TRUST RE ANNUAL REPORT
2012

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

CONSOLIDATED AND COMPANY'S SEPARATE FINANCIAL STATEMENTS 31 DECEMBER, 2012

TABLE OF CONTENTS

In this Annual Report 2012, we pay tribute to the 17th century Turkish explorer Evliya Çelebi by featuring some of the countries he travelled to that are also of significant importance to Trust Re.
Çelebi's journeys spanned over 40 years and took him from his native Constantinople to Egypt and Sudan, and several lands in between. Such is the legend of Çelebi, that the United Nations Educational, Scientific and Cultural Organisation (UNESCO) included the 400th anniversary of his birth in 2011 in its list of anniversary celebrations.

Evliya Çelebi

Born in Constantinople in 1611, Evliya Çelebi began to travel within Constantinople. At the age of 29, he began his first foreign journey to Anatolia, the Caucasus, Crete and Azerbaijan.
During his travels, Çelebi kept a journal; this collection of notes formed a ten-volume work called the Seyahatname (Book of Travels).
In the Seyahatname, he describes his journeys including his first travels within Constantinople in 1630 and his voyage to Greece, the Crimea and South Eastern Europe which took place between 1667 and 1670. Whilst some scholars cast doubt on the veracity of his notes, they are however largely acknowledged as being a useful guide to the culture and lifestyle of the 17th century Ottoman empire as well as to the lands he visited.

01 DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER, 2012

The Old Bridge, Mostar, Bosnia

Regarded as one of Bosnia's most significant landmarks, the Old Bridge (Stari Most in Serbo-Croat), is also considered to be one of the finest examples of Islamic architecture in South Eastern Europe. The rebuilt bridge opened less than a decade ago.

The original bridge stood for 427 years and upon its completion, featured the widest man-made arch in the world. To this day, some technical aspects remain a mystery with specialists still unsure as to how the scaffolding was erected, how the stone used to build the bridge was transported from one bank to the other and how the scaffolding remained intact during the nine years of construction.

For these reasons, the Old Bridge is justly classed among the greatest architectural works of its time.

Bosnia, more specifically its capital city Sarajevo, is the meeting place for the annual SorS conference; an event which Trust Re regularly participates in. SorS is widely regarded as one of the foremost conferences for insurers and reinsurers in that region.

COMPANY PROFILE

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

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

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

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

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

VISION, MISSION AND VALUES

Vision **"Reinsurer of Choice"**
Mission To provide innovative reinsurance solutions and prompt responses, always
Values Trust
Innovation
Our People
Team Spirit
Openness
Justice
Compliance

A MESSAGE FROM THE CHAIRMAN

Following on from 2011 which was unprecedented in terms of the frequency and severity of natural catastrophes (NAT CATs) in the market, the 2012 results for Trust Re and the Group's performance report continue to provide cause for optimism.

During the past year and moving forward, we remain firmly committed to our vision of being **"Reinsurer of Choice"** in our chosen markets.

Total shareholders' equity improved steadily to stand at US$ 232.8 million as at 31 December 2012 compared to US$ 208.1 million in 2011.

Trust Re's solid underwriting performance continues to be supported by reserve strengthening. Over the course of 2012, reserving ratios increased thus demonstrating the solid provisioning approach of the Company.

Although 2012 did not witness natural disasters on the same scale as 2011, we do not underestimate the potential effects of such natural catastrophes on our balance sheet. Superstorm Sandy in late October served as a sharp reminder of the previous year.

As such, we continue to carefully manage our exposure to business driven by natural perils with a two-fold approach; firstly by expanding our reach into geographical areas where NAT CAT disasters are less prevalent and secondly by reviewing our portfolio mix to include business which is less affected by natural perils.

Moreover, our stringent and consistent risk management practices enable us to support the Company's ability to grow, whilst providing effective protection against the main risks faced in our business environment. As part of our ongoing Enterprise Risk Management (ERM) efforts, our rating tools are continuously updated and risk register review sessions are held regularly. Furthermore, during 2012 the initial stage of our internal capital model was completed and a live aggregate monitoring tool was developed. With assistance from our external partners, we also have access to the latest catastrophe models from companies such as *RMS*.

During the year, **Trust Re** continued to reduce its exposure to fixed income and equities, opting to increase its cash weighting instead. This manoeuvre marks the Company's drive to de-risk its balance sheet.

Boosting our risk-adjusted capitalisation will be a key point of focus as we go on. As a result, the shareholders will be constantly reviewing the Capital needs of the Company. This should assist the Company in maintaining its Capital Adequacy Ratio (CAR) at an optimum level, in line with its risk appetite. Any capital injection will also underpin the future growth of the Company according to the agreed strategies laid out in the Business Plan. Our dynamic, rolling 3 year Business Plan allows us to enhance and fine-tune long term goals and tactics and continues to provide a sound platform from which to work.

Further value added services are provided to strategic clients through training facilities in our Head Office. External stakeholders as well as clients are trained on our actuarial methods and techniques.

Corporate Social Responsibility remains firmly entrenched in **Trust Re** and we have taken on several worthwhile 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 our clients, producers, business associates and staff for their continued trust and support.

Kamel Abunahl

Chairman

25 March 2013

BOARD OF DIRECTORS

The Board of Directors consists of three distinct groups namely Shareholder Representatives, Executive Directors and independent non-executive Directors. The Board's role is to set the overall strategic direction, approve business plans and monitor the overall performance of the business against the approved plans and within a framework of sound corporate governance. Non-executive members are elected for 3 year terms 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 2012, the Board of Directors held 5 meetings, all of which took place in Bahrain. On each occasion, the meeting was preceded by meetings of the Nomination & Remuneration (N&RC), Audit (AC) and Risk Committees (RC).

BOARD COMPOSITION

Name	Position	Committee Role	Attendance in 2012
Kamel Abunahl	Non-Executive Chairman	Member of N&RC	4
Frixos Savvides	Deputy Chairman, (independent non-executive)	Chairman of N&RC	4
Fadi AbuNahl	Chief Executive Officer		4
Ghazi AbuNahl	Member (Shareholder Representative)	Member of N&RC	4
Mehran Eftekhar	Member and Board Secretary (Shareholder Representative)	Member of AC & RC	5
Jamal AbuNahl	Member (independent non-executive)	Member of N&RC	4
Prof. Derek Atkins	Member (independent non-executive)	Chairman of RC and member of AC	4
Farid Benbouzid	Member (independent non-executive)	Chairman of AC and member of RC	5

Kamel Abunahl has been active in the insurance industry for more than 16 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 35 years of experience in a public auditing firm as well as the public sector, including 4 years as Minister of Health in the Cypriot government. He serves as an independent, non-executive Board member on a number of publicly quoted companies listed on the stock exchanges in London and in New York.

Fadi AbuNahl has been working in the insurance industry for 15 years including a period with a leading Insurance Brokers 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). His 40-year experience is 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 29 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.

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 (joined N&RC on 13 September 2012)
Mufid Sukkar	Secretary

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

AUDIT COMMITTEE

Farid Benbouzid	Chairman
Professor Derek Atkins	Member
Mehran Eftekhar	Member

The Audit Committee Secretary is Eman Hafedh; she assumed this post on 11 June 2012 replacing Rizami Annuar.

The Audit Committee assists the Board in fulfilling its oversight responsibilities for financial reporting, internal control process and the risk-based internal audit cycles.

RISK COMMITTEE

Professor Derek Atkins	Chairman
Farid Benbouzid	Member
Mehran Eftekhar	Member

The Risk Committee Secretary is Mark Buisseret; he assumed this post on 11 June 2012 replacing Michail Karafoulidis.

Fadi AbuNahl, the Company's CEO, is the Risk Sponsor.

The Risk Committee, (whose members are the same as those of the Audit Committee, but with a different Chairman), assists the Board in fulfilling its oversight responsibilities for the identification, analysis, assessment, embedding and management of all the 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.

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.

With an active and fully qualified staff in legal and compliance departments, we closely monitor the Central Bank of Bahrain's corporate governance rules, making sure that we maintain awareness of the latest guidelines and file all the necessary forms and reports accurately and in a timely manner.

This Annual Report demonstrates our Board of Directors' composition and activities as well as the relevant internal processes in relation to corporate governance compliance with CBB directives as well as international best practices.

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 Treasury, 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.

Operations 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 regards to underwriting. The representative office of Texas International Underwriters (TIU) also belongs 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 develop our Company; Quality Assurance (QA) 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.

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

RISK-BASED INTERNAL AUDIT

The Internal Audit Department provides systematic, independent and objective examination and evaluation of the effectiveness of risk management, control and governance processes.
Furthermore, the department aims to promote the efficiency and effectiveness of internal controls. The internal audit review process is methodically undertaken based on the risk-based annual audit plan approved by the Audit Committee.

To ensure independence from the management, the department reports directly to the Audit Committee. Moreover, all of its activities are consistent with the audit methodology of the Group Internal Audit Department.

Regarding the enhanced and automated audit process, the Internal Audit Department uses *TeamMate* software for documenting and maintaining its work papers and audit evidence.

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

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.

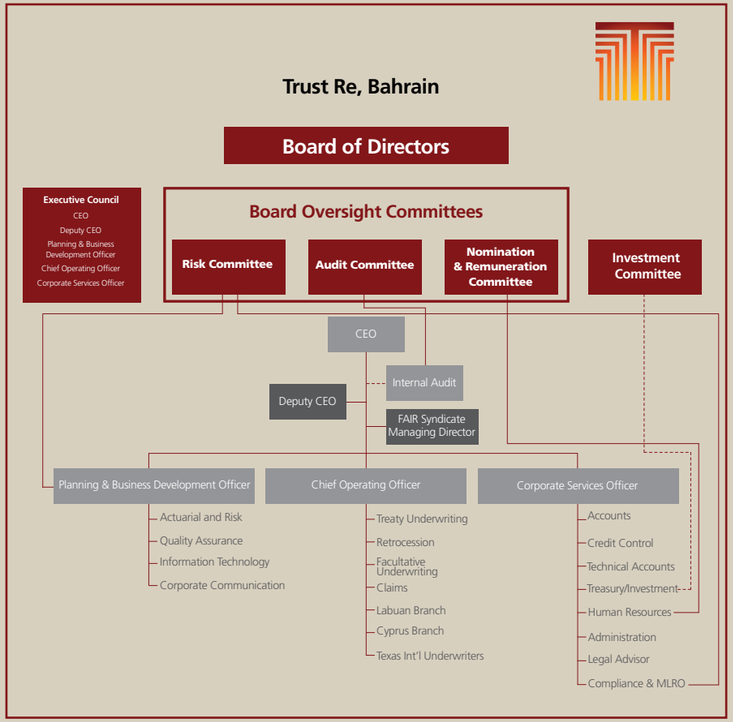
To this end, significant progress was made during 2012 towards the ERM initiative and embedding ERM in the Company culture.

2012 saw the finalisation of the first version of the internal capital model. The department has spent a great deal of time during 2012 to develop the internal capital model which will provide various benefits to the Company, including assisting senior management in making more informed business decisions and helping fine-tune strategies.

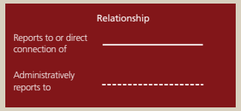
Given the significant impact of natural catastrophes over the last few years to reinsurers, the team further developed the Company's facultative and treaty aggregate monitoring/modelling abilities. These developments allowed for a more dynamic review of the Company's aggregate exposure and, in line with the Board's risk appetite, utilises the new information to establish Probable Maximum Loss (PML) Limits by Risk, Zone and Territory.

2012 saw the completion of the first versions of the non-proportional rating tool and the proportional evaluation tool. The tools aim to embed the concept of risk management within the underwriting process. The tools help to mitigate the possible risks embedded 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"**.

ORGANISATIONAL CHART



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



A MESSAGE FROM THE CEO

Following a benign year of natural disasters and due to the ceaseless professionalism of our staff, 2012 was an improved year of operations for our Company. We are very pleased to report a net profit growth of 5.9% compared to 2011, despite the hardened retrocession market which saw these costs increase significantly.

Gross written premium (GWP) was virtually unchanged since 2011 to stand at US$ 343.6 million as at 31 December 2012. Our sound underwriting results were underpinned by a 2.7% improvement in the loss ratio, which stood at 66.5%. Our core Facultative book, including Energy (Offshore and Onshore) and Property lines of business, performed particularly strongly.

Moving forward, disciplined underwriting will continue to be of paramount importance as we put emphasis on bottom line profitability and aim to minimise the volatility of future earnings.

Investment and finance income rose by 23.0% compared to 2011, to reach US$ 9.0 million. This was due to a significant increase in cash balances which led to higher interest income received. We constantly review our asset allocation to ensure that investments comply with our strict risk parameters and hence we do not unnecessarily shift capital from our core activity of underwriting.

One of the earliest projects this year was the in-house Vision, Mission and Values workshop held in January. During this workshop our Vision, Mission and Values were affirmed and the participants were introduced to various techniques that encouraged creativity and innovation.

Two of **Trust Re**'s core values are Innovation and Team Spirit. In recognition of the critical nature of these values, the Company launched a Think Tank in April with the objective of encouraging and fostering Innovation and Team Spirit throughout the Company. As at December 2012, the Think Tank received several excellent ideas which are in the process of being implemented.

As part of our commitment to our clients and business partners, our Annual Business Partners Seminar was held in Malaysia in early June with approximately 40 participants from South-East Asia and Asia in attendance. Throughout the year, our technical teams continued to make frequent market visits to engage with stakeholders.

In order to support our business development in Africa, during 2012 we joined the Federation of African National Insurance Companies (FANAF) and sponsored the 39th African Insurance Organisation (AIO) Conference and General Assembly which was held in May 2012.

Furthermore, our penetration of Central and Eastern Europe (CEE) and South Eastern Europe (SEE) continued to rise. All major targets of 2012 in these territories were achieved by further developing active relationships with existing participants and by adding new involvements from Belarus, Bosnia, Bulgaria, Croatia, Macedonia, Poland, Romania and Slovenia.

Our values drive us to continuously provide solutions to reflect the changing needs of clients. As such, our offerings in Medical, Agriculture and Personal Accident lines have been enhanced.

The Liability line of business, which became part of **Trust Re**'s service offering in 2010, continues to grow. Our underwriters employ a prudent strategy in order to develop a healthy and profitable portfolio. Professional Liability is the main line of business in this portfolio.

We have recently seen an increase in demand for Bankers Blanket Bonds (BBB) and Directors & Officers (D&O) due to the strict regulatory environment and growing awareness of corporate responsibility and customers' rights. As a result, they may form part of the Company's future offerings.

In order to move closer towards our vision of being the **"Reinsurer of Choice"** in the markets in which we operate, we continue to commit ourselves to further embedding an Enterprise Risk Management (ERM) culture within the Company. Our in-house risk management tools constantly evolve so that our core business units have the means to identify, measure and mitigate the risks they take.

I would like to thank our employees in Bahrain Head Office as well as in the Cyprus and Labuan Branch Offices. The improved result for 2012 would not have been achieved without their hard work, dedication and expertise. We are confident that their commitment will continue to deliver strong, sustainable value to all our clients and business partners in the years ahead.

Last but not least, I would like to take this opportunity to thank you, our clients and business associates, for your support. We shall endeavour to be your **"Reinsurer of Choice"**.

Fadi AbuNahl
Chief Executive Officer
25 March 2013

THE GROUP RESULTS

The Group's gross written premium in 2012 reached US$ 343.6 million which is consistent with the US$ 343.3 million achieved in 2011.

The retention ratio of the Group has increased by 0.8 percentage points from 67.2% in 2011 to 68.0% during last year. In 2012, the combined ratio stood at 93.3% as opposed to 95.8% in 2011. The major drive behind the improvement in the combined ratio was the reduction in the loss ratio from 69.2% in 2011 to 66.5% in 2012.

The overall profit after tax has improved by 5.9% to US$ 17.8 million from US$ 16.9 million in 2011. A significant contributor to this improvement was the reduction in the loss ratio due to a stable loss environment during the year as opposed to the catastrophe losses experienced in 2011.

THE COMPANY RESULTS

The Company's gross written premium in 2012 amounted to US$ 332.7 million compared to US$ 331.2 million in 2011. The retention ratio of the Company was consistent with 2011 at 67.2%.

The Company's combined ratio for 2012 stood at 93.4% compared to 95.7% in 2011. The improvement in the combined ratio is due to the 3.1 percentage point reduction in the loss ratio from 69.3% in 2011 to 66.2% in 2012.

Overall profit after tax stood at US$ 19.8 million compared to US$ 19.0 million in 2011, an increase of 4.3%, primarily due to the improvement in the loss ratio.

THE GROUP FINANCIAL STRENGTH

The Group's net technical reserves increased by 15% on a year-to-year basis to reach US$ 369.0 million in 2012 as opposed to US$ 320.8 million as at December 2011.

Cash and bank balances amounted to US$ 256.4 million as at December 2012, compared to US$ 153.8 million as at December 2011.

Investments held in equities and fixed income securities decreased by 5.4% to US$ 162.4 million as at December 2012, compared to US$ 171.6 million as at December 2011.

Shareholders' equity improved by 11.9% to US$ 232.8 million as at 31 December 2012 compared to US$ 208.1 million for the year ended 31 December 2011.

KEY RATIOS FOR THE YEAR WERE:
Performance Ratios %

	Note	2012	2011
Retention Ratio	1	68.0	67.2
Combined Ratio	2	93.3	95.8
Underwriting Profit	3	6.7	4.2
Return on Equity	4	8.1	8.2

THE COMPANY FINANCIAL STRENGTH

In 2012, the Company's net technical reserves reached US$ 306.0 million. This represents a 17.2% increase from US$ 261.1 million in 2011.

Cash and bank balances grew 69.4% to US$ 246.2 million as at December 2012, from US$ 145.4 million in 2011.

Investments held in equities and fixed income securities decreased by 10.7% to reach US$ 112.8 million in 2012 from US$ 126.3 million in 2011.

The shareholders' equity expanded by 12.5% to end the year at US$ 238.3 million compared to US$ 211.8 million in 2011.

KEY RATIOS FOR THE YEAR WERE:
Performance Ratios %

	Note	2012	2011
Retention Ratio	1	67.2	67.2
Combined Ratio	2	93.4	95.7
Underwriting Profit	3	6.6	4.3
Return on Equity	4	8.8	9.1

Significance of Ratios:

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

INVESTMENTS

During 2012, Investment and Finance income increased by 23% despite further reductions in 12 month Libor and US Treasury yields. This was mainly driven by the Company's strong cash generation and active cash management.

Throughout the year, the Company increased its cash holdings to 70% of the total invested assets. The main incentive was to free up more capital for underwriting. On the Fixed Income portfolio, the Company reduced its exposure to take advantage of the credit rally experienced in the first and fourth quarters of the year. We are monitoring the credit markets closely with the intention of being more active again when conditions are appropriate to the Company's risk appetite.

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.

2012 marked a sharp recovery for the Lloyd's market due to the lack of extraordinary natural catastrophe losses experienced in 2011. The exception was Superstorm Sandy in the fourth quarter 2012 (estimated cost at Lloyd's is approximately US$ 2.2 billion).

TUL, during the year 2012, produced a significant improvement by turning the last year's loss of US$ 2.7 million into a profit of US$ 0.9 million. Its overall premium production decreased by 14%; despite virtually unchanged levels of stamp. For the 2013 year of account, the total stamp of TUL stands at US$ 37.5 million.

As at 31 December 2012, the market value of TUL capacity stood at US$ 13.8 million based on the average auction prices obtained between September and October 2012 at Lloyd's. This represents an appreciation of 7.4% compared to the previous value.

VENTURA DEL MAR
Ventura del Mar comprises both UK and Spanish subsidiaries which own premium residential and commercial property in Marbella, Spain.

Despite the economic downturn in Europe, the value of our investment has been resilient due to its defensive characteristics driven by its prime location.

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 2012.

We have continued our investment in the venture which we expect to see contributing more favourably from 2013 onwards.

MANAGEMENT TEAM

Executive Council

Fadi AbuNahl, CEO
Fadi has been working in the insurance industry for 15 years including a period with a leading Insurance Broker in the UK.

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

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

Michail Karafoulidis, Corporate Services Officer
Michail has more than 20 years of actuarial and financial experience in London and other international markets.

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 15 years of experience working for various international reinsurance companies.

Samir Shaman, Executive Management Advisor
Samir is a Civil Engineer by education; he has held a variety of technical, senior management positions in the insurance/reinsurance industry in the Middle East during his career which spans over 40 years.

COMPANY'S SOLVENCY STATEMENT

As at 31 December 2012, the Company's summarised solvency position remains strong as shown in the table below.

	31.12.2012 (in US$'000)	31.12.2011 (in US$'000)
Capital available	164,745	146,386
Required margin of solvency	40,863	41,881
Excess of capital available over the required solvency margin	123,882	104,505
Cover	4.00x	3.50x

During the year, the Company generated additional solvency capital of US$ 18.4 million, representing a 12.5% rise from 2011.

The main driver behind this increase was full retention of the yearly earnings. At the same time, strong operating performance combined with disciplined growth led to a reduced solvency margin requirement by US$ 1.0 million.

As a result, the coverage ratio of the Company has moved upwards from 3.50x in 2011 to 4.00x in 2012.

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.

In 2012, we held two blood donation drives at our Bahrain Head Office which were supported by medical staff from the central blood bank at Salmaniya Medical Centre.

In November, we were one of the sponsors of the Think Pink Walkathon, run under the auspices of the American Mission Hospital, to raise money for breast cancer. Also during November, our employees pulled together and donated items such as blankets, clothing and toys for the people of Gaza.

Throughout the year, some employees took part in the expatriate Football League in Bahrain and Trust Re was once again gold sponsor of the 4th annual Ramadan Insurance Football Tournament.

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 2013.

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$ 200 thousand to be paid to the Directors for the year 2012. In view of the proposed non-distribution of dividend for the year ended 31 December 2012, 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 2012.

The remuneration of the Executive Management team and the management fee to the parent company for the year 2012 is disclosed in note 30 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 at the Annual General Meeting, subject to the appropriate approval by the Central Bank of Bahrain.

DIVIDEND

The Board of Directors will propose to the Annual General Meeting not to pay a dividend for the year ended 31 December 2012.

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

Masmak Fort, Riyadh, Saudi Arabia

Masmak Fort, situated in the old quarters of the centre of Riyadh is considered one of the city's main historical attractions. In Arabic, the word "masmak" means strong, thick and fortified; a very apt description of this impressive fortress which was constructed using clay and mud bricks. The clay (mixed with hay or grasses) acted as a natural insulator from the heat during the summer months and from the cold during the winter. The tall ceilings allowed the hot air to rise upwards and exit via small windows at ceiling height.

The fort is considered to be an instrumental part of the history of the Kingdom of Saudi Arabia as it was here in January 1902 that the recapture of Riyadh, led by Ibn Saud, occurred.

Saudi Arabia continues to be an important regional market for Trust Re; with our Head Office in Bahrain we are close to risks in the Saudi market. The country is expected to witness significant investment in power plants and refineries construction in the near future.

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 2012, 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.

Auditor's 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 2012, 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 financial statements are in agreement therewith; and

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

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 3 and applicable provisions of Volume 6) and CBB directives or the terms of the Company's memorandum and articles of association during the year ended 31 December 2012 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
25 March 2013
Manama, Kingdom of Bahrain

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Bank of Scotland United Kingdom
Al Ahli Bank Qatar
Al Baraka Islamic Bank
NBK Bahrain
Ahli United Bank Bahrain
CIMB
Marfin Popular Bank
Middle East Africa Bank
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03 STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER, 2012

Topkapi Palace, Istanbul, Turkey

Since 1985, the historic areas of Istanbul which include the Topkapi Palace have been inscribed on the UNESCO World Heritage Site list.

During the years 1465-1856, the palace was the main residence of the Ottoman Sultans and was at one time home to 4,000 people. It was also the setting for numerous state occasions. Today it is a prime tourist attraction and contains important holy relics of the Muslim world, including Prophet Muhammad's cloak and sword. Only the most important of the palace's hundreds of rooms and chambers are open to the public.

Considered a prime example of Ottoman architecture, Topkapi Palace also houses large collections of items including porcelain, robes and armour from the Ottoman period.

As one of the foremost regional reinsurers, Trust Re is a dominant player in Turkey, leading major Energy accounts on the Facultative side and supporting treaty placements of major Turkish cedants.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2012

	Note	2012 Group US$ '000	2011 Group US$ '000 Restated
ASSETS			
Cash and bank balances	7	256,387	153,774
Available for sale investments	8	162,396	171,624
Due from parent	9	9,634	76,003
Insurance and other receivables	10	229,685	192,408
Gross deferred acquisition costs	11	41,710	42,421
Reinsurers' share of technical reserves	12.1	266,534	259,866
Investment properties	13	1,707	1,707
Properties held for sale	14	8,946	8,686
Property and equipment	15.1	12,545	12,918
Intangible assets	16	217	416
Goodwill	17	26,540	26,540
TOTAL ASSETS		1,016,301	946,363

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

	Note	2012 Group US$ '000	2011 Group US$ '000 Restated
EQUITY AND LIABILITIES			
Equity			
Share capital	18	100,000	100,000
Statutory reserve	18	25,663	23,687
Retained earnings		62,895	46,852
Cumulative changes in fair value		46,731	40,032
Foreign currency translation reserve		(2,464)	(2,572)
Equity attributable to shareholders of the parent		232,825	207,999
Non-controlling interests		(43)	52
Total equity		232,782	208,051
Liabilities			
Technical reserves	12.1	635,500	580,665
Reinsurers' share of deferred acquisition costs	19	14,018	16,738
Reinsurance payables		20,855	23,041
Insurance and other payables	20	112,007	116,584
Borrowings		1,139	1,284
Total liabilities		783,519	738,312
TOTAL EQUITY AND LIABILITIES		1,016,301	946,363

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 2012

	Note	2012 Company US$ '000	2011 Company US$ '000 Restated
ASSETS			
Cash and bank balances	7	246,201	145,369
Available for sale investments	8	112,840	126,324
Investment in subsidiaries		29,333	28,882
Due from parent	9	8,469	76,003
Insurance and other receivables	10	222,803	178,840
Gross deferred acquisition costs	11	36,994	38,036
Reinsurers' share of technical reserves	12.2	252,370	246,437
Investment properties	13	1,707	1,707
Property and equipment	15.2	10,345	10,612
TOTAL ASSETS		921,062	852,210
EQUITY AND LIABILITIES			
Equity			
Share capital	18	100,000	100,000
Statutory reserve	18	25,663	23,687
Retained earnings		65,870	48,089
Cumulative changes in fair value		46,731	40,032
Total equity		238,264	211,808

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

	Note	2012 Company US$ '000	2011 Company US$ '000 Restated
Liabilities			
Technical reserves	12.2	558,319	507,577
Reinsurers' share of deferred acquisition cost	19	14,018	16,738
Reinsurance payables		16,440	18,187
Insurance and other payables	20	94,021	97,900
Total liabilities		682,798	640,402
TOTAL EQUITY AND LIABILITIES		921,062	852,210

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

04 STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER, 2012

Meroë Pyramids, Bejrawiya, Sudan

Sudan is home to approximately 220 pyramids, more than Egypt which is generally better known for these magnificent structures.

Located about 100 km north of Khartoum, Meroë is the most extensive Nubian pyramid site. Over 40 kings and queens were buried there during the Meroitic period. In contrast to the Egyptian pyramids, those at Meroë have a much higher slope (about 70 degrees) which results in a tall, narrow looking structure. Their actual height varies from 6 to 30 metres and most also have offering temple structures adjoining their base.

Khartoum, Sudan was the location for the 39th African Insurance Organisation (AIO) conference and general assembly held in May 2012; Trust Re was a sponsor. The AIO is a non-governmental organisation with 343 members; 332 of them from 46 countries in Africa and 11 associate members from 7 overseas countries.

CONSOLIDATED STATEMENT OF INCOME YEAR ENDED 31 DECEMBER 2012

	Note	2012 Group US$ '000	2011 Group US$ '000 Restated
Gross premiums written	12.1	343,600	343,290
Premiums ceded	12.1	(110,030)	(112,515)
		233,570	230,775
Unearned premium adjustments		(4,882)	(22,626)
Net earned premium		228,688	208,149
Gross claims paid	12.1	(176,988)	(166,118)
Recoveries on premiums ceded	12.1	68,629	77,757
Outstanding claims adjustments		(43,648)	(55,637)
Claims and related expenses		(152,007)	(143,998)
Commission income	19	27,077	31,935
Policy acquisition costs	11	(73,976)	(73,819)
Other operating income		1,254	764
Operating expenses	22	(15,678)	(14,233)
		(61,323)	(55,353)
Underwriting profit		15,358	8,798

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

	Note	2012 Group US$ '000	2011 Group US$ '000 Restated
Investment income - net	23	4,708	4,993
Income from investment properties	24	312	442
General and administration expenses	25	(7,811)	(5,813)
Loss on revaluation of property and equipment		-	(799)
Finance income		4,334	2,354
Foreign exchange loss		(739)	(2,431)
Other income	26	1,499	8,825
Profit before tax		17,661	16,369
Income tax credit	27	178	481
PROFIT FOR THE YEAR		17,839	16,850
Attributable to:			
Shareholders of the parent		17,985	16,971
Non-controlling interests		(146)	(121)
		17,839	16,850

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 2012

	Note	2012 Company US$ '000	2011 Company US$ '000 Restated
Gross premiums written	12.2	332,704	331,244
Premiums ceded	12.2	(109,172)	(108,487)
		223,532	222,757
Unearned premium adjustments		(4,595)	(24,235)
Net earned premium		218,937	198,522
Gross claims paid	12.2	(175,038)	(139,346)
Recoveries on premiums ceded	12.2	70,309	61,331
Outstanding claims adjustments		(40,214)	(59,496)
Claims and related expenses		(144,943)	(137,511)
Commission income	19	27,077	31,935
Policy acquisition costs	11	(71,941)	(71,140)
Other operating income		918	1,012
Operating expenses	22	(15,678)	(14,233)
		(59,624)	(52,426)
Underwriting profit		14,370	8,585

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

	Note	2012 Company US$ '000	2011 Company US$ '000 Restated
Investment income - net	23	4,690	4,993
Income from investment properties	24	312	442
General and administration expenses	25	(5,365)	(3,492)
Loss on revaluation of property and equipment		-	(799)
Finance income		4,334	2,345
Foreign exchange loss		(659)	(2,432)
Other income	26	2,085	9,308
Profit before tax		19,767	18,950
Income tax expense	27	(10)	-
PROFIT FOR THE YEAR		19,757	18,950

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

05 STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER, 2012

Bran Castle, Romania

Considered one of Romania's top tourist attractions today, the historic Bran Castle is situated in Bran, near Brașov in Romania. The building of the castle is believed to have been begun after Louis I of Hungary issued an act in 1377, allowing the Saxons of Brașov to build the fortress.

The castle was constructed primarily to guard the mountain pass and to charge a tax to all merchants who passed through. Its location is strategic, perched on a rock overlooking one of the most important mediaeval trading routes in South Eastern Europe. For a long time the castle belonged to the city of Brașov, but in 1920 it became a royal residence.

Romania is the location for the annual International Insurance-Reinsurance Forum, known as FiAR; Trust Re is a regular participant. South Eastern Europe (SEE) is just one of the key areas where Trust Re seeks to further and develop its business relationships.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME YEAR ENDED 31 DECEMBER 2012

	Note	2012 Group US$ '000	2011 Group US$ '000 Restated
Profit for the year		17,839	16,850
Other comprehensive income			
Available for sale investments:			
Fair value changes arising during the year		8,199	8,890
Transfer to consolidated statement of income on disposal		(1,500)	(1,059)
		6,699	7,831
Revaluation reserve:			
Transfer to consolidated statement of income on disposal		-	(5,994)
		6,699	1,837
Currency translation adjustments		109	(3,148)
Directors' remuneration		-	(169)
Other comprehensive (loss) income for the year		6,808	(1,480)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		24,647	15,370
Attributable to:			
Shareholders of the parent		24,792	15,491
Non-controlling interests		(145)	(121)
		24,647	15,370

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 2012

	Note	2012 Company US$ '000	2011 Company US$ '000 Restated
Profit for the year		19,757	18,950
Other comprehensive income			
Available for sale investments:			
Fair value changes arising during the year		8,199	8,890
Transfer to Company's separate statement of income on disposal		(1,500)	(1,059)
		6,699	7,831
Revaluation reserve:			
Transfer to Company's separate statement of income on disposal		-	(5,994)
		6,699	1,837
Directors' remuneration		-	(169)
Other comprehensive income for the year		6,699	1,668
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		26,456	20,618

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

06 STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER, 2012

Luxor Temple, Egypt

Located on the east bank of the Nile River in the city known today as Luxor, the Luxor Temple is a large, ancient Egyptian temple complex.

Sandstone from the Gebel el-Silsila area in south-western Egypt was the primary material used to build the temple. Similar to many other Egyptian structures, the technique of symbolism or illusionism was used. Two obelisks flanked the entrance; the smaller one is now in the Place de la Concorde in Paris. The two obelisks were not in fact the same height but using illusionism, they appeared to be the same size.

Egypt is part of our core portfolio for all classes of Treaty business and Facultative oil and gas. As a whole, the African continent will continue to be a significant area for Trust Re with the expected rise in energy infrastructure projects in East and West Africa, likely leading to increased business opportunities.

CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED 31 DECEMBER 2012

	Note	2012 Group US$ '000	2011 Group US$ '000 Restated
OPERATING ACTIVITIES			
Profit before tax		17,661	16,369
Adjustments for:			
Depreciation	15.1	724	1,262
Amortisation of intangible assets	16	210	210
Provision for bad debts - net		250	459
Gain on disposal of available for sale investments	23	(1,500)	(1,059)
Gain on disposal of property and equipment	26	-	(5,994)
Revaluation gain on investment properties	13	-	(388)
Loss on revaluation of property and equipment		-	799
Change in unearned premium		674	19,990
Change in reinsurers' share of unearned premium		12,960	(3,652)
Deferred acquisition costs - net		(2,009)	(7,842)
Operating profit before changes in operating assets and liabilities		28,970	20,154

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

	Note	2012 Group US$ '000	2011 Group US$ '000 Restated
Changes in operating assets and liabilities:			
Outstanding claims		54,161	116,966
Reinsurers' share of outstanding claims		(19,628)	(38,230)
Properties held for sale		-	268
Insurance and other receivables		(37,527)	6,093
Due from parent		66,369	(60,982)
Insurance and other payables		(4,577)	(15,389)
Reinsurance payables		(2,186)	4,410
		85,582	33,290
Directors' remuneration		-	(169)
Taxation		178	481
Net cash from operating activities		85,760	33,602

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 2012 (CONTINUED)

	Note	2012 Group US$ '000	2011 Group US$ '000 Restated
INVESTING ACTIVITIES			
Purchase of available for sale investments		(36,318)	(39,109)
Proceeds from disposal of intangible assets		36	112
Proceeds from sale of available for sale investments		53,745	26,435
Proceeds from sale of investment property	13	-	21,364
Purchase of property and equipment		(325)	(604)
Proceeds from disposal of property and equipment		31	17,343
Purchase of investment properties	13	-	(36)
Bank deposits with maturity of more than three months		19,339	(14,632)
Net cash from investing activities		36,508	10,873
FINANCING ACTIVITIES			
Repayment of borrowings		(145)	(218)
Capital contribution from non-controlling interest in a subsidiary		50	-
Dividends paid		-	(15,000)
Cash used in financing activities		(95)	(15,218)
Foreign currency translation adjustments		(221)	(2,844)
NET CHANGE IN CASH AND CASH EQUIVALENTS		121,952	26,413
Cash and cash equivalents at beginning of the year		128,298	101,885
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	7	250,250	128,298

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 2012

	Note	2012 Company US$ '000	2011 Company US$ '000 Restated
OPERATING ACTIVITIES			
Profit before tax		19,767	18,950
Adjustments for:			
Depreciation	15.2	538	1,057
Provision for bad debts - net		250	459
Gain on disposal of available for sale investments	23	(1,500)	(1,059)
Gain on disposal of property and equipment	26	-	(5,994)
Revaluation gain on investment properties	13	-	(388)
Loss on revaluation of property and equipment		-	799
Change in unearned premium		(816)	19,935
Change in reinsurers' share of unearned premium		5,411	4,300
Deferred acquisition costs - net		(1,678)	(7,949)
Operating profit before changes in operating assets and liabilities		21,972	30,110

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 2012 (CONTINUED)

	Note	2012 Company US$ '000	2011 Company US$ '000 Restated
Changes in operating assets and liabilities:			
Outstanding claims		51,558	108,319
Reinsurers' share of outstanding claims		(11,344)	(43,573)
Insurance and other receivables		(44,213)	16,469
Due from parent		67,534	(60,982)
Insurance and other payables		(3,879)	(15,273)
Reinsurance payables		(1,747)	3,526
		79,881	38,596
Directors' remuneration		-	(169)
Taxation		(10)	-
Net cash from operating activities		79,871	38,427

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

	Note	2012 Company US$ '000	2011 Company US$ '000 Restated
INVESTING ACTIVITIES			
Purchase of available for sale investments		(32,062)	(38,562)
Proceeds from sale of available for sale investments		53,745	26,435
Proceeds from sale of investment property	13	-	21,364
Purchase of investment properties	13	-	(36)
Purchase of property and equipment		(301)	(348)
Proceeds from sale of property and equipment		30	14,219
Investment in a subsidiary		(451)	(481)
Bank deposits with maturity of more than three months		19,339	(14,632)
Net cash from investing activities		40,300	7,959
FINANCING ACTIVITY			
Dividends paid		-	(15,000)
Cash used in financing activity		-	(15,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS		120,171	31,386
Cash and cash equivalents at beginning of the year		119,893	88,507
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	7	240,064	119,893

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

07 STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER, 2012

Old City of Baku, Azerbaijan

Most historians agree that the Old City of Baku, including the Maiden Tower, dates back to at least the 12th century whilst some researchers believe that construction started much earlier - in the 7th century. During the mediaeval period, many of Baku's monuments including the Palace of the Shirvanshahs and the Maiden Tower were built. In the early 19th century, the pace of development was such that Baku began to spread beyond its city walls.

In 2000, the Old City of Baku, including the Palace of the Shirvanshahs and the Maiden Tower, was the first place in Azerbaijan to be classified by UNESCO as a World Heritage Site.

Located at the crossroads of Western Asia and Europe, Azerbaijan is a member of the Commonwealth of Independent States (CIS). This region, along with Central and Eastern Europe (CEE) and South Eastern Europe (SEE) are some of the key areas where Trust Re actively seeks to develop its business.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY YEAR ENDED 31 DECEMBER 2012

	Attributable to shareholders of the parent								
	Share capital US$ '000	Statutory reserve US$ '000	Retained earnings US$ '000	Cumulative changes in fair value US$ '000	Revaluation reserve US$ '000	Foreign currency translation reserve US$ '000	Total US$ '000	Non - controlling interests US$ '000	Total equity US$ '000
Balance at 1 January 2012 - Restated	100,000	23,687	46,852	40,032	-	(2,572)	207,999	52	208,051
Profit (loss) for the year	-	-	17,985	-	-	-	17,985	(146)	17,839
Other comprehensive income	-	-	-	6,699	-	108	6,807	1	6,808
Total comprehensive income (loss)	-	-	17,985	6,699	-	108	24,792	(145)	24,647
Transfer to statutory reserve (note 18)	-	1,976	(1,976)	-	-	-	-	-	-
Capital contribution from non-controlling interest in a subsidiary	-	-	-	-	-	-	-	50	50
Exchange difference	-	-	34	-	-	-	34	-	34
Balance at 31 December 2012	100,000	25,663	62,895	46,731	-	(2,464)	232,825	(43)	232,782
Balance at 1 January 2011 - Restated	100,000	21,792	46,873	32,201	5,994	576	207,436	122	207,558
Profit (loss) for the year	-	-	16,971	-	-	-	16,971	(121)	16,850
Other comprehensive (loss) income	-	-	(169)	7,831	(5,994)	(3,148)	(1,480)	-	(1,480)
Total comprehensive income (loss)	-	-	16,802	7,831	(5,994)	(3,148)	15,491	(121)	15,370
Transfer to statutory reserve (note 18)	-	1,895	(1,895)	-	-	-	-	-	-
Dividend paid during the year for 2011 (note 18)	-	-	(15,000)	-	-	-	(15,000)	-	(15,000)
Exchange difference	-	-	72	-	-	-	72	51	123
Balance at 31 December 2011 - Restated	100,000	23,687	46,852	40,032	-	(2,572)	207,999	52	208,051

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 2012

	Share capital US$ '000	Statutory reserve US$ '000	Retained earnings US$ '000	Cumulative changes in fair value US$ '000	Revaluation reserve US$ '000	Total US$ '000
Balance at 1 January 2012	100,000	23,687	48,089	40,032	-	211,808
Profit for the year	-	-	19,757	-	-	19,757
Other comprehensive income	-	-	-	6,699	-	6,699
Total comprehensive income	-	-	19,757	6,699	-	26,456
Transfer to statutory reserve (note 18)	-	1,976	(1,976)	-	-	-
Balance at 31 December 2012	100,000	25,663	65,870	46,731	-	238,264
Balance at 1 January 2011	100,000	21,792	46,203	32,201	5,994	206,190
Profit for the year	-	-	18,950	-	-	18,950
Other comprehensive (loss) income	-	-	(169)	7,831	(5,994)	1,668
Total comprehensive income (loss)	-	-	18,781	7,831	(5,994)	20,618
Transfer to statutory reserve (note 18)	-	1,895	(1,895)	-	-	-
Dividend paid during the year for 2010 (note 18)	-	-	(15,000)	-	-	(15,000)
Balance at 31 December 2011	100,000	23,687	48,089	40,032	-	211,808

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 2012 (CONTINUED)

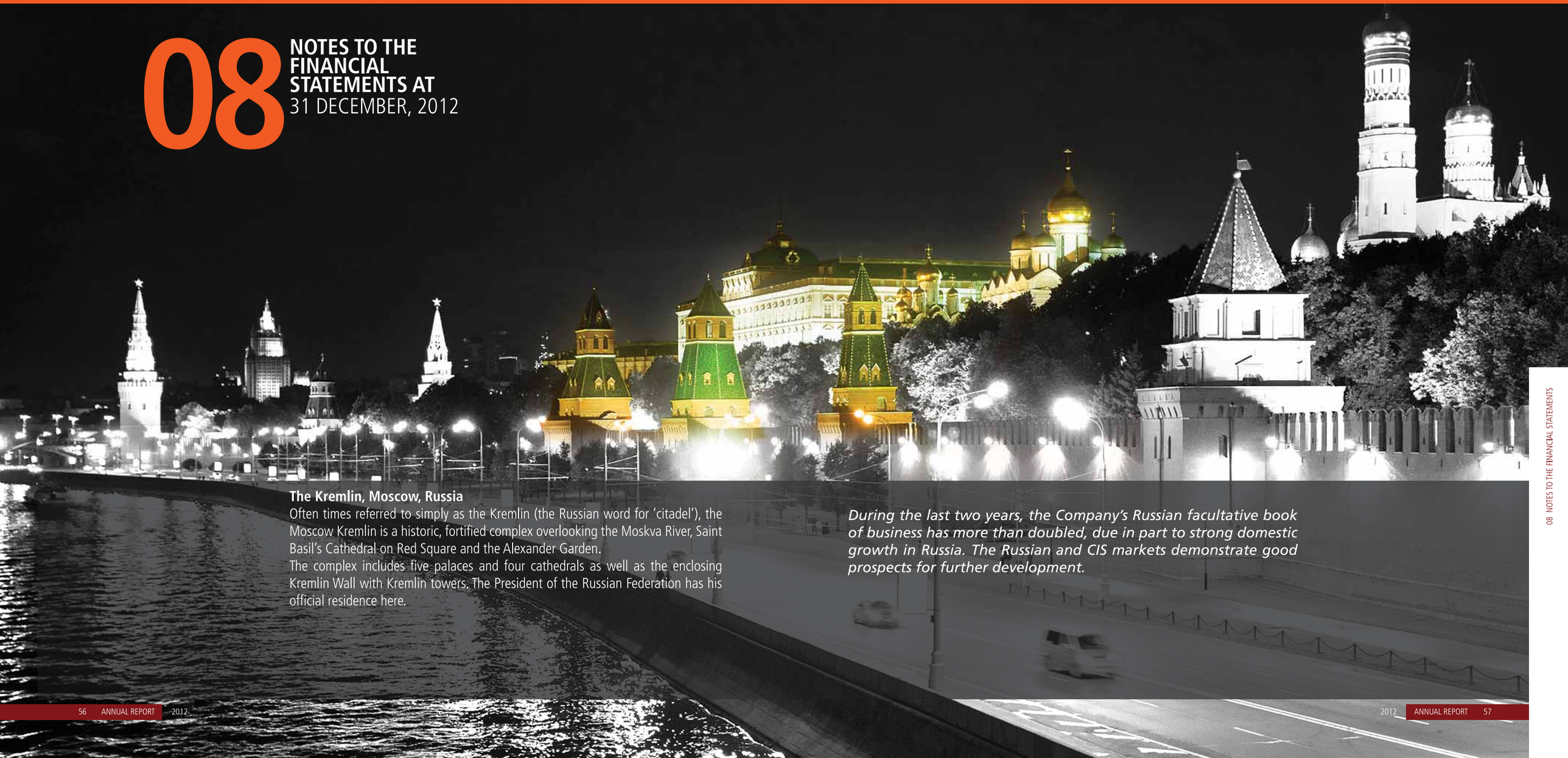
	Note	2012 Company US$ '000	2011 Company US$ '000 Restated
Changes in operating assets and liabilities:			
Outstanding claims		51,558	108,319
Reinsurers' share of outstanding claims		(11,344)	(43,573)
Insurance and other receivables		(44,213)	16,469
Due from parent		67,534	(60,982)
Insurance and other payables		(3,879)	(15,273)
Reinsurance payables		(1,747)	3,526
		79,881	38,596
Directors' remuneration		-	(169)
Taxation		(10)	-
Net cash from operating activities		79,871	38,427

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

	Note	2012 Company US$ '000	2011 Company US$ '000 Restated
INVESTING ACTIVITIES			
Purchase of available for sale investments		(32,062)	(38,562)
Proceeds from sale of available for sale investments		53,745	26,435
Proceeds from sale of investment property	13	-	21,364
Purchase of investment properties	13	-	(36)
Purchase of property and equipment		(301)	(348)
Proceeds from sale of property and equipment		30	14,219
Investment in a subsidiary		(451)	(481)
Bank deposits with maturity of more than three months		19,339	(14,632)
Net cash from investing activities		40,300	7,959
FINANCING ACTIVITY			
Dividends paid		-	(15,000)
Cash used in financing activity		-	(15,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS		120,171	31,386
Cash and cash equivalents at beginning of the year		119,893	88,507
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	7	240,064	119,893

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

08 NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER, 2012



The Kremlin, Moscow, Russia

Often times referred to simply as the Kremlin (the Russian word for 'citadel'), the Moscow Kremlin is a historic, fortified complex overlooking the Moskva River, Saint Basil's Cathedral on Red Square and the Alexander Garden.

The complex includes five palaces and four cathedrals as well as the enclosing Kremlin Wall with Kremlin towers. The President of the Russian Federation has his official residence here.

During the last two years, the Company's Russian facultative book of business has more than doubled, due in part to strong domestic growth in Russia. The Russian and CIS markets demonstrate good prospects for further development.

NOTES TO THE CONSOLIDATED AND COMPANY'S SEPARATE FINANCIAL STATEMENTS AT 31 DECEMBER 2012

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, P.O. Box 10002, Building 125, Road 1702, Diplomatic Area 317, Manama, Kingdom of Bahrain. The Company is licensed as an insurance and reinsurance entity and is regulated by the Central Bank of Bahrain (CBB).

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

The Company is 98.75% owned [2011: 98.75%] by Nest Investments (Holdings) Ltd, incorporated in Jersey, Channel Islands.

The consolidated and separate financial statements were authorised for issue by the Board of Directors on 25 March 2013.

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 and applicable provisions of Volume 6 of the Central Bank of Bahrain's (CBB) rulebook, CBB directives and the Central Bank of Bahrain and Financial Institutions Law.

Accounting convention

The consolidated and separate financial statements have been prepared under the historical cost convention modified to include the measurement at fair value of available for sale investments, investment properties and property, plant and equipment (land and building only).

Functional and presentation currency

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

3. BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries as at 31 December 2012.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions and dividends, are eliminated in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it:

a) Derecognises the assets (including goodwill) and liabilities of the subsidiary;

b) Derecognises the carrying amount of any non-controlling interest;

c) Derecognises the cumulative translation differences, recorded in equity;

d) Recognises the fair value of consideration received;

e) Recognises the fair value of any investment retained;

f) Recognises any surplus or deficit in the consolidated statement of income; and

g) Reclassifies the parent's share of a component previously recognised in consolidated other comprehensive income to consolidated statement of income.

The following are the subsidiaries of the Group:

Name of the subsidiary	Country of incorporation	Effective ownership 2012	Effective ownership 2011	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
Ventura Del Mar S.A. Limited	United Kingdom	100%	100%	Property ownership
Ribera De Marbella S.L.	Spain	100%	100%	Service company
Afro Asian Assistance B.S.C. (c)	Kingdom of Bahrain	90%	90%	Travel assistance
Aegean Properties Ltd	Guernsey	83.33%	83.33%	Investment holding company
Ventura Del Mar S.A.	Spain	83.33%	83.33%	Real estate and hospitality

4. SIGNIFICANT ACCOUNTING POLICIES

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

Amendments to IFRS effective as of 1 January 2012:
IAS 12 *Income Taxes (Amendment) – Deferred Taxes:* Recovery of Underlying Assets
IFRS 7 *Financial Instruments : Disclosures* – Enhanced Derecognition Disclosure Requirements

The effects of these amendments is described below:
IAS 12 *Income Taxes (Amendment) - Deferred Taxes:* Recovery of Underlying Assets
The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and there has been no effect on the Group's and the Company's financial position, performance or its disclosures.

IFRS 7 *Financial Instruments: Disclosures* - Enhanced Derecognition Disclosure Requirements
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group and Company's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group and the Company does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

New accounting policies adopted
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.

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

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

Investment in subsidiaries

Investment in subsidiaries are stated at cost less impairment.

Available for sale investments

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

Insurance and reinsurance receivables

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

Deferred acquisition costs

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

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

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 accumulated depreciation and accumulated impairment losses. Replacement or major inspection costs are capitalised when incurred and if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

On revaluation, any increase in the carrying amount of the 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 the consolidated or separate statements of income upon sale of the property and realisation of profit.

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

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

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

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

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

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.

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

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

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

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

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

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

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

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

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

Available for sale financial assets
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:

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings) would be presented separately from items that will never be reclassified (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations and net movement on cash flow hedges). The amendment affects presentation only and has no impact on the Group or Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Group and the Company's first annual report after becoming effective.

IAS 19 Employee benefits

The IASB has issued numerous amendments to IAS 19, which are effective for annual periods beginning on or after 1 January 2013. These include the elimination of the corridor approach and recognising all actuarial gains and losses in other comprehensive income as they occur; immediate recognition of all past service costs; and replacement of interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset); and certain clarifications and re-wording. The amendment has no impact on the Group and Company.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 *Investments in Associates*, has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013. The amendment has no impact on the Group and Company.

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". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group and the Company's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IFRS 1 Government Loans – Amendments to IFRS 1

These amendments require first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment has no impact on the Group and Company.

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group and the Company's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. 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 financial liabilities. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements
IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 *Consolidation - Special Purpose Entities*.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities.
The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Company. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements
IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities—Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The amendment has no impact on the Group and Company.

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013. The Group and Company are currently assessing the full impact of these amendments.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group and Company are currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

Annual Improvements May 2012 (effective on or after 1 January 2013)
These improvements will not have an impact on the Company, but include:

IFRS 1 First-time Adoption of International Financial Reporting Standards
This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements
This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment
This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation
This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

IAS 34 Interim Financial Reporting
The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

6. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

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

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

Revaluation of investment properties and property and equipment
The Group and Company carry their investment properties at fair value, with changes in fair value being recognised in the consolidated and separate statement of income. In addition, 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 2012. For the investment property, the valuer used a valuation technique based on a discounted cash flow model as there is a lack of comparable market data because of the nature of the property.

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

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

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

7. CASH AND BANK BALANCES

	2012 Group US$ '000	2012 Company US$ '000	2011 Group US$ '000	2011 Company US$ '000
Cash in hand	19	18	22	22
Bank balances	250,231	240,046	128,276	119,871
Cash and cash equivalents	250,250	240,064	128,298	119,893
Statutory deposits (note 7.1)	398	398	398	398
Deposits with banks with maturity of more than 3 months (note 7.2)	5,739	5,739	25,078	25,078
	256,387	246,201	153,774	145,369

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.

7.2 The Group had previously issued a guarantee on behalf of a subsidiary for approximately US$ 13.9 million (Stg £9 million) which was secured by these bank deposits. During the year the guarantee has been cancelled and the deposits have been released as further disclosed in note 31.

8. AVAILABLE FOR SALE INVESTMENTS

	2012 Group US$ '000	2012 Company US$ '000	2011 Group US$ '000	2011 Company US$ '000
Quoted				
Equity	**99,239**	**99,239**	82,330	74,215
Debt	**11,137**	**11,137**	80,764	45,209
Unquoted				
Equity	**8,990**	**2,464**	5,877	4,247
Debt	**43,030**	-	2,653	2,653
	162,396	**112,840**	171,624	126,324

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.

During the year the Group sold certain equity investments with a carrying value of USD 11.0 million (2011: US$ 17.9 million) to the parent. Further, the Group carried out an asset swap with its parent whereby it transferred some bank deposits to its parent and received quoted equity securities amounting to USD 21.4 million (2011: Nil) [note 30].

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

10. INSURANCE AND OTHER RECEIVABLES

	2012 Group US$ '000	2012 Company US$ '000	2011 Group US$ '000	2011 Company US$ '000
Insurance receivables	**45,527**	**34,813**	37,384	27,605
Reinsurance receivables	**26,625**	**19,215**	18,699	10,126
Less: Provision for doubtful debts (note 10.1)	**(3,728)**	**(3,728)**	(3,365)	(3,365)
	68,424	**50,300**	52,718	34,366
Inward pipeline premium accruals	**88,744**	**88,744**	102,620	102,619
Inward treaty premium reserve and loss deposit	**28,920**	**28,179**	28,165	27,636
Due from related parties (note 30)	**1,395**	**17,693**	-	12,027
Other debtors and prepayments	**41,703**	**37,887**	8,442	2,192
Deferred tax asset (note 21)	**499**	-	463	-
	229,685	**222,803**	192,408	178,840

At 31 December 2012, the gross amount of impaired insurance and resinsurance receivables amounted to US$ 3.7 million (2011: US$ 3.4 million).

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

	2012 Group US$ '000	2012 Company US$ '000	2011 Group US$ '000	2011 Company US$ '000
At 1 January	**3,365**	**3,365**	2,431	2,431
Charge for the year	**250**	**250**	709	709
Recoveries	**113**	**113**	225	225
At 31 December	**3,728**	**3,728**	3,365	3,365

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

10.2 **Group**	Past due but not impaired				
	Total US$ '000	Less than 120 days US$ '000	121 to 180 days US$ '000	181 to 365 days US$ '000	More than 365 days US$ '000
2012	**68,424**	**54,236**	**9,728**	**4,460**	**-**
2011	52,718	33,291	2,780	15,830	817

10.3 **Company**	Total US$ '000	Less than 120 days US$ '000	121 to 180 days US$ '000	181 to 365 days US$ '000	More than 365 days US$ '000
2012	**50,300**	**40,643**	**5,197**	**4,460**	**-**
2011	34,366	29,458	2,780	238	1,890

11. GROSS DEFERRED ACQUISITION COSTS

	2012 Group US$ '000	2012 Company US$ '000	2011 Group US$ '000	2011 Company US$ '000
At 1 January	**42,421**	**38,036**	38,264	33,772
Acquisition costs	**72,934**	**70,899**	77,977	75,404
Amortisation for the year	**(73,976)**	**(71,941)**	(73,819)	(71,140)
Exchange difference	**331**	-	(1)	-
At 31 December	**41,710**	**36,994**	42,421	38,036

12. TECHNICAL RESERVES

12.1
Group

	2012			2011		
	Gross US$ '000	Reinsurers' share US$ '000	Net US$ '000	Gross US$ '000 Restated	Reinsurers' share US$ '000	Net US$ '000 Restated
Unearned premium reserve	**185, 912**	**(59,577)**	**126,335**	185,238	(72,537)	112,701
Outstanding claims reserve	**449,588**	**(206,957)**	**242,631**	395,427	(187,329)	208,098
	635,500	**(266,534)**	**368,966**	580,665	(259,866)	320,799

Unearned premium reserve

	2012			2011		
	Gross US$ '000	Reinsurers' share US$ '000	Net US$ '000	Gross US$ '000 Restated	Reinsurers' share US$ '000	Net US$ '000 Restated
At 1 January	**185,238**	**(72,537)**	**112,701**	165,248	(68,885)	96,363
Premiums written	**343,600**	**(110,030)**	**233,570**	343,290	(112,515)	230,775
Premiums earned	**(344,265)**	**123,630**	**(220,635)**	(323,293)	108,860	(214,433)
Exchange difference	**1,339**	**(640)**	**699**	(7)	3	(4)
At 31 December	**185,912**	**(59,577)**	**126,335**	185,238	(72,537)	112,701

Outstanding claims reserve

	2012			2011		
	Gross US$ '000	Reinsurers' share US$ '000	Net US$ '000	Gross US$ '000 Restated	Reinsurers' share US$ '000	Net US$ '000 Restated
At 1 January						
Reported claims	**293,041**	**(128,763)**	**164,278**	231,241	(126,244)	104,997
Incurred But Not Reported claims	**102,386**	**(58,566)**	**43,820**	52,470	(22,855)	29,615
	395,427	**(187,329)**	**208,098**	283,711	(149,099)	134,612
Incurred during the year	**228,242**	**(84,287)**	**143,955**	277,852	(115,988)	161,864
Paid during the year	**(176,988)**	**68,629**	**(108,359)**	(166,118)	77,757	(88,361)
Exchange difference	**2,907**	**(3,970)**	**(1,063)**	(18)	1	(17)
At 31 December	**449,588**	**(206,957)**	**242,631**	395,427	(187,329)	208,098
At 31 December						
Reported claims	**356,273**	**(181,571)**	**174,702**	293,041	(128,763)	164,278
Incurred But Not Reported claims	**93,315**	**(25,386)**	**67,929**	102,386	(58,566)	43,820
	449,588	**(206,957)**	**242,631**	395,427	(187,329)	208,098

12.2 Company	2012			2011		
	Gross US$ '000	Reinsurers' share US$ '000	Net US$ '000	Gross US$ '000 Restated	Reinsurers' share US$ '000	Net US$ '000 Restated
Unearned premium reserve	**164,393**	**(56,386)**	**108,007**	165,209	(61,797)	103,412
Outstanding claims reserve	**393,926**	**(195,984)**	**197,942**	342,368	(184,640)	157,728
	558,319	**(252,370)**	**305,949**	507,577	(246,437)	261,140

Unearned premium reserve	2012			2011		
	Gross US$ '000	Reinsurers' share US$ '000	Net US$ '000	Gross US$ '000 Restated	Reinsurers' share US$ '000	Net US$ '000 Restated
At 1 January	**165,209**	**(61,797)**	**103,412**	145,274	(66,097)	79,177
Premiums written	**332,704**	**(109,172)**	**223,532**	331,244	(108,487)	222,757
Premiums earned	**(333,520)**	**114,583**	**(218,937)**	(311,309)	112,787	(198,522)
At 31 December	**164,393**	**(56,386)**	**108,007**	165,209	(61,797)	103,412

Outstanding claims reserve	2012			2011		
	Gross US$ '000	Reinsurers' share US$ '000	Net US$ '000	Gross US$ '000 Restated	Reinsurers' share US$ '000	Net US$ '000 Restated
At 1 January						
Reported claims	**239,982**	**(126,075)**	**113,907**	186,829	(118,213)	68,616
Incurred But Not Reported claims	**102,386**	**(58,565)**	**43,821**	52,470	(22,854)	29,616
	342,368	**(184,640)**	**157,728**	239,299	(141,067)	98,232
Incurred during the year	**226,596**	**(81,653)**	**144,943**	242,415	(104,904)	137,511
Paid during the year	**(175,038)**	**70,309**	**(104,729)**	(139,346)	61,331	(78,015)
At 31 December	**393,926**	**(195,984)**	**197,942**	342,368	(184,640)	157,728
At 31 December						
Reported claims	**300,611**	**(170,598)**	**130,013**	239,982	(126,075)	113,907
Incurred But Not Reported claims	**93,315**	**(25,386)**	**67,929**	102,386	(58,565)	43,821
	393,926	**(195,984)**	**197,942**	342,368	(184,640)	157,728

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 2012 and 31 December 2011 were also peer reviewed by an international firm of actuaries.

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$ '000	2006 US$ '000	2007 US$ '000	2008 US$ '000	2009 US$ '000	2010 US$ '000	2011 US$ '000	2012 US$ '000	Total US$ '000
At end of underwriting year	14,572	1,649	468	3,672	1,400	3,084	1,485	908	
One year later	44,169	44,205	36,439	63,158	73,498	85,848	81,441	-	
Two years later	74,006	68,776	77,499	107,420	150,409	212,336	-	-	
Three years later	85,368	70,549	87,837	118,853	162,571	-	-	-	
Four years later	87,105	69,368	86,930	118,499	-	-	-	-	
Five years later	87,149	66,914	86,205	-	-	-	-	-	
Six years later	87,159	67,075	-	-	-	-	-	-	
Seven years later	87,116	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred	87,116	67,075	86,205	118,499	162,571	212,336	81,441	908	**816,151**
Cumulative payments to date	(83,422)	(61,559)	(74,144)	(96,390)	(115,709)	(109,997)	(7,804)	703	**(548,322)**
Incurred But Not Reported	4	40	454	2,420	5,475	24,408	52,546	8,366	**93,713**
	3,698	5,556	12,515	24,529	52,337	126,747	126,183	9,977	**361,542**
Liability in respect of prior years									**32,384**
Total liability included in the Company's separate statement of financial position									**393,926**
Trust Underwriting Ltd.									**55,662**
Total liability in the consolidated statement of financial position									**449,588**

Net	2005 US$ '000	2006 US$ '000	2007 US$ '000	2008 US$ '000	2009 US$ '000	2010 US$ '000	2011 US$ '000	2012 US$ '000	Total US$ '000
At end of underwriting year	3,691	682	302	2,508	484	2,067	1,005	656	
One year later	11,324	8,311	15,463	26,244	35,089	58,677	25,596	-	
Two years later	18,411	15,002	33,611	46,140	79,171	128,488	-	-	
Three years later	21,503	16,238	34,660	47,975	84,650	-	-	-	
Four years later	22,026	16,007	34,847	47,895	-	-	-	-	
Five years later	22,177	15,448	35,495	-	-	-	-	-	
Six years later	22,174	15,567	-	-	-	-	-	-	
Seven years later	22,162	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred	22,162	15,567	35,495	47,895	84,650	128,488	25,596	656	360,509
Cumulative payments to date	(21,278)	(14,324)	(30,086)	(41,173)	(55,419)	(71,164)	270	528	(232,646)
Incurred But Not Reported	(8)	(6)	113	634	3,018	11,577	45,877	6,796	68,001
Liability recognised in the consolidated statement of financial position	876	1,237	5,522	7,356	32,249	68,901	71,743	7,980	195,864
Liability in respect of prior years									2,078
Total net liability included in the Company's separate statement of financial position									197,942
Trust Underwriting Ltd.									44,689
Total net liability included in the consolidated statement of financial position									242,631

13. INVESTMENT PROPERTIES

Group and Company	Land and buildings US$ '000	Leasehold properties US$ '000	Total US$ '000
Cost			
At 1 January 2011	21,328	1,319	22,647
Additions during the year	36	-	36
Disposals	(21,364)	-	(21,364)
Change in fair value during the year	-	388	388
At 31 December 2011	-	1,707	1,707
Change in fair value during the year	-	-	-
At 31 December 2012	-	**1,707**	**1,707**

The Group's and the Company's two leasehold properties are located in the United Kingdom (UK). The duration of the first lease is for 125 years starting from 1984. The second lease was initially for 99 years starting from 1974. However, the lease period was extended for another 90 years starting from the year 2073 (2011: 2073).

These properties are valued every two years by an independent firm of professional valuers. The external valuation performed at the end of 2012 did not result in any material change in the fair value of these properties.

14. PROPERTIES HELD FOR SALE

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

Group	2012 US$ '000	2011 US$ '000
Balance at 1 January	**8,686**	8,954
Additions during the year	-	20
Exchange difference	**260**	(288)
Balance at 31 December	**8,946**	8,686

The Group reviewed the carrying value of the properties held for sale with reference to their net realisable values (NRV) as of 31 December 2012. The NRV has been determined based on valuations performed by independent real estate valuation consultants.

15. PROPERTY AND EQUIPMENT

15.1 Group	Land and Building US$ '000	Motor vehicles US$ '000	Computer hardware and software US$ '000	Furniture and fixtures US$ '000	Construction work in progress US$ '000	Total US$ '000
Fair value / Cost						
At 1 January 2012	10,194	434	2,149	4,543	1,547	18,867
Additions	-	36	212	77	-	325
Disposals	-	(20)	(35)	(1)	-	(56)
Transfer	1,547	-	-	-	(1,547)	-
Exchange differences	57	-	-	9	-	66
At 31 December 2012	11,798	450	2,326	4,628	-	19,202
Depreciation						
At 1 January 2012	-	324	1,627	3,998	-	5,949
Charge for the year	-	39	279	406	-	724
Disposals	-	(20)	(4)	(1)	-	(25)
Exchange differences	-	-	1	8	-	9
At 31 December 2012	-	343	1,903	4,411	-	6,657
Net book value						
At 31 December 2012	11,798	107	423	217	-	12,545
At 31 December 2011	10,194	110	522	545	1,547	12,918

15.2 Company	Land and Building US$ '000	Motor vehicles US$ '000	Computer hardware and software US$ '000	Furniture and fixtures US$ '000	Construction work in progress US$ '000	Total US$ '000
Fair value/Cost						
At 1 January 2012	8,338	391	1,581	4,092	1,547	15,949
Additions	-	36	191	74	-	301
Disposal	-	(20)	(35)	-	-	(55)
Transfer	1,547	-	-	-	(1,547)	-
At 31 December 2012	9,885	407	1,737	4,166	-	16,195
Depreciation						
At 1 January 2011	-	306	1,350	3,681	-	5,337
Charge for the year	-	39	179	320	-	538
Disposals	-	(20)	(5)	-	-	(25)
At 31 December 2012	-	325	1,524	4,001	-	5,850
Net book value						
At 31 December 2012	9,885	82	213	165	-	10,345
At 31 December 2011	8,338	85	231	411	1,547	10,612

16. INTANGIBLE ASSETS

Group	Licence US$ '000	Underwriting Capacity US$ '000	Total US$ '000
Cost			
At 1 January 2011	19	2,307	2,326
Disposals	-	(213)	(213)
Exchange difference	-	-	-
At 31 December 2011	19	2,094	2,113
Disposals	-	(137)	(137)
Exchange difference	-	137	137
At 31 December 2012	**19**	**2,094**	**2,113**
Amortisation			
At 1 January 2011	(1)	1,589	1,588
Charge for the year	-	210	210
Disposals	-	(101)	(101)
Exchange difference	1	(1)	-
At 31 December 2011	-	1,697	1,697
Charge for the year	-	201	201
Disposals	-	(120)	(120)
Exchange difference	-	118	118
At 31 December 2012	-	1,896	1,896
Carrying value			
At 31 December 2012	19	198	217
At 31 December 2011	19	397	416

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

17. GOODWILL

Goodwill arose on acquisition of a controlling stake in Ventura Del Mar, the Group's subsidiary engaged in property development. The goodwill is annually tested for impairment by reference to the fair value of the underlying properties. As of 31 December 2012 and 31 December 2011 no indications of impairment were observed. Goodwill is entirely allocated to a single cash generating unit (CGU) of the Group.

18. EQUITY AND RESERVES

Share capital	2012 US$ '000	2011 US$ '000
Authorised, issued and fully paid 1,000,000 shares of US$ 100 each	100,000	100,000

Statutory reserve

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

Dividend

Dividends paid in 2012 amounted to Nil [2011: US$ 15 million (US$ 15 per share)].

Proposed dividend

The Board of Directors did not propose any dividend or other appropriations for year 2012 [2011: Cash dividend of US$ 10,000 thousand (US$ 10 per share) and Board of Directors remuneration of USD 200 thousand].

19. REINSURERS' SHARE OF DEFERRED ACQUISITION COSTS

	2012 Group US$ '000	2012 Company US$ '000	2011 Group US$ '000	2011 Company US$ '000
At 1 January	**16,738**	**16,738**	20,423	20,423
Acquisition costs - reinsurer	**24,357**	**24,357**	28,250	28,250
Amortisation for the year - reinsurer	**(27,077)**	**(27,077)**	(31,935)	(31,935)
At 31 December	**14,018**	**14,018**	16,738	16,738

20. INSURANCE AND OTHER PAYABLES

	2012 Group US$ '000	2012 Company US$ '000	2011 Group US$ '000 Restated	2011 Company US$ '000 Restated
Insurance payables	**16,066**	**13,268**	18,394	15,554
Outward pipeline premium provision	**35,690**	**35,690**	37,152	37,152
Outward treaty premium reserves loss deposit	**27,708**	**27,708**	34,398	34,398
Due to related parties (note 30)	**201**	**3,627**	87	-
Other accounts payable and accruals	**22,334**	**3,720**	21,096	5,547
Deposits from cedants recognised under deposit accounting method	**9,998**	**9,998**	5,249	5,249
Deferred tax liability (note 21)	**-**	**-**	208	-
Current tax liability (note 27)	**10**	**10**	-	-
	112,007	**94,021**	116,584	97,900

21. DEFERRED TAXATION

The movement in deferred taxation is as follows:

21.1 Deferred tax asset	2012 US$ '000	2011 US$ '000
At 1 January	**463**	333
Released during the year	**9**	141
Transferred from deferred tax liability (note 21.2)	**13**	-
Exchange difference	14	(11)
At 31 December	**499**	463

21.2 Deferred tax liability	Tax losses carried forward US$ '000	Underwriting profits not subject to taxation US$ '000	Claims equalisation US$ '000	Total US$ '000
At 1 January 2011	-	459	98	557
Released during the year	(202)	(257)	110	(349)
At 31 December 2011	(202)	202	208	208
Released during the year	(8)	(286)	86	(208)
Exchange difference	(14)	3	(2)	(13)
At 31 December 2012	(224)	(81)	292	(13)

22. OPERATING EXPENSES

	2012 Group US$ '000	2012 Company US$ '000	2011 Group US$ '000	2011 Company US$ '000
Staff costs	**8,454**	**8,454**	8,310	8,310
Corporate costs	**1,284**	**1,284**	1,319	1,319
Administration expenses	**748**	**748**	961	961
Marketing and business travel	**1,305**	**1,305**	899	899
Professional expenses	**862**	**862**	816	816
Occupancy costs	**1,935**	**1,935**	675	675
Information technology costs	**232**	**232**	221	221
Others	**858**	**858**	1,032	1,032
	15,678	**15,678**	14,233	14,233

23. INVESTMENT INCOME

	2012 Group US$ '000	2012 Company US$ '000	2011 Group US$ '000	2011 Company US$ '000
Dividend income	**1,840**	**1,840**	2,123	2,123
Gain on sale of available for sale investments	**1,500**	**1,500**	1,059	1,059
Interest income on debt securities	**1,350**	**1,350**	1,811	1,811
Others	**18**	**-**	-	-
	4,708	**4,690**	4,993	4,993

24. INCOME FROM INVESTMENT PROPERTIES

	2012 Group US$ '000	2012 Company US$ '000	2011 Group US$ '000	2011 Company US$ '000
Rental income	**312**	**312**	54	54
Revaluation of investment properties	**-**	**-**	388	388
	312	**312**	442	442

25. GENERAL AND ADMINISTRATION EXPENSES

	2012 Group US$ '000	2012 Company US$ '000	2011 Group US$ '000	2011 Company US$ '000
Employee related costs	**2,511**	**1,935**	1,999	1,999
Occupancy costs	**2,294**	**2,201**	-	-
Other	**3,006**	**1,229**	3,814	1,493
	7,811	**5,365**	5,813	3,492

26. OTHER INCOME

	2012 Group US$ '000	2012 Company US$ '000	2011 Group US$ '000 Restated	2011 Company US$ '000 Restated
Gain on disposal of property and equipment	-	-	5,994	5,994
Management fees	2,130	2,930	1,431	2,033
(Loss) income from contracts recognised under deposit accounting method	(2,124)	(2,124)	684	684
Miscellaneous income	1,493	1,279	716	597
	1,499	2,085	8,825	9,308

27. TAXATION

The Group's branch in Cyprus is subject to a taxation charge of 10% on its chargeable income for the year. The branch has made a profit during the year and a provision of tax amounting to US$ 10 thousand (2011: Nil) has been made during the year. The branch in Labuan, Malaysia elected not to pay any tax this and the previous year. Based on confirmation received from Spanish tax authorities and accepted by the UK tax authorities, the control and management of Ventura Del Mar SA Ltd, a company registered in the UK, is in Spain and therefore no tax liabilities will arise in the UK. During the year, the subsidiary has incurred a loss of approximately US$ 176 thousand (€132 thousand) [2011: US$ 471 thousand (€364 thousand)] arising in Spain. The other subsidiaries in the USA and Spain are also subject to local taxation.

The tax charge is analysed as follows:

	2012 Group US$ '000	2012 Company US$ '000	2011 Group US$ '000	2011 Company US$ '000
Corporation tax (including previous years)	38	10	31	-
Deferred tax charge	(216)	-	(512)	-
	(178)	10	(481)	-

28. CLASSIFICATION OF FINANCIAL INSTRUMENTS

At 31 December 2012 and 31 December 2011, financial instruments have been classified for the purpose of measurement under IAS 39 'Financial Instruments: Recognition and Measurement' as follows:

28.1 Group

	2012		
	Available for sale US$ '000	Loans and receivables / amortised cost US$ '000	Total US$ '000
Financial assets			
Cash and bank balances	-	256,387	256,387
Available for sale investments	162,396	-	162,396
Due from the parent	-	9,634	9,634
Insurance and other receivables	-	140,941	140,941
Reinsurers' share of outstanding claims reserve - reported claims	-	181,571	181,571
	162,396	588,533	750,929
Financial liabilities			
Outstanding claims reserve - reported claims	-	356,273	356,273
Reinsurance payables	-	20,855	20,855
Insurance and other payables	-	76,317	76,317
Borrowings	-	1,139	1,139
	-	454,584	454,584

28.1 Group (continued)

	2011		
	Available for sale US$ '000	Loans and receivables / amortised cost US$ '000	Total US$ '000
Financial assets			
Cash and bank balances	-	153,774	153,774
Available for sale investments	171,624	-	171,624
Due from the parent	-	76,003	76,003
Trade and other receivables	-	89,788	89,788
Reinsurers' share of outstanding claims reserve - reported claims	-	128,763	128,763
	171,624	448,328	619,952
Financial liabilities			
Outstanding claims reserve - reported claims	-	293,041	293,041
Reinsurance payables	-	23,041	23,041
Trade and other payables	-	79,432	79,432
Borrowings	-	1,284	1,284
	-	396,798	396,798

28.2 Company

	2012		
	Available for sale US$ '000	Loans and receivables / amortised cost US$ '000	Total US$ '000
Financial assets			
Cash and bank balances	-	246,201	246,201
Available for sale investments	112,840	-	112,840
Due from the parent	-	8,469	8,469
Trade and other receivables	-	134,059	134,059
Reinsurers' share of outstanding claims reserve - reported claims	-	170,598	170,598
	112,840	559,327	672,167
Financial liabilities			
Outstanding claims reserve - reported claims	-	300,611	300,611
Reinsurance payables	-	16,440	16,440
Trade and other payables	-	58,331	58,331
	-	375,382	375,382

28.2 Company (continued)

	2011		
	Available for sale US$ '000	Loans and receivables / amortised cost US$ '000	Total US$ '000
Financial assets			
Cash and bank balances	-	145,369	145,369
Available for sale investments	126,324	-	126,324
Due from the parent	-	76,003	76,003
Insurance and other receivables	-	76,221	76,221
Reinsurers' share of outstanding claims reserve - reported claims	-	126,075	126,075
	126,324	423,668	549,992
Financial liabilities			
Outstanding claims reserve - reported claims	-	239,982	239,982
Reinsurance payables	-	18,187	18,187
Trade and other payables	-	60,748	60,748
	-	318,917	318,917

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

29.1 Group

	2012		
	Level 1 US$ '000	Level 2 US$ '000	Total US$ '000
Available for sale investments			
Equities	**99,239**	**8,990**	**108,229**
Debt	**11,137**	**43,030**	**54,167**
	110,376	**52,020**	**162,396**

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

29.2 Company

	2012		
	Level 1 US$ '000	Level 2 US$ '000	Total US$ '000
Available for sale investments			
Equities	99,239	2,464	101,703
Debt	11,137	-	11,137
	110,376	2,464	112,840

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

None of the Group's and the Company's financial instruments carried at fair value at 31 December 2012 and 31 December 2011 qualify under Level 3 of the fair value hierarchy.

During the year ended 31 December 2012, there were no transfers between Level 1 and Level 2 fair value hierarchies.

30. RELATED PARTY TRANSACTIONS

30.1 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:

	Shareholders 2012 US$ '000	Entities related to shareholders 2012 US$ '000	Shareholders 2011 US$ '000	Entities related to shareholders 2011 US$ '000
Gross premiums written	-	4,943	-	8,054
Gross claims paid	-	1,400	-	1,807
Policy acquisition costs	-	1,172	-	1,197

The expenses included US$ 3,500 thousand (2011: Nil) in respect of building rent and US$ 1,000 thousand (2011: 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:

	Shareholders 2012 US$ '000	Entities related to shareholders 2012 US$ '000	Shareholders 2011 US$ '000	Entities related to shareholders 2011 US$ '000
Insurance and other receivables	-	1,395	-	-
Insurance and other payables	-	201	-	87
Due from parent	9,634	-	76,003	-

Due from parent mainly relates to amounts receivable towards transfer of the Group's certain investments (note 8).

Compensation of key management personnel

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

	2012 US$ '000	2011 US$ '000
Directors' remuneration	**400**	169
Salaries and benefits	**1,229**	1,023
End of service benefits	**54**	116
	1,683	1,308

30.2 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:

	Shareholders 2012 US$ '000	Entities related to shareholders 2012 US$ '000	Shareholders 2011 US$ '000	Entities related to shareholders 2011 US$ '000
Gross premiums written	-	**4,943**	-	8,054
Gross claims paid	-	**1,400**	-	1,807
Policy acquisition costs	-	**1,172**	-	1,197

The expenses included US$ 3,500 thousand (2011: Nil) in respect of building rent and US$ 1,000 thousand (2011: US$ 1,000 thousand) in respect of management fees paid to shareholder. Further, other income includes US$ 789 thousand (2011: US$ 602 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:

	Shareholders 2012 US$ '000	Entities related to shareholders 2012 US$ '000	Shareholders 2011 US$ '000	Entities related to shareholders 2011 US$ '000
Insurance and other receivables	-	**17,693**	-	12,027
Insurance and other payables	-	**3,627**	-	-
Due from parent	**8,469**	-	76,003	-

Compensation of key management personnel

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

	2012 US$ '000	2011 US$ '000
Directors' remuneration	**400**	169
Salaries and benefits	**1,229**	1,023
End of service benefits	**54**	116
	1,683	1,308

31. CONTINGENT LIABILITIES

The Group issued a guarantee on behalf of a subsidiary in prior years. The amount of guarantee at the end of financial year 2011 was US$ 13.9 million (Stg£ 9.0 million). The guarantee has been cancelled during the current year.

Further, the Group has issued a guarantee of approximately US$ 1.1 million (€875 thousand) [(2011: US$ 1.1 million (€875 thousand)] as a statutory requirement by the Superintendent of Insurance in Cyprus in respect of its Cyprus branch.

32. RISK MANAGEMENT

Governance framework

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

This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the Board of Directors to Executive Management committees and senior managers. 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.

Regulatory framework

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

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

Reinsurance risk

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

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

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

Concentration of reinsurance risk

The Group and the Company 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 (2011: same).

Syndicate risk (Trust Underwriting Limited)

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

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

The Group manages the risks faced by the syndicates on which it participates by monitoring the performance of the syndicates it supports. This commences in advance of committing to support a syndicate for the following year, with a review of the business plan prepared for each syndicate by its Managing Agent. In addition quarterly reports and annual accounts together with any other information made available by the Managing Agent are monitored and if necessary enquired 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 2012				
	US Dollars US$ '000	Euro US$ '000	British Pound US$ '000	Other US$ '000	Total US$ '000
ASSETS					
Cash and bank balances	220,877	12,804	16,228	6,478	256,387
Available for sale investments	107,957	-	50,986	3,453	162,396
Due from parent	9,634	-	-	-	9,634
Insurance and other receivables	118,439	4,667	10,003	7,832	140,941
Reinsurers' share of technical reserves - outstanding claims	122,549	1,022	11,356	46,644	181,571
	579,456	18,493	88,573	64,407	750,929
LIABILITIES					
Technical reserves - Outstanding claims reserve - gross	166,933	3,343	56,367	129,630	356,273
Reinsurance payables	16,440	-	4,415	-	20,855
Insurance and other payables	51,687	2,000	19,313	3,317	76,317
	235,060	5,343	80,095	132,947	453,445

Currency risk - Group (continued)	31 December 2011				
	US Dollars US$ '000	Euro US$ '000	British Pound US$ '000	Other US$ '000	Total US$ '000
ASSETS					
Cash and bank balances	113,796	11,022	23,454	5,502	153,774
Available for sale investments	78,445	-	13,590	79,589	171,624
Due from parent	76,003	-	-	-	76,003
Insurance and other receivables	68,724	2,215	10	18,839	89,788
Reinsurers' share of technical reserves - outstanding claims	78,511	1,797	378	48,077	128,763
	415,479	15,034	37,432	152,007	619,952
LIABILITIES					
Technical reserves - Outstanding claims - gross	177,052	5,678	542	109,769	293,041
Reinsurance payables	23,041	-	-	-	23,041
Insurance and other payables	70,564	473	523	7,872	79,432
	270,657	6,151	1,065	117,641	395,514

Currency risk - Group
(continued)

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	2012 Impact on Profit before tax US$ '000	2011 Impact on Profit before tax US$ '000
GBP	+/- 10%	**848**	3,637
Euro	+/- 10%	**1,315**	888

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 2012				
	US Dollars US$ '000	Euro US$ '000	British Pound US$ '000	Other US$ '000	Total US$ '000
ASSETS					
Cash and bank balances	**220,877**	**12,804**	**6,042**	**6,478**	**246,201**
Available-for-sale investments	**107,957**	**-**	**1,430**	**3,453**	**112,840**
Investment in subsidiaries	**1,533**	**27,146**	**654**	**-**	**29,333**
Due from parent	**8,469**	**-**	**-**	**-**	**8,469**
Insurance and other receivables	**118,439**	**4,680**	**3,108**	**7,832**	**134,059**
Reinsurers' share of technical reserves - outstanding claims	**122,549**	**1,022**	**383**	**46,644**	**170,598**
	579,824	**45,652**	**11,617**	**64,407**	**701,500**
LIABILITIES					
Technical reserves - outstanding claims reserve - gross	**166,933**	**3,343**	**705**	**129,630**	**300,611**
Reinsurance payables	**16,440**	**-**	**-**	**-**	**16,440**
Insurance and other payables	**51,687**	**2,000**	**1,327**	**3,317**	**58,331**
	235,060	**5,343**	**2,032**	**132,947**	**375,382**

Currency risk - Company (continued)	31 December 2011				
	US Dollars US$ '000	Euro US$ '000	British Pound US$ '000	Other US$ '000	Total US$ '000
ASSETS					
Cash and bank balances	105,469	10,944	23,454	5,502	145,369
Available-for-sale investments	46,735	-	-	79,589	126,324
Investment in subsidiaries	1,082	27,146	654	-	28,882
Due from parent	76,003	-	-	-	76,003
Insurance and other receivables	40,685	17,215	10	18,311	76,221
Reinsurers' share of technical reserves - outstanding claims	75,823	1,797	378	48,077	126,075
	345,797	57,102	24,496	151,479	578,874
LIABILITIES					
Technical reserves - outstanding claims	123,993	5,678	685	109,626	239,982
Reinsurance payables	18,187	-	-	-	18,187
Insurance and other payables	51,881	473	523	7,871	60,748
	194,061	6,151	1,208	117,497	318,917

Currency	Change in variables	2012 Impact on Profit before tax US$ '000	2011 Impact on Profit before tax US$ '000
GBP	+/- 10%	**959**	2,263
Euro	+/- 10%	**4,031**	2,381

(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$ 821 thousand (2011: US$ 525 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	2012 Group US$ '000	2012 Company US$ '000	2011 Group US$ '000	2011 Company US$ '000
Bahrain	**1,372**	**1,372**	3,795	3,795
Other GCC countries	**96,595**	**96,595**	94,937	94,937
Europe	**62,593**	**13,037**	69,718	24,418
Rest of the world	**1,836**	**1,836**	3,174	3,174
	162,396	**112,840**	171,624	126,324

c) Market risk - Group and Company
(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.

Group and Company	Change in variables	2012 Impact on equity US$ '000	2011 Impact on equity US$ '000
Market indices			
Muscat stock exchange	+/- 15%	**239**	643
Doha stock exchange	+/- 15%	**1,716**	5,405

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

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

Liquidity risk - Group	2012 US$ '000							
	Less than 1 month	1 to 3 months	3 months to 1 year	Total of up to 1 year	More than 1 year and less than 5 years	More than 5 years	No fixed maturity	Total
ASSETS								
Cash and bank balances	112,325	138,323	5,739	256,387	-	-	-	256,387
Available for sale investments	-	-	-	-	54,167	-	108,229	162,396
Due from parent	-	-	9,634	9,634	-	-	-	9,634
Insurance and other receivables	58,488	59,613	66,524	184,625	43,577	1,483	-	229,685
Reinsurers' share of technical reserves	15,272	30,543	112,476	158,291	98,316	9,927	-	266,534
Investment properties	-	-	-	-	-	-	1,707	1,707
Properties held for sale	-	-	-	-	-	-	8,946	8,946
Property and equipment	-	-	-	-	-	-	12,545	12,545
Intangible assets	-	-	-	-	-	-	217	217
	186,085	228,479	194,373	608,937	196,060	11,410	131,644	948,051
LIABILITIES								
Technical reserves	36,470	72,941	271,467	380,878	233,325	21,297	-	635,500
Insurance and other payables	7,806	23,539	61,488	92,833	18,793	381	-	112,007
Reinsurance payables	6,952	13,903	-	20,855	-	-	-	20,855
Borrowings	-	-	187	187	952	-	-	1,139
	51,228	110,383	333,142	494,753	253,070	21,678	-	769,501

Liquidity risk - Group
(continued)

	2011 US$ '000							
	Less than 1 month	1 to 3 months	3 months to 1 year	Total of up to 1 year	More than 1 year and less than 5 years	More than 5 years	No fixed maturity	Total
ASSETS								
Cash and bank balances	115,369	7,143	9,696	132,208	21,566	-	-	153,774
Available for sale investments	-	-	-	-	70,841	12,576	88,207	171,624
Due from parent	-	-	76,003	76,003	-	-	-	76,003
Insurance and other receivables	5,667	12,471	25,220	43,358	141,105	-	7,945	192,408
Reinsurers' share of technical reserves	5,115	10,232	44,362	59,709	117,630	6,037	76,490	259,866
Investment properties	-	-	-	-	-	-	1,707	1,707
Properties held for sale	-	-	-	-	8,686	-	-	8,686
Property and equipment	-	-	-	-	-	-	12,918	12,918
Intangible assets	-	-	-	-	416	-	-	416
	126,151	29,846	155,281	311,278	360,244	18,613	187,267	877,402
LIABILITIES								
Technical reserves	12,329	24,659	111,527	148,515	223,802	15,384	192,964	580,665
Insurance and other payables	3,333	6,179	31,878	41,390	75,194	-	-	116,584
Reinsurance payables	1,424	1,802	8,358	11,584	2,877	-	8,580	23,041
Borrowings	-	-	-	-	1,284	-	-	1,284
	17,086	32,640	151,763	201,489	303,157	15,384	201,544	721,574

Liquidity risk - Company

	2012 US$ '000							
	Less than 1 month	1 to 3 months	3 months to 1 year	Total of up to 1 year	More than 1 year and less than 5 years	More than 5 years	No fixed maturity	Total
ASSETS								
Cash and bank balances	102,139	138,323	5,739	246,201	-	-	-	246,201
Available for sale investments	-	-	-	-	11,137		101,703	112,840
Investment in subsidiaries	-	-	-	-	-	-	29,333	29,333
Due from parent	-	-	8,469	8,469	-	-	-	8,469
Insurance and other receivables	58,488	59,613	59,642	177,743	43,577	1,483	-	222,803
Reinsurers' share of technical reserves	15,272	30,543	101,853	147,668	94,775	9,927	-	252,370
Investment properties	-	-	-	-	-	-	1,707	1,707
Property and equipment	-	-	-	-	-	-	10,345	10,345
	175,899	228,479	175,703	580,081	149,489	11,410	143,088	884,068
LIABILITIES								
Technical reserves	36,470	72,941	213,581	322,992	214,030	21,297	-	558,319
Reinsurance payables	5,480	10,960	-	16,440	-	-	-	16,440
Insurance and other payables	7,806	23,539	43,502	74,847	18,793	381	-	94,021
	49,756	107,440	257,083	414,279	232,823	21,678	-	668,780

Liquidity risk - Company
(continued)

	2011 US$ '000							
	Less than 1 month	1 to 3 months	3 months to 1 year	Total of up to 1 year	More than 1 year and less than 5 years	More than 5 years	No fixed maturity	Total
ASSETS								
Cash and bank balances	106,963	7,143	9,696	123,802	21,567	-	-	145,369
Available for sale investments	-	-	-	-	25,541	22,321	78,462	126,324
Investment in subsidiaries	-	-	-	-	-	-	28,882	28,882
Due from parent	-	-	76,003	76,003	-	-	-	76,003
Insurance and other receivables	5,666	12,471	21,431	39,568	131,327	-	7,945	178,840
Reinsurers' share of technical reserves	6,696	13,392	58,064	78,152	93,412	7,902	66,971	246,437
Investment properties	-	-	-	-	-	-	1,707	1,707
Property and equipment	-	-	-	-	-	-	10,612	10,612
	119,325	33,006	165,194	317,525	271,847	30,223	194,579	814,174
LIABILITIES								
Technical reserves	12,330	24,659	111,527	148,516	170,743	15,384	172,934	507,577
Reinsurance payables	1,424	1,802	3,503	6,729	2,877	-	8,581	18,187
Insurance and other payables	3,333	6,179	30,222	39,734	58,166	-	-	97,900
	17,087	32,640	145,252	194,979	231,786	15,384	181,515	623,664

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$ 613,774 thousand [2011: US$ 503,559 thousand] out of which US$ 278,210 thousand [2011: US$ 268,026 thousand] falls under the ratings category between A+ to A-, US$ 125,525 thousand [2011: US$ 111,769 thousand] lower than A-, and US$ 210,039 thousand [2011: US$ 123,764 thousand] is unrated.

Credit risk - Company
The company's maximum exposure to credit risk is US$ 542,285 thousand [2011: US$ 443,894 thousand] out of which US$ 207,886 thousand [2011: US$ 211,520 thousand] falls under the ratings category between A+ to A-, US$ 125,525 thousand [2011: US$ 103,365 thousand] lower than A-, and US$ 208,874 thousand [2011: US$ 120,009 thousand] is unrated.

f) Regulatory risk
The Group is subject to continuing approval by the Central Bank of Bahrain, the United Kingdom Financial Services 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 amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms. Except for investments of US$ 2,464 thousand (2011: US$ 4,247 thousand) caried at cost, the fair value of the Group and Company's financial instruments are not materially different from their carrying values as shown in the consolidated and separate statements of financial position.

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

Change in accounting policy
As explained in note 4 to the consolidated and Company's separate financial statements, the Group and Company have changed their accounting policy in respect of product classification and adoption of deposit accounting. The effects of the above change on the following statements are as follows:

	2011			
	Group		Company	
	Restated US$ '000	Previously reported US$ '000	Restated US$ '000	Previously reported US$ '000
Consolidated and separate statements of financial position				
Technical reserves	580,665	585,914	507,577	512,826
Insurance and other payables	116,584	111,335	97,900	92,651
Consolidated and separate statements of income				
Gross premiums written	343,290	348,773	331,244	336,727
Gross claims paid	116,118	116,344	139,346	139,572
Outstanding claims adjustments	55,637	60,886	59,496	64,745
Other operating income	764	1,440	1,012	1,688
Other income	8,294	7,610	8,777	8,093

Further to the above "other income", has been reclassified from US$ 8,294 thousand to US$ 8,825 thousand at Group level and US$ 8,777 thousand to US$ 9,308 thousand at the Company level due to reclassification of "income from investment properties" from US$ 973 thousand to US$ 442 thousand.

Change in accounting policy (continued)

Since the Group and the Company only issued the contracts which are accounted under deposit accounting from 1 July 2011, there is no impact on the opening balances of the earliest comparative period presented. Also the above change in accounting policy did not result in any change in previously reported profit for the year ended and retained earning as at 31 December 2011 respectively.

Restatements

During the year the following restatements were recorded in the consolidated financial statements:

	Group	
	1 January 2011	
	Restated US$ '000	**Previously reported US$ '000**
Consolidated statement of financial position		
Goodwill	26,540	24,645
Consolidated statement of changes in equity		
Retained earnings	46,873	45,679
Cumulative changes in fair value	32,201	33,395
Foreign currency translation reserve	576	(1,319)

The above restatements did not result in any change in previously reported profit for the year ended 31 December 2011.

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