



# Annual Report 2017



**Arab  
War Risks  
Insurance  
Syndicate**





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## Profile of the Syndicate

Registered in the Kingdom of Bahrain by Law Decree No. 8 of 1994

<b>Technical Committee members</b>			
Ebrahim Al Rayes	- Chairman	Sultan AlKhomashi	- Member
Imad Abdel Khaleq	- Deputy Chairman	Ahmad Idris	- Member
Fateh Bekdache	- Member	Tareq Al-Sahhaf	- Member
Sherif El Ghamrawi	- Member	Lamia Ben Mahmoud	- Member
Bassam Chilmeran	- Member		
<b>Chief Executive Officer</b>		Nabil J. Kotran	
<b>Subcommittees</b>			
<b>Audit</b>		<b>Investment</b>	
Ahmad Idris	- Chairman	Fateh Bekdache	- Chairman
Imad Abdel Khaleq	- Member	Tareq Al-Sahhaf	- Member
Sultan AlKhomashi	- Member	Bassam Chilmeran	- Member
		Nabil Kotran	- Ex-Officio
<b>Nomination &amp; Remunerations</b>		<b>Reinsurance</b>	
Sherif El Ghamrawi	-Chairman	Imad Abdel Khaleq	-Chairman
Lamia Ben Mahmoud	- Member	Lamia Ben Mahmoud	- Member
Bassam Chilmeran	- Member	Ahmad Idris	- Member
Nabil Kotran	- Ex-Officio	Nabil Kotran	- Ex-Officio
<b>Registered office</b>		P.O. Box 10009 Platinum Tower 8 Floor Al Seef District Kingdom of Bahrain awris@awris.com www.awris.com	
<b>E.mail</b>			
<b>Web Site</b>			
<b>Bankers</b>			
Arab Bank - Bahrain and Switzerland		Audi Bank- Lebanon	
Union National Bank – UAE		Cairo Amman Bank - Jordan	
The Housing Bank for Trade & Finance – Bahrain		Al Salam Bank – Bahrain	
Bank Dhofar – Oman		Ithmaar Bank- Bahrain	
National Bank of Bahrain – Bahrain		National Bank of Kuwait- Bahrain	
Burgan Bank – Kuwait		Bank of Bahrain & Kuwait	
Qatar National Bank – Qatar		Credit Libanais Bank - Bahrain	
BLOM Bank – Lebanon		SGBL Bank - Lebanon	
Kuwait Finance House – Bahrain			
<b>Auditors</b>			
		KPMG Fakhro P.O. Box 710 Manama Kingdom of Bahrain	

### Distinguished Members of the Arab War Risks Insurance Syndicate (AWRIS)

We are pleased to present the 38th annual report of the Technical Committee of the Syndicate for the financial year ended December 31, 2017, which highlights the achievements made during 2017, the Syndicate's balance sheet and Statement of Profit or Loss, cash flows, changes in Members' equity and the latest developments concerning the growth and development of the Syndicate's operations.

1. As regards the insurance activity, the economic downturn continued as a result of falling oil prices, which, in general, led to a weak pace of economic and commercial activity in the Arab region. This coincided with the ongoing political instability in several Arab countries where the size of its businesses represents an important source of the Syndicate's premium income. Moreover, the competitive pricing practiced by some competitors in the international market caused prices to decline under the pressure of excessive supplied capacity.
2. As part of continuous efforts to take Corporate Governance to a higher level, the Technical Committee held five meetings during the year. In addition, the Nomination and Remuneration Committee held three meetings, while Investment Committee and the Audit Committee held two meetings each and the Reinsurance Committee held One meeting.
3. As part of the training programme for employees of the Syndicate, 17 employees joined local and overseas-specialised courses in various fields of insurance and non-insurance, all of which have been successfully completed.
4. The number of Member companies in the Syndicate reached 191 at the end of 2017 compared with 188 in 2016, an increase of 4 Members and the withdrawal of one member.
5. Following to the decision of last year General Assembly, the Syndicate's Reserve was merged with the Contingency Reserve under the name of "Syndicate's General Reserve". The policy of distribution of dividends was amended accordingly. All amendments were made to the memorandum of Association and the Syndicate's Articles of Association and uploaded into the Syndicate's website.
6. An in depth study for Syndicate's reinsurance protections had been carried out by Management and the Reinsurance Committee, following which it was decided to continue with the existing Reinsurance Treaty Facilities and the Syndicate was able to improve some conditions under the Sabotage & Terrorism and political violence Treaty.
7. The Syndicate's IT Department has successfully completed the task of introducing the necessary improvements in the system based on the recommendations of the relevant consultancy firm and in the light of previous requests from users in different Departments.

### Insurance activity

#### Net premiums

The net premium of the Syndicate for 2017 stands at US\$ 14,763,928 compared to US\$19,380,746 for 2016, a decrease of US\$ 4,616,818 (23.8%).

The following table shows the net premiums per line of business (in US dollars)

Line of business	2017	2016	Change (%)
Aviation	175,684	118,122	48.7
Cargo	10,362,312	12,109,644	-14.4
Hull	638,986	950,062	-32.7
Sabotage and Terrorism	2,325,492	3,858,731	-39.7
War on Land	992,540	2,087,596	-52.5
Passive War	268,914	256,591	4.8
<b>Total</b>	<b>14,763,928</b>	<b>19,380,746</b>	<b>-23.8</b>

### Paid and outstanding claims

The net settled claims amount during 2017 was US\$2,172,492 compared to US\$ 175,430 in 2016.

The net outstanding claims amount under settlement stands at US\$ 2,857,465 in 2017 compared to US\$5,916,431 in 2016.

### Profit commissions

The estimated profit commissions owed to Member companies in respect of the year 2016 and as shown in the 2017 balance sheet is US\$ 2,331,234 whereas the profit commission of US\$ 63,802 is due from reinsurers.

### Year-end reserves

The unexpired risk reserve was calculated as at 31/12/2017 in accordance with the Syndicate's technical rules and practices. This reserve amounted to US\$ 19 million in 2017 compared with US\$20 million in 2016.

### Investment activity:

In the year 2017, the Syndicate achieved a remarkable investment return, which is the highest in the Syndicate's history, which stands at US\$ 7,711,102 compared to US\$ 5,913,740 last year. An increase of US\$ 1,797,362 (30.40%).

In addition, the Syndicate continued to implement the investment policy approved by the Investment Committee at its various meetings and ratified by the Technical Committee.

The Syndicate's net funds and investments until 31/12/2017 amounted to a total of US\$ 178,830,751 compared to US\$ 176,271,249 for the same period last year with an increase of US\$ 2,559,502 (1.45%).

### Distribution of the Syndicate's funds and investments were as follows (in US dollars)

Investment type	2017	2016
Fixed deposits	134,283,491	137,457,536
Call Accounts Balances	808,322	324,486
Bahraini banks and companies Shares	7,928,512	8,009,034
Bonds	26,473,404	21,105,109
Current accounts balances	451,674	483,295
Cash on hand	28,611	171
Arab Insurance Institute - Damascus shares	250,000	250,000
SICO Fund – Investment portfolio	8,606,737	8,641,618
<b>Total</b>	<b>178,830,751</b>	<b>176,271,249</b>

### Distribution of Investment Return (in US dollars)

Investment type	2017	2016
Net interest on fixed deposits	5,270,511	4,016,418
Net income from bonds	1,505,989	985,729
Net Dividends of Bahraini banks and companies	537,072	499,358
SICO Fund – Investment portfolio	397,530	412,235
<b>Total</b>	<b>7,711,102</b>	<b>5,913,740</b>

### General and Administrative expenses

The general and administrative expenses for the year 2017 amounted to a total of US\$3,426,275 compared to US\$ 3,693,668 in 2016, a decrease of US\$267,393 (7.24%).

### The Syndicate's Result for the year

The insurance and investment activities of the Syndicate for the year 2017 generated a surplus amount of US\$17,550,766 compared to US\$ 19,700,370 in 2016, after loading the profit and loss account with the standard usual expenses, a decrease of US\$ 2,149,604.

Following the ratification of the General Assembly of the Syndicate of the final accounts for the year 2017 and the approval of the dividend distribution under paragraph (18) of the notes, which include the Technical Committee Chairman and Members remunerations and any other appropriations as decided by the General Assembly, then the profit will be distributed 20% to the Syndicate's General Reserve account and 80 % dividends to Member companies in accordance with the Syndicate Agreement.

The Syndicate's General Reserve amounted US\$ 140,988,169 by the end of 2017 without including the share of reserves allocated to this financial year, which will be added to the above amount after approval of the General Assembly of the final accounts compared to the amount of US\$ 134,733,562 at the end of 2016, an increase of US\$ 6,254,607 (4.64%).

The results shown in the final accounts clearly indicate that this Arab insurance project continues to achieve its goals, namely the support of the Arab insurance market through the provision of various insurance coverages to its Member companies with reasonable conditions and prices.

We would like to extend our thanks to all Members Companies of the Syndicate as well as our various Brokers and Reinsurance partners. We would also like to extend our thanks and gratitude to the Syndicate's Management and Staff for achieving such commendable performance and results.

**Technical Committee**

# ARAB WAR RISKS INSURANCE SYNDICATE

## Report of the Technical Committee of the Syndicate for the financial year ended December 31, 2017

US Dollars

### Fixed Deposits & Investments as at 31.12.2017

#### Bonds as at 31.12.2017

	Amount US\$	Period		Duration	Interest %
		From	To		
1 Saudi Electricity Global Sukuk Co.	1,008,500.00	08-04-2013	08-04-2023	10 YRS	3.473%
2 Kingdom of Bahrain 2023	1,493,000.00	05-08-2013	01-08-2023	10 Years	6.125%
3 A.Dhabi Comm. Bk. (ADCB) (20,000)	1,900,000.00	04-10-2013	06-03-2023	9 Years & 5 Months	4.500%
4 A.Dhabi Comm. Bk. (ADCB) (15,000)	1,506,000.00	06-03-2014	06-03-2023	9 YRS	4.500%
5 Emaar 2024	1,507,500.00	18-06-2014	18-06-2024	10 YRS	4.564%
6 Burgan Bank 7 1/4 2049	1,003,750.00	30-09-2014	Perpetual	Perpetual	7.250%
7 National Bank of Kuwait	1,005,827.50	09-04-2015	Perpetual	Perpetual	5.750%
8 Ahli United Bank	2,040,000.00	29-04-2015	Perpetual	Perpetual	6.875%
9 Bahrain Government Development	1,060,951.60	10-11-2016	10-05-2024	7.5 YRS	5.875%
10 Qatari Real Estate Developer EZDAN Sukuk	2,017,500.00	27-01-2017	18-05-2021	5 YRS	4.375%
11 Warba 6.5 Perpetual bonds	1,007,000.00	14-03-2017	Perpetual	Perpetual	6.50%
12 EZDAN 5Y Sukuk	1,993,030.00	05-04-2017	05-04-2022	5 YRS	4.875%
13 Dar Al-Arkan Sukuk (DARALA 6.5)	1,013,000.00	07-04-2017	28-05-2019	2 YRS	6.50%
14 Batelco 2020	1,011,000.00	26-04-2017	01-05-2020	3 YRS	4.25%
15 Baraka 2022 Perpetual	1,029,500.00	05-06-2017	Perpetual	Perpetual	7.875%
16 Bahrain Government Development	663,094.75	16-07-2017	16-07-2022	5 YRS	5.350%
17 Dar Al-Arkan Sukuk (DARALA 5 3/4)	1,007,000.00	11-09-2017	24-05-2018	8.5 Months	5.750%
18 Dar Al-Arkan Sukuk (DARALA 5 3/4)	1,006,750.00	13-09-2017	24-05-2018	8.5 Months	5.750%
19 Kingdom of Bahrain (BHRAIN 6 3/4)	2,000,000.00	20-09-2017	20-09-2029	12 YRS	6.750%
20 OILGAS 7.5 (NOGA)	1,200,000.00	25-10-2017	25-10-2027	10YRS	7.500%
<b>Total</b>	<b>26,473,403.85</b>				

#### Shares as at 31.12.2017

	Amount US\$
<b>Arab Insurance Institute - Damascus Shares</b>	<b>250,000</b>
Nos. 50,000 shares amounted US\$ 10 for each share (An impairment of US\$ 250,000 has been taken)	
<b>Bahraini Banks &amp; Companies Shares (BHD 2,989,190.889)</b>	<b>7,928,512</b>
<b>SICO Fund – Investment Portfolio</b>	<b>8,606,737</b>
<b>TOTAL</b>	<b>16,785,249</b>

## Fixed Deposits &amp; Investments Comparison for the Years 2017 &amp; 2016

## Fixed Deposits &amp; Investments as at 31.12.2017

Investment Type	Amount Invested US\$	Amount Invested %	Amount of Return US\$	Return Rate %
Fixed Deposits	134,283,491	75.09	5,270,511	3.92
Call Account Balances	808,322	0.45	--	--
<b>Sub Total</b>	<b>135,091,813</b>	<b>75.54</b>	<b>5,270,511</b>	
Bonds	26,473,404	14.8	1,505,989	5.69
Bahraini Banks & Companies Shares	7,928,512	4.44	537,072	6.77
Current Account Balances	451,674	0.25	--	--
Cash on Hold	28,611	0.02	--	--
Arab Insurance Institute - Damascus Shares	250,000	0.14	--	--
SICO Fund - Investment Portfolio	8,606,737	4.81	397,530	4.62
<b>Total</b>	<b>178,830,751</b>	<b>100.00</b>	<b>7,711,102</b>	<b>4.31</b>

## Fixed Deposits &amp; Investments as at 31.12.2016

Investment Type	Amount Invested US\$	Amount Invested %	Amount of Return US\$	Return Rate %
Fixed Deposits	137,457,536	77.98	4,016,418	2.92
Call Account Balances	324,486	0.19	--	--
<b>Sub Total</b>	<b>137,782,022</b>	<b>78.17</b>	<b>4,016,418</b>	
Bonds	21,105,109	11.97	985,729	4.67
Bahraini Banks & Companies Shares	8,009,034	4.55	499,358	6.23
Current Account Balances	483,295	0.27	--	--
Cash on Hold	171	0.00	--	--
Arab Insurance Institute - Damascus Shares	250,000	0.14	--	--
SICO Fund - Investment Portfolio	8,641,618	4.90	412,235	4.77
<b>Total</b>	<b>176,271,249</b>	<b>100.00</b>	<b>5,913,740</b>	<b>3.35</b>

Report of the Technical Committee of the Syndicate  
for the financial year ended December 31, 2017

US Dollars

BAHRAINI STOCKS AS AT 31/12/2017

Stock	Book Value as at 01/01/2017		Bonus No.	Purchase No.	Sale No.	Total No.	Purchase Cost		Book Value 31/12/2017		Market Value 31/12/2017		Diff. 31/12/2017		Yield for 2016	
	No.	BD					No.	US\$	No.	BD	US\$	BD	US\$	BD	US\$	BD
AUB US\$	1,094,421	264,061,899	109,442	0	0	1,203,863	0.000	0.000	264,061,899	700,429	317,699,446	842,704	53,637,547	142,275	49,248,940	5.84
Batelco	643,000	183,898,000	0	0	0	643,000	0.000	0.000	183,898,000	487,767	131,172,000	347,918	(52,726,000)	(139,849)	42,637,000	12.25
BBK	1,045,777	418,310,800	0	0	0	1,045,777	0.000	0.000	418,310,800	1,109,519	432,951,678	1,148,352	14,640,878	38,833	83,213,910	7.25
BCFC (BSE)	891,000	596,970,000	0	0	0	891,000	0.000	0.000	596,970,000	1,583,391	614,790,000	1,630,656	17,820,000	47,265	118,163,480	7.25
B. Hotels	143,738	91,992,320	14,373	0	0	158,111	0.000	0.000	91,992,320	243,998	83,008,275	220,169	(8,984,045)	(23,829)	9,531,190	4.33
BMMI	805,255	668,361,650	0	0	0	805,255	0.000	0.000	668,361,650	1,772,748	563,678,500	1,495,089	(104,683,150)	(277,659)	106,792,070	7.14
Duty Free	831,405	656,809,950	83,140	0	0	914,545	0.000	0.000	656,809,950	1,742,109	708,772,375	1,879,933	51,962,425	137,824	110,260,050	5.87
NBB	193,261	139,147,920	19,326	0	0	212,587	0.000	0.000	139,147,920	369,073	137,118,615	363,691	(2,029,305)	(5,382)	12,815,040	3.52
<b>Total</b>	5,647,857	3,019,552,539	8,009,034	0	0	5,874,138	0	0	3,019,552,539	8,009,034	2,989,190,889	7,928,512	(30,361,650)	(80,522)	532,661,680	6.72

Gain / Loss	BD	US\$
Total Loss	(168,422,500)	(446,719)
Total Gain	138,060,850	366,197
<b>Net Gain / Loss</b>	<b>(30,361,650)</b>	<b>(80,522)</b>

Stock	Av. C. P. (Book Value) 31/12/2017 (BD)	Market Price as at 31/12/2017 (BD)	Cost price (BD)	Gain Diff. 31/12/2017		Loss Diff. 31/12/2017	
				BD	US\$	BD	US\$
AUB US\$	\$0.5818178647	\$0.700	\$0.40963	53,637,547	142,275		
Batelco	0.2860000000	0.204	0.63971			(52,726,000)	(139,849)
BBK	0.4000000000	0.414	0.39039	14,640,878	38,833		
BCFC (BSE)	0.6700000000	0.690	0.64091	17,820,000	47,265		
B. Hotels	0.5818211257	0.525	0.25805			(8,984,045)	(23,829)
BMMI	0.8300000000	0.700	0.53282			(104,683,150)	(277,659)
Duty Free	0.7181822108	0.775	0.25791	51,962,425	137,824		
NBB	0.6545457624	0.645	0.38564			(2,029,305)	(5,382)
<b>Total</b>				138,060,850	366,197	(168,422,500)	(446,719)

AUB Nos.1,203,863 × US\$ 0.7 = US\$ 842,704.10  
 US\$ 842,704.10 × BD0.377 = BD 317,699,446  
 Net Decrease of BD -30,361,650 (In Market Value as at 31/12/2017) ÷ BD 3,019,552,539 (Book Value 31/12/2017) = %-1.006 Net Decrease

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

## Arab War Risks Insurance Syndicate Manama, Kingdom of Bahrain

### *Opinion*

We have audited the financial statements of Arab War Risks Insurance Syndicate (the "Syndicate"), which comprise the statement of financial position as at 31 December 2017, and the Statement of Profit or Loss, comprehensive income, changes in members equity and cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Syndicate for the year ended 31 December 2017 are prepared, in all material respects, in accordance with Syndicate's Accounting Policies Manual (SAPM).

### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Syndicate in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Other information*

The Technical Committee is responsible for the other information. The other information obtained at the date of this auditors' report is the Technical Committee set out on pages 2 to 7.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### *Responsibilities of Technical Committee for the financial statements*

Technical Committee is responsible for the preparation of the financial statements in accordance with the SAPM and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Syndicate's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless Technical Committee either intends to liquidate the Syndicate or to cease operations, or has no realistic alternative but to do so.

### *Auditor's responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

## Arab War Risks Insurance Syndicate Manama, Kingdom of Bahrain

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 syndicate's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Syndicate's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Syndicate to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Technical Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



KPMG Fakhro  
Partner registration No. 83  
15 March 2018



**Financial  
Statements  
2017**

# ARAB WAR RISKS INSURANCE SYNDICATE

## Statement of Financial Position as at 31 December 2017

US Dollars

	Note	2017	2016
<b>ASSETS</b>			
Cash and cash equivalents	3	1,288,607	807,952
Bank balances and term deposits	4	134,283,491	137,457,536
Investments	5	43,258,653	38,005,761
Balances due from ceding companies and reinsurers	6	5,029,196	4,975,641
Prepayments and other receivables	7	7,286,200	9,767,470
Property and equipment	8	2,798,620	2,998,954
<b>Total assets</b>		<b>193,944,767</b>	<b>194,013,314</b>
<b>MEMBERS' EQUITY, TECHNICAL RESERVES AND LIABILITIES</b>			
<b>Members' equity (page 14)</b>			
Syndicate's General Reserve		158,538,935	154,433,932
Available-for-sale investments fair value reserve		1,121,203	1,236,606
<b>Total members' equity</b>		<b>159,660,138</b>	<b>155,670,538</b>
<b>Technical reserves</b>			
Reserve for unexpired risks	9	19,000,000	20,000,000
Reserve for outstanding claims	9	2,857,465	5,916,431
		<b>21,857,465</b>	<b>25,916,431</b>
<b>Liabilities</b>			
Balances due to ceding companies and reinsurers	10	1,775,003	1,745,753
Other payables	11	8,933,648	9,248,628
Provision for profit commission (net)	12	1,295,924	1,067,986
Provision for employees' leaving indemnity	13	422,589	363,978
<b>Total technical reserves and liabilities</b>		<b>34,284,629</b>	<b>38,342,776</b>
<b>Total members' equity, technical reserves and liabilities</b>		<b>193,944,767</b>	<b>194,013,314</b>

The financial statements were approved by the Technical Committee on 15 March 2018 and signed on its behalf by:



**Ebrahim Al Rayes**  
Chairman of the Technical Committee



**Nabil J. Kotran**  
Chief Executive Officer

The notes on pages 16 to 35 form an integral part of these financial statements.

# ARAB WAR RISKS INSURANCE SYNDICATE

## Statement of Profit or Loss for the year ended 31 December 2017

US Dollars

	Note	2017	2016
Net premiums ceded to Syndicate		14,763,928	19,380,746
Less Net reinsured premiums		(3,116,296)	(3,745,306)
Net premiums retained by the Syndicate		11,647,632	15,635,440
Commission income		730,076	1,342,031
<b>Underwriting revenue</b>		<b>12,377,708</b>	<b>16,977,471</b>
Claims incurred, net		(2,172,492)	(175,430)
Net movements in the technical reserves	14	3,831,028	2,934,166
Commission expense		(2,331,234)	(3,121,219)
<b>Net underwriting surplus</b>		<b>11,705,010</b>	<b>16,614,988</b>
General and administrative expenses	15	(3,426,275)	(3,693,668)
Interest and investment income	16	7,711,102	5,913,740
Impairment of Fixed Assets	8	-	(782,345)
Other income	17	1,560,929	1,647,655
<b>Profit for the year</b>		<b>17,550,766</b>	<b>19,700,370</b>

The financial statements were approved by the Technical Committee on 15 March 2018 and signed on its behalf by:



**Ebrahim Al Rayes**  
Chairman of the Technical Committee



**Nabil J. Kotran**  
Chief Executive Officer

The notes on pages 16 to 35 form an integral part of these financial statements.

**Statement of comprehensive income  
for the year ended 31 December 2017**

US Dollars

	<b>2017</b>	<b>2016</b>
<b>Profit for the year (page 12)</b>	<b>17,550,766</b>	<b>19,700,370</b>
<b>Other comprehensive income</b>		
Fair value changes of available-for-sale investments	(115,403)	(1,164,505)
<b>Other comprehensive income for the year</b>	<b>(115,403)</b>	<b>(1,164,505)</b>
<b>Total comprehensive income for the year</b>	<b>17,435,363</b>	<b>18,535,865</b>

*The notes on pages 16 to 35 form an integral part of these financial statements.*

# ARAB WAR RISKS INSURANCE SYNDICATE

## Statement of changes in members' equity for the year ended 31 December 2017

US Dollars

2017	General Syndicate's Reserve	Available-for-sale investments fair value reserve	Total members equity
<b>At 1 January</b>	<b>154,433,932</b>	<b>1,236,606</b>	<b>155,670,538</b>
<b>Profit for the year (page 12)</b>	<b>17,550,766</b>	-	<b>17,550,766</b>
<b>Other comprehensive income</b>			
Fair value changes of available-for-sale investments	-	(115,403)	(115,403)
<b>Other comprehensive income</b>	-	(115,403)	(115,403)
<b>Total comprehensive income for the year (page 13)</b>	<b>17,550,766</b>	(115,403)	<b>17,435,363</b>
Amounts settled to withdrawn members (net) & adjustments	(1,359,286)	-	(1,359,286)
Amounts deducted from profits of new members	3,729,819	-	3,729,819
Dividend paid during the year	(15,536,296)	-	(15,536,296)
Technical committee members remunerations for 2016	(280,000)	-	(280,000)
<b>Subtotal</b>	<b>(13,445,763)</b>	-	<b>(13,445,763)</b>
<b>At 31 December</b>	<b>158,538,935</b>	<b>1,121,203</b>	<b>159,660,138</b>

2016	General Syndicate's Reserve	Available-for-sale investments fair value reserve	Total members equity
<b>At 1 January</b>	<b>147,101,641</b>	<b>2,401,111</b>	<b>149,502,752</b>
<b>Profit for the year (page 12)</b>	<b>19,700,370</b>	-	<b>19,700,370</b>
<b>Other comprehensive income</b>			
Fair value changes of available-for-sale investments	-	(1,164,505)	(1,164,505)
<b>Other comprehensive income</b>	-	(1,164,505)	(1,164,505)
<b>Total comprehensive income for the year (page 13)</b>	<b>19,700,370</b>	(1,164,505)	<b>18,535,865</b>
Amounts settled to withdrawn members (net) & adjustments	(508,411)	-	(508,411)
Amounts deducted from profits of new members	3,996,049	-	3,996,049
Dividend paid during the year	(15,583,217)	-	(15,583,217)
Technical committee members remunerations for 2015	(272,500)	-	(272,500)
<b>Subtotal</b>	<b>(12,368,079)</b>	-	<b>(12,368,079)</b>
<b>At 31 December</b>	<b>154,433,932</b>	<b>1,236,606</b>	<b>155,670,538</b>

The notes on pages 16 to 35 form an integral part of these financial statements.

## Statement of cash flows for the year ended 31 December 2017

US Dollars

	Note	2017	2016
<b>OPERATING ACTIVITIES</b>			
Profit for the year (page 12)		17,550,766	19,700,370
<i>Adjustments</i>			
Depreciation		221,299	251,645
Impairment		-	782,345
Loss / (Gain) on disposal of property and equipment		3,914	(13,262)
Net Interest and investment income		(7,711,102)	(5,913,740)
<i>Changes in the operating assets and liabilities</i>			
Provision for profit commission (net)		227,938	(260,224)
Provision for employees' terminal benefits		58,611	(787,098)
Reserve for unexpired risks		(1,000,000)	(2,000,000)
Reserve for outstanding claims		(3,058,966)	(673,942)
Balances due from ceding companies and reinsurers		(53,555)	2,428,246
Prepaid expenses and Other receivables- net of interest and investment income		1,410,621	293,021
Balances due to ceding companies and reinsurers		29,250	578,333
Other payables		(320,792)	(2,137,838)
Technical committee remuneration		(280,000)	(272,500)
<b>Net cash from operating activities</b>		<b>7,077,984</b>	<b>11,975,356</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of investments		(13,947,875)	(3,676,951)
Proceeds from maturity of investments		8,579,580	2,652,379
Interest and investment income received		8,781,751	4,411,431
Purchase of property and equipment		(19,067)	(254,045)
Increase /(Decrease) in bank balances and term deposits		3,174,045	(3,428,075)
<b>Net cash from / (used in) investing activities</b>		<b>6,568,434</b>	<b>(295,261)</b>
<b>FINANCING ACTIVITIES</b>			
Amounts paid to withdrawn member companies from Syndicate's General Reserve		(1,359,286)	(508,411)
Amounts deducted from profit of new members from Syndicate's General Reserve		3,729,819	3,996,049
Dividends paid		(15,536,296)	(15,583,217)
<b>Net cash used in financing activities</b>		<b>(13,165,763)</b>	<b>(12,095,579)</b>
<b>Net Increase / (decrease) in cash and cash equivalents</b>		<b>480,655</b>	<b>(415,484)</b>
Cash and cash equivalents at the beginning of the year		807,952	1,223,436
<b>Cash and cash equivalents at the end of the year</b>	<b>3</b>	<b>1,288,607</b>	<b>807,952</b>

The notes on pages 16 to 35 form an integral part of these financial statements.

### 1 ORGANIZATION AND ACTIVITIES

Arab War Risks Insurance Syndicate (“the Syndicate”) is an independent entity with limited liability and registered in the Kingdom of Bahrain pursuant to Amiri Decree No. 8 of 1994. The Syndicate was constituted by a number of Arab Insurance and Reinsurance Companies on 1 July 1980. The Syndicate’s objective is to protect the interests of the Arab insurance markets in the Arabian Gulf area and other Arab regions, in respect of marine cargo and marine hull war risks insurance, in addition to the other classes of business it writes.

### 2 SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 Basis of preparation

The financial statements have been prepared in accordance with the Syndicate Accounting Policies Manual (“SAPM”) and for matters that are not covered by SAPM, the Syndicate uses guidance from the relevant International Financial Reporting Standards (“IFRS”). The financial statements have been prepared in accordance with the historical cost basis, except for available-for-sale financial assets that are measured at fair value. The significant accounting policies of the Syndicate are set out below.

#### a) New Standards, amendments and interpretations that effective on or after 1 January 2017

The following standards, amendments and interpretations, which became effective in 2017 are relevant to the Syndicate:

##### i) Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)

The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. Therefore, assuming that the tax base remains at the original cost of the debt instrument, there is a temporary difference.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017. Early adoption is permitted. The adoption of this amendment had no significant impact on the financial statements.

##### ii) Annual Improvements to IFRSs 2014–2016 Cycle – various standards.

The annual improvements to IFRSs to 2014-2016 cycles include certain amendments to various IFRSs. earlier application is permitted (along with the special transitional requirement in each case), in which case the related consequential amendments to other IFRSs would also apply.

The adoption of these amendments had no significant impact on the financial statements.

### b) New standards, amendments and interpretations issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted; however, the Syndicate has not early applied the following new or amended relevant standards in preparing these financial statements.

#### i) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Syndicate is currently performing an initial assessment of the potential impact of the adoption of IFRS 15 on its financial statements.

#### ii) Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)

The differing effective dates of IFRS 9 Financial Instruments and the new insurance contracts standard could have a significant impact on insurers.

In response to concerns regarding temporary accounting mismatches and volatility, and increased costs and complexity, the IASB has issued amendments to IFRS 4 Insurance Contracts.

The amendments reduce the impacts, but companies need to carefully consider their IFRS 9 implementation approach to decide if and how to use them. The two optional solutions raise some considerations which require detailed analysis and management judgement.

The Syndicate has performed an assessment of the amendments and as the activities of the Syndicate are predominantly connected with insurance, the Syndicate has opted to apply the temporary exemption in its reporting period starting on 1 January 2018.

The Syndicate is still studying the impact that will result from the adoption of this standard.

#### iii) IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard- i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

The Syndicate does not expect to have a significant impact on its financial statements.

### c) Early Adoption Standards

The Syndicate did not early-adopt new or amended standards in 2017.

### 2.2 Foreign currency transactions

#### a) Functional and presentation currency

Items included in the financial statements of the Syndicate are measured and recorded in US Dollars ('the functional currency'). The financial statements are presented in US Dollars, which also is the Syndicate's presentation currency.

#### b) Transactions and balances

Monetary assets and liabilities are translated into US dollars at exchange rates ruling at the reporting date. Transactions in foreign currencies during the year are converted at the exchange rates at the dates of the transactions. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the profit or loss, except for differences arising on the retranslation of available-for-sale investments, which are recognised in other comprehensive income and presented within equity in the fair value reserve.

### 2.3 Financial instruments

Financial instruments comprise financial assets and financial liabilities which are non derivative by nature. Financial assets comprise cash and cash equivalents, bank balances and term deposits, investments, balances due from ceding companies and reinsurers and certain other receivables. Financial liabilities comprise balances due to ceding companies and reinsurers and certain other payables.

The Syndicate initially recognises financial assets and financial liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Syndicate commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Syndicate becomes a party to the contractual provisions of the instrument.

The Syndicate derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Syndicate neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition financial instruments are measured as described below.

### 2.4 Investments

#### a) Available-for-sale investments

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. These comprise investments in quoted shares and managed funds. Available-for-sale investments are initially recognized at fair value plus transaction costs, and subsequently measured to fair value. Unrealized gains and losses arising from changes in fair values are recognized in other comprehensive income and presented within equity in the fair value reserve until the investment is derecognized or impaired. At this time, the cumulative gain or loss previously recognized in equity is transferred to statement of profit or loss.

The fair values of the quoted available-for-sale investments in an active market are based on current bid prices. The fair values of managed funds are based on prices provided by the funds' managers. Fair values are based on market values for quoted investments. For unquoted investments, these are carried at cost less any impairment provisions.

### **b) Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Syndicate has the positive intention and ability to hold to maturity. These include investments in bonds. Held-to-maturity investments are carried at amortized cost using the effective interest rate method.

### **2.5 Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand, current accounts with banks and bank deposits with maturities of less than three months. For the purpose of the cash flow statement, cash and cash equivalents comprise of cash on hand, current and call accounts.

### **2.6 Receivables**

Receivables include balances due from reinsurers, dues from ceding companies prepaid expenses and other receivables, are stated at cost less provision for doubtful accounts.

### **2.7 Reserve for unexpired risks**

A provision for unexpired risks is created for liabilities in respect of business in force at the yearend which is calculated in accordance with the reinsurance protection in place and risks retained for net account.

### **2.8 Claims**

Provision is made for the estimated cost of all outstanding claims in respect of incidents that occurred up to the reporting date, and notified to the Syndicate. Any difference between estimated cost of claims and subsequent settlements are dealt with in the results of the year in which settlement is made. Claims settled in the year are charged to profit or loss, net of reinsurance.

### **2.9 Provisions**

The Syndicate recognises provisions when it has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

### **2.10 Insurance**

The Syndicate issues contract that transfer insurance risk. Insurance contracts are those contracts where the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. As a general guideline, the Syndicate defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event.

### **2.11 Liability adequacy test**

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the insurance liabilities, net of related deferred acquisition costs using current estimates of future cash flows under insurance contracts. In performing

these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used. Any deficiency is immediately charged to the statement of profit or loss by establishing a provision for losses arising from liability adequacy tests.

### 2.12 Reinsurance contracts

Reinsurance contracts are contracts entered into by the Syndicate with reinsurers under which the Syndicate is compensated for losses on insurance contracts issued. The benefits to which the Syndicate is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consists of balances due from reinsurers on settlement of claims and other receivables such as profit commissions and reinsurers share of outstanding claims that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are recognized consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense when due.

### 2.13 Net premium

Net premium represents the net premium ceded to the Syndicate after excluding all expenses that were due. The same applies to reinsurance premium. Premiums are recognized in the statement of Profit or Loss from the date of attachment of risk over the policy period, net of any reinsurance. The earned proportion of contributions is recognized as revenue based on statements submitted by cedants. The Syndicate does not account for the unexpired portion of such premiums as all risks are considered to expire as at the financial year end.

### 2.14 Investment income

Investment income comprises income from financial assets. Income from financial assets comprises contractually determined and quantifiable income at the commencement of the transaction and dividend income, and realized gains/losses on financial assets. Income from financial assets, which are both contractually determined and quantifiable at the commencement of the transaction, is accrued on the straight-line basis over the period of the transaction. Income which is not contractually determined or quantifiable, is recognized when reasonably certain of realization or when realized. Gains and losses on disposal of investments are determined on the basis of the difference between net disposal proceeds and the carrying amount of the investment at the date of sale and are recognized at the time of disposal.

## 2.15 Property and Equipment

Furniture, equipment and vehicles are carried at cost less accumulated depreciation and any impairment provision. Depreciation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives are as follows:

Assets category	Estimated useful life in years
Furniture & office equipment	4
Computers	4
Motor vehicles	4
Building	25

The residual values and useful lives of assets are reviewed, and adjusted, if appropriate, at the reporting date.

## 2.16 Employees' benefits

### a) Bahraini employees

Pensions and other social benefits for Bahraini employees are covered by the Social Insurance Organisation scheme, which is a "defined contribution scheme" in nature under IAS 19 'Employee Benefits', and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis.

### b) Expatriate employees

Eligible employees are entitled to leaving indemnities payable under the Bahraini Labour Law for the Private Sector of 2012, based on length of service and final remuneration. Provision for this unfunded commitment, which is a "defined benefit scheme" in nature under IAS 19, has been made by calculating the notional liability had all employees left at the reporting date.

## 2.17 Impairment

The carrying amounts of the Syndicate's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. All impairment losses are recognized in the statement of profit or loss. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

## 2.18 Critical accounting estimates and judgments in applying accounting policies

The Syndicate makes estimates and assumptions that affect the reported amount of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### a) Impairment of financial assets

The Syndicate assesses at each reporting date whether there is objective evidence that a financial asset is impaired. In the

case of available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in other comprehensive income and presented in the fair value reserve in equity, is transferred to statement of profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in statement of profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised in other comprehensive income.

Impairment losses on held-to-maturity investments are measured as the difference between the carrying amount of the financial asset and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses, if any, are recognised in the Statement of Profit or Loss. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the profit or loss.

#### b) Estimation of reserve for outstanding claims

The estimation of the ultimate liability arising from claims made under insurance contracts requires judgment. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Syndicate will ultimately pay for such claims. The estimation for claims include an estimation made to meet certain contingencies such as unexpected and unfavourable court judgments which may require a higher payout than originally estimated and settlement of claims, which may take longer than expected, resulting in actual payouts being higher than estimated.

#### c) Reserve for unexpired risks

The reserve for unexpired risks is created for liabilities estimated on a maximum loss basis in respect of business in force at the year end in accordance with the reinsurance protection in place and risks retained for net account.

### 3 CASH AND CASH EQUIVALENTS

	2017	2016
Cash on hand	28,611	171
Current account balances	451,674	483,295
Call account balances	808,322	324,486
	<b>1,288,607</b>	<b>807,952</b>

## 4 BANK BALANCES AND TERM DEPOSITS

	2017	2016
Term deposits due within 12 months	134,283,491	134,090,536
Term deposits due within more than 12 months	-	3,367,000
	<b>134,283,491</b>	<b>137,457,536</b>

The weighted average effective interest rate for 2017 was 4.44% (2016: 3.44 %).

## 5 INVESTMENTS

	Available- for-sale	Held-to- maturity	Total 2017	Total 2016
At 1 January	16,900,652	21,105,109	38,005,761	38,145,694
Purchased during the year	-	13,947,875	13,947,875	3,676,951
Matured during the year	-	(1,005,000)	(1,005,000)	-
	<b>16,900,652</b>	<b>34,047,984</b>	<b>50,948,636</b>	<b>41,822,645</b>
Fair value changes	(115,403)	-	(115,403)	(1,164,505)
Sale during the year	-	(7,574,580)	(7,574,580)	(2,652,379)
<b>At 31 December</b>	<b>16,785,249</b>	<b>26,473,404</b>	<b>43,258,653</b>	<b>38,005,761</b>

The categories of the above investments are as follows:

2017	Available- for- sale	Held-to- maturity	Total
Interest bearing securities	-	26,473,404	26,473,404
Quoted equity securities	16,535,249	-	16,535,249
Unquoted equity securities	250,000	-	250,000
<b>At 31 December</b>	<b>16,785,249</b>	<b>26,473,404</b>	<b>43,258,653</b>

2016	Available- for- sale	Held-to- maturity	Total
Interest bearing securities	-	21,105,109	21,105,109
Quoted equity securities	16,650,652	-	16,650,652
Unquoted equity securities	250,000	-	250,000
<b>At 31 December</b>	<b>16,900,652</b>	<b>21,105,109</b>	<b>38,005,761</b>

Investments in unquoted equities are carried at cost less impairment in the absence of a reliable measure of fair value.

## 6 BALANCES DUE FROM CEDING COMPANIES AND REINSURERS

	2017	2016
Balance due from ceding companies	4,475,648	4,975,092
Balance due from re-insurers	553,548	549
	<b>5,029,196</b>	<b>4,975,641</b>

## 7 PREPAYMENTS AND OTHER RECEIVABLES

	2017	2016
Premium reserve retained by ceding companies	2,857,831	3,172,222
Accrued interest	3,281,454	4,352,103
Accrued profit commission due from re-insurers	78,830	668,851
Other receivables	582,898	623,434
Due from re-insurers	485,187	950,860
	<b>7,286,200</b>	<b>9,767,470</b>

## 8 PROPERTY AND EQUIPMENT

	Furniture & office equipment	Computers	Motor vehicles	Building	2017 Total	2016 Total
<b>Cost</b>						
At 1 January	199,976	156,884	237,398	2,761,922	3,356,180	5,130,900
Additions	6,896	4,256	31,829	-	42,981	267,307
Disposals	-	(2,016)	(31,815)	-	(33,831)	(144,114)
Revaluation adjustments (*)	-	-	-	-	-	(1,897,913)
<b>At 31 December</b>	<b>206,872</b>	<b>159,124</b>	<b>237,412</b>	<b>2,761,922</b>	<b>3,365,330</b>	<b>3,356,180</b>
<b>Accumulated depreciation</b>						
At 1 January	168,976	130,128	58,122	-	357,226	1,365,263
Charge for the year	15,851	13,008	54,417	138,023	221,299	251,645
Disposals / write-off	-	-	(11,815)	-	(11,815)	(144,114)
Revaluation adjustments(*)	-	-	-	-	-	(1,115,568)
<b>At 31 December</b>	<b>184,827</b>	<b>143,136</b>	<b>100,724</b>	<b>138,023</b>	<b>566,710</b>	<b>357,226</b>
<b>Net book value</b>						
<b>At 31 December 2017</b>	<b>22,045</b>	<b>15,988</b>	<b>136,688</b>	<b>2,623,899</b>	<b>2,798,620</b>	<b>2,998,954</b>
<b>At 31 December 2016</b>	<b>31,000</b>	<b>26,756</b>	<b>179,276</b>	<b>2,761,922</b>	<b>2,998,954</b>	<b>-</b>

During the year 2016, the Syndicate has appointed an external, independent property valuer, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. Based on the valuation results, the Syndicate has written down the value of its building resulting in net loss of US\$ 782,345.

**9 Technical Provisions**

Movements in insurance liabilities as follows:

	<b>2017</b>	<b>2016</b>
	(Net)	(Net)
<b>Claims</b>		
At 1 January	26,984,417	29,918,583
Reversal during the year	(1,658,536)	(2,758,736)
Claims settled during the year (net)	(2,172,492)	(175,430)
<b>At 31 December</b>	<b>23,153,389</b>	<b>26,984,417</b>
Reserve for unexpired risks	19,000,000	20,000,000
Reserves for outstanding reported claims	2,857,465	5,916,431
Provision for profit commission (Net)	1,295,924	1,067,986
	<b>23,153,389</b>	<b>26,984,417</b>

**10 BALANCES DUE TO CEDING COMPANIES AND REINSURERS**

	<b>2017</b>	<b>2016</b>
<b>Due within 12 months</b>		
Balances due to ceding companies *	1,420,437	829,821
Balances due to re-insurers	354,566	915,932
	<b>1,775,003</b>	<b>1,745,753</b>

\* This balance represents amounts due to member companies, being their share of accumulated profits, return premiums and profit commission.

**11 OTHER PAYABLES**

	<b>2017</b>	<b>2016</b>
<b>Due within 12 months</b>		
Provisional profit commission due to member companies for the previous year	2,331,234	2,990,212
Adjusted premiums due to reinsurers	678,055	1,033,595
Sundry payables	4,703,137	3,843,559
Accruals and other payables	1,221,222	1,381,262
	<b>8,933,648</b>	<b>9,248,628</b>

**12 PROVISION FOR PROFIT COMMISSION (NET)**

The provision for profit commission (net) US\$ 1,295,924 (2016: US\$ 1,067,986) represents the net commission due to and from the Syndicate for the year 2017. The profit commission reserve due to members was calculated at the highest level of what the Syndicate might pay to its members for the financial year with the profit commission due to the Syndicate being calculated on the basis of what it expects to receive from re-insurers in view of actual accounts.

**13 PROVISION FOR EMPLOYEES' LEAVING INDEMNITY**

	2017	2016
As at the beginning of the year	363,978	1,151,076
Charge for the year	58,611	99,345
Payments during the year	-	(886,443)
	<b>422,589</b>	<b>363,978</b>

The number of staff employed by the Syndicate at 31 December 2017 was 26 employees, 1 office boy (2016: 24 employees, 1 office boy and 1 driver). Charges for the year include benefits provided to employees working for the Syndicate as per the Syndicate's Human Resource Manual clause 18.

**14 NET MOVEMENTS IN THE TECHNICAL RESERVES**

Technical reserve and provisions as at 31 December	2017	2016
Reserve for unexpired Risks	(19,000,000)	(20,000,000)
Reserve for Outstanding Claims	(2,857,465)	(5,916,431)
Provision for profit commission (net)	(1,295,924)	(1,067,986)
<b>Sub Total</b>	<b>(23,153,389)</b>	<b>(26,984,417)</b>
<b>Technical reserves and provisions as at 1 January</b>		
Reserve for unexpired Risks	20,000,000	22,000,000
Reserve for Outstanding Claims	5,916,431	6,590,373
Provision for profit commission (net)	1,067,986	1,328,210
<b>Sub Total</b>	<b>26,984,417</b>	<b>29,918,583</b>
<b>Net movements in the technical reserves</b>	<b>3,831,028</b>	<b>2,934,166</b>

**15 GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>2017</b>	<b>2016</b>
Staff salaries and related costs	2,590,002	2,778,791
Depreciation and write - off of fixed assets	212,163	251,645
Other general and administrative expenses	624,110	663,232
	<b>3,426,275</b>	<b>3,693,668</b>

**16 INTEREST AND INVESTMENT INCOME (Net)**

	<b>2017</b>	<b>2016</b>
Interest on time deposits and call accounts (Net)	5,270,511	4,016,418
Dividend income from equity securities	537,072	499,358
Interest on interest bearing securities (Net)	1,505,989	985,729
Income from Fund Investment	397,530	412,235
	<b>7,711,102</b>	<b>5,913,740</b>

**17 OTHER INCOME**

	<b>2017</b>	<b>2016</b>
Interests on premium reserve - Cargo and Hull	40,144	52,757
Release of provision (net)	1,520,785	1,594,898
	<b>1,560,929</b>	<b>1,647,655</b>

**18 APPROPRIATIONS**

Article no. 14 of the agreement states that 80% of the profits be distributed to the members and transfer the remaining 20% to the syndicate reserve account.

The distributions will be in accordance with syndicate agreement after appropriating the technical committee's remuneration for the year 2017 or any other appropriations as decided by the general assembly.

**19 INSURANCE RISK MANAGEMENT****a) Insurance risks**

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The principal risk that the Syndicate faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by frequency and severity of claims and subsequent development of

long term claims. The Syndicate's risk profile is improved by diversification of these risks of losses to a large portfolio of contracts as a diversified portfolio is less likely to be affected by an unexpected event in single subset.

Underwriting and retention guidelines and limits and clear underwriting authorities precisely regulate who is authorized and accountable for concluding insurance and reinsurance contracts and at what conditions. Compliance with these guidelines is regularly checked and developments in the global, regional and local markets are closely observed, reacting where necessary with appropriate measures that are translated without delay into underwriting guidelines if required.

A further important risk control measure in the field of underwriting is the cession of a portion of the risks to third parties via reinsurance. The majority of reinsurance business ceded by the Syndicate is placed on a non-proportional basis with retention limits varying by lines of business. This is diversified so that the Syndicate is not dependent on a single reinsurer or a reinsurance contract. Reinsurance does not, however, discharge the Syndicate's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Syndicate remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

Reserve risks are controlled by constantly monitoring the provisions for insurance claims that have been submitted but not yet settled and by amending the provisions, if deemed necessary.

#### b) Terms and conditions of insurance contracts

An overview of the terms and conditions of various contracts written by the Syndicate, and the key factors upon which the timing and uncertainty of future cash flows of these contracts are depends are detailed in the table below.

Type of contract	Terms and conditions	Key factors affecting future cash flows
Main cover (Hull, cargo & aviation) aggregate	This insurance covers loss of or damage to the subject matter insured caused by war, civil war, revolution, rebellion, insurrection or civil strife etc. The carrying conveyance (Ships or Aircrafts) can be also covered against the same risks.	The member shall be entitled to recover for insured loss occurring during the period covered by this insurance, notwithstanding that the loss occurred before the contract of insurance was concluded unless the Assured was aware of the loss and the Insurers were not. When loss or damage is imminent or has occurred, the Assured shall immediately notify the Syndicate.
Passive war (each person)	This insurance covers death or disablement directly arising out of war, invasion, acts of foreign enemies, hostilities or war like operations whether declared or not, civil war, rebellion, revolution, insurrection, military or usurped power or martial law.	The amount of any compensation payable under this insurance in respect of the consequences of the accident shall be the amount which is reasonably considered would have been payable if such consequences had not been so aggravated.
Sabotage and Terrorism (each claim & aggregate)	This insurance insures buildings and contents against physical loss or physical damage by an act of Terrorism, as herein defined, occurring during the period of the Policy.	The assured upon occurrence of the event likely to give rise to a claim shall notify the Syndicate.
War & SRCC on Land	This insurance covers all types of cargoes carried by trucks or trains against war, strikes and civil commotion risks. The carrying conveyance (Trucks) can be also covered against the same risks.	As risks are accepted on pure facultative basis, claims if any, shall be controlled fully by the Syndicate from the date of reporting until final settlement.

## c) Concentration of insurance risk

The Syndicate does not have any insurance contracts covering risks for single incidents that expose the Syndicate to multiple insurance risks. The Syndicate has adequately reinsured for insurance risks that may involve significant litigation. The sectoral concentration of insurance risk by line of business and net maximum insured loss is as follows:

	2017	2016
Sabotage & terrorism XL – aggregate	5,000,000	5,000,000
Main cover (hull, cargo & aviation) aggregate	1,750,000	1,750,000
War on land – aggregate	250,000	250,000
War on land - specific	11,250,000	12,250,000
Passive war (each event)	750,000	750,000
<b>Total</b>	<b>19,000,000</b>	<b>20,000,000</b>

## 20 FINANCIAL RISK MANAGEMENT

## a) Overview

The Syndicate has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

## b) Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and cause the other party to incur a financial loss. Key areas where the Syndicate is exposed to credit risk as a part of its operations are:

- reinsurers' share of insurance liabilities
- amounts due from reinsurers in respect of claims already paid
- amounts due from ceding companies
- recoverability of balances held with banks

The Syndicate structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty, and to geographical and industry segments. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk by category and territory are approved by the Technical Committee. Cash is placed with national and multinational banks with good credit ratings. Receivables are carried net of impairment allowances.

**Notes to the financial statements  
for the year ended 31 December 2017**

US Dollars

*(i) Overall exposure to credit risk*

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2017	2016
Balances due from ceding companies and reinsurers	5,029,196	4,975,641
Term deposits	134,283,491	137,457,536
Investments	43,258,653	38,005,761
Other receivables	7,264,003	9,661,091
Cash and bank balances	1,259,996	807,781
<b>Total</b>	<b>191,095,339</b>	<b>190,907,810</b>

*(ii) Assets that are past due*

The Syndicate has re-insurance and other receivables that are past due but not impaired at the reporting date (as indicated by the overall credit risk exposure analysis). The Syndicate believes that impairment of these receivables is not appropriate on the basis of stage of collection of amounts owed to the Syndicate. An age analysis of the carrying amounts of these re-insurance and other receivables is presented below.

Financial assets	Less than 365 days	More than 365 days	Total
<b>31 December 2017</b>			
Balances due from ceding companies and reinsurers	3,932,343	1,096,853	<b>5,029,196</b>
<b>31 December 2016</b>			
Balances due from ceding companies and reinsurers	3,596,034	1,379,607	<b>4,975,641</b>

**c) Market risk**

Market risk is the risk that the value of financial instrument will fluctuate as a result of changes in market prices on account of factors specific to the individual security or to its issuer or factors affecting the securities market. The Syndicate is exposed to market risk with respect to its investments in securities. The Syndicate limits market risk by maintaining a well-diversified portfolio and by continuous monitoring of relevant developments in international securities markets. In addition, the Syndicate actively monitors the key factors that are likely to affect the prices of securities, including operational and financial performance of investees.

*(i) Sensitivity analysis to market risks*

The table below shows the results of sensitivity testing on the Syndicate's statement of Profit or Loss and equity by type of business. The sensitivity analysis indicates the effect of changes in market risk factors arising from the impact of the changes in these factors on the Syndicate's financial assets and liabilities and its insurance assets and liabilities.

Equity price risk	Statement of Profit or Loss	Equity
<b>31 December 2017</b>		
10 percent increases in equity prices	-	1,653,525
10 percent decrease in equity prices	-	(1,653,525)
<b>31 December 2016</b>		
10 percent increases in equity prices	-	1,665,065
10 percent decrease in equity prices	-	(1,665,065)

(ii) *Currency rate risk*

Currency rate risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The currency rate risk is not considered significant for balances due from ceding companies denominated in other currencies. The Syndicate has bank balances and term deposits in United States dollars, Euro and other currencies as follows:

	Foreign Currency		US\$	
	2017	2016	2017	2016
US Dollars	136,527,812	119,093,476	136,527,812	119,093,476
Bahraini Dinar	12,928,539	15,645,546	34,291,386	41,497,916
Kuwaiti Dinar	500,573	2,079,477	1,655,705	6,813,490
Qatari Rial	1,500,000	15,000,000	412,088	4,119,974
EURO	15,091	14,932	18,108	15,712
Sudanese Pound	6,776,732	3,897,056	374,482	601,444
Omani Rial	500,000	-	1,300,390	-
Jordanian Dinar	3,013,803	2,920,196	4,250,780	4,129,237
<b>Total</b>			<b>178,830,751</b>	<b>176,271,249</b>

(iii) *Interest rate risk*

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Syndicate's term deposits bear fixed rates of interest and mature normally within a short period. Thus repricing only occurs when the funds are being reinvested on maturity. The Syndicate's investment in bonds bear fixed rates of interest and mature after more than one year.

d) **Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risks may arise from inability to sell financial assets as soon as possible for a price equal to its fair value. Liquidity risk is managed by rigorous monitoring on a regular basis to ensure that sufficient funds are available to meet any future commitments. The Syndicate has sufficient liquidity and therefore does not resort to borrowings in the normal course of business.

Notes to the financial statements  
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US Dollars

An analysis of the contractual maturities of the Syndicate's financial liabilities is presented below.

	Estimated undiscounted cash flows		
	Carrying amount	Total cash outflows	Under 1 year
<b>31 December 2017</b>			
Balances due to ceding companies	1,420,437	1,420,437	1,420,437
Balances due to re-insurers	354,566	354,566	354,566
Outstanding claims	2,857,465	2,857,465	2,857,465
	<b>4,632,468</b>	<b>4,632,468</b>	<b>4,632,468</b>
<b>31 December 2016</b>			
Balances due to ceding companies	829,821	829,821	829,821
Balances due to re-insurers	915,932	915,932	915,932
Outstanding claims	5,916,431	5,916,431	5,916,431
	<b>7,662,184</b>	<b>7,662,184</b>	<b>7,662,184</b>

## e) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1:  
Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2:  
Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3:  
Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 December 2017	Level 1	Level 2	Level 3	Total
Available-for-sale investments	16,535,249	-	250,000	16,785,249
<b>Total</b>	<b>16,535,249</b>	<b>-</b>	<b>250,000</b>	<b>16,785,249</b>

31 December 2016	Level 1	Level 2	Level 3	Total
Available-for-sale investments	16,650,652	-	250,000	16,900,652
<b>Total</b>	<b>16,650,652</b>	<b>-</b>	<b>250,000</b>	<b>16,900,652</b>

## f) Fair value

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. As the Syndicate's financial instruments are compiled under the historical cost method, except for available-for-sale investments which are stated at their fair values, differences can arise between the book amounts and the fair value estimates. Fair values of the Syndicate's assets and liabilities are not materially different from their carrying amounts.

## g) Classification of financial instruments

2017	Available-for-sale	Held-to-maturity	Loans and receivables	Other amortised cost	Total carrying value	Total fair value
<b>Assets</b>						
Cash and cash equivalents	-	-	1,288,607	-	1,288,607	1,288,607
Bank balances and term deposits	-	-	134,283,491	-	134,283,491	134,283,491
Investments *	16,535,249	26,473,404	-	-	43,008,653	43,008,653
Balances due from ceding companies and reinsurers	-	-	5,029,196	-	5,029,196	5,029,196
Other receivables	-	-	7,264,003	-	7,264,003	7,264,003
<b>Total financial assets</b>	<b>16,535,249</b>	<b>26,473,404</b>	<b>147,865,297</b>	<b>-</b>	<b>190,873,950</b>	<b>190,873,950</b>
<b>Liabilities</b>						
Balances due to ceding companies and reinsurers	-	-	-	1,775,003	1,775,003	1,775,003
Other payables	-	-	-	8,933,648	8,933,648	8,933,648
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,708,651</b>	<b>10,708,651</b>	<b>10,708,651</b>

\*Excluding share of Arab Insurance Institute, Damascus, Syria for US\$ 250,000 (2016: US\$ 250,000).

Notes to the financial statements  
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US Dollars

2016	Available-for-sale	Held-to-maturity	Loans and receivables	Other amortised cost	Total carrying value	Total fair value
<b>Assets</b>						
Cash and cash equivalents	-	-	807,952	-	807,952	807,952
Bank balances and term deposits	-	-	137,457,536	-	137,457,536	137,457,536
Investments *	16,650,652	21,105,109	-	-	37,755,761	37,755,761
Balances due from ceding companies and reinsurers	-	-	4,975,641	-	4,975,641	4,975,641
Other receivables	-	-	9,661,091	-	9,661,091	9,661,091
<b>Total financial assets</b>	<b>16,650,652</b>	<b>21,105,109</b>	<b>152,902,220</b>	<b>-</b>	<b>190,657,981</b>	<b>190,657,981</b>
<b>Liabilities</b>						
Balances due to ceding companies and reinsurers	-	-	-	1,745,753	1,745,753	1,745,753
Other payables	-	-	-	9,248,628	9,248,628	9,248,628
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,994,381</b>	<b>10,994,381</b>	<b>10,994,381</b>

\*Excluding share of Arab Insurance Institute, Damascus, Syria for US\$ 250,000 (2015: US\$ 250,000).

## 21 MATURITY PROFILE OF INVESTMENTS

Held to maturity	Less than 1 year	1-5 years	More than 5 years	Total
2017	2,013,750	6,697,625	17,762,029	26,473,404
2016	2,993,910	980,670	17,130,529	21,105,109

## 22 RELATED PARTY TRANSACTIONS

## a) Transactions with related parties

The Syndicate provides marine cargo and marine hull war risks insurance services to its members.

## b) Transactions with key management personnel

Key management personnel of the Syndicate comprise the Technical Committee and key members of management having authority and responsibility for planning, directing and controlling the activities of the Syndicate. Remuneration paid to the previous Technical Committee of the Syndicate for the year 2016 amounts to US\$ 280,000 in the year 2017 (2015: US\$ 272,500 paid in 2016). Salaries and benefits paid to key management personnel amounts to US\$621,992 (2016: US\$ 655,534). End of service benefits payable to key management personnel amounts to US\$ 54,650(2016: US\$ 32,152).



### 23 CAPITAL MANAGEMENT

The Syndicate Reserve serves as the capital of the Syndicate. The Technical Committee's policy is to maintain a Syndicate reserve so as to maintain members and market confidence, and to sustain future development of the Syndicate. The Syndicate's objectives for managing its Syndicate Reserve are to safeguard the entity's ability to continue as a going concern, and to provide an adequate return to members by pricing services commensurately with the level of risk. There were no significant changes in the Syndicate's approach to capital management during the year. The Syndicate is not subject to externally imposed capital requirements.