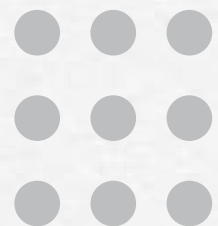
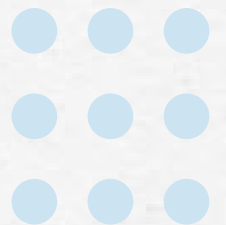
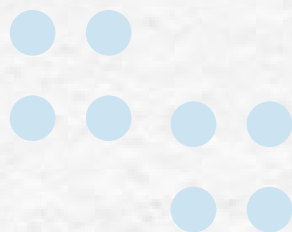


Annual Report 2018



**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

Technical Committee members			
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		
Chief Executive Officer		Nabil J. Kotran	
Subcommittees			
Audit		Investment	
Ahmad Idris	- Chairman	Fateh Bekdache	- Chairman
Imad Abdel Khaleq	- Member	Tareq Al-Sahhaf	- Member
Sultan AlKhomashi	- Member	Bassam Chilmeran	- Member
		Nabil Kotran	- Ex-Officio
Nomination & Remunerations		Reinsurance	
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
Registered office		P.O. Box 10009 Platinum Tower 8 Floor Al Seef District Manama -Kingdom of Bahrain	
E.mail		awris@awris.com	
Web Site		www.awris.com	
Bankers			
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			
Auditors			
		KPMG Fakhro P.O. Box 710 Manama Kingdom of Bahrain	



Statement by Chairman

Respected members of the Arab War Risks Insurance Syndicate

On behalf of myself and my colleagues , members of the Technical Committee, I extend my thanks and gratitude to you for your continued and unlimited support to the Syndicate, which resulted in the continuation of excellent results during the year 2018 despite many challenges mainly the slow development due to the instability of oil prices, which reflected negatively on all economical and commercial activities in the Arab world in general and war insurance premiums in particular, let alone the fierce competition from the international market to acquire such premiums.

On the investment side, despite the conservative policy followed in managing its investments, the Syndicate was able to capture many opportunities arising from the improvement in interest rates in addition to the policy of diversifying the investment portfolio, which resulted in a significant increase in the investment returns.

In the light of the achievements made, I can proudly confirm the success of the Syndicate during the year 2018, which falls in line with its long and successful 39-year journey, and would recall in this respect the spirit of cooperation and solidarity of its member companies as well as the enormous contribution of the previous technical committees represented by the best Arab insurance Professionals, so I remember them with thanks , appreciation and gratitude.

I hope with optimism that member companies will continue its support and loyalty to this Arab entity, which is considered one of the best and most successful Arab projects achieved on the map of the Arab insurance industry which will contribute in increasing the number of members in the future.

In conclusion, I would like to reiterate my deep gratitude to 190 member companies, the owners of the Syndicate at the end of 2018. Also I would like to extend my thanks to our supporting Reinsurers and Reinsurance brokers, the Executive Management and all the Employees of the Syndicate for their dedication and good performance during the year 2018. I would also like to thank the Kingdom of Bahrain for hosting the headquarter and providing the Syndicate with all necessary facilities to serve its member companies.

Ebrahim Al Rayes
Chairman of the Technical Committee



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

We are pleased to present the 39th annual report of the Technical Committee of the Syndicate for the financial year ended December 31, 2018, which highlights the achievements made during 2018, 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 industry, the Syndicate has made an intensive technical and marketing efforts that have resulted in achieving a reasonable increase in premium despite the continued economic downturn in the Arab region and the severe competitive pricing in the international market.
2. As part of continuous efforts to take Corporate Governance to a higher level, the Technical Committee held Four 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 , the efforts have resulted in some of the Syndicate's employees having completed a professional certificate from the Chartered Insurance Institute - UK. This is an important achievement for the Syndicate and falls in line with the strategy of Executive Management's policy towards having specilized & profiessional team in all departments.
4. The number of Member companies in the Syndicate reached 190 at the end of 2018 compared with 191 in 2017, an increase of 3 Members , the withdrawal of 3 members and merger of 2 member companies in Bahrain .
5. The Syndicate organized workshops in both the Egyptian and Jordanian markets where it highlighted several important aspects related to the technical services, the available coverage and the capacity and how to calculate the profits and reserves of the member companies in addition to the discussion in terms of developing the level of service.
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.

Insurance activity

Net premiums

The net premium of the Syndicate for 2018 stands at US\$ 14,904,290 compared to US\$14,763,928 for 2017, a increase of US\$ 140,362 (0.95 %).



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

Line of business	2018	2017	Change (%)
Aviation	52,321	175,684	(70.2%)
Cargo	9,826,893	10,362,312	(5.2%)
Hull	532,151	638,986	(16.7%)
Sabotage and Terrorism	3,239,710	2,325,492	39.3%
War on Land	1,033,898	992,540	4.2%
Passive War	219,317	268,914	(18.4%)
Total	14,904,290	14,763,928	0.95%

Paid and outstanding claims

The net settled claims amount during 2018 was US\$ 341,810 compared to US\$ 2,172,492 in 2017.

The net outstanding claims amount under settlement stands at US\$ 2,975,083 in 2018 compared to US\$ 2,857,465 in 2017.

Profit commissions

The estimated profit commissions owed to Member companies in respect of the year 2017 and as shown in the 2018 balance sheet is US\$ 2,119,240 whereas the profit commission of US\$ 484,481 is due from reinsurers.

Year-end reserves

The unexpired risk reserve was calculated as at 31/12/2018 in accordance with the Syndicate's technical rules and practices. This reserve amounted to US\$ 17.5 million in 2018 compared with US\$19 million in 2017.

Investment activity:

In the year 2018, the Syndicate achieved a remarkable investment return, which is the highest in the Syndicate's history, which stands at US\$ 8,724,140 compared to US\$ 7,711,102 last year. An increase of US\$ 1,013,038 (13.14%).

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 31/12/2018 amounted to a total of US\$ 183,561,919 compared to US\$ 178,830,751 for the same period last year with an increase of US\$ 4,731,168 (2.65%).



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

Investment type	2018	2017
Fixed deposits	126,597,639	134,283,491
Call Accounts Balances	287,233	808,322
Bahraini banks and companies Shares	8,410,065	7,928,512
Bonds	39,414,441	26,473,404
Current accounts balances	461,121	451,674
Cash on hand	722	28,611
Investment in Arab Insurance Institute	125,000	250,000
SICO Fund – Investment portfolio	8,265,698	8,606,737
Total	183,561,919	178,830,751

Distribution of Investment Return (in US dollars)

Investment type	2018	2017
Net interest on fixed deposits	5,647,002	5,270,511
Net income from bonds	1,997,467	1,505,989
Net Dividends of Bahraini banks and companies	566,813	537,072
SICO Fund – Investment portfolio	512,858	397,530
Total	8,724,140	7,711,102

General and Administrative expenses

The general and administrative expenses for the year 2018 amounted to a total of US\$ 3,607,278 compared to US\$ 3,426,275 in 2017, a increase of US\$ 181,003 (5.28 %).

The Syndicate's Result for the year

The insurance and investment activities of the Syndicate for the year 2018 generated a surplus amount of US\$17,778,491 compared to US\$ 17,550,766 in 2017, after loading the profit and loss account with the standard usual expenses, a increase of US\$ 227,725 .

Following the ratification of the General Assembly of the Syndicate of the final accounts for the year 2018 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\$ 140,773,348 by the end of 2018 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\$ 140,988,169 at the end of 2017 , an decreased of US\$ 214,821 (0.15 %) due to withdrawal of some companies.

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, 2018

US Dollars

Fixed Deposits & Investments as at 31.12.2018

Bonds as at 31.12.2018

	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 Kingdom of Bahrain (BHRAIN 6 3/4)	2,000,000.00	20-09-2017	20-09-2029	12 YRS	6.750%
18 OILGAS 7.5 (NOGA)	1,200,000.00	25-10-2017	25-10-2027	10YRS	7.500%
19 OILGAS 7.5 (NOGA)	971,040.00	07-03-2018	25-10-2027	10YRS	7.500%
20 Bank Muscat 5Y	992,000.00	14-03-2018	14-03-2023	5YRS	4.875%
21 Bank Muscat 5Y	996,000.00	14-03-2018	14-03-2023	5YRS	4.875%
22 Dar Al-Arkan 2023 sukuk	1,488,750.00	21-03-2018	21-03-2023	5YRS	6.875%
23 Dar Al-Arkan 2023 sukuk	494,820.00	21-03-2018	21-03-2023	5YRS	6.875%
24 Dubai Islamic Bank (DIB 2049)	1,994,475.00	26-03-2018	Perpetual	Perpetual	6.25%
25 Bahrain sukuk 6 7/8 2025	1,000,000.00	05-04-2018	05-10-2025	7.5 YRS	6.875%
26 OTELOM 5 5/8 2023	991,750.00	24-04-2018	24-10-2023	5.5 YRS	5.625%
27 Bahrain Government Development	1,060,951.60	03-05-2018	03-05-2020	2 YRS	5.50%
28 Kingdom of Bahrain 2020	1,980,000.00	21-05-2018	31-03-2020	2 YRS	5.50%
29 Dar Al-Arkan 2022 Sukuk (DARALA 6 7/8)	1,485,000.00	31-05-2018	10-04-2022	3 YRS & 10 Months	6.875%
30 Bahrain Islamic Private Placement Sukuk	1,500,000.00	10-09-2018	10-09-2021	3 YRS	6.184%
Total	39,414,440.45				

Report of the Technical Committee of the Syndicate
for the financial year ended December 31, 2018

US Dollars

BAHRAINI STOCKS AS AT 31/12/2018

Stock	Book Value as at 01/01/2018		Bonus No.	Purchase No.	Sale No.	Total No. 31/12/2018	Purchase Cost		Book Value 31/12/2018		Market Value 31/12/2018		Diff. 31/12/2018		Yield for 2017	
	No.	BD					US\$	BD	US\$	BD	US\$	BD	US\$	BD	US\$	BD
AUB US\$	1,203,863	317,699,446	842,704	60,193	0	1,264,056	0.000	0.000	317,699,446	842,704	326,436,142	865,878	8,736,696	23,174	54,173.83	6.26
Batelco	643,000	131,172,000	347,918	0	0	643,000	0.000	0.000	131,172,000	347,918	180,040,000	477,534	48,868,000	129,616	42,637.00	8.93
BBK	1,045,777	432,951,678	1,148,352	0	0	1,045,777	0.000	0.000	432,951,678	1,148,352	474,782,758	1,259,304	41,831,080	110,952	97,082.89	7.71
BCFC (BSE)	891,000	614,790,000	1,630,656	0	0	891,000	0.000	0.000	614,790,000	1,630,656	686,070,000	1,819,718	71,280,000	189,062	118,163.48	6.49
B. Hotels	158,111	83,008,275	220,169	0	0	158,111	0.000	0.000	83,008,275	220,169	67,987,730	180,329	(15,020,545)	(39,840)	12,581.11	6.98
BMMI	805,255	563,678,500	1,495,089	0	0	805,255	0.000	0.000	563,678,500	1,495,089	616,020,075	1,633,919	52,341,575	138,830	106,792.07	6.54
Duty Free	914,545	708,772,375	1,879,933	0	0	914,545	0.000	0.000	708,772,375	1,879,933	676,763,300	1,795,033	(32,009,075)	(84,900)	121,286.00	6.76
NBB	212,587	137,118,615	363,691	21,258	0	233,845	0.000	0.000	137,118,615	363,691	142,645,450	378,350	5,526,835	14,659	14,096.53	3.73
Total	5,874,138	2,989,190,889	7,928,512	81,451	0	5,955,589	0	0	2,989,190,889	7,928,512	3,170,745,455	8,410,065	181,554,566	481,553	566,812.91	6.74

Stock	Av. C. P. (Book Value) 31/12/2018 (BD)	Market Price as at 31/12/2018 (BD)	Cost price (BD)	Gain Diff. 31/12/2018		Loss Diff. 31/12/2018	
				BD	US\$	BD	US\$
AUB US\$	\$0.666666667	\$0.685	\$0.39012	8,736,696	23,174		
Batelco	0.204000000	0.280	0.63971	48,868,000	129,616		
BBK	0.414000000	0.454	0.39039	41,831,080	110,952		
BCFC (BSE)	0.690000000	0.770	0.64091	71,280,000	189,062		
B. Hotels	0.525000000	0.430	0.25805			(15,020,545)	(39,840)
BMMI	0.700000000	0.765	0.53282	52,341,575	138,830		
Duty Free	0.775000000	0.740	0.25791			(32,009,075)	(84,900)
NBB	0.5863653916	0.610	0.35058	5,526,835	14,659		
Total				228,584,186	606,293	(47,029,620)	(124,740)

Gain / Loss	BD	US\$
Total Loss	(47,029,620)	(124,740)
Total Gain	228,584,186	606,293
Net Gain / Loss	181,554,566	481,553

AUB Nos. 1,264,056 × US\$ 0.685 = US\$ 865,878.36

US\$ 865,878.36 × BD0.377 = BD 326,436.142

Net Increase of BD 181,554,566 (In Market Value as at 31/12/2018) ÷ BD 2,989,190,889 (Book Value 31/12/2018) = %6.074 Net Increase

Shares as at 31.12.2018

	Amount US\$
Investment in Arab Insurance Institute	125,000
Nos. 50,000 shares amounted US\$ 10 for each share (An impairment of US\$ 375,000 has been taken)	
Bahraini Banks & Companies Shares (BHD 3,170,745.455)	8,410,065
SICO Fund – Investment Portfolio	8,265,698
TOTAL	16,800,763

Fixed Deposits & Investments Comparison for the Years 2018 & 2017

Fixed Deposits & Investments as at 31.12.2018

Investment Type	Carrying Value US\$	Amount Invested %	Amount of Return US\$	Return Rate %
Fixed Deposits	126,597,639	68.97	5,647,002	4.46
Call Account Balances	287,233	0.16	--	--
Sub Total	126,884,872	69.13	5,647,002	
Bonds	39,414,441	21.47	1,997,467	5.07
Bahraini Banks & Companies Shares	8,410,065	4.58	566,813	6.74
Current Account Balances	461,121	0.25	--	--
Cash on Hold	722	0.00	--	--
Arab Insurance Institute - Damascus Shares	125,000	0.07	--	--
SICO Fund - Investment Portfolio	8,265,698	4.50	512,858	6.20
Total	183,561,919	100.00	8,724,140	4.75

Fixed Deposits & Investments as at 31.12.2017

Investment Type	Carrying Value 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	--	--
Sub Total	135,091,813	75.54	5,270,511	
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
Total	178,830,751	100.00	7,711,102	4.31

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 2018, and the statements of income, 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 2018 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 3 to 8.

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:

- 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

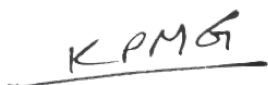
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

Arab War Risks Insurance Syndicate Manama, Kingdom of Bahrain

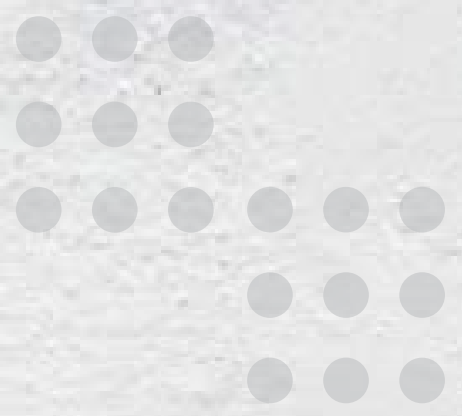
is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- 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.

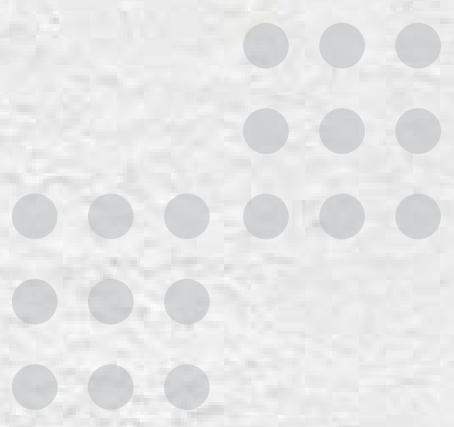
We communicate with the Technical Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



KPMG Fakhro
Partner registration No. 83
16 March 2019



**Financial
Statements**
2018



ARAB WAR RISKS INSURANCE SYNDICATE

Statement of Financial Position as at 31 December 2018

US Dollars

	Note	2018	2017
ASSETS			
Cash and bank balances	3	749,076	1,288,607
Bank and term deposits	4	126,597,639	134,283,491
Investments	5	56,215,204	43,258,653
Balances due from ceding companies and reinsurers	6	4,932,002	5,029,196
Prepayments and other receivables	7	7,828,182	7,286,200
Property and equipment	8	2,573,014	2,798,620
Total assets		198,895,117	193,944,767
MEMBERS' EQUITY, TECHNICAL RESERVES AND LIABILITIES			
Members' equity (page 15)			
Syndicate's General Reserve		158,551,839	158,538,935
Available-for-sale investments fair value reserve		1,261,717	1,121,203
Total members' equity		159,813,556	159,660,138
Technical reserves			
Reserve for unexpired risks	9	17,500,000	19,000,000
Reserve for outstanding claims	9	2,975,083	2,857,465
		20,475,083	21,857,465
Liabilities			
Balances due to ceding companies and reinsurers	10	1,838,270	1,775,003
Other payables	11	14,994,199	8,933,648
Provision for profit commission (net)	12	1,259,055	1,295,924
Provision for employees' leaving indemnity	13	514,954	422,589
Total technical reserves and liabilities		39,081,561	34,284,629
Total members' equity, technical reserves and liabilities		198,895,117	193,944,767

The financial statements were approved by the Technical Committee on 16 March 2019 and signed on its behalf by:



Ebrahim Al Rayes
Chairman of the Technical Committee



Nabil J. Kotran
Chief Executive Officer

The notes on pages 17 to 35 form an integral part of these financial statements.



**Statement of Profit or Loss
for the year ended 31 December 2018**

US Dollars

	Note	2018	2017
Net premiums ceded to Syndicate		14,904,290	14,763,928
Less Net reinsured premiums		(3,088,305)	(3,116,296)
Net premiums retained by the Syndicate		11,815,985	11,647,632
Commission income		988,480	730,076
Underwriting revenue		12,804,465	12,377,708
Claims incurred, net		(341,810)	(2,172,492)
Net movements in the technical reserves	14	1,419,251	3,831,028
Commission expense		(2,119,240)	(2,331,234)
Net underwriting surplus		11,762,666	11,705,010
General and administrative expenses	15	(3,607,278)	(3,426,275)
Interest and investment income	16	8,724,140	7,711,102
Impairment of investment		(125,000)	-
Other income	17	1,023,963	1,560,929
Profit for the year		17,778,491	17,550,766

The financial statements were approved by the Technical Committee on 16 March 2019 and signed on its behalf by:

Ebrahim Al Rayes
Chairman of the Technical Committee

Nabil J. Kotran
Chief Executive Officer

The notes on pages 17 to 35 form an integral part of these financial statements.



**Statement of comprehensive income
for the year ended 31 December 2018**

US Dollars

	2018	2017
Profit for the year (page 13)	17,778,491	17,550,766
Other comprehensive income		
Fair value changes of available-for-sale investments	140,514	(115,403)
Other comprehensive income for the year	140,514	(115,403)
Total comprehensive income for the year	17,919,005	17,435,363

The notes on pages 17 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 2018

US Dollars

2018	General Syndicate's Reserve	Available-for-sale investments fair value reserve	Total members equity
At 1 January	158,538,935	1,121,203	159,660,138
Profit for the year (page 13)	17,778,491	-	17,778,491
Other comprehensive income			
Fair value changes of available-for-sale investments	-	140,514	140,514
Other comprehensive income	-	140,514	140,514
Total comprehensive income for the year (page 14)	17,778,491	140,514	17,919,005
Amounts settled to withdrawn members (net) & adjustments	(6,640,223)	-	(6,640,223)
Amounts deducted from profits of members	6,425,402	-	6,425,402
Dividend paid during the year	(17,225,766)	-	(17,225,766)
Technical committee members remunerations for 2017	(325,000)	-	(325,000)
Subtotal	(17,765,587)	-	(17,765,587)
At 31 December	158,551,839	1,261,717	159,813,556

2017	General Syndicate's Reserve	Available-for-sale investments fair value reserve	Total members equity
At 1 January	154,433,932	1,236,606	155,670,538
Profit for the year (page 13)	17,550,766	-	17,550,766
Other comprehensive income			
Fair value changes of available-for-sale investments	-	(115,403)	(115,403)
Other comprehensive income	-	(115,403)	(115,403)
Total comprehensive income for the year (page 14)	17,550,766	(115,403)	17,435,363
Amounts settled to withdrawn members (net) & adjustments	(1,359,286)	-	(1,359,286)
Amounts deducted from profits of 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)
Subtotal	(13,445,763)	-	(13,445,763)
At 31 December	158,538,935	1,121,203	159,660,138

The notes on pages 17 to 35 form an integral part of these financial statements.



**Statement of cash flows
for the year ended 31 December 2018**

US Dollars

	Note	2018	2017
OPERATING ACTIVITIES			
Profit for the year (page 13)		17,778,491	17,550,766
<i>Adjustments</i>			
Depreciation		225,606	221,299
Impairment		125,000	-
Loss / (Gain) on disposal of property and equipment		-	3,914
Net Interest and investment income		(8,724,140)	(7,711,102)
<i>Changes in the operating assets and liabilities</i>			
Provision for profit commission (net)		(36,869)	227,938
Provision for employees' terminal benefits		92,365	58,611
Reserve for unexpired risks		(1,500,000)	(1,000,000)
Reserve for outstanding claims		117,618	(3,058,966)
Balances due from ceding companies and reinsurers		97,194	(53,555)
Prepaid expenses and Other receivables		(370,282)	1,410,621
Balances due to ceding companies and reinsurers		63,267	29,250
Other payables		550,076	(320,792)
Technical committee remuneration		(325,000)	(280,000)
Net cash from operating activities		8,093,326	7,077,984
INVESTING ACTIVITIES			
Purchase of investments		(14,954,787)	(13,947,875)
Proceeds from maturity of investments		2,013,750	8,579,580
Interest and investment income received		8,552,440	8,781,751
Purchase of property and equipment		-	(19,067)
Increase / (Decrease) in bank balances and term deposits		7,685,852	3,174,045
Net cash from / (used in) investing activities		3,297,255	6,568,434
FINANCING ACTIVITIES			
Amounts paid to withdrawn member companies from Syndicate's General Reserve		(1,129,748)	(1,359,286)
Amounts deducted from profit of new members from Syndicate's General Reserve		6,425,402	3,729,819
Dividends paid		(17,225,766)	(15,536,296)
Net cash used in financing activities		(11,930,112)	(13,165,763)
Net Increase / (decrease) in cash and cash equivalents		(539,531)	480,655
Cash and cash equivalents at the beginning of the year		1,288,607	807,952
Cash and cash equivalents at the end of the year	3	749,076	1,288,607

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 2018

The following standards, amendments and interpretations, which became effective in 2018 are relevant to the Syndicate:

I. IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The effective date of the amendments permitting the temporary exemption is for annual periods beginning on or after 1 January 2018. The temporary exemption is available for annual reporting periods beginning before 1 January 2022 and will expire once IFRS 17 becomes effective.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and on its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

II. Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)

In September 2016, the IASB published an amendment to IFRS 4 which addresses the concerns of insurance companies about the different effective dates of IFRS 9 Financial instruments and the forthcoming new insurance contracts standard.

The amendment provides two different solutions for insurance companies: a temporary exemption from IFRS 9 for entities that meet specific requirements (applied at the reporting entity level), and the ‘overlay approach’. Both approaches are optional.

IFRS 4 (including the amendments) will be superseded by the forthcoming new insurance contracts standard. Accordingly, both the temporary exemption and the ‘overlay approach’ are expected to cease to be applicable when the new insurance standards becomes effective.

III. IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS

15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The adoption of this standard had no significant impact on the financial statements.

IV. Annual Improvements to IFRSs 2014–2016 Cycle – various standards.

The annual improvements to IFRSs 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

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 2018 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 17 Insurance Contracts

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows
- an explicit risk adjustment, and
- a contractual service margin (“CSM”) representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the ‘variable fee approach’ for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity’s share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The amendment applies for annual periods beginning on or after 1 January 2022.

The Syndicate has started an initial assessment of the potential impact on its financial statements.

II. 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 from adoption of this standard.

c) Early Adoption Standards

The Syndicate did not early-adopt new or amended standards in 2018.

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 bank balance

Cash and bank balance 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 BANK BALANCES

	2018	2017
Cash on hand	722	28,611
Current account balances	461,121	451,674
Call account balances	287,233	808,322
	749,076	1,288,607

4 BANK AND TERM DEPOSITS

	2018	2017
Term deposits due within 12 months	123,597,639	134,283,491
Term deposits due within more than 12 months	3,000,000	-
	126,597,639	134,283,491

The weighted average effective interest rate for 2018 was 4.86 % (2017: 4.44%).

5 INVESTMENTS

	Available- for-sale	Held-to- maturity	Total 2018	Total 2017
At 1 January	16,785,249	26,473,404	43,258,653	38,005,761
Purchased during the year	-	14,954,787	14,954,787	13,947,875
Matured during the year	-	(2,013,750)	(2,013,750)	(1,005,000)
	16,785,249	39,414,441	56,199,690	50,948,636
Fair value changes	140,514	-	140,514	(115,403)
Impairment allowances	(125,000)	-	(125,000)	-
Sale during the year	-	-	-	(7,574,580)
At 31 December	16,800,763	39,414,441	56,215,204	43,258,653

Notes to the financial statements
for the year ended 31 December 2018

US Dollars

The categories of the above investments are as follows:

2018	Available- for- sale	Held-to- maturity	Total
Interest bearing securities	-	39,414,441	39,414,441
Quoted equity securities	16,675,763	-	16,675,763
Unquoted equity securities	125,000	-	125,000
At 31 December	16,800,763	39,414,441	56,215,204

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
At 31 December	16,785,249	26,473,404	43,258,653

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

	2018	2017
Balance due from ceding companies	4,931,991	4,475,648
Balance due from re-insurers	11	553,548
	4,932,002	5,029,196

7 PREPAYMENTS AND OTHER RECEIVABLES

	2018	2017
Premium reserve retained by ceding companies	2,659,334	2,857,831
Accrued interest	3,453,154	3,281,454
Accrued profit commission due from re-insurers	548,190	78,830
Other receivables	722,529	582,898
Due from re-insurers	444,975	485,187
	7,828,182	7,286,200

8 PROPERTY AND EQUIPMENT

	Furniture & office equipment	Computers	Motor vehicles	Building	2018 Total	2017 Total
Cost						
At 1 January	206,872	159,124	237,412	2,761,922	3,365,330	3,356,180
Additions	-	-	-	-	-	42,981
Disposals	-	-	-	-	-	(33,831)
At 31 December	206,872	159,124	237,412	2,761,922	3,365,330	3,365,330
Accumulated depreciation						
At 1 January	184,827	143,136	100,724	138,023	566,710	357,226
Charge for the year	8,720	9,204	55,103	152,579	225,606	221,299
Disposals / write-off	-	-	-	-	-	(11,815)
At 31 December	193,547	152,340	155,827	290,602	792,316	566,710
Net book value						
At 31 December 2018	13,325	6,784	81,585	2,471,320	2,573,014	2,798,620
At 31 December 2017	22,045	15,988	136,688	2,623,899	2,798,620	-

9 Technical Provisions

Movements in insurance liabilities as follows:

	2018 (Net)	2017 (Net)
Claims		
At 1 January	23,153,389	26,984,417
Reversal during the year	(1,077,441)	(1,658,536)
Claims settled during the year (net)	(341,810)	(2,172,492)
At 31 December	21,734,138	23,153,389
Reserve for unexpired risks	17,500,000	19,000,000
Reserves for outstanding reported claims	2,975,083	2,857,465
Provision for profit commission (Net)	1,259,055	1,295,924
	21,734,138	23,153,389

10 BALANCES DUE TO CEDING COMPANIES AND REINSURERS

	2018	2017
Due within 12 months		
Balances due to ceding companies *	1,562,061	1,420,437
Balances due to re-insurers	276,209	354,566
	1,838,270	1,775,003

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

11 OTHER PAYABLES

	2018	2017
Due within 12 months		
Provisional profit commission due to member companies for the previous year	2,119,240	2,331,234
Adjusted premiums due to reinsurers	430,244	678,055
Amounts due to withdrawing members	5,510,475	655,462
Sundry payables for members	5,608,707	4,047,675
Accruals and other payables	1,325,533	1,221,222
	14,994,199	8,933,648

12 PROVISION FOR PROFIT COMMISSION (NET)

The provision for profit commission (net) US\$ 1,259,055 (2017: US\$ 1,295,924) represents the net commission due to and from the Syndicate for the year 2018. 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

	2018	2017
As at the beginning of the year	422,589	363,978
Charge for the year	92,365	58,611
	514,954	422,589

The number of staff employed by the Syndicate at 31 December 2018 was 25 employees, 1 office boy (2017: 26 employees and 1 office boy). 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	2018	2017
Reserve for unexpired Risks	(17,500,000)	(19,000,000)
Reserve for Outstanding Claims	(2,975,083)	(2,857,465)
Provision for profit commission (net)	(1,259,055)	(1,295,924)
Sub Total	(21,734,138)	(23,153,389)
Technical reserves and provisions as at 1 January		
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
Sub Total	23,153,389	26,984,417
Net movements in the technical reserves	1,419,251	3,831,028

15 GENERAL AND ADMINISTRATIVE EXPENSES

	2018	2017
Staff salaries and related costs	2,785,532	2,590,002
Depreciation and write - off of fixed assets	225,606	212,163
Other general and administrative expenses	596,140	624,110
	3,607,278	3,426,275

16 INTEREST AND INVESTMENT INCOME (Net)

	2018	2017
Interest on time deposits and call accounts (Net)	5,647,002	5,270,511
Dividend income from equity securities	566,813	537,072
Interest on interest bearing securities (Net)	1,997,467	1,505,989
Income from Fund Investment	512,858	397,530
	8,724,140	7,711,102

17 OTHER INCOME

	2018	2017
Interests on premium reserve - Cargo and Hull	34,746	40,144
Release of provision (net)	989,217	1,520,785
	1,023,963	1,560,929



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 2018 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:

Type of Insurance	2018	2017
Sabotage & terrorism / PV 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	9,750,000	11,250,000
Passive war (each event)	750,000	750,000
Total	17,500,000	19,000,000

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.

(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:

	2018	2017
Balances due from ceding companies and reinsurers	4,932,002	5,029,196
Term deposits	126,597,639	134,283,491
Investments	56,215,204	43,258,653
Other receivables	7,828,182	7,264,003
Cash and bank balances	748,354	1,259,996
Total	196,321,381	191,095,339

(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
31 December 2018			
Balances due from ceding companies and reinsurers	3,625,612	1,306,390	4,932,002
31 December 2017			
Balances due from ceding companies and reinsurers	3,932,343	1,096,853	5,029,196

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
31 December 2018		
10 percent increases in equity prices	-	1,667,576
10 percent decrease in equity prices	-	(1,667,576)
31 December 2017		
10 percent increases in equity prices	-	1,653,525
10 percent decrease in equity prices	-	(1,653,525)

Notes to the financial statements
for the year ended 31 December 2018

US Dollars

(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\$	
	2018	2017	2018	2017
US Dollars	160,365,484	136,527,812	160,365,484	136,527,812
Bahraini Dinar	4,500,692	12,928,539	11,937,542	34,291,386
Kuwaiti Dinar	513,275	500,573	1,691,538	1,655,705
Qatari Rial	-	1,500,000	-	412,088
EURO	14,824	15,091	16,982	18,108
Sudanese Pound	7,159,173	6,776,732	150,252	374,482
Omani Rial	523,373	500,000	1,361,179	1,300,390
Jordanian Dinar	5,699,610	3,013,803	8,038,942	4,250,780
Total			183,561,919	178,830,751

(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.

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
31 December 2018			
Balances due to ceding companies	1,562,061	1,562,061	1,562,061
Balances due to re-insurers	276,209	276,209	276,209
Outstanding claims	2,975,083	2,975,083	2,975,083
	4,813,353	4,813,353	4,813,353
31 December 2017			
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
	4,632,468	4,632,468	4,632,468

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 2018	Level 1	Level 2	Level 3	Total
Available-for-sale investments	16,675,763	-	125,000	16,800,763
Total	16,675,763	-	125,000	16,800,763

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

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.

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US Dollars

g) Classification of financial instruments

2018	Available-for-sale	Held-to-maturity	Loans and receivables	Other amortised cost	Total carrying value	Total fair value
Assets						
Cash and cash equivalents	-	-	749,076	-	749,076	749,076
Bank balances and term deposits	-	-	126,597,639	-	126,597,639	126,597,639
Investments *	16,675,763	39,414,441	-	-	56,090,204	56,090,204
Balances due from ceding companies and reinsurers	-	-	4,932,002	-	4,932,002	4,932,002
Other receivables	-	-	7,736,925	-	7,736,925	7,736,925
Total financial assets	16,675,763	39,414,441	140,015,642	-	196,105,846	196,105,846
Liabilities						
Balances due to ceding companies and reinsurers	-	-	-	1,838,270	1,838,270	1,838,270
Other payables	-	-	-	14,994,199	14,994,199	14,994,199
Total financial liabilities	-	-	-	16,832,469	16,832,469	16,832,469

*Excluding share of Arab Insurance Institute, Damascus, Syria for US\$ 125,000 (2017: US\$ 250,000).

2017	Available-for-sale	Held-to-maturity	Loans and receivables	Other amortised cost	Total carrying value	Total fair value
Assets						
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
Total financial assets	16,535,249	26,473,404	147,865,297	-	190,873,950	190,873,950
Liabilities						
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
Total financial liabilities	-	-	-	10,708,651	10,708,651	10,708,651

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



21 MATURITY PROFILE OF INVESTMENTS

Held to maturity	Less than 1 year	1-5 years	More than 5 years	Total
2018	1,013,000	22,581,397	15,820,044	39,414,441
2017	2,013,750	6,697,625	17,762,029	26,473,404

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 2017 amounts to US\$ 325,000 in the year 2018 (2016: US\$ 280,000 paid in 2017). Salaries and benefits paid to key management personnel amounts to US\$653,953 (2017: US\$ 621,992). End of service benefits payable to key management personnel amounts to US\$ 93,220 (2017: US\$ 54,650).

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.