurers' share of technical reserves - outstanding claims	78,511	1,797	378	48,077	128,763
	387,314	15,034	37,432	152,007	591,787
LIABILITIES					
Technical reserves - Outstanding claims reserve - gross	177,052	5,678	542	109,769	293,041
Reinsurance payables	23,041	-	-	-	23,041
Insurance and other payables	30,917	473	523	7,872	39,785
	231,010	6,151	1,065	117,641	355,867

Currency risk - Group	31 December 2010				
	US Dollars US$ '000	Euro US$ '000	British Pound US$ '000	Other US$ '000	Total US$ '000
ASSETS					
Cash and bank balances	99,790	5,086	3,754	4,099	112,729
Available for sale investments	60,991	-	13,426	75,643	150,060
Due from parent	15,021	-	-	-	15,021
Insurance and other receivables	56,762	2,201	30	16,571	75,564
Reinsurers' share of technical reserves - outstanding claims	74,985	2,031	1,409	47,819	126,244
	307,549	9,318	18,619	144,132	479,618
LIABILITIES					
Technical reserves - Outstanding claims reserve - gross	134,671	6,589	1,925	88,056	231,241
Reinsurance payables	18,631	-	-	-	18,631
Insurance and other payables	36,996	420	2,331	11,809	51,556
	190,298	7,009	4,256	99,865	301,428

The analysis that follows is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax and equity due to changes in the fair value of currency sensitive monetary assets and liabilities including reinsurance contract claim liabilities. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non–linear.

Currency	Change in variables	2011 Impact on Profit before tax US$ '000	2010 Impact on Profit before tax US$ '000
GBP	+/- 10%	3,637	1,436
Euro	+/- 10%	888	231

Currency risk - Company

The table which follows summarises the Company's exposure to foreign currency exchange rate risk at the separate statement of financial position date by categorising monetary assets and liabilities by major currencies.

Currency risk - Company	31 December 2011				
	US Dollars US$ '000	Euro US$ '000	British Pound US$ '000	Other US$ '000	Total US$ '000
ASSETS					
Cash and bank balances	105,469	10,944	23,454	5,502	145,369
Available-for-sale investments	46,735	-	-	79,589	126,324
Investment in subsidiaries	1,082	27,146	654	-	28,882
Due from parent	76,003	-	-	-	76,003
Insurance and other receivables	15,885	17,215	10	18,311	51,421
Reinsurers' share of technical reserves - outstanding claims	75,823	1,797	378	48,077	126,075
	320,997	57,102	24,496	151,479	554,074
LIABILITIES					
Technical reserves - outstanding claims reserve - gross	123,993	5,678	685	109,626	239,982
Reinsurance payables	18,187	-	-	-	18,187
Insurance and other payables	12,234	473	523	7,871	21,101
	154,414	6,151	1,208	117,497	279,270

Currency risk - Company (continued)	31 December 2010				
	US Dollars US$ '000	Euro US$ '000	British Pound US$ '000	Other US$ '000	Total US$ '000
ASSETS					
Cash and bank balances	86,412	5,086	3,754	4,099	99,351
Available-for-sale investments	29,664	-	-	75,643	105,307
Investment in subsidiaries	601	27,146	654	-	28,401
Due from parent	15,021	-	-	-	15,021
Insurance and other receivables	39,892	17,201	30	16,572	73,695
Reinsurers' share of technical reserves - outstanding claims	66,954	2,031	1,409	47,819	118,213
	238,544	51,464	5,847	144,133	439,988
LIABILITIES					
Technical reserves - outstanding claims reserve - gross	90,259	6,589	1,925	88,056	186,829
Reinsurance payables	14,661	-	-	-	14,661
Insurance and other payables	12,930	420	7,321	11,811	32,482
	117,850	7,009	9,246	99,867	233,972

Currency	Change in variables	2011 Impact on Profit before tax US$ '000	2010 Impact on Profit before tax US$ '000
GBP	+/- 10%	2,263	405
Euro	+/- 10%	2,381	1,731

(b) Interest rate risk - Group and Company
Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Group's and Company's time deposits are at fixed interest rates and mature within six months. Investments in bonds consist of both fixed rate and floating rate instruments and have maturities ranging from 1 year to 7 years.

Neither the Group nor the Company uses any derivative financial instruments to hedge their interest rate risk.

A 50 basis point change in interest rates would impact the consolidated and separate statements of income by US$ 525 thousand (2010: 450 thousand).

(c) Market risk - Group and Company
Market price 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 Group and the Company are exposed to market risk with respect to the available for sale investments (listed and unlisted shares and bonds). The geographical concentration of the Group's and the Company's investments is set out below.

Geographical concentration of investments	2011 Group US$ '000	2011 Company US$ '000	2010 Group US$ '000	2010 Company US$ '000
Bahrain	3,795	3,795	12,886	12,886
Other GCC countries	94,937	94,937	75,755	75,755
Europe	24,417	24,417	9,954	9,954
Rest of the world	48,475	3,174	51,465	6,712
	171,624	126,323	150,060	105,307

The Group and Company limits market risk by maintaining a diversified portfolio, proactively monitoring the key factors that affect stock and bond market movements and periodically analysing the operating and financial performance of investees.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of financial assets and liabilities whose fair values are recorded in the separate statement of income) and equity (that reflects adjustments to profit before tax and changes in fair value of available for sale financial assets). The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non–linear.

Group and Company	Change in variables	2011 Impact on equity US$ '000	2010 Impact on equity US$ '000
Market indices			
Muscat stock exchange	+/- 15%	643	795
Doha stock exchange	+/- 15%	5,405	4,554

(d) Liquidity risk
Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. Management monitors liquidity requirements on a regular basis and ensures that sufficient funds are available to meet any commitments as they arise. The Group and the Company has sufficient liquidity at the reporting date.

The table below summarises the maturity profile of the assets and liabilities of the Group and the Company based on remaining undiscounted contractual obligations.

Liquidity risk - Group	2011 US$ '000							
	Less than 1 month	1 to 3 months	3 months to 1 year	Total of up to 1 year	More than 1 year and less than 5 years	More than 5 years	No fixed maturity	Total
ASSETS								
Cash and bank balances	115,369	7,143	9,696	132,208	21,566	-	-	153,774
Available for sale investments	-	-	-	-	70,841	23,804	76,979	171,624
Due from parent	-	-	76,003	76,003	-	-	-	76,003
Insurance and other receivables	5,667	12,471	25,220	43,358	141,105	-	7,945	192,408
Reinsurers' share of technical reserves	5,115	10,232	44,362	59,709	117,630	6,037	76,490	259,866
Investment properties	-	-	-	-	-	-	1,707	1,707
Properties held for sale	-	-	-	-	8,686	-	-	8,686
Property and equipment	-	-	-	-	-	-	12,918	12,918
Intangible assets	-	-	-	-	416	-	-	416
	126,151	29,846	155,281	311,278	360,244	29,841	176,039	877,402
LIABILITIES								
Technical reserves	12,329	24,659	116,776	153,764	223,802	15,384	192,964	585,914
Insurance and other payables	3,333	6,179	26,629	36,141	75,194	-	-	111,335
Reinsurance payables	1,424	1,802	8,358	11,584	2,877	-	8,580	23,041
Borrowings	-	-	-	-	1,284	-	-	1,284
	17,086	32,640	151,763	201,489	303,157	15,384	201,544	721,574

Liquidity risk - Group (continued)	2010 US$ '000							
	Less than 1 month	1 to 3 months	3 months to 1 year	Total of up to 1 year	More than 1 year and less than 5 years	More than 5 years	No fixed maturity	Total
ASSETS								
Cash and bank balances	95,081	-	17,648	112,729	-	-	-	112,729
Available for sale investments	-	-	-	-	52,660	11,482	85,918	150,060
Due from parent	-	-	15,021	15,021	-	-	-	15,021
Insurance and other receivables	4,887	10,366	41,000	56,253	135,164	-	6,221	197,638
Reinsurers' share of technical reserves	5,116	10,232	44,362	59,710	79,399	6,037	72,838	217,984
Investment properties	-	-	-	-	-	-	22,647	22,647
Properties held for sale	-	-	-	-	8,954	-	-	8,954
Property and equipment	-	-	-	-	-	-	31,775	31,775
Intangible assets	-	-	-	-	738	-	-	738
Goodwill	-	-	-	-	-	-	24,645	24,645
	105,084	20,598	118,031	243,713	276,915	17,519	244,044	782,191
LIABILITIES								
Technical reserves	8,488	16,975	80,388	105,851	161,951	10,590	170,566	448,958
Insurance and other payables	7,392	4,846	31,766	44,004	81,274	-	-	125,278
Reinsurance payables	147	2,334	7,564	10,045	313	-	8,273	18,631
Borrowings	-	-	-	-	1,502	-	-	1,502
	16,027	24,155	119,718	159,900	245,040	10,590	178,839	594,369

Liquidity risk - Company	2011							
	US$ '000							
	Less than 1 month	1 to 3 months	3 months to 1 year	Total of up to 1 year	More than 1 year and less than 5 years	More than 5 years	No fixed maturity	Total
ASSETS								
Cash and bank balances	106,963	7,143	9,696	123,802	21,567	-	-	145,369
Available for sale investments	-	-	-	-	25,541	23,804	76,979	126,324
Investment in subsidiaries	-	-	-	-	-	-	28,882	28,882
Due from parent	-	-	76,003	76,003	-	-	-	76,003
Insurance and other receivables	5,666	12,471	21,431	39,568	131,327	-	7,945	178,840
Reinsurers' share of technical reserves	6,696	13,392	58,064	78,152	93,412	7,902	66,971	246,437
Investment properties	-	-	-	-	-	-	1,707	1,707
Property and equipment	-	-	-	-	-	-	10,612	10,612
	119,325	33,006	165,194	317,525	271,847	31,706	193,096	814,174
LIABILITIES								
Technical reserves	12,330	24,659	116,776	153,765	170,743	15,384	172,934	512,826
Reinsurance payables	1,424	1,802	3,503	6,729	2,877	-	8,581	18,187
Insurance and other payables	3,333	6,179	24,973	34,485	58,166	-	-	92,651
	17,087	32,640	145,252	194,979	231,786	15,384	181,515	623,664

Liquidity risk - Company (continued)	2010							
	US$ '000							
	Less than 1 month	1 to 3 months	3 months to 1 year	Total of up to 1 year	More than 1 year and less than 5 years	More than 5 years	No fixed maturity	Total
ASSETS								
Cash and bank balances	81,704	-	17,647	99,351	-	-	-	99,351
Available for sale investments	-	-	-	-	7,905	11,482	85,920	105,307
Investment in subsidiaries	-	-	-	-	-	-	28,401	28,401
Due from parent	-	-	15,021	15,021	-	-	-	15,021
Insurance and other receivables	4,887	10,366	34,084	49,337	140,209	-	6,223	195,769
Reinsurers' share of technical reserves	5,116	10,232	44,362	59,710	71,368	6,037	70,049	207,164
Investment properties	-	-	-	-	-	-	22,647	22,647
Property and equipment	-	-	-	-	-	-	26,339	26,339
	91,707	20,598	111,114	223,419	219,482	17,519	239,579	699,999
LIABILITIES								
Technical reserves	8,489	16,975	80,388	105,852	117,539	10,590	150,592	384,573
Reinsurance payables	147	2,334	3,594	6,075	314	-	8,272	14,661
Insurance and other payables	7,393	4,846	31,766	44,005	63,919	-	-	107,924
	16,029	24,155	115,748	155,932	181,772	10,590	158,864	507,158

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. Credit risk on receivables is limited to receivables from policyholders which are carried net of impairment losses, and to insurance and reinsurance companies. The Group and the Company manage credit risk with respect to receivables from policyholders by monitoring risks in accordance with defined policies and procedures.

Management seeks to minimise credit risk with respect to insurance and reinsurance companies by only ceding business to companies with good credit ratings.

The Group and the Company manage credit risk on their cash deposits and investments by ensuring that the counterparties have an appropriate credit rating. The Group and the Company do not have an internal credit rating of counterparties and use external credit rating agencies' websites to rate the companies. The table below provides information regarding the credit risk exposure of the Group and the Company according to the Group and the Company's categorisation of counterparties by the international credit agency's credit rating:

Credit risk - Group	2011			
	A - to A + US$ '000	Lower than A - US$ '000	Unrated US$ '000	Total US$ '000
Bank balances	88,488	28,264	37,001	153,753
Available for sale investments	61,473	21,944	-	83,417
Due from parent	-	-	76,003	76,003
Insurance and other receivables	39,028	13,159	9,436	61,623
Reinsurers' share of technical reserves claims outstanding - reinsurer	79,037	48,402	1,324	128,763
Group's maximum exposure to credit risk	268,026	111,769	123,764	503,559

Credit risk - Group (continued)	2010			
	A - to A + US$ '000	Lower than A - US$ '000	Unrated US$ '000	Total US$ '000
Bank balances	93,434	19,282	1	112,717
Available for sale investments	8,829	8,530	-	17,359
Due from parent	-	-	15,021	15,021
Insurance and other receivables	36,598	6,393	30,142	73,133
Reinsurers' share of technical reserves claims outstanding - reinsurer	78,472	45,596	2,176	126,244
Group's maximum exposure to credit risk	217,333	79,801	47,340	344,474

Credit risk - Company	2011			
	A - to A + US$ '000	Lower than A - US$ '000	Unrated US$ '000	Total US$ '000
Bank balances	88,488	19,859	37,022	145,369
Available for sale investments	25,917	21,945	-	47,862
Due from parent	-	-	76,003	76,003
Insurance and other receivables	20,766	13,159	14,660	48,585
Reinsurers' share of technical reserves claims outstanding - reinsurer	76,349	48,402	1,324	126,075
Group's maximum exposure to credit risk	211,520	103,365	129,009	443,894

Credit risk - Company (continued)	2010			
	A - to A + US$ '000	Lower than A - US$ '000	Unrated US$ '000	Total US$ '000
Bank balances	93,433	5,905	13	99,351
Available for sale investments	8,829	8,530	-	17,359
Due from parent	-	-	15,021	15,021
Insurance and other receivables	19,566	6,393	45,305	71,264
Reinsurers' share of technical reserves claims outstanding - reinsurer	70,441	45,596	2,176	118,213
Group's maximum exposure to credit risk	192,269	66,424	62,515	321,208

(e) Regulatory risk
The Group is subject to continuing approval by the Central Bank of Bahrain, United Kingdom Financial Services Authority, Corporation of Lloyd's of London, Labuan Financial Services Authority, and Cyprus Insurance Companies Control Services. The risk of this approval being removed is mitigated by monitoring and fully complying with all requirements in relation to these regulators. For Trust Underwriting Limited, the capital requirements to support the proposed amount of syndicate capacity for future years are subject to the requirements of Lloyd's. A variety of factors are taken into account by Lloyd's in setting these requirements including market conditions and syndicate performance and although the process is intended to be fair and reasonable the requirements can fluctuate from one year to the next, which may constrain the volume of underwriting the Group is able to support.

(f) Operational risk
Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The Group and the Company cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Group and the Company are able to manage the risks. Controls include effective segregation of duties, access controls, authorisation and reconciliation procedures, staff training and assessment processes, including the use of internal audit. Business risks such as changes in environment, technology and the industry are monitored through the Group's and Company's strategic planning and budgeting process.

(g) Fair values of financial instruments
Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms. Except for investments of US$ 4,247 thousand (2010: US$ 17,359 thousand) carried at cost, the fair value of the Group and Company's financial instruments are not materially different from their carried values as shown in the consolidated statement of financial position.

(h) Capital management
Capital requirements are set and regulated by the Central Bank of Bahrain. These requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Group and Company to maintain a strong credit rating and healthy capital ratios in order to support their business objectives and maximise shareholders' value.

The Group and the Company manage their capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in market conditions and risk characteristics of the Group's and Company's activities. In order to maintain or adjust the capital structure, the Group and the Company may adjust the amount of dividends paid to shareholders or issue capital securities.

The Group and the Company fully complied with the externally imposed capital requirements during the reported financial periods and no changes were made to the Group and the Company's objectives, policies and processes for capital management from the previous year.

33. COMPARATIVE INFORMATION

Restatement
During the year ended 31 December 2010, the revaluation loss arising on the Group's and the Company's land amounting to US$ 4.2 million was recognised in the consolidated and separate statements of comprehensive income and the revaluation reserve forming part of the consolidated and separate statements of changes in equity. This was not in compliance with the requirements of International Accounting Standard (IAS) 16 "Property and equipment" which requires any loss arising from revaluation of property to be recognised in the statement of income except to the extent of reversing a previously recognised gain. This error was rectified during the year by restating previously reported profit of the Group and the Company for 2010 as required by IAS 8 "Accounting policies, changes in accounting estimates and errors".

Reclassifications
In addition to the restatement discussed in the preceding paragraph, certain balances have been reclassified for a better presentation of the consolidated and separate financial statements. These reclassifications did not result in any changes to previously reported profit or retained earnings.

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