# TRUST RE

25

TWENTY FIVE YEARS

**TRUST RE** ANNUAL REPORT 2014

Trust International
Insurance and Reinsurance Company
B.S.C. (c) Trust Re

# Consolidated and Company's Separate Financial Statements 31 December 2014

## Table of Contents


**9%**

increase in Group Net Earned Premium year-on-year in 2014

**18%**

increase in Group Retained Earnings year-on-year in 2014

**14%**

increase in Group Total Assets year-on-year in 2014

**14%**

increase in Group Gross Written Premium year-on-year in 2014

Continuing from last year's annual report, we explore the fascinating topic of legends and myths by featuring further mythologies from different regions in which we operate.

Typically the word 'mythology' is taken to mean "A collection of myths, especially one belonging to a particular religious or cultural tradition".*

Trust Re is a multi-cultural company and our human capital reflects our operational scope; over thirty different nationalities in our Head Office and branches serve our clients and partners. Cross-cultural know-how pervades every business interaction and strategic decision.

Our 25th anniversary event held in October 2014 was a celebration of achievements and of culture. Guests from 30 different countries around the world joined in our festivity. It is thanks to their partnership that we reached this landmark.

Looking ahead to the next 25 years and beyond, it is already clear that further growth and prosperity will not come without leveraging the power of culture.

*www.oxforddictionaries.com

## Milestones

# Celebrating 25 years of success

**1989**

Trust International Insurance Company in Bahrain was launched as a reinsurance provider.

**1990**

We set up a branch office in Cyprus to develop reinsurance business in the Levant area and North Africa.

**1991**

Opening of Compass Insurance Co. (SAL) in Lebanon to provide direct insurance products.

**1992**

We acquired Texas International Underwriters to service oil and gas contractors who are working in our regions of operation.

**1993**

We opened Trust Underwriting Ltd in the UK to act as a Lloyd's of London corporate capital vehicle.

**1994**

Trust Palestine was established to bring direct insurance products and services to Palestine.

**1995**

Trust Yemen Insurance and Reinsurance Company was opened to service our clients operating in that market.

**1997**

Our first step into North Africa came with the opening of Trust Algeria.

## 1999

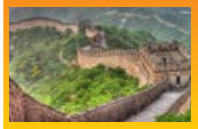
The Federation of Afro-Asian Insurers & Reinsurers (FAIR) chose Trust Re to manage the FAIR Oil & Energy Insurance Syndicate.

## 2000

Trust Amman Regional Office was opened to support Trust Cyprus in developing the Direct Insurance subsidiaries and affiliates. We then separated our Direct Operations and Reinsurance Business.

## 2001

Having written business in the Far East for many years, we refocused our resources to increase our production in this area.



## 2004

We established our Labuan branch office in Malaysia, to enable us to better service our clients in the Far East and ASEAN countries.

## 2006

Trust Re was upgraded to A- status by A.M. Best.

Financial Strength
A M BEST
A- Excellent

## 2008

Our new corporate identity was introduced and Trust Tower in Bahrain was opened.

## 2013

With total assets surpassing US$1 billion, authorised capital was increased to US$200 million and paid up capital was raised to US$140 million.

## 2014

**Paid up capital** was further increased to US$170 million.

We opened a representative office in Morocco under the Casablanca Finance City.

**Standard & Poor's** assigned us an A- rating.

A-
STANDARD & POOR'S RATINGS SERVICES
RATED STRONG

## Company Profile

Trust International Insurance and Reinsurance Company B.S.C. (c) Trust Re, was incorporated in 1981 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$ 170 million in 2014.

The majority of the issued share capital (99.1%) is owned by Nest Investments (Holdings) Ltd. Jersey.

The Company's pattern of shareholding throughout the year, ending 31 December 2014 is shown in the table below.

| Name of shareholder | Nationality | No. of shares at the beginning of the year | Change during the year | No. of shares at the end of the year |
|---|---|---|---|---|
| Nest Investments (Holdings) Limited | Jersey | 1,387,499 | 297,321 | 1,684,820 |
| Ghazi Kamel Abunahl | Jordan | 12,501 | 2,679 | 15,180 |
| Total | | 1,400,000 | 300,000 | 1,700,000 |

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), South Eastern Europe (SEE) and Commonwealth of Independent States (CIS) countries, Cyprus and Turkey. Trust Re is a reinsurance company writing life and non-life Facultative and Treaty business.

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** "Reinsurer of Choice"

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

**Values** Trust, Dynamic, Team Spirit with the associated attributes of Justice, Compliance and Innovation which exemplify our principles, behaviour and personality.

## A Message from the Chairman

Our vision to become the "Reinsurer of Choice" in our areas of operation has continued to guide us throughout the past twelve months; a year in which the trading environment was challenging due to continued softening of the reinsurance market and widespread, higher competition from international players entering our markets.

Nonetheless, I am pleased to report that 2014 was another profitable year for the Company and the Group highlighted by a number of memorable achievements including our 25th anniversary, the reaffirmation of our financial strength rating of A- by A.M. Best and the assigning of an A- rating by Standard & Poor's. We remain committed to providing excellent service and security for our business partners.

In October, in line with our strategic direction and risk tolerance, our paid up capital was increased from US$ 140 million to US$ 170 million; this derived from the doubling of our authorised capital to US$ 200 million during the previous year and will reinforce the future, profitable growth of the Company. Consequently, total shareholder's equity grew compared to the previous year, amounting to US$ 385.2 million as at 31 December 2014 compared to US$ 298.4 million during the corresponding period last year. Furthermore, cash balances and total assets rose year-on-year, with the latter surpassing US$ 1.2 billion at the year end.

On 14th October, we observed our 25th anniversary with a celebration dinner in our hometown of Manama, Bahrain. We were delighted to welcome friends and business partners from Bahrain and afar; the trust and support of each one has been instrumental throughout our journey of achievements over the last 25 years.

In the second quarter of 2014, we successfully incorporated a representative office in Casablanca, Morocco. This move will serve our strategic direction of continuously growing our geographical presence in our markets. The publicly limited company, Trust International Insurance and Reinsurance Company S.A., will function as a regional office to serve our clients in North, Central and West Africa; customer partnerships and proximity to clients being a mainstay of our corporate strategy.

Moreover, we were also delighted to open a pre operation representative office in the Fujian province of China to support Chinese interests both domestically and abroad.

As we evolve, we recognise the need for further strengthening the already solid risk-management culture within the organisation. Embedding and integrating risk management at all levels and every stage is becoming even more crucial.

Ensuring operational synergy by means of improving communication both internally and externally, as well as effectively utilising technology and industry's best practices, is of increasing importance.

Another area that Trust Re strongly believes in and continues to build upon is Corporate Social Responsibility. To this end we have taken on several deserving projects in the places in which we live and work.

Lastly, and on behalf of the Board of Directors, I would like to express my gratitude to all clients, producers, business associates and staff for their constant trust and support.

**Kamel Abunahl**
Chairman
25 March 2015

# Ganesha

**INDIAN MYTHOLOGY**

Ganesha is one of the best-known and most worshipped deities in the Hindu pantheon.His image is found throughout India. Although he is known by many attributes, Ganesha's elephant head makes him easy to identify. Ganesha is widely revered as the remover of obstacles, the patron of arts and sciences and the deity of intellect and wisdom. As the god of beginnings, he is honoured at the start of rituals and ceremonies. Ganesha is also invoked as patron of letters and learning during writing sessions. Ganesha is a popular figure in Indian art. He may be portrayed standing, dancing, heroically taking action against demons, playing with his family as a boy, sitting down or on an elevated seat, or engaging in a range of contemporary situations.

**Source: Wikipedia**

The Indian subcontinent presents steady growth prospects and financial reforms in India are expected to boost foreign investments. Trust Re is well established on the Indian subcontinent and is considered a leader in this market.

## 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 three year terms subject to the Central Bank of Bahrain's rules. They enhance the overall knowledge and expertise of the Board and provide oversight functions through various Board Committees.

During 2014, the Board of Directors held 6 meetings, 5 of which took place in Bahrain. On 4 occasions, 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 2014 |
|---|---|---|---|
| Kamel Abunahl | Non-Executive Chairman | Member of N&RC | 6 |
| Frixos Savvides | Deputy Chairman (independent non-executive) | Chairman of N&RC | 6 |
| Fadi AbuNahl | Chief Executive Officer | | 5 |
| Ghazi Abunahl | Member (Shareholder Representative) | Member of N&RC | 5 |
| Mehran Eftekhar | Member and Board Secretary (Shareholder Representative) | Member of AC & RC | 6 |
| Jamal Abunahl | Member (independent non-executive) | Member of N&RC | 5 |
| Prof. Derek Atkins | Member (independent non-executive) | Chairman of RC and member of AC | 6 |
| Farid Benbouzid | Member (independent non-executive) | Member of N&RC | 6 |
| Bakary Kamara | Member (independent non-executive) | Member of AC & RC | 6 |
| Stavros Stavrou | Member (independent non-executive) | Chairman of AC and member of RC | 6 |

**From left to right**
Front row: **Farid Benbouzid, Prof. Derek Atkins, Kamel Abunahl, Stavros Stavrou**
First row: **Fadi AbuNahl, Frixos Savvides, Ghazi Abunahl, Mehran Eftekhar**
Back row: **Bakary Kamara, Jamal Abunahl**

**Kamel Abunahl** has been active in the insurance industry for more than 18 years, including a period of secondment in a Lloyd's Syndicate in London.

**Frixos Savvides** is a Fellow Member of the Institute of Chartered Accountants in England and Wales (ICAEW) with more than 36 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 international companies including regulated and publicly quoted companies.

**Fadi AbuNahl** has been working in the insurance industry for 17 years including a period with a leading Insurance Broker in the UK.

**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. He was re-elected in that role in 2010 and 2012.

**Mehran Eftekhar** is a Fellow Member of the Institute of Chartered Accountants in England and Wales (ICAEW) and has over 40 years of experience in the private sector of finance and corporate services. He serves as a non-executive Director of a number of Group companies. Mehran is also Head of Group Corporate Services at parent company level.

**Jamal Abunahl** has more than 30 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.

**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 36 years in public service, insurance and reinsurance, and banking. He also serves on various Boards as a non-executive Director and Chairman.

**Bakary Kamara** is presently Executive Chairman of Gras Savoye Mauritania and an international consultant. A postgraduate in insurance law, he holds and has held numerous professional affiliations and directorships. For 18 years, until 2011 Bakary was Managing Director/Chief Executive Officer of the African Reinsurance Corporation. He is also a member of various boards of re/insurance companies and banks.

**Stavros Stavrou** a Chartered Accountant (Institute of Chartered Accountants in England and Wales [ICAEW] is a member of the Association of Certified Public Accountants of Cyprus and a member of the Chartered Institute of Internal Auditors UK and Ireland. He has 30 years of experience in progressively senior executive and financial roles. Mr Stavrou also sits on the Board of a bank, an insurance company and is Chairman of a Shipping Group of Companies.

## Board Committees

The Board's oversight committees, namely Nomination & Remuneration, Risk and Audit, are an essential part of the Corporate Governance and Risk Management processes, ensuring 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 updated 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 |
| Kamel Abunahl | Member |
| Farid Benbouzid | 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. The Committee also monitors the overall organisational structure and ensures that executive succession planning is in place. Lastly the Nomination and Remuneration Committee (N&RC) develops, recommends and reviews corporate governance guidelines and ensures the Company's compliance with the corporate governance rules, regulations, policies and guidelines.

### Audit Committee

| | |
|---|---|
| Stavros Stavrou | Chairman |
| Professor Derek Atkins | Member |
| Bakary Kamara | Member |
| Mehran Eftekhar | Member |
| Eman Hafedh | Secretary |

The Audit Committee assists the Board in review, oversight and recommendation with regard to the accounting, reporting, and financial policies and practices of the Company and its subsidiaries, including the integrity of the Company's financial statements, the adequacy, effectiveness and integrity of financial and internal controls of the Company and the performance of the Company's internal audit function. The Audit Committee is also responsible for the annual assessment of the external auditor's independence and performance to recommend their appointment/re-appointment to the Board of Directors.

### Risk Committee

| | |
|---|---|
| Professor Derek Atkins | Chairman |
| Bakary Kamara | Member |
| Stavros Stavrou | Member |
| Mehran Eftekhar | Member |
| Mark Buisseret | Secretary |

Fadi AbuNahl, the Company's CEO, is the Risk Sponsor and Mark Buisseret, Planning & Business Development Officer is the Risk Champion.

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 risks 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 non-executive 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.

## Board Memberships

The below lists summarise the directorships held by the members of the Board of Directors of Trust Re.

### Kamel Abunahl

- Trust International Insurance and Reinsurance Company B.S.C. (c) Trust Re
- Trust International Insurance Co. Plc. (Palestine)
- Trust Holdings Ltd.
- Trust International Insurance Company (Cyprus) Ltd.
- Compass Insurance S.A.L.
- Trust Yemen Insurance & Reinsurance Co. (Y.S.C.)
- Trust Algeria Holding
- Trust Bank Algeria
- Trust Algeria Assurances Reassurances
- Trust Real Estate
- Trust Industry
- Nest Investments Holdings (Cyprus) Ltd.
- Nest Investments (Holdings) Ltd.
- World Trade Centers Holdings (Cyprus) Ltd.
- Signature Holding (Cyprus) Ltd.
- World Trade Centers Saudi Holding. Ltd.
- Jordan Expatriates Investment Holding Co.
- Aegean Properties Ltd.
- Texas International Underwriters Inc.

### Fadi AbuNahl

- Nest Investments (Holdings) Ltd.
- Nest Investments Holdings (Cyprus) Ltd.
- Afro Asian Assistance B.S.C.
- Texas International Underwriters Inc.
- Trust International Insurance and Reinsurance Company B.S.C. (c) Trust Re
- Trust Algeria Investment Company
- Ventura Del Mar SA Ltd.

### Ghazi Abunahl

- Nest Investments (Holdings) Ltd.
- Nest Investments Holdings (Cyprus) Ltd.
- Trust International Insurance and Reinsurance Company B.S.C. (c) Trust Re
- Trust Bank Algeria
- Trust Algeria Holding
- Trust Algeria Assurances Reassurances
- World Trade Center Association Inc.
- Trust Syria Insurance Co.
- Trust Libya Insurance Co.
- Trust Industry
- Trust Real Estate
- Nest Investment Property Ltd.
- Arab Insurance Institute
- Oman Reinsurance Company S.A.O.C.
- World Trade Centers Saudi Holding. Ltd.
- World Trade Center Doha
- Jordan Expatriates Investment Holding Co.
- Aegean Properties Ltd.

### Farid Benbouzid

- Trust Algeria Assurances Reassurances
- IM Bank Tunisia
- Arab Insurance Institute
- Trust International Insurance and Reinsurance Company B.S.C. (c) Trust Re

### Prof. Derek Atkins

- Enabl Ed Ltd.
- Market Insurance Brokers Ltd.
- Trust International Insurance and Reinsurance Company B.S.C. (c) Trust Re
- Stour Federation
- Trust Underwriting Limited

### Jamal Abunahl

- Al Sari Trading
- Trust Syria Insurance Co.
- Trust Libya Insurance Co.
- Trust Algeria Holding
- Trust Real Estate
- Trust International Insurance and Reinsurance Company B.S.C. (c) Trust Re
- World Trade Center Doha
- Qatar General Investment Holding
- Qatar General Insurance and Reinsurance Company SAQ
- Oman Reinsurance Company S.A.O.C.
- Trust Industry
- Trust Algeria Assurances Reassurances
- Trust International Insurance Co. Plc. (Palestine)
- Trust Bank Algeria
- Jordan Expatriates Investment Holding Co.
- Nest Investments Holdings (Cyprus) Ltd.

### Mehran Eftekhar

- Nest Investments Holdings (Cyprus) Ltd.
- Trust International Insurance and Reinsurance Company B.S.C. (c) Trust Re
- Trust International Insurance Company (Cyprus) Ltd.
- Trust Holdings Ltd.
- Trust Underwriting Limited
- Market Insurance Brokers Ltd.
- World Trade Center Association Inc.
- Nest Investment Property Ltd.
- World Trade Centers Saudi Co. Ltd.
- World Trade Center Algeria Ltd.
- World Trade Center Cyprus

| **Frixos Savvides** |
| --- |
| Trust International Insurance Company (Cyprus) Ltd. |
| Trust International Insurance and Reinsurance Company B.S.C. (c) Trust Re |
| Deep Sea Supplies |
| Advent International Cyprus Ltd. |
| Sofgen Holdings Ltd. |
| Lanitis Holdings Ltd. |
| Global Ship Lease |
| Hive Management Services Ltd. |

| **Bakary Kamara** |
| --- |
| NSIA Holdings |
| NSIA Nigeria |
| Africa Retakaful |
| BIAO Cote d'Ivoire |
| Africa Re (South Africa) |
| Orabank - Mauritania |
| Gras Savoye Mauritania |
| Continental Re |
| Aveni Re |
| Trust International Insurance and Reinsurance Company B.S.C. (c) Trust Re |

| **Stavros Stavrou** |
| --- |
| Omnistock Limited |
| Kolossos Investments Limited |
| Maheras Constructii Limited |
| Tria Sigma Limited |
| Trust International Insurance Company (Cyprus) Ltd. |
| Sofgen Holding Limited |
| Trust International Insurance and Reinsurance Company B.S.C (c) Trust Re |
| Mejora Ltd. |
| Landalone Ltd. |
| Graveson Trading Ltd. |
| SSF Holdings Ltd. |
| Reparto Ltd. |
| SSHH Six Star Holdings Ltd. |
| Montsee Ltd. |
| Orlicks Enterprises Ltd. |
| Oceanfleet Shipping Ltd. |
| Tong Kai Investments Ltd. |
| SAS Consulting Ltd. |
| SSF Group Holdings Ltd. |
| SSF Properties Ltd. |
| SSF Shipping Ltd. |
| SSF Investments Ltd. |
| SSF West End Properties Ltd. |
| National Bank of Greece (Cyprus) Ltd. |

## Corporate Governance

At Trust Re, we strive to comply with best corporate governance practices in both spirit and in letter. Our Board of Directors consists of a balanced mix of highly qualified and experienced independent directors, as well as executive and shareholder representatives. The Board has three oversight committees that monitor the conduct of the organisation in relation to the management of Audit, Risk and Nomination & Remuneration. During 2014, the three committees met on 4 occasions and submitted formal reports to the Board of Directors for notification, decision making or approval.

Trust Re is fully committed to comply with the Corporate Governance guidelines and directives of the Central Bank of Bahrain. Its experienced Board of Directors and well-qualified Executive & Senior Management are all dedicated to this endeavour of adopting international best practices.

Our Corporate Governance guidelines are regularly reviewed/enhanced by active and fully qualified staff in legal and compliance departments, who closely monitor the Central Bank of Bahrain's corporate governance rules and the High Level Controls module of the CBB rulebook, making sure that we maintain awareness of the latest guidelines and file all the necessary forms and reports accurately and in a timely manner.

Moreover, the Company has included a Corporate Governance report as an agenda item for its Annual General Meeting.

## 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 functions of the Company by means of Human Resources (HR) and training to enable them to meet their targets. Moreover, a strong Finance department, including Technical Accounts, Credit Control and Asset Management, supports the underwriting by providing administrative and investment expertise. The Legal Department is responsible for managing all the legal aspects of the Company with its stakeholders. The Administration function ensures maximum efficiency in our day to day activities and maintenance of our office premises.

**Operations** which comprises 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 regard to underwriting. The representative offices in China, Morocco and Texas International Underwriters (TIU) also belong to this pillar.

The **Planning and Business Development** pillar concentrates on forward planning and the external relations of the organisation. Its functions include the Actuarial and Risk Department which provides the business intelligence to strike the right balance between risk and reward; Planning & Performance Management ensures that approved Company strategies are applied throughout each department whilst Corporate Communication is responsible for maximising the value of our established and well recognised brand. The IT department supports the whole operation by means of optimal IT infrastructure and solutions.

Outside the scope of the three pillars, Trust Re has two **oversight functions** namely Internal Audit and Compliance who remain independent and report to the Board Oversight Committees.

## Risk-based Internal Audit

The mission of the Internal Audit function is to ensure that Trust Re's operations are conducted according to the highest standards by providing an independent, objective assurance and consulting function and by advising on good practice. Through a systematic and disciplined approach, Internal Audit helps Trust Re accomplish its objectives by evaluating and improving the effectiveness of risk management, control and governance processes.

The department also undertakes to develop the skills and quality of its personnel and to utilise available resources effectively in order to provide a professional service in fulfilling the above objectives.

Internal Audit, in the discharge of its duties, is accountable to the Audit Committee and the Board of Directors. For preservation of its independence, the department reports functionally to the Audit Committee.

The internal audit review process is undertaken based on the risk-based audit plan which is established after a detailed risk assessment to determine the level of risk and adequacy of controls in the various auditable units. The plan is approved and regularly monitored by the Audit Committee.

The findings of the independent audits, performed according to the approved plan, are reported initially to the Executive management and any necessary corrective actions are agreed. These reports are then presented to, and discussed with, the Audit Committee along with details of progress against action plans as appropriate.

In order to enhance the efficiency and productivity of the audit process, the department utilises an electronic audit management system through the entire internal audit process, including planning, execution, review and report generation.

## 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 conformity with applicable requirements in the Kingdom of Bahrain's legislation and those set by the 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 assure 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 as issued by the CBB.

## Actuarial and Risk Management

As part of the ongoing Enterprise Risk Management (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. To this end, significant progress was made during 2014 towards the ERM initiative and embedding ERM in the Company culture.

The internal capital model became entrenched in reinsurance decision making and other risk return analysis. During the year, the Actuarial & Risk Department (A&R) developed and delivered the Company's first Own Risk and Solvency Assessment (ORSA) Report accompanied by additional technical Risk Capital Modelling Reports for each of its rating agencies' models.

Furthermore, the Company has enhanced its risk management practices on Political Risk and Emerging Risk management and the A&R department produced the first Political Risk Report and Emerging Risk Report for the Company.

CAT Risk Management practices (including monitoring of aggregate exposures) has been another area which was subject to further improvements, as shown in the CAT and Aggregate Monitoring Report which the A&R department delivered for this purpose.

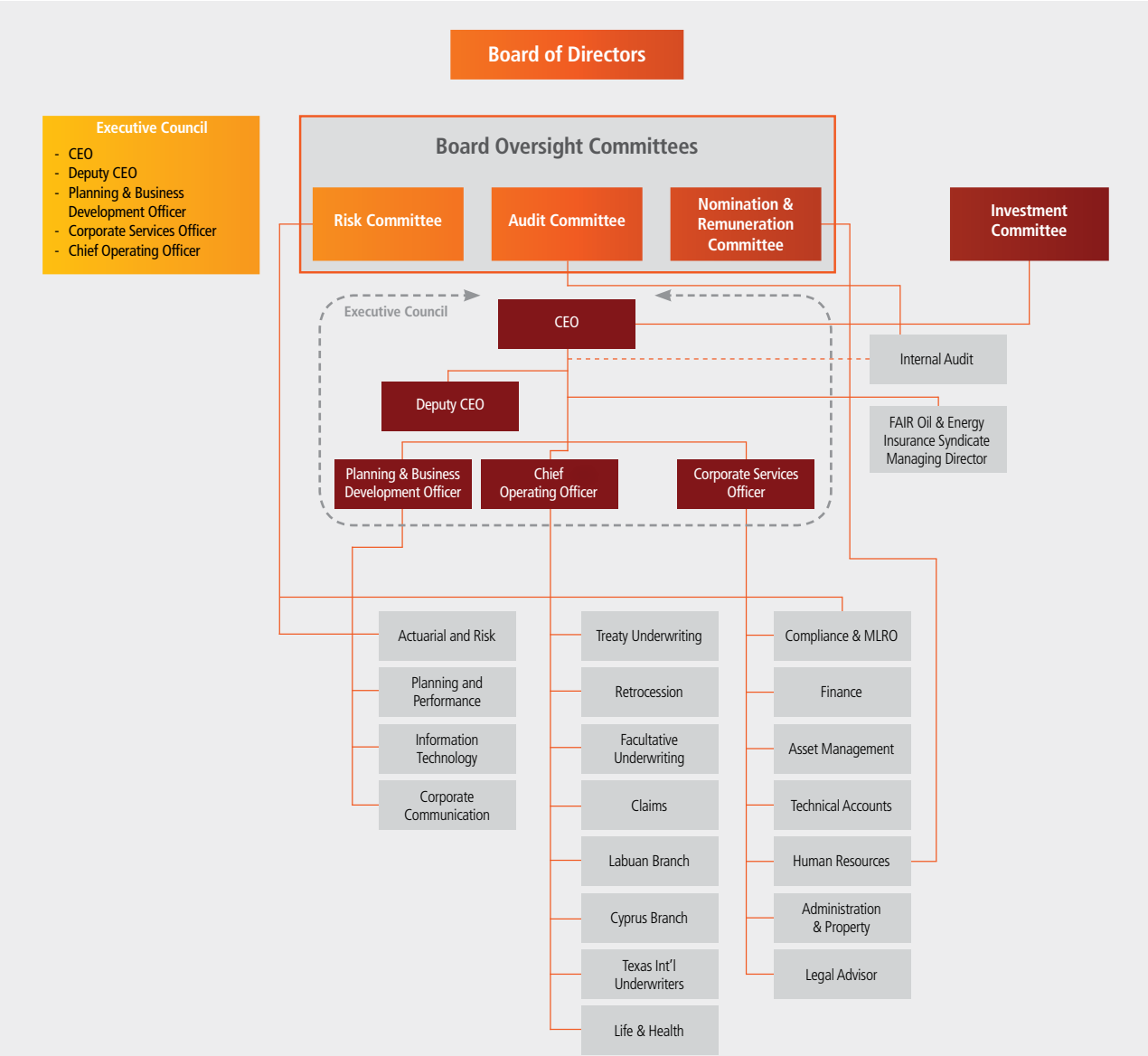
The Company's ERM Framework has been improved further with the development of more risk-tolerance control reports as well as with the enhancement of both ERM and rating agencies related Management Information on many issues. Specific Solvency 2 Capital Models have been developed for Cyprus Business and we participated in EU wide stress testing exercises. As part of the Company's Cyprus Branch Solvency 2 preparation activity, the A&R department produced a Gap Analysis on the branch's System of Governance as well as developing the first Solvency 2 specific Forward Looking Assessment of Own Risk (FLAOR) Report.

As regards the reserving process, this has been extended to include discounting and liability cashflow by currency, as part of the Company's Asset Liability Management process. At the same time, the A&R department has completed the Company's first Technical Reporting Package which has multiple benefits for both underwriting performance purposes as well as for its link to the overall underwriting strategy of the Company.

During the year, four Liability Pricing Rating Tools were completed and further progress was made on the Engineering and Property rating tools. The tools aim to embed the concept of risk management within the underwriting process. The tools help to mitigate the possible risks rooted in the rating process by providing underwriters with further insight into the nature of the risk. They are provided with actuarially calculated rates broken down into various components. As such, the tools will help to ensure and support a thorough underwriting process since "bottom line is key" and improve the Company's capability of becoming the "Reinsurer of Choice".

Finally, during 2014, the A&R Department provided specific ERM talks at the Company's Business Partners' Seminars.

## Organisational Chart




**Relationship**
Reports to or direct relationship ———————————
Administratively reports to - - - - - - - - - - - - - - - - - - - - - - - -

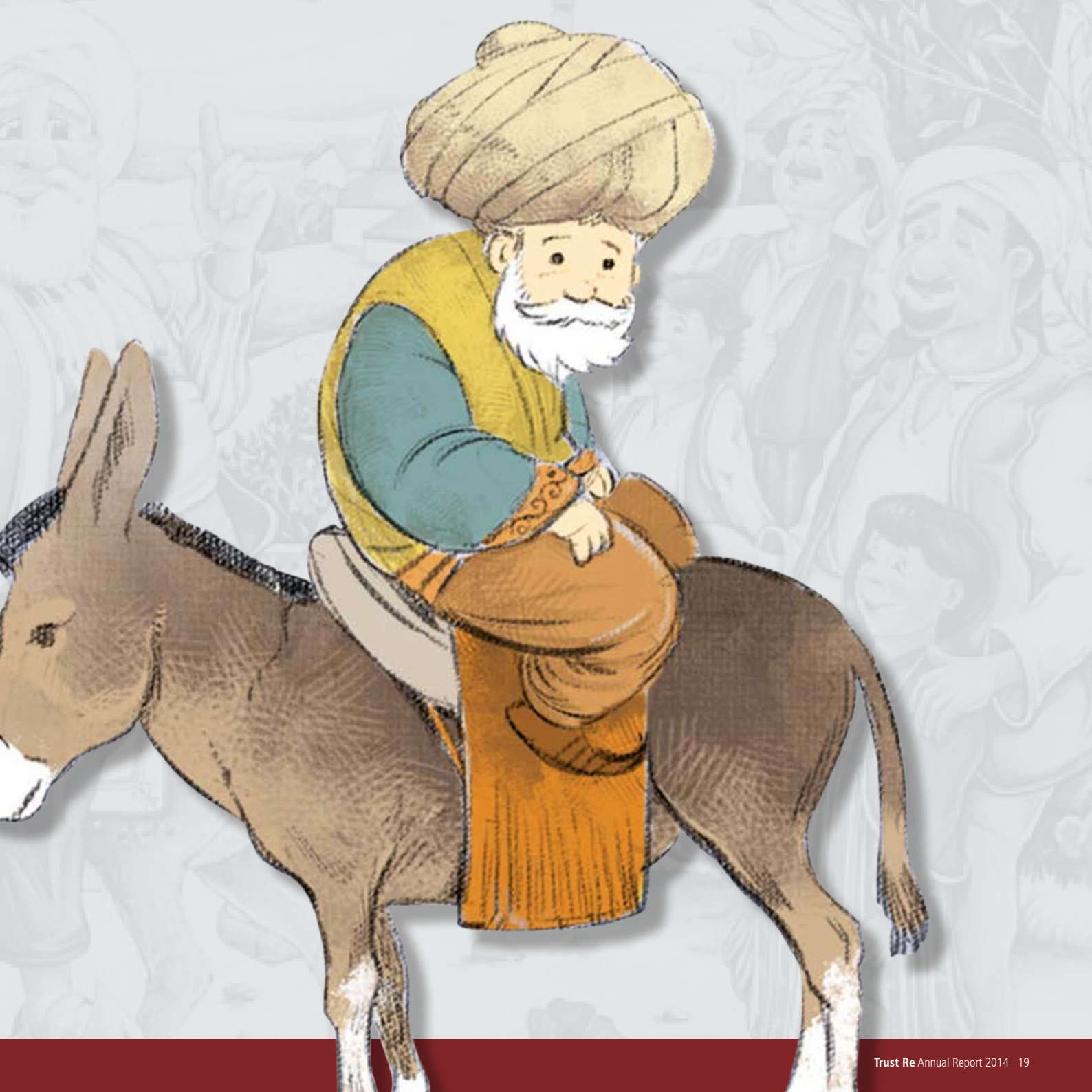
# Nasreddin Hodja

**TURKISH MYTHOLOGY**

He is considered a populist philosopher and wise man, remembered for his funny stories and anecdotes. He appears in thousands of stories, sometimes witty, sometimes wise, but often, too, a fool or the butt of a joke. A Nasreddin story usually has a subtle humour and a pedagogic nature. Even today, about 600 years after his passing, people in Turkey still laugh and think about his common sense, anecdotes and ingeniousness. His stories have been told almost everywhere in the world, spread among the tribes of the Turkic World into Persian, Arabian, African and along the Silk Road to China and Indian cultures, later to Europe. Common Turkish citizens and every institution of Turkish society has received a criticism or remark from his philosophical mind. He did not spare his satire for the state, religion, culture or habits.

**Source: Wikipedia**

As one of the leading regional reinsurers, Trust Re has several interests in Turkey. In 2014, Turkey was among Trust Re's top five markets in terms of Gross Written Premium from Facultative business.



## A Message from the CEO

During 2014, rates in reinsurance yielded to pressure as a result of surplus capacity and a relatively benign period for natural catastrophe events. Despite the prolonged softening market, we are nonetheless proud to report a satisfying and profitable year of operations for our Company. We remain confident about future opportunities as well as the success of our business model.

Gross Written Premium (GWP) was 13.7% up since 2013 to stand at US$ 452.6 million at 31 December 2014 (2013: US$ 398.0 million). Underwriting profit declined by US$ 6.5 million as a result of specific large losses in Asia.

Investment and finance income increased by 98.6% to US$ 13.7 million when compared to 2013. The major components of this increase were the higher interest income as a result of increased cash holdings, the higher level of dividend income (up US$ 1.5 million) and the significant capital gains realised on the available for sale portfolio during the year.

In the course of the year, A.M. Best affirmed our A- rating with stable outlook. Furthermore, our Board of Directors, the Executive Council and every team member was proud that our company earned its A- rating from Standard & Poor's. The announcement was made during our 25th anniversary celebration in October; we were delighted to share this important milestone with our business partners who have supported us and contributed to our achievements over the past 25 years. Both ratings are testament to the strength of our risk-based capital adequacy, our consistently strong operating performance and developing business profile.

Engaging with stakeholders remains a key component of our strategy. Our technical teams made frequent market visits throughout the year and we participated in several conferences in areas in which we operate; the 30th GAIF (General Arab Insurance Federation) Conference and Golden Jubilee of the GAIF in Egypt, the 38th Annual General Assembly of the FANAF (Federation of African National Insurance Companies) in Burkina Faso, the 8th Multaqa Qatar in Doha and the Azerbaijan International Insurance Forum 2014 to name but a few. This year saw increased participation from our senior staff as panellists at debates, thus emphasising our position as opinion leaders in the reinsurance market.

Our brand value "Dynamic" means that we are driven by innovation to provide superior products and services for our customers. In the fourth quarter of the year, we established a Life and Health reinsurance department. Expanding our service offering reinforces our strategy of ensuring that we deliver products and services that meet our customers' needs.

On the occasion of our 25th anniversary, we were pleased to launch a revamped website which we trust will be a useful forum to connect clients and prospective partners to our brand.

We aim to maintain top financial security by prudently managing risk-based capital. The foundation of this strategy is active risk and asset management. During 2014, we established an Asset Management department with the objective of leveraging our investment practices.

> Our Board of Directors, the Executive Council and every team member was proud that our company earned its A- rating from Standard & Poor's. The announcement was made during our 25th anniversary celebration in October.

As part of our mission to strengthen customer relationships and based on valuable feedback from our partners, we held two Business Partners' Seminars during the course of the year, in the Seychelles for our partners in Africa and in Langkawi, Malaysia for our ASEAN (Association of South East Asian nations) partners.

In conjunction with our aim of better serving our various markets, we started the second iteration of our Fast Track Programme, for graduate trainees. The programme provides us with a diversified working population, appropriately trained to support our growth.

In fact, our human capital comprises over 30 different nationalities across our Head Office and branches. That said; Trust Re is always keen to invest in local talent. We are proud to mention that almost half of our 230-strong workforce in Bahrain Head Office is made up of Bahraini nationals.

In line with our vision to be the "Reinsurer of Choice", we focus on developing long-term partnerships based on trust and on delivering value.

Since forming a Risk Engineering department in 2013, we have witnessed this function gaining importance and being utilised more frequently; our aim is always to enhance our position as a leader and add value to our clients.

Understanding market trends and potential business opportunities is of paramount importance to us and our associates. With regard to our partners in Africa, we commissioned an external market research company to undertake a survey on our behalf to gain key insights into how insurers, brokers, regulators and reinsurers view the future of their markets in sub-Saharan Africa. Once again, we would like to thank all those who participated.

Last but not least, I would like to thank our employees in Bahrain Head Office as well as those in our offices in Cyprus, Labuan and Morocco; living our value of team spirit has been a strong contributing factor to the Company's notable performance in 2014.

**Fadi AbuNahl**
CEO
25 March 2015

# Puteri Gunung Ledang

MALAYSIAN MYTHOLOGY

This timeless Malaccan legend is familiar to all Malaysians, young and old. Featuring brave heroes, mysterious princesses, witches, and a whole host of fantastic creatures, this tale has been told time and again through books, comics, cartoons and film.

The legend revolves around a princess that allegedly lived on Mount Ophir or Gunung Ledang in Johor, Malaysia. A Sultan had heard of her beauty and wanted to marry her but she set seven impossible conditions for him, the last being 'A silver bowl of the blood of the Sultan's young son'. Some say that the Sultan was able to fulfill the first six requests but could not fulfill the final request as he could not suffer the thought of hurting his son.

**Source: Wikipedia**

The importance of Trust Re's branch in Malaysia continues to grow as our long term regional hub for the Asian market. During 2014 and over the next planning horizon, the Company aims to enhance its strategic position in Asian markets by expanding our team, coverage area and products.

## The Group Results

The Group's Gross Written Premium in 2014 reached US$ 452.6 million representing robust growth of 13.7% compared to 2013 (US$ 398.0 million).

The retention ratio decreased by 0.3 percentage points from 65.2% in 2013 to 64.9% during last year. In 2014, the combined ratio stood at 95.8% as opposed to 92.9% in 2013. The loss ratio deteriorated by 3.1 percentage points at 66.2%, while the acquisition cost ratio improved by 0.1 percentage point at 29.6%. Large losses, mainly from the Asian region, impacted the bottom-line significantly and contributed 12.2% to the loss ratio.

The overall profit after tax reported a decrease of 14.4% at US$ 15.4 million. Investment income made a significant contribution to the bottom-line as a result of active management of the investment portfolio. Total investments and finance income amounted to US$ 14.1 million compared to US$ 7.4 million in 2013. Foreign exchange losses, mainly as a result of depreciation of the Euro, Sterling and Malaysian Ringgit, negatively impacted the results by US$ 7.7million. The Group has taken necessary measures to protect its exposure against further depreciation of the Euro.

During the year, the Group has sold its investment in real estate subsidiaries, namely Ventura Del Mar SA Limited, Ventura Del Mar SA, and Aegean Properties Ltd. to the parent after obtaining necessary approval from the Central Bank of Bahrain. The sale of these subsidiaries has resulted in a net gain of US$ 3.1 million in the consolidated financial statements.

## The Company Results

The Company's Gross Written Premium in 2014 amounted to US$ 444.9 million compared to US$ 389.1 million in 2013. The retention ratio of the Company was lower at 64.4% compared to 64.5% in 2013. The Company's combined ratio for 2014 stood at 96.4% compared to 93.2% in 2013. Large losses, mainly from Asian events, had a detrimental impact on the Company's results and contributed 12.5% to the loss ratio. As a result, the loss ratio increased to 66.9%. The acquisition cost ratio slightly increased from 29.4% in 2013 to 29.5% in 2014. The Company generated net underwriting profit of US$ 9.6 million during 2014, compared to US$ 16.8 million in 2013.

Investment and finance income generated US$ 14.1 million, up 90.5% compared to 2013. However, the overall non-technical income was only US$ 0.1 million higher than 2013 due to the foreign exchange losses mentioned above.

Overall profit after tax stood at US$ 12.2 million compared to US$ 18.9 million in 2013; a decrease of 35.4%.

## The Group's Financial Strength

The Group's net technical reserves increased by 9.1% on a year-to-year basis to reach US$ 466.1 million in 2014 as opposed to US$ 427.0 million as at December 2013.

Cash and bank balances amounted to US$ 472.0 million as at December 2014, compared to US$ 391.0 million as at December 2013.

Investments held in equities and fixed income securities rose by 28.9% to US$ 235.4 million as at December 2014, compared to US$ 182.7 million as at December 2013.

Capital injection by the parent of US$ 30 million and internal capital generation of US$ 56.8 million significantly boosted the Shareholders' equity, which improved by 29.1% to US$ 385.2 million as at December 2014.

Key Group Ratios for the Year were:
Performance Ratios %

| | Note | 2014 | 2013 |
|---|---|---|---|
| Retention Ratio | 1 | 64.9 | 65.2 |
| Combined Ratio | 2 | 95.8 | 92.9 |
| Underwriting Profit | 3 | 4.2 | 7.1 |
| Return on Equity | 4 | 4.5 | 6.8 |

## The Company's Financial Strength

In 2014, the Company's net technical reserves reached US$ 422.5 million. This represents a 12.9% increase from US$ 374.3 million in 2013.

Cash and bank balances grew 22.3% to US$ 465.3 million as at December 2014, from US$ 380.6 million in 2013.

Investments held in equities and fixed income securities rose by 40.0% to reach US$ 193.7 million in 2014 from US$ 138.4 million in 2013.

The shareholders' equity rose by 26.6% to end the year at US$ 386.2 million compared to US$ 305.1 million in 2013.

### Key Company Ratios for the Year were: Performance Ratios %

| | Note | 2014 | 2013 |
|---|---|---|---|
| Retention Ratio | 1 | 64.4 | 64.5 |
| Combined Ratio | 2 | 96.4 | 93.2 |
| Underwriting Profit | 3 | 3.6 | 6.8 |
| Return on Equity | 4 | 3.5 | 7.0 |

Significance of Ratios:

1. Retention Ratio: This ratio indicates the net premium retained as a proportion of the Gross Written Premium.
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. (The increase in Share Capital had an adverse effect on the Return on Equity of 0.2% at Group and Company Level).

## Investments

The total invested assets grew to US$ 707.3 million compared to US$ 573.7 million at the end of 2013. The portfolio allocation remained conservative as approximately 66.8% of the portfolio remained in cash, compared to 68.1% the year before. The future investment strategy of the company will remain conservative as we increase the fixed income allocation and create a diversified portfolio.

Investment returns were much stronger than budgeted for in 2014 and significantly higher than the previous year. Global markets performed very well in the year and cash management was both dynamic and thorough. Despite the overall drop in interest rates globally, the interest income remained high. Investment income for 2014 was US$ 14.1 million compared to US$ 7.4 million achieved in 2013.

## 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.

2014 extended the recovery started in 2012 for the Lloyd's market due to the continued lack of extraordinary natural catastrophe losses experienced in 2012 and 2013.

TUL, during the year 2014, again produced a significant improvement by turning the last year's profit of US$ 2.4 million into a profit of US$ 3.7 million. Its overall premium production decreased by 7%; this is partially due to the decrease in the 2014 stamp compared to 2013 and partially because of the overall softening of the market. For the 2015 year of account, the total stamp of TUL stands at US$ 35.1 million.

As at 31 December 2014, the market value of TUL capacity stood at US$ 15.8 million based on the average auction prices obtained between September and October 2014 at Lloyd's.

### Ventura del Mar

Ventura del Mar comprises both UK and Spanish subsidiaries which own premium residential and commercial property in Marbella, Spain. During the year ended the Group has sold these investments to the parent company.

### Afro Asian Assistance

This venture was launched in 2010 with the aim of providing the MENA markets with Travel Assistance and Personal Accident products. Despite its slow start, we experienced more meaningful demand for the services offered by the company during 2014.

We have continued our investment in the venture which we expect to see contributing positively from 2015 onwards. The entity became profitable during the year returning a profit for the year of US$ 89.3k.

## Management Team - Executive Council

**Fadi AbuNahl, Chief Executive Officer**

Fadi has been working in the insurance industry for 17 years including a period with a leading insurance broker in the UK.

**Romel Tabaja,**
**Deputy Chief Executive Officer**

Romel has been working in the insurance and reinsurance industry for more than 15 years. He held various senior underwriting and managerial positions before being appointed Deputy CEO.

**Kamal Tabaja, Chief Operating Officer**

Kamal began his career as a Systems Engineer and is a fellow of the Chartered Insurance Institute (FCII) UK. He has been working in the insurance and reinsurance industry for the past 12 years. Prior to being appointed COO in December 2014, Kamal held the post of Group Chief Underwriting Officer.

**Michail Karafoulidis,**
**Corporate Services Officer**

Michail has 25 years of actuarial and financial experience including in London and other international markets. He has worked in various capacities from managerial and directorship to consultancy roles.

**Mark Buisseret, Planning & Business Development Officer**

Mark is a UK graduate in Actuarial Science. He started his professional career in the London market and has acquired more than 20 years of experience working for various international reinsurance companies. His areas of expertise include pricing, reserving and capital modelling.

**Samir Shaman,**
**Executive Management Advisor**

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.

## Company's Solvency Statement

As at 31 December 2014, the Company's summarised solvency position remains strong as shown in the table below.

| | 31.12.2014 (in US$'000) | 31.12.2013 (in US$'000) |
|---|---|---|
| Capital available | 278,040 | 221,919 |
| Required margin of solvency | 52,179 | 45,872 |
| Excess of capital available over the required solvency margin | 225,861 | 176,047 |
| Cover | 5.33x | 4.84x |

During 2014, the Company's solvency position continued to strengthen. Injection of capital of US$ 30 million by the parent, coupled with the sale of real estate subsidiaries, led to an increase in capital coverage from 4.84x in 2013 to 5.33x in 2014.

## Corporate Social Responsibility

Corporate Social Responsibility (CSR) is a central part of Trust Re's operations. We firmly believe that CSR mirrors our vision, mission and values.

Part of our approach to CSR is community-based, where we work in the community to share what we have. In 2014, as in previous years, we held blood donation drives at our Bahrain Head Office, supported by medical staff from the central blood bank at Salmaniya Medical Centre.

Our staff in Bahrain Head Office and Labuan Branch also sponsored and packed food baskets for those less fortunate during the Holy Month of Ramadan.

We were also pleased to sponsor Family Day at Sacred Heart Church, Bahrain and organise an Iftar for 30 orphaned children.

## 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
25 March 2015.

## Remuneration and Fees

The Directors' remuneration is determined 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$ 292 thousand to be paid to the Directors for the year 2014. In view of the non-distribution of dividend for the year ended 31 December 2014, the Company is seeking the approval from the Ministry of Industry and Commerce for payment of the directors' fee for the year ended 31 December 2014.

The remuneration of the Executive Management team and the management fee to the parent company for the year 2014 is disclosed in note 29 to the financial statements.

## Auditors

Ernst & Young Bahrain have expressed their willingness to continue in office as auditors and a resolution proposing their reappointment will be submitted to the Annual General Meeting, subject to the appropriate approval by the Central Bank of Bahrain.

## Dividend

In order to further improve the risk-adjusted capitalisation of the Company, the Board of Directors has decided not to distribute any cash dividend for the year ended 31 December 2014.

# Anyanwu

NIGERIAN MYTHOLOGY

Anyanwu is the goddess of the sun. She is one of the important deities in the Igbo religion of Odinani. Amongst Ndi Igbo, the Sun was referred to as Anyanwu (An-yan-wew). This is a combination of two different words. The first word, anya means eye. The second word, anwu, means light. Together, the phrase reads as "eye of light."

She lives in the sun's core alongside Agbala, who often takes the form of a Black Crowned Crane. Agbala is the Holy Spirit, which is the guardian and manifestation of humanity's collective chi. Similarly; Anyanwu is a representation of humanity's ideal image and moral workings. Together they form the cradle of life inside of the sun.

**Source: Wikipedia**

The recent economic reform laws in Nigeria will drive growth in the country. Oil and Gas, Power and Infrastructure projects are expected to grow. Trust Re has established itself as one of the leading reinsurers on the African Continent. Opening our Morocco Representative Office enables us to engage even more closely with our business partners in North, Central and West Africa.

# FINANCIAL STATEMENTS

## Table of Contents

# Independent Auditors' Report to the Shareholders of

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

## 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 the Company's separate statement of financial position as at 31 December 2014, 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 the auditors' 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, the auditor considers 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 2014, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

### 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 consolidated and separate 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 CBB directives or the terms of the Company's memorandum and articles of association during the year ended 31 December 2014 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.

**Ernst & Young**
Partner's registration no: 115
25 March 2015
Manama, Kingdom of Bahrain

# General Information

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Commercial registration: 11503

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## MOROCCO (LIAISON OFFICE)

105 Boulevard Abdelmoumen
20360 Casablanca
Morocco

## Consolidated Statement of Financial Position

At 31 December 2014

| | Note | 2014 Group US$ '000s | 2013 Group US$ '000s |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and bank balances | 7 | 471,967 | 391,027 |
| Available-for-sale investments | 8 | 235,351 | 182,650 |
| Insurance and other receivables | 10 | 256,790 | 204,625 |
| Gross deferred acquisition costs | 11 | 48,605 | 43,501 |
| Reinsurers' share of technical reserves | 12.1 | 258,066 | 259,245 |
| Investment properties | 13 | 1,906 | 1,707 |
| Properties held for sale | 14 | - | 9,229 |
| Property and equipment | 15.1 | 12,150 | 13,020 |
| Intangible assets | 16 | 29 | 85 |
| Goodwill | 9 | - | 26,540 |
| **TOTAL ASSETS** | | 1,284,864 | 1,131,629 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 17 | 170,000 | 140,000 |
| Statutory reserve | 17 | 28,777 | 27,558 |
| Retained earnings | | 93,072 | 78,877 |
| Cumulative changes in fair value | | 93,541 | 54,590 |
| Foreign currency translation reserve | | (203) | (2,576) |
| Equity attributable to shareholders of the parent | | 385,187 | 298,449 |
| Non-controlling interests | | - | (89) |
| **Total equity** | | 385,187 | 298,360 |
| **Liabilities** | | | |
| Technical reserves | 12.1 | 724,123 | 686,246 |
| Reinsurers' share of deferred acquisition costs | 18 | 17,954 | 14,664 |
| Reinsurance payables | | 31,850 | 31,068 |
| Insurance and other payables | 19 | 125,750 | 100,310 |
| Borrowings | | - | 981 |
| **Total liabilities** | | 899,677 | 833,269 |
| **TOTAL EQUITY AND LIABILITIES** | | 1,284,864 | 1,131,629 |

**Kamel Abunahl**
Chairman

**Fadi 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 2014

| | Note | 2014 Company US$ '000s | 2013 Company US$ '000s |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and bank balances | 7 | 465,268 | 380,554 |
| Available-for-sale investments | 8 | 193,747 | 138,370 |
| Investment in subsidiaries | 9 | 3,701 | 30,810 |
| Insurance and other receivables | 10 | 239,720 | 201,246 |
| Gross deferred acquisition costs | 11 | 44,799 | 39,176 |
| Reinsurers' share of technical reserves | 12.2 | 247,381 | 246,685 |
| Investment properties | 13 | 1,906 | 1,707 |
| Property and equipment | 15.2 | 12,051 | 10,844 |
| **TOTAL ASSETS** | | 1,208,573 | 1,049,392 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 17 | 170,000 | 140,000 |
| Statutory reserve | 17 | 28,777 | 27,558 |
| Retained earnings | | 93,897 | 82,924 |
| Cumulative changes in fair value | | 93,541 | 54,590 |
| **Total equity** | | 386,215 | 305,072 |
| **Liabilities** | | | |
| Technical reserves | 12.2 | 669,835 | 620,954 |
| Reinsurers' share of deferred acquisition costs | 18 | 17,954 | 14,664 |
| Reinsurance payables | | 31,850 | 27,000 |
| Insurance and other payables | 19 | 102,719 | 81,702 |
| **Total liabilities** | | 822,358 | 744,320 |
| **TOTAL EQUITY AND LIABILITIES** | | 1,208,573 | 1,049,392 |

**Kamel Abunahl**
Chairman

**Fadi AbuNahl**
Director & Chief Executive Officer

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

## Consolidated Statement of Income

Year ended 31 December 2014

| | Note | 2014 Group US$ '000s | 2013 Group US$ '000s |
|---|---|---|---|
| Gross premiums written | 12.1 | 452,580 | 398,032 |
| Premiums ceded | 12.1 | (158,937) | (138,568) |
| | | 293,643 | 259,464 |
| Unearned premium adjustments | | (16,185) | (4,594) |
| **Net earned premium** | | 277,458 | 254,870 |
| Gross claims paid | 12.1 | (223,939) | (180,511) |
| Recoveries on premiums ceded | 12.1 | 77,002 | 80,242 |
| Outstanding claims adjustments | | (36,849) | (60,615) |
| **Claims and related expenses** | | (183,786) | (160,884) |
| Commission income | 18 | 30,220 | 28,604 |
| Policy acquisition costs | 11 | (88,357) | (85,264) |
| Other operating income | | 526 | 485 |
| Operating expenses | 21 | (24,396) | (19,610) |
| | | (82,007) | (75,785) |
| **Underwriting profit** | | 11,665 | 18,201 |
| Investment income - net | 22 | 6,999 | 2,371 |
| Income from investment properties | 23 | 421 | 478 |
| Gain on sale of subsidiaries | 9 | 3,084 | - |
| General and administration expenses | 24 | (11,781) | (11,382) |
| Finance income | | 6,701 | 4,514 |
| Foreign exchange (loss) gain | | (7,760) | 109 |
| Other income - net | 25 | 6,184 | 3,857 |
| **Profit before tax** | | 15,513 | 18,148 |
| Income tax | 26 | (102) | (147) |
| **PROFIT FOR THE YEAR** | | 15,411 | 18,001 |
| **Attributable to:** | | | |
| Shareholders of the parent | | 15,414 | 18,047 |
| Non-controlling interests | | (3) | (46) |
| | | 15,411 | 18,001 |

**Kamel Abunahl**
Chairman

**Fadi 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 Income

Year ended 31 December 2014

| | Note | 2014 Company US$ '000s | 2013 Company US$ '000s |
|---|---|---|---|
| Gross premiums written | 12.2 | 444,944 | 389,072 |
| Premiums ceded | 12.2 | (158,352) | (138,113) |
| | | 286,592 | 250,959 |
| Unearned premium adjustments | | (16,706) | (5,586) |
| **Net earned premium** | | 269,886 | 245,373 |
| Gross claims paid | 12.2 | (224,508) | (175,952) |
| Recoveries on premiums ceded | 12.2 | 75,401 | 82,127 |
| Outstanding claims adjustments | | (31,479) | (62,734) |
| **Claims and related expenses** | | (180,586) | (156,559) |
| Commission income | 18 | 30,220 | 28,604 |
| Policy acquisition costs | 11 | (85,870) | (81,491) |
| Other operating income | | 387 | 440 |
| Operating expenses | 21 | (24,396) | (19,610) |
| | | (79,659) | (72,057) |
| **Underwriting profit** | | 9,641 | 16,757 |
| Investment income - net | 22 | 6,999 | 2,371 |
| Income from investment properties | 23 | 421 | 478 |
| General and administration expenses | 24 | (9,211) | (8,060) |
| Finance income | | 6,693 | 4,512 |
| Foreign exchange loss | | (7,560) | (316) |
| Other income - net | 25 | 5,191 | 3,413 |
| **Profit before tax** | | 12,174 | 19,155 |
| Income tax credit (expense) | 26 | 18 | (206) |
| **PROFIT FOR THE YEAR** | | 12,192 | 18,949 |

**Kamel Abunahl**
Chairman

**Fadi AbuNahl**
Director & Chief Executive Officer

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

## Consolidated Statement of Comprehensive Income

Year ended 31 December 2014

| | Note | 2014 Group US$ '000s | 2013 Group US$ '000s |
|---|---|---|---|
| **Profit for the year** | | 15,411 | 18,001 |
| **Other comprehensive income to be reclassified to consolidated statement of income in subsequent periods:** | | | |
| Available-for-sale investments: | | | |
| Fair value changes arising during the year | | 42,098 | 7,787 |
| Transfer to consolidated statement of income on disposal | | (3,147) | 72 |
| | | 38,951 | 7,859 |
| Currency translation adjustments: | | | |
| Currency translation adjustments arising during the year | | 2,373 | (112) |
| **Net other comprehensive income to be reclassified to consolidated statement of income in subsequent periods** | | 41,324 | 7,747 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | 56,735 | 25,748 |
| **Attributable to:** | | | |
| Shareholders of the parent | | 56,738 | 25,794 |
| Non-controlling interests | | (3) | (46) |
| | | 56,735 | 25,748 |

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 2014

| | Note | 2014 Company US$ '000s | 2013 Company US$ '000s |
|---|---|---|---|
| **Profit for the year** | | 12,192 | 18,949 |
| **Other comprehensive income to be reclassified to Company's separate statement of income in subsequent periods:** | | | |
| Available-for-sale investments: | | | |
| Fair value changes arising during the year | | 42,098 | 7,787 |
| Transfer to Company's separate statement of income on disposal | | (3,147) | 72 |
| **Net other comprehensive income to be reclassified to Company's separate statement of income in subsequent periods** | | 38,951 | 7,859 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | 51,143 | 26,808 |

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 2014

| | Note | 2014 Group US$ '000s | 2013 Group US$ '000s |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit before tax | | 15,513 | 18,148 |
| Adjustments for: | | | |
| Depreciation | 15.1 | 469 | 441 |
| Amortisation of intangible assets | 16 | 130 | 201 |
| Provision for bad debts - net | 10.1 | 1,654 | 950 |
| Impairment loss on available-for-sale investment | 22 | 755 | 445 |
| Gain on sale of subsidiaries | 9 | (3,084) | - |
| (Gain) loss on disposal of available-for-sale investments | 22 | (3,147) | 72 |
| Revaluation of investment properties | 23 | (199) | - |
| Gain on revaluation of own use property | 15.1 | (1,136) | - |
| Change in unearned premium | | 28,248 | 13,509 |
| Change in reinsurers' share of unearned premium | | (13,759) | (10,388) |
| Deferred acquisition costs - net | | (1,814) | (1,145) |
| Operating profit before changes in operating assets and liabilities | | 23,630 | 22,233 |
| Changes in operating assets and liabilities: | | | |
| Outstanding claims | | 9,629 | 37,237 |
| Reinsurers' share of outstanding claims | | 14,938 | 17,677 |
| Insurance and other receivables | | (38,560) | 33,744 |
| Insurance and other payables | | 25,440 | (11,697) |
| Reinsurance payables | | 782 | 10,213 |
| | | 35,859 | 109,407 |
| Taxation | | (102) | (147) |
| **Net cash from operating activities** | | 35,757 | 109,260 |

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

## Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2014

| | Note | 2014 Group US$ '000s | 2013 Group US$ '000s |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Purchase of available-for-sale investments | | (42,082) | (21,580) |
| Proceeds from sale of available-for-sale investments | | 30,650 | 8,085 |
| Proceeds from sale of subsidiaries | 9 | 27,150 | - |
| Purchase of property and equipment | 15.1 | (469) | (857) |
| Proceeds from disposal of property and equipment | | 28 | 2 |
| Bank deposits with maturity of more than three months | | (34,331) | (20,633) |
| **Net cash (used in) from investing activities** | | (19,054) | (34,983) |
| **FINANCING ACTIVITIES** | | | |
| Increase in share capital | 17 | 30,000 | 40,000 |
| Repayment of borrowings | | (51) | (158) |
| **Net cash from financing activities** | | 29,949 | 39,842 |
| Foreign currency translation adjustments | | (43) | (112) |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | | 46,609 | 114,007 |
| Cash and cash equivalents at beginning of the year | | 364,257 | 250,250 |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** | 7 | 410,866 | 364,257 |

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 2014

| | Note | 2014 Company US$ '000s | 2013 Company US$ '000s |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit before tax | | 12,174 | 19,155 |
| Adjustments for: | | | |
| Depreciation | 15.2 | 379 | 302 |
| Provision for bad debts - net | 10.1 | 1,654 | 950 |
| Impairment loss on available-for-sale investment | 22 | 755 | 445 |
| (Gain) loss on disposal of available-for-sale investments | 22 | (3,147) | 72 |
| Revaluation of investment properties | 23 | (199) | - |
| Gain on revaluation of own use property | 15.2 | (1,136) | - |
| Change in unearned premium | | 31,189 | 16,368 |
| Change in reinsurers' share of unearned premium | | (14,483) | (10,782) |
| Deferred acquisition costs - net | | (2,333) | (1,536) |
| Operating profit before changes in operating assets and liabilities | | 24,853 | 24,974 |
| Changes in operating assets and liabilities: | | | |
| Outstanding claims | | 17,692 | 46,267 |
| Reinsurers' share of outstanding claims | | 13,787 | 16,467 |
| Insurance and other receivables | | (40,128) | 29,076 |
| Insurance and other payables | | 21,017 | (12,319) |
| Reinsurance payables | | 4,850 | 10,560 |
| | | 42,071 | 115,025 |
| Taxation | | 18 | (206) |
| **Net cash from operating activities** | | 42,089 | 114,819 |

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

## Company's Separate Statement of Cash Flows (continued)

Year ended 31 December 2014

| | Note | 2014 Company US$ '000s | 2013 Company US$ '000s |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Purchase of available-for-sale investments | | (42,008) | (21,580) |
| Proceeds from sale of available-for-sale investments | | 27,971 | 3,392 |
| Purchase of property and equipment | 15.2 | (450) | (803) |
| Proceeds from sale of property and equipment | | - | 2 |
| Investment in a subsidiary | | (38) | (1,477) |
| Proceeds from disposal of subsidiaries | | 27,150 | - |
| Bank deposits with maturity of more than three months | | (34,331) | (20,633) |
| **Net cash used in investing activities** | | (21,706) | (41,099) |
| **FINANCING ACTIVITY** | | | |
| Increase in share capital | 17 | 30,000 | 40,000 |
| **Net cash from financing activity** | | 30,000 | 40,000 |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | | 50,383 | 113,720 |
| Cash and cash equivalents at beginning of the year | | 353,784 | 240,064 |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** | 7 | 404,167 | 353,784 |

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

## Consolidated Statement of Changes in Equity

Year ended 31 December 2014

| | Attributable to shareholders of the parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital US$ '000s | Statutory reserve US$ '000s | Retained earnings US$ '000s | Cumulative changes in fair value US$ '000s | Foreign currency translation reserve US$ '000s | Total US$ '000s | Non-controlling interests US$ '000s | Total equity US$ '000s |
| Balance at 1 January 2014 | 140,000 | 27,558 | 78,877 | 54,590 | (2,576) | 298,449 | (89) | 298,360 |
| Profit (loss) for the year | - | - | 15,414 | - | - | 15,414 | (3) | 15,411 |
| Other comprehensive income | - | - | - | 38,951 | 2,373 | 41,324 | - | 41,324 |
| Total comprehensive income (loss) | - | - | 15,414 | 38,951 | 2,373 | 56,738 | (3) | 56,735 |
| Increase in share capital (note 17) | 30,000 | - | - | - | - | 30,000 | - | 30,000 |
| Disposal of subsidiaries (note 9) | - | - | - | - | - | - | 92 | 92 |
| Transfer to statutory reserve (note 17) | - | 1,219 | (1,219) | - | - | - | - | - |
| **Balance at 31 December 2014** | **170,000** | **28,777** | **93,072** | **93,541** | **(203)** | **385,187** | **-** | **385,187** |
| Balance at 1 January 2013 | 100,000 | 25,663 | 62,895 | 46,731 | (2,464) | 232,825 | (43) | 232,782 |
| Profit (loss) for the year | - | - | 18,047 | - | - | 18,047 | (46) | 18,001 |
| Other comprehensive income (loss) | - | - | - | 7,859 | (112) | 7,747 | - | 7,747 |
| Total comprehensive income (loss) | - | - | 18,047 | 7,859 | (112) | 25,794 | (46) | 25,748 |
| Increase in share capital (note 17) | 40,000 | - | - | - | - | 40,000 | - | 40,000 |
| Acquisition of non-controlling interest in a subsidiary | - | - | (170) | - | - | (170) | - | (170) |
| Transfer to statutory reserve (note 17) | - | 1,895 | (1,895) | - | - | - | - | - |
| Balance at 31 December 2013 | 140,000 | 27,558 | 78,877 | 54,590 | (2,576) | 298,449 | (89) | 298,360 |

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 2014

| | Share capital US$ '000s | Statutory reserve US$ '000s | Retained earnings US$ '000s | Cumulative changes in fair value US$ '000s | Total US$ '000s |
|---|---|---|---|---|---|
| Balance at 1 January 2014 | 140,000 | 27,558 | 82,924 | 54,590 | 305,072 |
| Profit for the year | - | - | 12,192 | - | 12,192 |
| Other comprehensive income | - | - | - | 38,951 | 38,951 |
| Total comprehensive income | - | - | 12,192 | 38,951 | 51,143 |
| Increase in share capital (note 17) | 30,000 | - | - | - | 30,000 |
| Transfer to statutory reserve (note 17) | - | 1,219 | (1,219) | - | - |
| **Balance at 31 December 2014** | **170,000** | **28,777** | **93,897** | **93,541** | **386,215** |
| Balance at 1 January 2013 | 100,000 | 25,663 | 65,870 | 46,731 | 238,264 |
| Profit for the year | - | - | 18,949 | - | 18,949 |
| Other comprehensive income | - | - | - | 7,859 | 7,859 |
| Total comprehensive income | - | - | 18,949 | 7,859 | 26,808 |
| Increase in share capital (note 17) | 40,000 | - | - | - | 40,000 |
| Transfer to statutory reserve (note 17) | - | 1,895 | (1,895) | - | - |
| Balance at 31 December 2013 | 140,000 | 27,558 | 82,924 | 54,590 | 305,072 |

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

## 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 a reinsurance entity and is regulated by the Central Bank of Bahrain (CBB).

The Company and its subsidiaries (together the "Group") mainly provide 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, Labuan and Morocco. Details of the Group's subsidiaries are further disclosed in note 3.

The Company is 99.107% owned by Nest Investments (Holdings) Ltd [the "Parent"], incorporated in Jersey, Channel Islands.

The consolidated and separate financial statements were authorised for issue by the Board of Directors on 25th March 2015.

## 2 BASIS OF PREPARATION

**Statement of compliance**

The consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and the relevant provisions of the Bahrain Commercial Companies Law, the Insurance Regulations contained in Volume 3, 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 available-for-sale investments, investment properties, property and equipment (land and building only) and derivative financial instruments.

**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 comprise the financial statements of the Group and its subsidiaries as at 31 December 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

The following are the subsidiaries of the Group:

| Name of the subsidiary | Country of incorporation | Effective ownership 2014 | Effective ownership 2013 | Principal activity |
|---|---|---|---|---|
| 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 |
| Ribera De Marbella S.L. | Spain | 100% | 100% | Service company |
| Afro Asian Assistance B.S.C. (c) | Kingdom of Bahrain | 100% | 100% | Travel assistance |
| Trust International Insurance and Reinsurance Company, Société Anonyme | Morocco | 100% | 0% | Liaison office |
| Ventura Del Mar S. A. Limited* | United Kingdom | 0% | 100% | Property ownership |
| Aegean Properties Ltd* | Guernsey | 0% | 83.33% | Investment holding company |
| Ventura Del Mar S. A.* | Spain | 0% | 83.33% | Real estate and hospitality |

** During the year, the Group sold these subsidiaries to its Parent. Further details are disclosed in note 9 to these consolidated and Companys' separate financial statements.*

## 4 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted are consistent with those of the previous financial year, except for the adoption of amendments to following standards and interpretations effective as of 1 January 2014.

The nature and the impact of each new standard or amendment is described below:

***Amendments to IFRS 10, IFRS 12 and IAS 27***

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group and the Company, since Group and the Company does not qualify to be an investment entity under IFRS 10.

***IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32***

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group and the Company, since the Group and the Company have no offsetting arrangements.

***IFRIC 21 Levies***

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Group and the Company as it has applied the recognition principles under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with the requirements of IFRIC 21 in prior years.

***Annual Improvements 2010-2012 Cycle***

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Group and the Company.

In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Company, since the Company is an existing IFRS preparer.

The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

**Summary of significant accounting policies**

**Product classification**

Reinsurance contracts are those contracts on which the Group (the reinsurer) has accepted significant reinsurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines the reinsurance risk as significant if the reinsurance risk transferred is above 115% of the gross premium written to undertake that specific reinsurance risk. Contracts that do not transfer significant reinsurance risk are accounted for using deposit accounting.

Once a contract has been classified as a reinsurance contract, it remains a reinsurance contract for the remainder of the contract period lifetime, even if the reinsurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Contracts accounted for using deposit accounting can, however, be reclassified as reinsurance contracts after inception if reinsurance risk becomes significant during the tenure of the contract.

**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 statements of 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 statements of other comprehensive income are transferred to the consolidated and separate statements of income.

**Derivative financial instruments**

The Company uses forward contracts to cover its foreign currency risks.

Derivatives are initially recognised and subsequently measured at fair value with transaction costs taken directly to the consolidated and separate statements of income. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative. Derivatives with positive fair values (unrealised gains) are included in other assets and derivatives with negative fair values (unrealised losses) are included in other liabilities in the consolidated and separate statements of financial position.

Any gains or losses arising from changes in the fair value of derivatives are taken directly 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.

## 4 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Summary of significant accounting policies (continued)**

**Deposit accounting**

Contracts that do not transfer significant reinsurance risk are accounted for using deposit accounting. Under deposit accounting one party recognises the consideration received as a financial liability, rather than as revenue, and the other party recognises the consideration paid as a financial asset, rather than as an expense.

**Deposits from cedents**

Deposits received from the cedent against the contracts under deposit accounting are accounted for as a liability.

**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 and separate statements of income.

**Technical reserves**

*i) Outstanding claims reserve*

The outstanding claims reserve is made up of:

- Case reserves
- Incurred But Not Reported (IBNR), comprising:
  - 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 consolidated and separate statements of income 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.

## 4 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Summary of significant accounting policies (continued)**

**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 except land and building, is stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment losses. Land and building is carried at fair value less subsequent accumulated depreciation and subsequent 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 land and building 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 retained earnings 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 ten 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 Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred 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 previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in the consolidated statement of income or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for 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 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 statements of financial position date are dealt with as an event after the reporting period.

**Foreign currency translation**

The consolidated and separate 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.

## 4 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Summary of significant accounting policies (continued)**

**Foreign currency translation (continued)**

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 in other comprehensive income, in which case the gain or loss is recognised net of the exchange component in other comprehensive income.

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 recognised in other comprehensive income.

**Borrowing costs**

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 statements 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.

## 4 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Summary of significant accounting policies (continued)**

**Reinsurance ceded (continued)**

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 paid 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 measurement**

The Group and the Company measures financial instruments such as available for sale investments and non-financial assets such as investment properties, at fair value at each statement of financial position date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group and the Company.

## 4 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Summary of significant accounting policies (continued)**

**Fair value measurement (continued)**

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account market participant's ability to generate economic benefits by using the asset for its highest and best use or by selling it to another market participant that would use the asset for its highest and best use.

The Group and the Company use valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group and the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group and the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

**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*
For available-for-sale financial investments, the Group and the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated and separate statements of income – is removed from other comprehensive income and recognised in the consolidated and separate statements of income. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously 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:

**IFRS 9 Financial Instruments**

IFRS 9, as issued, reflects the first phase of the IASB's work though the adoption date is subject to the recently issued Exposure Draft on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2015, but amendments to IFRS 9 issued in November 2013, removed the mandatory effective date of 1 January 2015 for IFRS 9. A new mandatory date for IFRS 9 will be determined by the IASB when IFRS 9 is closer to completion. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group and Company's financial assets, but will not have an impact on classification and measurements of the Group and Company's financial liabilities. The Group and Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

**Amendments to IAS 19 Defined Benefit Plans: Employee Contributions**

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Group and the Company, since the Group and the Company has no defined benefit plans with contributions from employees or third parties.

**Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation**

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group and the Company given that the Group and the Company has not used a revenue-based method to depreciate its non-current assets.

**Amendments to IAS 27: Equity Method in Separate Financial Statements**

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The Group is currently assessing the impact of the amendment on its consolidated and separate financial statements.

**Annual improvements 2010-2012 Cycle**

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group and the Company. They include:

IFRS 2 Share-based Payment
IFRS 3 Business Combinations
IFRS 8 Operating Segments
IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
IAS 24 Related Party Disclosures
IFRS 13 Fair Value Measurement
IAS 40 Investment Property

## 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 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.

## 6 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

*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, they measure 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 2014.

*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

| | 2014 Group US$ '000s | 2014 Company US$ '000s | 2013 Group US$ '000s | 2013 Company US$ '000s |
|---|---|---|---|---|
| Cash in hand | 32 | 30 | 33 | 32 |
| Bank balances | 410,834 | 404,137 | 364,224 | 353,752 |
| Cash and cash equivalents | 410,866 | 404,167 | 364,257 | 353,784 |
| Statutory deposit (note 7.1) | 398 | 398 | 398 | 398 |
| Deposits with banks with maturity of more than 3 months | 60,703 | 60,703 | 26,372 | 26,372 |
| | 471,967 | 465,268 | 391,027 | 380,554 |

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

## 8 AVAILABLE-FOR-SALE INVESTMENTS

| | 2014 Group US$ '000s | 2014 Company US$ '000s | 2013 Group US$ '000s | 2013 Company US$ '000s |
|---|---|---|---|---|
| **Quoted** | | | | |
| Equities | 157,947 | 152,974 | 113,269 | 107,515 |
| Debts | 68,499 | 31,868 | 63,196 | 24,670 |
| **Unquoted** | | | | |
| Equities | 8,905 | 8,905 | 6,185 | 6,185 |
| | 235,351 | 193,747 | 182,650 | 138,370 |

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.

## 9 INVESTMENT IN SUBSIDIARIES

During 2013, the Board of Directors resolved to sell its investments in Ventura Del Mar S.A. Limited, Aegean Properties Ltd and Ventura Del Mar S.A. to the Parent Company for a consideration of US$ 27,150 thousand. The CBB approved the sale of these subsidiaries on 23 March 2014. The sale has resulted in a gain on disposal of US$ 3,084 thousand (net of exchange loss reclassification from other comprehensive income to the consolidated statement of income). The total net assets of the disposed subsidiaries at the date of disposal (23 March 2014), including goodwill, amounted to US$ 21,547 thousand and the net loss of the subsidiaries for the period up to the date of disposal amounted to US$ 107 thousand.

## 10 INSURANCE AND OTHER RECEIVABLES

| | 2014 Group US$ '000s | 2014 Company US$ '000s | 2013 Group US$ '000s | 2013 Company US$ '000s |
|---|---|---|---|---|
| Insurance receivables | 49,192 | 34,266 | 51,516 | 36,084 |
| Reinsurance receivables | 26,617 | 26,617 | 25,070 | 25,070 |
| Less: Provision for doubtful debts (note 10.1) | (8,009) | (8,009) | (4,911) | (4,911) |
| | 67,800 | 52,874 | 71,675 | 56,243 |
| Inward pipeline premium accruals | 128,935 | 128,936 | 94,778 | 94,778 |
| Inward treaty premium reserve and loss deposit | 20,458 | 19,580 | 26,021 | 24,809 |
| Due from related parties (note 29) * | 22,833 | 24,633 | 4,961 | 22,087 |
| Other debtors and prepayments | 16,380 | 13,344 | 6,596 | 3,329 |
| Deferred tax asset (note 20) | 31 | - | 594 | - |
| Fair value of currency forward exchange contract (note 31) | 353 | 353 | - | - |
| | 256,790 | 239,720 | 204,625 | 201,246 |

** Includes 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 (continued)

At 31 December 2014, the gross amount of impaired insurance and reinsurance receivables amounted to US$ 8.0 million (2013: US$ 4.9 million).

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

| | 2014 Group US$ '000s | 2014 Company US$ '000s | 2013 Group US$ '000s | 2013 Company US$ '000s |
|---|---|---|---|---|
| At 1 January | 4,911 | 4,911 | 3,728 | 3,728 |
| Charge for the year | 1,654 | 1,654 | 950 | 950 |
| Recoveries | 1,444 | 1,444 | 233 | 233 |
| At 31 December | 8,009 | 8,009 | 4,911 | 4,911 |

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

| **10.2** | | Past due but not impaired | | | |
|---|---|---|---|---|---|
| **Group** | Total US$ '000s | Less than 90 days US$ '000s | 90 to 180 days US$ '000s | 181 to 365 days US$ '000s | More than 365 days US$ '000s |
| 2014 | 67,800 | 45,990 | 14,913 | 6,897 | - |
| 2013 | 71,675 | 49,320 | 14,246 | 6,311 | 1,798 |

| **10.3** | | Past due but not impaired | | | |
|---|---|---|---|---|---|
| **Company** | Total US$ '000s | Less than 90 days US$ '000s | 90 to 180 days US$ '000s | 181 to 365 days US$ '000s | More than 365 days US$ '000s |
| 2014 | 52,874 | 35,100 | 11,100 | 6,674 | - |
| 2013 | 56,243 | 37,746 | 10,388 | 6,311 | 1,798 |

## 11 GROSS DEFERRED ACQUISITION COSTS

| | 2014 Group US$ '000s | 2014 Company US$ '000s | 2013 Group US$ '000s | 2013 Company US$ '000s |
|---|---|---|---|---|
| At 1 January | 43,501 | 39,176 | 41,710 | 36,994 |
| Acquisition costs | 93,980 | 91,493 | 87,078 | 83,673 |
| Amortisation for the year | (88,357) | (85,870) | (85,264) | (81,491) |
| Exchange difference | (519) | - | (23) | - |
| At 31 December | 48,605 | 44,799 | 43,501 | 39,176 |

## 12 TECHNICAL RESERVES

| 12.1 | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| **Group** | Gross US$ '000s | Reinsurers' share US$ '000s | Net US$ '000s | Gross US$ '000s | Reinsurers' share US$ '000s | Net US$ '000s |
| Unearned premium reserve | 227,669 | (83,724) | 143,945 | 199,421 | (69,965) | 129,456 |
| Outstanding claims reserve | 496,454 | (174,342) | 322,112 | 486,825 | (189,280) | 297,545 |
| | 724,123 | (258,066) | 466,057 | 686,246 | (259,245) | 427,001 |

**Unearned premium reserve**

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Gross US$ '000s | Reinsurers' share US$ '000s | Net US$ '000s | Gross US$ '000s | Reinsurers' share US$ '000s | Net US$ '000s |
| At 1 January | 199,421 | (69,965) | 129,456 | 185,912 | (59,577) | 126,335 |
| Premiums written (ceded) | 452,580 | (158,937) | 293,643 | 398,032 | (138,568) | 259,464 |
| Premiums (earned) amortised | (423,308) | 145,033 | (278,275) | (384,420) | 128,165 | (256,255) |
| Exchange difference | (1,024) | 145 | (879) | (103) | 15 | (88) |
| At 31 December | 227,669 | (83,724) | 143,945 | 199,421 | (69,965) | 129,456 |

## 12 TECHNICAL RESERVES (continued)

### Outstanding claims reserve

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Gross US$ '000s | Reinsurers' share US$ '000s | Net US$ '000s | Gross US$ '000s | Reinsurers' share US$ '000s | Net US$ '000s |
| At 1 January | | | | | | |
| Reported claims | 386,791 | (165,451) | 221,340 | 356,273 | (181,571) | 174,702 |
| Incurred But Not Reported claims | 100,034 | (23,829) | 76,205 | 93,315 | (25,386) | 67,929 |
| | 486,825 | (189,280) | 297,545 | 449,588 | (206,957) | 242,631 |
| Incurred during the year | 236,106 | (62,611) | 173,495 | 218,010 | (62,618) | 155,392 |
| (Paid) recovered during the year | (223,939) | 77,002 | (146,937) | (180,511) | 80,242 | (100,269) |
| Exchange difference | (2,538) | 547 | (1,991) | (262) | 53 | (209) |
| At 31 December | 496,454 | (174,342) | 322,112 | 486,825 | (189,280) | 297,545 |
| At 31 December | | | | | | |
| Reported claims | 392,347 | (147,308) | 245,039 | 386,791 | (165,451) | 221,340 |
| Incurred But Not Reported claims | 104,107 | (27,034) | 77,073 | 100,034 | (23,829) | 76,205 |
| | 496,454 | (174,342) | 322,112 | 486,825 | (189,280) | 297,545 |

### 12.2 Company

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Gross US$ '000s | Reinsurers' share US$ '000s | Net US$ '000s | Gross US$ '000s | Reinsurers' share US$ '000s | Net US$ '000s |
| Unearned premium reserve | 211,950 | (81,651) | 130,299 | 180,761 | (67,168) | 113,593 |
| Outstanding claims reserve | 457,885 | (165,730) | 292,155 | 440,193 | (179,517) | 260,676 |
| | 669,835 | (247,381) | 422,454 | 620,954 | (246,685) | 374,269 |

### Unearned premium reserve

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Gross US$ '000s | Reinsurers' share US$ '000s | Net US$ '000s | Gross US$ '000s | Reinsurers' share US$ '000s | Net US$ '000s |
| At 1 January | 180,761 | (67,168) | 113,593 | 164,393 | (56,386) | 108,007 |
| Premiums written (ceded) | 444,944 | (158,352) | 286,592 | 389,072 | (138,113) | 250,959 |
| Premiums (earned) amortised | (413,755) | 143,869 | (269,886) | (372,704) | 127,331 | (245,373) |
| At 31 December | 211,950 | (81,651) | 130,299 | 180,761 | (67,168) | 113,593 |

**Outstanding claims reserve**

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Gross US$ '000s | Reinsurers' share US$ '000s | Net US$ '000s | Gross US$ '000s | Reinsurers' share US$ '000s | Net US$ '000s |
| At 1 January | | | | | | |
| Reported claims | 340,159 | (155,688) | 184,471 | 300,611 | (170,598) | 130,013 |
| Incurred But Not Reported claims | 100,034 | (23,829) | 76,205 | 93,315 | (25,386) | 67,929 |
| | 440,193 | (179,517) | 260,676 | 393,926 | (195,984) | 197,942 |
| Incurred during the year | 242,200 | (61,614) | 180,586 | 222,219 | (65,660) | 156,559 |
| (Paid) recovered during the year | (224,508) | 75,401 | (149,107) | (175,952) | 82,127 | (93,825) |
| At 31 December | 457,885 | (165,730) | 292,155 | 440,193 | (179,517) | 260,676 |
| At 31 December | | | | | | |
| Reported claims | 353,778 | (138,696) | 215,082 | 340,159 | (155,688) | 184,471 |
| Incurred But Not Reported claims | 104,107 | (27,034) | 77,073 | 100,034 | (23,829) | 76,205 |
| | 457,885 | (165,730) | 292,155 | 440,193 | (179,517) | 260,676 |

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 2014 and 31 December 2013 were also peer reviewed by an international firm of actuaries.

## 12 TECHNICAL RESERVES (continued)

*Claims development - Group and Company*

The following tables show the estimate of cumulative incurred claims, including both claims notified and IBNR for each successive underwriting year at each consolidated and separate statements 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** | 2005 US$ '000s | 2006 US$ '000s | 2007 US$ '000s | 2008 US$ '000s | 2009 US$ '000s | 2010 US$ '000s | 2011 US$ '000s | 2012 US$ '000s | 2013 US$ '000s | **2014 US$ '000s** | Total US$ '000s |
|---|---|---|---|---|---|---|---|---|---|---|---|
| At end of underwriting year | 14,572 | 1,649 | 468 | 3,672 | 1,400 | 3,084 | 1,485 | 908 | 3,969 | 3,236 | |
| One year later | 44,169 | 44,205 | 36,439 | 63,158 | 73,498 | 85,848 | 81,441 | 83,383 | 108,426 | - | |
| Two years later | 74,006 | 68,776 | 77,499 | 107,420 | 150,409 | 212,336 | 172,059 | 174,260 | - | - | |
| Three years later | 85,368 | 70,549 | 87,837 | 118,853 | 162,571 | 238,037 | 205,175 | - | - | - | |
| Four years later | 87,105 | 69,368 | 86,930 | 118,499 | 162,889 | 239,341 | - | - | - | - | |
| Five years later | 87,149 | 66,914 | 86,205 | 117,446 | 158,656 | - | - | - | - | - | |
| Six years later | 87,159 | 67,075 | 86,806 | 115,609 | - | - | - | - | - | - | |
| Seven years later | 87,116 | 67,241 | 86,736 | - | - | - | - | - | - | - | |
| Eight years later | 86,847 | 66,323 | - | - | - | - | - | - | - | - | |
| Nine years later | 86,380 | - | - | - | - | - | - | - | - | | |
| Current estimate of cumulative claims incurred | 86,380 | 66,323 | 86,736 | 115,609 | 158,656 | 239,341 | 205,175 | 174,260 | 108,426 | 3,236 | 1,244,142 |
| Cumulative payments to date | (84,172) | (63,556) | (78,304) | (106,205) | (140,018) | (199,700) | (133,201) | (88,335) | (27,663) | 2,439 | (918,715) |
| Incurred But Not Reported | (35) | (57) | (62) | (83) | 8 | (1,741) | 4,193 | 31,354 | 54,387 | 16,331 | 104,295 |
| | 2,173 | 2,710 | 8,370 | 9,321 | 18,646 | 37,900 | 76,167 | 117,279 | 135,150 | 22,006 | 429,722 |
| Liability in respect of years prior to 2005 | | | | | | | | | | | 28,163 |
| Total liability included in the Company's separate statement of financial position | | | | | | | | | | | 457,885 |
| Trust Underwriting Ltd | | | | | | | | | | | 38,569 |
| Total liability included in the consolidated statement of financial position | | | | | | | | | | | 496,454 |

| Net | 2005 US$ '000s | 2006 US$ '000s | 2007 US$ '000s | 2008 US$ '000s | 2009 US$ '000s | 2010 US$ '000s | 2011 US$ '000s | 2012 US$ '000s | 2013 US$ '000s | 2014 US$ '000s | Total US$ '000s |
|---|---|---|---|---|---|---|---|---|---|---|---|
| At end of underwriting year | 3,691 | 682 | 302 | 2,508 | 484 | 2,067 | 1,005 | 656 | 2,611 | 2,442 | |
| One year later | 11,324 | 8,311 | 15,463 | 26,244 | 35,089 | 58,677 | 25,596 | 54,462 | 79,012 | - | |
| Two years later | 18,411 | 15,002 | 33,611 | 46,140 | 79,171 | 128,488 | 91,765 | 121,824 | - | - | |
| Three years later | 21,503 | 16,238 | 34,660 | 47,975 | 84,650 | 147,691 | 116,129 | - | - | - | |
| Four years later | 22,026 | 16,007 | 34,847 | 47,895 | 82,129 | 149,324 | - | - | - | - | |
| Five years later | 22,177 | 15,448 | 35,495 | 48,357 | 78,123 | - | - | - | - | - | |
| Six years later | 22,174 | 15,567 | 35,427 | 47,707 | - | - | - | - | - | - | |
| Seven years later | 22,162 | 15,484 | 35,477 | - | - | - | - | - | - | - | |
| Eight years later | 22,094 | 15,288 | - | - | - | - | - | - | - | - | |
| Nine years later | 21,986 | - | - | - | - | - | - | - | - | | |
| Current estimate of cumulative claims incurred | 21,986 | 15,288 | 35,477 | 47,707 | 78,123 | 149,324 | 116,129 | 121,824 | 79,012 | 2,442 | 667,312 |
| Cumulative payments to date | (21,463) | (14,687) | (31,932) | (44,026) | (67,193) | (122,844) | (69,126) | (62,883) | (21,134) | 1,822 | (453,466 |
| Incurred But Not Reported | (9) | (17) | (25) | (33) | 4 | (1,784) | 3,185 | 23,214 | 40,144 | 12,428 | 77,107 |
| | 514 | 584 | 3,520 | 3,648 | 10,934 | 24,696 | 50,188 | 82,155 | 98,022 | 16,692 | 290,953 |
| Liability in respect of years prior to 2005 | | | | | | | | | | | 1,202 |
| Total net liability included in the Company's separate statement of financial position | | | | | | | | | | | 292,155 |
| Trust Underwriting Ltd | | | | | | | | | | | 29,957 |
| Total net liability included in the consolidated statement of financial position | | | | | | | | | | | 322,112 |

## 13 INVESTMENT PROPERTIES

**Group and Company**

| | 2014<br>US$ '000s | 2013<br>US$ '000s |
|---|---|---|
| Leasehold properties | | |
| Balance at 1 January | 1,707 | 1,707 |
| Revaluation gain during the year | 199 | - |
| Balance at 31 December | 1,906 | 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 (2013: 2073).

These properties are valued every two years by an independent firm of professional valuers.

## 14 PROPERTIES HELD FOR SALE

**Group**

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

| | 2014<br>US$ '000s | 2013<br>US$ '000s |
|---|---|---|
| Balance at 1 January | 9,229 | 8,946 |
| Exchange difference | (10) | 283 |
| Disposal of subsidiaries during the year | (9,219) | - |
| Balance at 31 December | - | 9,229 |

## 15 PROPERTY AND EQUIPMENT

### 15.1 Group

| | Land and Building US$ '000s | Motor vehicles US$ '000s | Computer hardware and software US$ '000s | Furniture and fixtures US$ '000s | Total US$ '000s |
|---|---|---|---|---|---|
| **Fair value / Cost** | | | | | |
| At 1 January 2014 | 12,048 | 505 | 2,556 | 4,971 | 20,080 |
| Additions | 39 | 50 | 242 | 138 | 469 |
| Revaluation (note 25) | 1,136 | - | - | - | 1,136 |
| Disposals | - | (43) | - | (59) | (102) |
| Disposal of subsidiaries (note 9) | (1,972) | - | (58) | (236) | (2,266) |
| Writeoffs | - | - | (409) | (1,336) | (1,745) |
| Exchange differences | (2) | - | - | (16) | (18) |
| **At 31 December 2014** | **11,249** | **512** | **2,331** | **3,462** | **17,554** |
| **Depreciation** | | | | | |
| At 1 January 2014 | - | 341 | 2,140 | 4,579 | 7,060 |
| Charge for the year | - | 68 | 257 | 144 | 469 |
| Disposals | - | (18) | - | (56) | (74) |
| Disposal of subsidiaries (note 9) | - | - | (57) | (234) | (291) |
| Writeoffs | - | - | (409) | (1,336) | (1,745) |
| Exchange differences | - | - | - | (15) | (15) |
| **At 31 December 2014** | **-** | **391** | **1,931** | **3,082** | **5,404** |
| **Net book value** | | | | | |
| **At 31 December 2014** | **11,249** | **121** | **400** | **380** | **12,150** |
| At 31 December 2013 | 12,048 | 164 | 416 | 392 | 13,020 |

## 15 PROPERTY AND EQUIPMENT (continued)

### 15.2 Company

| | Land and Building US$ '000s | Motor vehicles US$ '000s | Computer hardware and software US$ '000s | Furniture and fixtures US$ '000s | Total US$ '000s |
|---|---|---|---|---|---|
| **Fair value / Cost** | | | | | |
| At 1 January 2014 | 10,074 | 462 | 1,912 | 4,498 | 16,946 |
| Additions | 40 | 50 | 232 | 128 | 450 |
| Write offs | - | - | (409) | (1,336) | (1,745) |
| Revaluation (note 25) | 1,136 | - | - | - | 1,136 |
| **At 31 December 2014** | **11,250** | **512** | **1,735** | **3,290** | **16,787** |
| **Depreciation** | | | | | |
| At 1 January 2014 | - | 323 | 1,662 | 4,117 | 6,102 |
| Charge for the year | - | 68 | 171 | 140 | 379 |
| Write offs | - | - | (409) | (1,336) | (1,745) |
| **At 31 December 2014** | **-** | **391** | **1,424** | **2,921** | **4,736** |
| **Net book value** | | | | | |
| **At 31 December 2014** | **11,250** | **121** | **311** | **369** | **12,051** |
| At 31 December 2013 | 10,074 | 139 | 250 | 381 | 10,844 |

## 16 INTANGIBLE ASSETS

**Group**

| | Licence US$ '000s | Underwriting capacity US$ '000s | Total US$ '000s |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2013 | 19 | 2,093 | 2,112 |
| Exchange difference | - | (11) | (11) |
| At 31 December 2013 | 19 | 2,082 | 2,101 |
| Exchange difference | (2) | (121) | (123) |
| **At 31 December 2014** | **17** | **1,961** | **1,978** |
| **Amortisation** | | | |
| At 1 January 2013 | - | 1,896 | 1,896 |
| Charge for the year | 19 | 111 | 130 |
| Exchange difference | - | (10) | (10) |
| At 31 December 2013 | 19 | 1,997 | 2,016 |
| Charge for the year | - | 53 | 53 |
| Exchange difference | (2) | (118) | (120) |
| **At 31 December 2014** | **17** | **1,932** | **1,949** |
| **Carrying value** | | | |
| **At 31 December 2014** | **-** | **29** | **29** |
| At 31 December 2013 | - | 85 | 85 |

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 EQUITY AND RESERVES

### Share capital

| | 2014<br>US$ '000s | 2013<br>US$ '000s |
|---|---|---|
| **Authorised:** | | |
| 2,000,000 shares of US$100 each | 200,000 | 200,000 |
| **Issued and fully paid up:** | | |
| 1,700,000 shares of US$100 each (2013: 1,400,000 shares of US$100 each) | 170,000 | 140,000 |

### Increase in share capital

Following a resolution by the shareholders of the Company at an Extraordinary General Meeting held on 13 October 2014 and necessary regulatory approvals, the Company's issued and paid up share capital increased from US$ 140,000 thousand to US$ 170,000 thousand.

### 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.

## 18 REINSURERS' SHARE OF DEFERRED ACQUISITION COSTS

| | 2014<br>Group<br>US$ '000s | 2014<br>Company<br>US$ '000s | 2013<br>Group<br>US$ '000s | 2013<br>Company<br>US$ '000s |
|---|---|---|---|---|
| At 1 January | 14,664 | 14,664 | 14,018 | 14,018 |
| Acquisition costs - reinsurer | 33,510 | 33,510 | 29,250 | 29,250 |
| Amortisation for the year - reinsurer | (30,220) | (30,220) | (28,604) | (28,604) |
| At 31 December | 17,954 | 17,954 | 14,664 | 14,664 |

## 19 INSURANCE AND OTHER PAYABLES

| | 2014 Group US$ '000s | 2014 Company US$ '000s | 2013 Group US$ '000s | 2013 Company US$ '000s |
|---|---|---|---|---|
| Insurance payables | 18,923 | 14,192 | 17,314 | 16,069 |
| Outward pipeline premium provision | 51,535 | 51,535 | 39,159 | 39,159 |
| Outward treaty premium reserves loss deposit | 21,518 | 21,518 | 14,312 | 14,312 |
| Due to related parties (note 29) | 369 | 369 | 339 | 746 |
| Other accounts payable and accruals | 23,195 | 4,895 | 21,672 | 3,902 |
| Deposits from cedants recognised under deposit accounting method | 10,000 | 10,000 | 7,314 | 7,314 |
| Current tax liability | 210 | 210 | 200 | 200 |
| | 125,750 | 102,719 | 100,310 | 81,702 |

## 20 DEFERRED TAXATION

The movement in deferred taxation is as follows:

### 20.1 Deferred tax asset

| | Tax lossess carried forward US$ '000s | Underwriting profits not subject to taxation US$ '000s | Claims equalisation US$ '000s | Total US$ '000s |
|---|---|---|---|---|
| At 1 January 2013 | 710 | 81 | (292) | 499 |
| Movement during the year | 309 | (250) | 21 | 80 |
| Exchange difference | 12 | 1 | 2 | 15 |
| At 31 December 2013 | 1,031 | (168) | (269) | 594 |
| Movement during the year | 168 | (194) | (75) | (101) |
| Derecognised on disposal of susidiaries (note 9) | (457) | - | - | (457) |
| Exchange difference | (40) | 16 | 19 | (5) |
| **At 31 December 2014** | 702 | (346) | (325) | 31 |

## 21 OPERATING EXPENSES

| | 2014 Group US$ '000s | 2014 Company US$ '000s | 2013 Group US$ '000s | 2013 Company US$ '000s |
|---|---|---|---|---|
| Staff costs | 12,360 | 12,360 | 9,930 | 9,930 |
| Occupancy costs | 3,422 | 3,422 | 3,414 | 3,414 |
| Marketing and business travel | 2,571 | 2,571 | 1,497 | 1,497 |
| Corporate costs | 1,313 | 1,313 | 1,259 | 1,259 |
| Professional expenses | 1,813 | 1,813 | 1,133 | 1,133 |
| Administration expenses | 628 | 628 | 540 | 540 |
| Information technology costs | 416 | 416 | 459 | 459 |
| Others | 1,873 | 1,873 | 1,378 | 1,378 |
| | 24,396 | 24,396 | 19,610 | 19,610 |

## 22 INVESTMENT INCOME - NET

| | 2014 Group US$ '000s | 2014 Company US$ '000s | 2013 Group US$ '000s | 2013 Company US$ '000s |
|---|---|---|---|---|
| Dividend income | 3,829 | 3,829 | 2,263 | 2,263 |
| Gain (loss) on sale of available-for-sale investments | 3,147 | 3,147 | (72) | (72) |
| Interest income on debt securities | 778 | 778 | 625 | 625 |
| Impairment loss on available for-sale-investment | (755) | (755) | (445) | (445) |
| | 6,999 | 6,999 | 2,371 | 2,371 |

## 23 INCOME FROM INVESTMENT PROPERTIES

| | 2014 Group US$ '000s | 2014 Company US$ '000s | 2013 Group US$ '000s | 2013 Company US$ '000s |
|---|---|---|---|---|
| Rental income | 222 | 222 | 478 | 478 |
| Revaluation of investment properties | 199 | 199 | - | - |
| | 421 | 421 | 478 | 478 |

## 24 GENERAL AND ADMINISTRATION EXPENSES

| | 2014 Group US$ '000s | 2014 Company US$ '000s | 2013 Group US$ '000s | 2013 Company US$ '000s |
|---|---|---|---|---|
| Staff costs | 3,659 | 2,881 | 2,962 | 2,317 |
| Occupancy costs | 4,420 | 4,328 | 4,442 | 4,327 |
| Other | 3,702 | 2,002 | 3,978 | 1,416 |
| | 11,781 | 9,211 | 11,382 | 8,060 |

## 25 OTHER INCOME AND LOSSES

| | 2014 Group US$ '000s | 2014 Company US$ '000s | 2013 Group US$ '000s | 2013 Company US$ '000s |
|---|---|---|---|---|
| Management fees | 2,020 | 1,947 | 3,160 | 3,225 |
| Loss from contracts recognised under deposit accounting method | (87) | (87) | (163) | (163) |
| Fair value gain on forward exchange contracts | 992 | 992 | - | - |
| Miscellaneous income | 2,123 | 1,203 | 860 | 351 |
| Gain on revaluation of own use property (note 15) | 1,136 | 1,136 | - | - |
| | 6,184 | 5,191 | 3,857 | 3,413 |

## 26 TAXATION

The Group's branch in Cyprus is subject to a taxation charge of 12.5% (2013: 12.5%) on its chargeable income for the year. The branch has made a loss during the year and therefore, no provision of tax has been made during the year (2013: US$ 200 thousand). The branch in Labuan, Malaysia elected to pay a tax on actual taxable income for the year. However, due to current losses in Labuan branch, no provision for tax has been made for the year 2014 (2013: US$ 6 thousand). The subsidiary in the USA is also subject to local taxation.

The tax charge (credit) is analysed as follows:

| | 2014 Group US$ '000s | 2014 Company US$ '000s | 2013 Group US$ '000s | 2013 Company US$ '000s |
|---|---|---|---|---|
| Corporation tax (including previous years) | 1 | (18) | 227 | 206 |
| Deferred tax charge | 101 | - | (80) | - |
| | 102 | (18) | 147 | 206 |

## 27 CLASSIFICATION OF FINANCIAL INSTRUMENTS

At 31 December 2014 and 31 December 2013, financial instruments have been classified for the purpose of measurement under IAS 39 'Financial Instruments: Recognition and Measurement' as follows:

| 27.1 Group | 2014 | | | |
|---|---|---|---|---|
| | At fair value through income statement US$ '000s | Available-for-sale US$ '000s | Loans and receivables/ amortised cost US$ '000s | Total US$ '000s |
| **Financial assets** | | | | |
| Cash and bank balances | - | - | 471,967 | 471,967 |
| Available-for-sale investments | - | 235,351 | - | 235,351 |
| Insurance and other receivables | - | - | 111,091 | 111,091 |
| Reinsurers' share of outstanding claims reserve - reported claims | - | - | 147,308 | 147,308 |
| Forward foreign exchange contracts | 353 | - | - | 353 |
| | 353 | 235,351 | 730,366 | 966,070 |
| **Financial liabilities** | | | | |
| Outstanding claims reserve - reported claims | - | - | 392,347 | 392,347 |
| Reinsurance payables | - | - | 31,850 | 31,850 |
| Insurance and other payables | - | - | 50,810 | 50,810 |
| Borrowings | - | - | - | - |
| | - | - | 475,007 | 475,007 |

| 27.1 Group (continued) | 2013 | | | |
|---|---|---|---|---|
| | At fair value through income statement US$ '000s | Available-for-sale US$ '000s | Loans and receivables/ amortised cost US$ '000s | Total US$ '000s |
| **Financial assets** | | | | |
| Cash and bank balances | - | - | 391,027 | 391,027 |
| Available-for-sale investments | - | 182,650 | - | 182,650 |
| Total equity | - | - | 102,657 | 102,657 |
| Reinsurers' share of outstanding claims reserve - reported claims | - | - | 165,451 | 165,451 |
| Forward foreign exchange contracts | - | - | - | - |
| | - | 182,650 | 659,135 | 841,785 |
| **Financial liabilities** | | | | |
| Outstanding claims reserve - reported claims | - | - | 386,791 | 386,791 |
| Reinsurance payables | - | - | 31,068 | 31,068 |
| Trade and other payables | - | - | 39,279 | 39,279 |
| Borrowings | - | - | 981 | 981 |
| | - | - | 458,119 | 458,119 |

## 27 CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

| 27.2 Company | 2014 | | | |
|---|---|---|---|---|
| | At fair value through income statement US$ '000s | Available-for-sale US$ '000s | Loans and receivables/ amortised cost US$ '000s | Total US$ '000s |
| **Financial assets** | | | | |
| Cash and bank balances | - | - | 465,268 | 465,268 |
| Available-for-sale investments | - | 193,747 | - | 193,747 |
| Insurance and other receivables | - | - | 97,087 | 97,087 |
| Reinsurers' share of outstanding claims reserve - reported claims | - | - | 138,696 | 138,696 |
| Forward foreign exchange contracts | 353 | - | - | 353 |
| | 353 | 193,747 | 701,051 | 895,151 |
| **Financial liabilities** | | | | |
| Outstanding claims reserve - reported claims | - | - | 353,778 | 353,778 |
| Reinsurance payables | - | - | 31,850 | 31,850 |
| Trade and other payables | - | - | 46,079 | 46,079 |
| | - | - | 431,707 | 431,707 |

| 27.2 Company (continued) | 2013 | | | |
|---|---|---|---|---|
| | At fair value through income statement US$ '000s | Available-for-sale US$ '000s | Loans and receivables/ amortised cost US$ '000s | Total US$ '000s |
| **Financial assets** | | | | |
| Cash and bank balances | - | - | 380,554 | 380,554 |
| Available-for-sale investments | - | 138,370 | - | 138,370 |
| Insurance and other receivables | - | - | 103,139 | 103,139 |
| Reinsurers' share of outstanding claims reserve - reported claims | - | - | 155,688 | 155,688 |
| Forward foreign exchange contracts | - | - | - | - |
| | - | 138,370 | 639,381 | 777,751 |
| **Financial liabilities** | | | | |
| Outstanding claims reserve - reported claims | - | - | 340,159 | 340,159 |
| Reinsurance payables | - | - | 27,000 | 27,000 |
| Trade and other payables | - | - | 38,441 | 38,441 |
| | - | - | 405,600 | 405,600 |

## 28 FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair values of quoted securities are derived from quoted market prices in active markets, if available. For unquoted securities, fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; or other valuation models.

Level 1, 2 and 3 are explained in note 4 under "Fair value measurement".

### 28.1 Group

Quantitative disclosures of the fair value measurement hierarchy for assets as at 31 December 2014:

| | 2014 | | |
|---|---|---|---|
| | Level 1<br>US$ '000s | Level 2<br>US$ '000s | Total<br>US$ '000s |
| Investment properties | - | 1,906 | 1,906 |
| Property and equipment (Land and building only) | - | 11,249 | 11,249 |
| Available-for-sale investments | | | |
| *Equities* | | | |
| Financial services | 148,715 | - | 148,715 |
| Others | 9,232 | - | 9,232 |
| *Debts* | | | |
| Financial services | 9,428 | - | 9,428 |
| Government | 4,576 | - | 4,576 |
| Energy | 5,407 | - | 5,407 |
| Others | 49,088 | - | 49,088 |
| Derivative financial instruments | - | 353 | 353 |
| | 226,446 | 13,508 | 239,954 |

### 28.1 Group (continued)

| | 2013 | | |
|---|---|---|---|
| | Level 1 US$ '000s | Level 2 US$ '000s | Total US$ '000s |
| Investment properties | - | 1,707 | 1,707 |
| Property and equipment (Land and building only) | - | 12,048 | 12,048 |
| Available-for-sale investments | | | |
| *Equities* | | | |
| Financial services | 106,646 | - | 106,646 |
| Others | 6,623 | - | 6,623 |
| *Debts* | | | |
| Financial services | 7,947 | - | 7,947 |
| Government | 5,160 | - | 5,160 |
| Energy | 2,369 | - | 2,369 |
| Others | 47,720 | - | 47,720 |
| Derivative financial instruments | - | - | - |
| | 176,465 | 13,755 | 190,220 |

### 28.2 Company

| | 2014 | | |
|---|---|---|---|
| | Level 1 US$ '000s | Level 2 US$ '000s | Total US$ '000s |
| Investment properties | - | 1,906 | 1,906 |
| Property and equipment (Land and building only) | - | 11,250 | 11,250 |
| Available-for-sale investments | | | |
| *Equities* | | | |
| Financial services | 148,715 | - | 148,715 |
| Others | 4,259 | - | 4,259 |
| *Debts* | | | |
| Financial services | 9,428 | - | 9,428 |
| Government | 4,576 | - | 4,576 |
| Energy | 5,407 | - | 5,407 |
| Others | 12,457 | - | 12,457 |
| Derivative financial instruments | - | 353 | 353 |
| | 184,842 | 13,509 | 198,351 |

## 28 FAIR VALUE MEASUREMENT (continued)

### 28.2 Company (continued)

| | 2013 | | |
|---|---|---|---|
| | Level 1 US$ '000s | Level 2 US$ '000s | Total US$ '000s |
| Investment properties | - | 1,707 | 1,707 |
| Property and equipment (Land and building only) | - | 10,074 | 10,074 |
| Available-for-sale investments | | | |
| Equities | | | |
| Financial services | 106,646 | - | 106,646 |
| Others | 869 | - | 869 |
| Debts | | | |
| Financial services | 7,947 | - | 7,947 |
| Government | 5,160 | - | 5,160 |
| Energy | 2,369 | - | 2,369 |
| Others | 9,194 | - | 9,194 |
| Derivative financial instruments | - | - | - |
| | 132,185 | 11,781 | 143,966 |

### 28.3 Group and Company

Unquoted equities classified as available-for-sale amounted to US$ 8,905 thousand (2013: US$ 6,185 thousand) and are carried at cost due to their illiquid nature and accordingly are not included in the fair value measurement hierarchy table above.

Valuations are dated 31 December each year.

During the year ended 31 December 2014, there were no transfers between Level 1 and Level 2 fair value hierarchies.

## 29 RELATED PARTY TRANSACTIONS

### 29.1 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 | Entities related to shareholders |
|---|---|---|
| | 2014 US$ '000s | 2013 US$ '000s |
| Gross premiums written | 6,937 | 4,552 |
| Gross claims paid | 1,655 | 1,554 |
| Policy acquisition costs | 1,444 | 1,739 |

### 29.1 Group (continued)

Income included gain on sale of subsidiaries of US$ 3,084 thousand during the year. For further details refer to note 9.

The expenses included US$ 7,000 thousand (2013: US$ 7,000 thousand) in respect of building rent and US$ 1,000 thousand (2013: US$ 1,000 thousand) in respect of management fees paid to shareholder.

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

| | Shareholder | Entities related to shareholders | Shareholder | Entities related to shareholders |
|---|---|---|---|---|
| | 2014 US$ '000s | 2014 US$ '000s | 2013 US$ '000s | 2013 US$ '000s |
| Insurance and other receivables | 1,047 | 21,786 | 2,919 | 2,042 |
| Insurance and other payables | - | 369 | - | 339 |

**Compensation of key management personnel**

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

| | 2014 US$ '000s | 2013 US$ '000s |
|---|---|---|
| Directors' remuneration | 292 | 295 |
| Salaries and benefits | 1,329 | 822 |
| End of service benefits | 295 | 47 |
| | 1,916 | 1,164 |

### 29.2 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 | Entities related to shareholders |
|---|---|---|
| | 2014 US$ '000s | 2013 US$ '000s |
| Gross premiums written | 6,937 | 4,552 |
| Gross claims paid | 1,655 | 1,554 |
| Policy acquisition costs | 1,444 | 1,739 |

## 29 RELATED PARTY TRANSACTIONS (continued)

The expenses included US$ 7,000 thousand (2013: US$ 7,000 thousand) in respect of building rent and US$ 1,000 thousand (2013: US$ 1,000 thousand) in respect of management fees paid to shareholder. Further, other income includes US$ 233 thousand (2013: US$ 233 thousand) in respect of management fees and facility fees from a subsidiary.

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

| | Shareholder | Entities related to shareholders | Shareholder | Entities related to shareholders |
|---|---|---|---|---|
| | 2014 US$ '000s | 2014 US$ '000s | 2013 US$ '000s | 2013 US$ '000s |
| Insurance and other receivables | 1,047 | 23,586 | 2,919 | 19,168 |
| Insurance and other payables | - | 369 | - | 746 |

**Compensation of key management personnel**

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

| | 2014 US$ '000s | 2013 US$ '000s |
|---|---|---|
| Directors' remuneration | 292 | 295 |
| Salaries and benefits | 1,329 | 822 |
| End of service benefits | 295 | 47 |
| | 1,916 | 1,164 |

## 30 CONTINGENT LIABILITIES

The Group has issued a guarantee of approximately US$ 1.1 million (€ 900 thousand) [(2013: US$ 1.1 million (€ 875 thousand)] as a statutory requirement by the Superintendent of Insurance in Cyprus in respect of its Cyprus branch.

## 31 DERIVATIVES

During the year, the Company entered into following derivatives:

| | | | Notional amounts by term to maturity | | |
|---|---|---|---|---|---|
| 31 December 2014 | Positive fair value US$ '000s | Negative fair value US$ '000s | Notional amount Total US$ '000s | Within 3 months US$ '000s | 3 - 12 months US$ '000s |
| *Derivatives** | | | | | |
| Forward foreign exchange | 353 | - | 24,329 | - | 24,329 |
| 31 December 2013 | | | | | |
| *Derivatives** | | | | | |
| Forward foreign exchange | - | - | - | - | - |

** The Group uses forward currency contracts to manage its currency exposure denominated in Euro. These currency forward contracts are not designated as cash flow, fair value or net investment in foreign operations hedges and are entered into for periods consistent with currency transaction exposures.*

Forward foreign exchange contracts are contractual agreements to either buy or sell a specified currency, at a specific price and date in the future, and are customised contracts transacted in the over-the-counter market.

## 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. In addition, 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, delegations of authority and limit systems to ensure appropriate quality and diversification of assets, align underwriting and reinsurance strategies to the Group's goals and objectives and specify reporting requirements.

## 32 RISK MANAGEMENT (continued)

*Regulatory framework*

The Company is regulated by the Central Bank of Bahrain and its subsidiary, Trust Underwriting Limited, is regulated by the Financial Conduct 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 do not have any single reinsurance contract or a small number of related contracts that cover low frequency, high-severity risks such as earthquakes, or 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 consolidated and separate statement of income (2013: 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 Lloyds 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 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 Conduct Authority provide additional controls over the syndicate's management of risks.

*Syndicate risk (Trust Underwriting Limited) (continued)*

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 into. 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 (GBP) 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 exposure to foreign currency exchange rate risk at the consolidated statement of financial position date by categorising monetary assets and liabilities by major currencies.

| **Currency risk - Group** | 31 December 2014 | | | | |
|---|---|---|---|---|---|
| | US Dollars US$ '000s | Euro US$ '000s | British Pound US$ '000s | Other US$ '000s | Total US$ '000s |
| **ASSETS** | | | | | |
| Cash and bank balances | 439,564 | 25,496 | 1,417 | 5,490 | 471,967 |
| Available-for-sale investments | 231,377 | 1,832 | 2,142 | - | 235,351 |
| Insurance and other receivables | 86,325 | 2,651 | 3,144 | 19,324 | 111,444 |
| Reinsurers' share of technical reserves - reported claims | 103,746 | 5,059 | 341 | 38,162 | 147,308 |
| | 861,012 | 35,038 | 7,044 | 62,976 | 966,070 |
| **LIABILITIES** | | | | | |
| Technical reserves | | | | | |
| Outstanding claims reserves - reported claims | 248,027 | 12,771 | 987 | 130,562 | 392,347 |
| Reinsurance payables | 31,850 | - | - | - | 31,850 |
| Insurance and other payables | 46,410 | 1,419 | - | 2,981 | 50,810 |
| Borrowings | - | - | - | - | - |
| | 326,287 | 14,190 | 987 | 133,543 | 475,007 |
| **OFF-BALANCE SHEET ITEMS** | | | | | |
| Forward currency purchase contracts | - | 6,082 | - | - | 6,082 |
| Forward currency sale contracts | - | 30,411 | - | - | 30,411 |
| | - | (24,329) | - | - | (24,329) |
| Net exposure | 534,725 | (3,481) | 6,057 | (70,567) | 466,734 |

## 32 RISK MANAGEMENT (continued)

| Currency risk - Group (continued) | 31 December 2013 | | | | |
|---|---|---|---|---|---|
| | US Dollars US$ '000s | Euro US$ '000s | British Pound US$ '000s | Other US$ '000s | Total US$ '000s |
| **ASSETS** | | | | | |
| Cash and bank balances | 354,628 | 20,868 | 10,122 | 5,409 | 391,027 |
| Available-for-sale investments | 128,988 | 3,281 | 47,341 | 3,040 | 182,650 |
| Insurance and other receivables | 87,553 | 1,559 | 2,635 | 10,910 | 102,657 |
| Reinsurers' share of technical reserves - reported claims | 115,888 | 3,412 | 10,120 | 36,031 | 165,451 |
| | 687,057 | 29,120 | 70,218 | 55,390 | 841,785 |
| **LIABILITIES** | | | | | |
| Technical reserves | | | | | |
| Outstanding claims reserves - reported claims | 219,543 | 8,209 | 47,236 | 111,803 | 386,791 |
| Reinsurance payables | 27,000 | - | 4,068 | - | 31,068 |
| Insurance and other payables | 30,407 | 803 | 2,445 | 5,624 | 39,279 |
| Borrowings | - | 981 | - | - | 981 |
| | 276,950 | 9,993 | 53,749 | 117,427 | 458,119 |
| **OFF-BALANCE SHEET ITEMS** | | | | | |
| Forward currency purchase contracts | - | - | - | - | - |
| Forward currency sale contracts | - | - | - | - | - |
| | - | - | - | - | - |
| Net exposure | 410,107 | 19,127 | 16,469 | (62,037) | 383,666 |

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 | 2014 Impact on Profit before tax US$ '000s | 2013 Impact on Profit before tax US$ '000s |
|---|---|---|---|
| GBP | +/- 10% | 606 | 1,647 |
| Euro | +/- 10% | (348) | 1,913 |

**Currency risk - Company**

The table below 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 2014 | | | | |
|---|---|---|---|---|---|
| | US Dollars US$ '000s | Euro US$ '000s | British Pound US$ '000s | Other US$ '000s | Total US$ '000s |
| **ASSETS** | | | | | |
| Cash and bank balances | 432,865 | 25,496 | 1,417 | 5,490 | 465,268 |
| Available-for-sale investments | 189,773 | 1,832 | 2,142 | - | 193,747 |
| Investment in subsidiaries | 3,009 | - | 655 | 37 | 3,701 |
| Insurance and other receivables | 72,321 | 2,651 | 3,144 | 19,324 | 97,440 |
| Reinsurers' share of technical reserves - reported claims | 95,134 | 5,059 | 341 | 38,162 | 138,696 |
| | 793,102 | 35,038 | 7,699 | 63,013 | 898,852 |
| **LIABILITIES** | | | | | |
| Technical reserves | | | | | |
| Outstanding claims reserves - reported claims | 209,458 | 12,771 | 987 | 130,562 | 353,778 |
| Reinsurance payables | 31,850 | - | - | - | 31,850 |
| Insurance and other payables | 40,402 | 1,419 | 1,277 | 2,981 | 46,079 |
| | 281,710 | 14,190 | 2,264 | 133,543 | 431,707 |
| **OFF-BALANCE SHEET ITEMS** | | | | | |
| Forward currency purchase contracts | - | 6,082 | - | - | 6,082 |
| Forward currency sale contracts | - | 30,411 | - | - | 30,411 |
| | - | (24,329) | - | - | (24,329) |
| Net exposure | 511,392 | (3,481) | 5,435 | (70,530) | 442,816 |

## 32 RISK MANAGEMENT (continued)

| Currency risk - Company | 31 December 2013 | | | | |
|---|---|---|---|---|---|
| | US Dollars US$ '000s | Euro US$ '000s | British Pound US$ '000s | Other US$ '000s | Total US$ '000s |
| **ASSETS** | | | | | |
| Cash and bank balances | 352,572 | 20,794 | 1,779 | 5,409 | 380,554 |
| Available-for-sale investments | 128,988 | 3,281 | 3,061 | 3,040 | 138,370 |
| Investment in subsidiaries | 3,009 | 27,146 | 655 | - | 30,810 |
| Insurance and other receivables | 87,553 | 1,559 | 3,117 | 10,910 | 103,139 |
| Reinsurers' share of technical reserves - reported claims | 115,888 | 3,412 | 357 | 36,031 | 155,688 |
| | 688,010 | 56,192 | 8,969 | 55,390 | 808,561 |
| **LIABILITIES** | | | | | |
| Technical reserves | | | | | |
| Outstanding claims reserves - reported claims | 219,543 | 8,209 | 604 | 111,803 | 340,159 |
| Reinsurance payables | 27,000 | - | - | - | 27,000 |
| Insurance and other payables | 30,407 | 803 | 1,607 | 5,624 | 38,441 |
| | 276,950 | 9,012 | 2,211 | 117,427 | 405,600 |
| **OFF-BALANCE SHEET ITEMS** | | | | | |
| Forward currency purchase contracts | - | - | - | - | - |
| Forward currency sale contracts | - | - | - | - | - |
| | - | - | - | - | - |
| Net exposure | 411,060 | 47,180 | 6,758 | (62,037) | 402,961 |

| Currency | Change in variables | 2014 Impact on Profit before tax US$ '000s | 2013 Impact on Profit before tax US$ '000s |
|---|---|---|---|
| GBP | +/- 10% | 543 | 676 |
| Euro | +/- 10% | (348) | 4,718 |

**(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.

The Group and Company do not use 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$ 2,290 thousand (2013: US$ 1,749 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**

| | Group | Company | Group | Company |
|---|---|---|---|---|
| | 2014 US$ '000s | 2014 US$ '000s | 2013 US$ '000s | 2013 US$ '000s |
| Bahrain | 3,709 | 3,709 | 1,372 | 1,372 |
| GCC countries (excluding Bahrain) | 162,199 | 162,199 | 115,158 | 115,158 |
| Europe | 51,934 | 10,330 | 58,238 | 13,958 |
| Rest of the world | 17,509 | 17,509 | 7,882 | 7,882 |
| | 235,351 | 193,747 | 182,650 | 138,370 |

## 32 RISK MANAGEMENT (continued)

The Group and Company limit 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.

| | | 2014 | 2013 |
|---|---|---|---|
| | Changes in variables | Impact on equity US$ '000s | Impact on equity US$ '000s |
| **Market indices** | | | |
| Muscat stock exchange | +/- 15% | 691 | 1,161 |
| Doha stock exchange | +/- 15% | 2,320 | 2,685 |
| UAE stock exchange | +/- 15% | 167 | - |
| Riyadh stock exchange | +/- 15% | 316 | - |

### (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.

**Liquidity risk - Group**

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

| | 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Less than 1 month US$ '000s | 1 to 3 months US$ '000s | 3 months to 1 year US$ '000s | Total of up to 1 year US$ '000s | More than 1 year and less than 5 years US$ '000s | More than 5 years US$ '000s | No fixed maturity US$ '000s | Total US$ '000s |
| **ASSETS** | | | | | | | | |
| Cash and bank balances | 201,422 | 248,073 | 22,074 | 471,569 | - | - | 398 | 471,967 |
| Available-for-sale investments | - | 499 | 493 | 992 | 63,951 | 3,556 | 166,852 | 235,351 |
| Insurance and other receivables | 20,151 | 35,014 | 137,846 | 193,011 | 54,421 | 9,358 | - | 256,790 |
| Gross deferred acquisition costs | 4,254 | 8,508 | 26,200 | 38,962 | 9,302 | 341 | - | 48,605 |
| Reinsurers' share of technical reserves | 13,069 | 26,138 | 86,898 | 126,105 | 119,539 | 12,423 | - | 258,066 |
| Investment properties | - | - | - | - | - | - | 1,906 | 1,906 |
| Property and equipment | - | - | - | - | - | - | 12,150 | 12,150 |
| Intangible assets | - | - | - | - | - | - | 29 | 29 |
| | 238,896 | 318,232 | 273,511 | 830,639 | 247,213 | 25,678 | 181,335 | 1,284,864 |
| **LIABILITIES** | | | | | | | | |
| Technical reserves | 35,875 | 71,750 | 254,260 | 361,885 | 330,383 | 31,855 | - | 724,123 |
| Reinsurers' share of deferred acquisition costs | 1,616 | 3,231 | 8,430 | 13,277 | 4,401 | 276 | - | 17,954 |
| Insurance and other payables | 10,977 | 14,859 | 60,114 | 85,950 | 30,644 | 9,156 | - | 125,750 |
| Reinsurance payables | 10,617 | 21,233 | - | 31,850 | - | - | - | 31,850 |
| Borrowings | - | - | - | - | - | - | - | - |
| | 59,085 | 111,073 | 322,804 | 492,962 | 365,428 | 41,287 | - | 899,677 |

## 32 RISK MANAGEMENT (continued)

**Liquidity risk - Group (continued)**

| | 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Less than 1 month US$ '000s | 1 to 3 months US$ '000s | 3 months to 1 year US$ '000s | Total of up to 1 year US$ '000s | More than 1 year and less than 5 years US$ '000s | More than 5 years US$ '000s | No fixed maturity US$ '000s | Total US$ '000s |
| **ASSETS** | | | | | | | | |
| Cash and bank balances | 240,320 | 124,961 | 5,576 | 370,857 | 20,170 | - | - | 391,027 |
| Available-for-sale investments | - | - | 23,300 | 23,300 | 36,679 | 3,217 | 119,454 | 182,650 |
| Insurance and other receivables | 26,598 | 68,195 | 60,249 | 155,042 | 45,903 | 3,680 | - | 204,625 |
| Gross deferred acquisition costs | 3,708 | 7,417 | 25,276 | 36,401 | 7,066 | 35 | - | 43,501 |
| Reinsurers' share of technical reserves | 11,448 | 22,896 | 95,084 | 129,428 | 109,946 | 19,871 | - | 259,245 |
| Investment properties | - | - | - | - | - | - | 1,707 | 1,707 |
| Property and equipment | - | - | - | - | - | - | 13,020 | 13,020 |
| Intangible assets | - | - | - | - | - | - | 85 | 85 |
| | 282,074 | 223,469 | 209,485 | 715,028 | 219,764 | 26,803 | 134,266 | 1,095,860 |
| **LIABILITIES** | | | | | | | | |
| Technical reserves | 29,930 | 59,860 | 265,168 | 354,958 | 281,036 | 50,252 | - | 686,246 |
| Reinsurers' share of deferred acquisition costs | 1,383 | 2,767 | 7,994 | 12,144 | 2,489 | 31 | - | 14,664 |
| Insurance and other payables | 9,384 | 40,955 | 34,444 | 84,783 | 13,905 | 1,622 | - | 100,310 |
| Reinsurance payables | 9,000 | 22,068 | - | 31,068 | - | - | - | 31,068 |
| Borrowings | - | - | 203 | 203 | 778 | - | - | 981 |
| | 49,697 | 125,650 | 307,809 | 483,156 | 298,208 | 51,905 | - | 833,269 |

### Liquidity risk - Company

| | 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Less than 1 month US$ '000s | 1 to 3 months US$ '000s | 3 months to 1 year US$ '000s | Total of up to 1 year US$ '000s | More than 1 year and less than 5 years US$ '000s | More than 5 years US$ '000s | No fixed maturity US$ '000s | Total US$ '000s |
| **ASSETS** | | | | | | | | |
| Cash and bank balances | 194,723 | 248,073 | 22,074 | 464,870 | | - | 398 | 465,268 |
| Available-for-sale investments | - | 499 | 493 | 992 | 27,320 | 3,556 | 161,879 | 193,747 |
| Investment in subsidiaries | - | - | - | - | - | - | 3,701 | 3,701 |
| Insurance and other receivables | 20,151 | 35,014 | 120,776 | 175,941 | 54,421 | 9,358 | - | 239,720 |
| Gross deferred acquisition costs | 4,254 | 8,508 | 24,297 | 37,059 | 7,399 | 341 | - | 44,799 |
| Reinsurers' share of technical reserves | 13,069 | 26,138 | 81,555 | 120,762 | 114,196 | 12,423 | - | 247,381 |
| Investment properties | - | - | - | - | - | - | 1,906 | 1,906 |
| Property and equipment | - | - | - | - | - | - | 12,051 | 12,051 |
| | 232,197 | 318,232 | 249,195 | 799,624 | 203,336 | 25,678 | 179,935 | 1,208,573 |
| **LIABILITIES** | | | | | | | | |
| Technical reserves | 35,875 | 71,750 | 227,116 | 334,741 | 303,239 | 31,855 | - | 669,835 |
| Reinsurers' share of deferred acquisition costs | 1,616 | 3,231 | 8,430 | 13,277 | 4,401 | 276 | - | 17,954 |
| Reinsurance payables | 10,617 | 21,233 | - | 31,850 | - | - | - | 31,850 |
| Insurance and other payables | 10,977 | 14,859 | 37,083 | 62,919 | 30,644 | 9,156 | - | 102,719 |
| | 59,085 | 111,073 | 272,629 | 442,787 | 338,284 | 41,287 | - | 822,358 |

## 32 RISK MANAGEMENT (continued)

**Liquidity risk - Company (continued)**

| | 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Less than 1 month US$ '000s | 1 to 3 months US$ '000s | 3 months to 1 year US$ '000s | Total of up to 1 year US$ '000s | More than 1 year and less than 5 years US$ '000s | More than 5 years US$ '000s | No fixed maturity US$ '000s | Total US$ '000s |
| **ASSETS** | | | | | | | | |
| Cash and bank balances | 240,320 | 114,488 | 5,576 | 360,384 | 20,170 | - | - | 380,554 |
| Available-for-sale investments | - | - | 4,037 | 4,037 | 17,416 | 3,217 | 113,700 | 138,370 |
| Investment in subsidiaries | - | - | - | - | - | - | 30,810 | 30,810 |
| Insurance and other receivables | 26,599 | 64,815 | 60,249 | 151,663 | 45,903 | 3,680 | - | 201,246 |
| Gross deferred acquisition costs | 3,708 | 7,417 | 23,113 | 34,238 | 4,903 | 35 | - | 39,176 |
| Reinsurers' share of technical reserves | 11,447 | 22,896 | 88,805 | 123,148 | 103,666 | 19,871 | - | 246,685 |
| Investment properties | - | - | - | - | - | - | 1,707 | 1,707 |
| Property and equipment | - | - | - | - | - | - | 10,844 | 10,844 |
| | 282,074 | 209,616 | 181,780 | 673,470 | 192,058 | 26,803 | 157,061 | 1,049,392 |
| **LIABILITIES** | | | | | | | | |
| Technical reserves | 29,930 | 59,860 | 232,522 | 322,312 | 248,390 | 50,252 | - | 620,954 |
| Reinsurers' share of deferred acquisition costs | 1,383 | 2,767 | 7,994 | 12,144 | 2,489 | 31 | - | 14,664 |
| Reinsurance payables | 9,000 | 18,000 | - | 27,000 | - | - | - | 27,000 |
| Insurance and other payables | 9,384 | 22,346 | 34,444 | 66,174 | 13,905 | 1,623 | - | 81,702 |
| | 49,697 | 102,973 | 274,960 | 427,630 | 264,784 | 51,906 | - | 744,320 |

### (e) 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.

**Credit risk - Group**

The group's maximum exposure to credit risk is US$ 815,597 thousand [2013: US$ 729,488 thousand] out of which US$ 551,683 thousand [2013: US$ 442,037 thousand] falls under the ratings category between A+ to A-, US$ 116,773 thousand [2013: US$ 185,132 thousand] lower than A-, and US$ 147,141 thousand [2013: US$ 102,319 thousand] is unrated.

**Credit risk - Company**

The company's maximum exposure to credit risk is US$ 746,586 thousand [2013: US$ 667,348 thousand] out of which US$ 483,517 thousand [2013: US$ 380,742 thousand] falls under the ratings category between A+ to A-, US$ 115,928 thousand [2013: US$ 184,287 thousand] lower than A-, and US$ 147,141 thousand [2013: US$ 102,319 thousand] is unrated.

**(f) Regulatory risk**

The Group is subject to continuing approval by the Central Bank of Bahrain, the United Kingdom Financial Conduct Authority, the Corporation of Lloyd's of London, the Labuan Financial Services Authority, and the 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.

**(g) 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.

**(h) Fair values of financial instruments**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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$ 8,905 thousand (2013: US$ 6,185 thousand) carried at cost less impairment, the fair value of the Group and Company's financial instruments such as cash and bank balances, due from parent, outstanding claims reserve - reported claims (both gross and reinsurers' share), insurance and other receivables, reinsurance payables and insurance and other payables are not materially different from their carrying values largely due to the short term maturities of these instruments as shown in the consolidated and separate statements of financial position.

## 32 RISK MANAGEMENT (continued)

### (i) 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

During the year, following balances have been reclassified:

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 | | 2013 | |
| | Reclassified US$ '000s | Previously reported US$ '000s | Reclassified US$ '000s | Previously reported US$ '000s |
| *Consolidated and separate statements of financial position* | | | | |
| Due from parent | - | 2,919 | - | 2,919 |
| Insurance and other receivables | 204,625 | 201,706 | 201,246 | 198,327 |

The above reclassifications did not result in any changes in previously reported retained earnings and profit as at and for the year ended 31 December 2013.

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