

# Hannover ReTakaful B.S.C. (c)

## FINANCIAL STATEMENTS

31 DECEMBER 2017

Commercial Registration	:	62686 (Licensed as a Locally Incorporated Reinsurance Firm (Islamic Principles) by the Central Bank of Bahrain)
Board of Directors	:	Jürgen Gräber, <i>Chairman</i> Mahomed Akoob Claude Chèvre Gerald Segler Olaf Brock Jorge Alfonso Perez
Registered Office	:	Al Zamil Tower, 17th floor P.O. Box 75180 Manama Kingdom of Bahrain

**FINANCIAL STATEMENTS**

**For the year ended 31 December 2017**

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**REPORT OF THE BOARD OF DIRECTORS**  
**For the year ended 31 December 2017**

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The Board of Directors submits their report together with the audited financial statements of Hannover ReTakaful B.S.C. (c) ("the Company") for the year ended 31 December 2017.

***Principal activity***

The Company's principal activity is to carry out retakaful activities in conformity with the precepts of Islamic Sharia.

***Financial performance***

The results of the Company for the year ended 31 December 2017 are as follows:

***Financial highlights***

	<b>2017 Bahraini Dinars</b>	<b>2016 Bahraini Dinars</b>
Gross contribution written	64,321,208	60,191,486
Shareholders' profit for the year	7,403,177	4,080,233
Equity attributable to shareholders	64,063,368	65,809,536
Policyholders' equity deficit	(18,164,097)	(24,447,808)

***Share capital***

The Company has an authorised equity share capital of BD 50,000,000 and issued equity share capital of BD 20,000,000 divided into 20,000,000 shares of BD 1 each. The total issued equity share capital is fully paid up.

***Public disclosures as required by the Central Bank of Bahrain***

Appendix 1 to this report reflects the public disclosures as required by the Central Bank of Bahrain to the extent applicable to the Company in Bahrain.

***Representations and audit***

The Company's activities for the year ended 31 December 2017 have been conducted in accordance with the Bahrain Commercial Companies Law 2001, Volume 3 of the Central Bank of Bahrain (CBB) Rulebook and other relevant statutes of the Kingdom of Bahrain. There have been no events subsequent to 31 December 2017, which would in any way invalidate the financial statements on pages 15 to 47.

There were no violations of the Bahrain Commercial Companies Law 2001, Volume 3 of the CBB Rulebook and CBB directives or the terms of the Company's Memorandum and Articles of Association during the year.

The Company has maintained proper, complete accounting records and these, together with all other information and explanations, have been made freely available to the current auditors, KPMG Fakhro. The Central Bank of Bahrain has approved the appointment of PricewaterhouseCoopers ME Limited (PWC) as external auditors. PWC have expressed their willingness to accept appointment as auditors and a resolution proposing their appointment will be submitted to the Annual General Meeting 2018.

  
 Jürgen Gräber  
 Chairman  
 6 March 2018

**Appendix 1 (Public Disclosures)****Financial position**Annual audited financial statements and auditor's report

The annual audited financial statements and auditor's report thereon as of and for the year ended 31 December 2017 are set out on pages 15 to 47 of the Financial Statements.

**Solvency statement**Required minimum solvency margins

Required minimum solvency margin is the amount by which the retakaful firm's assets have to exceed its liabilities, both being valued in accordance with the provisions set out in the Central Bank of Bahrain's Rulebook applicable to takaful and retakaful entities. Required minimum solvency margins are determined for general retakaful and family retakaful business separately.

Particulars	2017 Bahraini Dinars (000s)	2016 Bahraini Dinars (000s)
Required minimum solvency margin for family retakaful	400	400
Required minimum solvency margin for general retakaful	5,812	6,372

Shareholders' available capital

Shareholders' available capital refers to the ability of the Company to maintain sufficient capital to enable it to meet, at all times, its Qard Hassan obligations to policyholders. The available capital of the Company comprises the following:

Particulars	2017 Bahraini Dinars (000s)	2016 Bahraini Dinars (000s)
Tier 1 or core capital comprising the highest quality capital elements that fully meet all the essential characteristics of capital	66,063	64,586
Deduction from Tier 1 capital	(6,014)	(4,911)
Shareholders' available capital	<b>60,049</b>	59,675

**Appendix 1 (Public Disclosures)**Capital adequacy

To assess the Company's capital adequacy, the shareholders' available capital is compared to the required solvency margin. As at 31 December 2017, the excess of available capital above required solvency margin is as follows:

<b>Particulars</b>	<b>2017 Bahraini Dinars (000s)</b>	<b>2016 Bahraini Dinars (000s)</b>
Shareholders' available capital	60,049	59,675
Net admissible assets to cover solvency margin		
– Family retakaful fund	3,839	7,038
– General retakaful fund	(22,647)	(32,127)
<b>Total available capital to cover required solvency margin</b>	<b>41,241</b>	<b>34,586</b>
less: required solvency margin	(6,212)	(6,772)
<b>Excess capital</b>	<b>35,029</b>	<b>27,814</b>

Key ratios

A summary of key retakaful ratios of Hannover ReTakaful's general and family business and other operational ratios are presented below.

<b>Ratio</b>	<b>2017</b>		<b>2016</b>	
	<b>General Retakaful</b>	<b>Family Retakaful</b>	<b>General Retakaful</b>	<b>Family Retakaful</b>
<b>Retakaful ratios</b>				
Retention ratio	93.0%	99.0%	94.2%	96.1%
Gross contribution to shareholders' equity	47.2%	53.2%	54.5%	36.9%
Net contribution to shareholders' equity	43.9%	52.7%	51.4%	35.5%

**Appendix 1 (Public Disclosures)**

Combined ratios (shareholders' and policyholders' funds)

	<b>2017</b>	<b>2016</b>
<b>Liquidity ratios</b>		
Current ratio	7	10
Liabilities / liquid assets	87%	93%
Technical reserves / liquid assets	79%	85%
<b>Solvency ratios</b>		
Solvency ratio	564%	411%
Share capital and surplus as a % of liabilities	31%	25%
Technical reserves to shareholders' equity	161%	157%
Technical reserves to net contribution	148%	175%
<b>Capital ratios</b>		
Investments to technical reserves	121%	119%
Return on paid up capital	37%	20%
Return on shareholders' equity	12%	6%
Return on total assets employed	5.5%	3.7%

**Code of Conduct and Ethics**

In accordance with the requirements of the CBB Rulebook (High Level Controls Module), the Company has a corporate code of conduct and ethics in place which all directors and employees have to adhere to.

**Role of Board of Directors and management, experience of Directors and management**The Board of Directors

The Company is controlled through its Board of Directors that is ultimately accountable and responsible for the management and performance of the Company. The Board's main roles are to create value to stakeholders, to provide entrepreneurial leadership to the Company, to approve the Company's strategic objectives and to ensure that the necessary financial and other resources are made available to enable them to meet those objectives.

As at year end 2017, the Board of the Company consists of six members. Five out of the six directors are non-executive directors. Resumes of the directors are as follows:

**Appendix 1 (Public Disclosures)**

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Jürgen Gräber, Chairman

Mr. Jürgen Gräber graduated with a diploma in Economics from the University of Hannover, Germany. Post-graduation, Mr. Gräber joined *Hannover Rück SE* in 1981, and since then has been contributing to the success and growth of the Hannover Re Group serving in different areas of responsibility.

In 1992 he became Vice President with key responsibility for Asia, Africa and the Australian Market and was appointed as a Member of the Executive Board of the Hannover Re Group in 1997. Mr. Gräber was steering the Group's activities in the APAC region and the Advanced Solutions Team until 2001 when he became the Group's Coordinator for Property and Casualty (P&C) Reinsurance Business worldwide and took over responsibility for the US-market from September 1, 2001. In 2009 his responsibility changed from the US-market to Hannover Re's Specialty Lines Business (including Aviation & Space, Marine, Credit, Surety and Political Risks) as well as Retrocessions, Structured Reinsurance, Insurance Linked Securities, Quotations and Hannover Re's operations in the UK, Ireland and Africa. Since September 2014, Mr. Gräber's responsibilities encompass the coordination of the Group's worldwide P&C Reinsurance, the steering of business of the Iberian Peninsula, Central- & South America, Caribbean, the APAC and Africa regions, the writing of Agricultural Risks worldwide, Catastrophe XL business assumed by Hannover Re Bermuda as well as Structured Reinsurance, Insurance Linked Securities, Retrocessions and Quotations.

Mr. Gräber has been appointed as member of the Board of Directors of Hannover Retakaful B.S.C. (c) with effect from September 1, 2014, and elected as its Chairman.

Mahomed Akoob, Managing Director

Mr. Akoob is Associate member of the Insurance Institute of South Africa (AIISA) and a Fellow member of the Institute of Risk Managers (FIRMA).

Mr. Akoob joined Munich Reinsurance Company in South Africa in 1976 and developed his career working in various short-term insurance and underwriting departments including claims and became the General Manager for Underwriting and Finance.

In 2002, Mr. Akoob joined the Hannover Re Group in South Africa as an Executive Director and Chief Financial Officer. His responsibilities included Corporate Finance, Investments, Information Technology and Reinsurance. He was instrumental in establishing the first takaful company in South Africa.

In 2006, Mr. Akoob was tasked with the responsibility of setting up Hannover ReTakaful B.S.C. (c) in Bahrain, where he was appointed as the Managing Director. He brought with him a wealth of experience in both treaty and facultative underwriting, as well as finance, strategic planning and management.

Claude Chèvre

Mr. Chèvre holds a degree in Mathematics.

After graduating he embarked on his professional career in 1995 at Union Reinsurance Company Life & Health in Zurich. Following the company's integration into the Swiss Re Group, Mr. Chèvre assumed responsibility for the Spanish market. He subsequently held various managerial positions in life and health reinsurance business; in 2002 he was appointed as a member of the Senior Management of Swiss Re until he left in 2005.



**Appendix 1 (Public Disclosures)**

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After two years with Winterthur Insurance Group, Mr. Chèvre joined Partner Re, Zurich, in 2007, where as a member of Senior Management he was initially responsible for the development of Asian business. Since 2008 he has served as Head of Life for Asian markets, Spain, Portugal and Latin America.

Mr. Chèvre was first appointed as member of the Executive Board of *Hannover Rück SE* on November 1, 2011. Mr Chèvre was appointed to the Board of Directors of Hannover ReTakaful B.S.C. (c) on March 18, 2012.

**Gerald Segler**

Mr Segler holds a degree in economics from the University of Hagen. He published academic works on the topics Market Risk Management within Regulatory Environment in Insurance and Competition of International Corporate Governance Systems in Business Research and Practice.

Prior to joining Hannover Re in 2003, Mr Segler was an Assistant Vice President at AP Asset Management AG and AP Anlage & Privatbank AG, Zurich, where he was responsible for steering of risk and cost economies for all Private Equity projects as well as market analysis for fixed income derivatives. Mr Segler currently heads the Investment & Collateral Management (ICM) department which is responsible, among others, for the asset management of the entire Hannover Re Group.

Mr. Segler serves as Managing Director of several investment holding companies in Germany and abroad. Mr. Segler was appointed to the Board of Directors of Hannover ReTakaful B.S.C. (c) on August 1, 2011.

**Olaf Brock**

Mr. Brock studied Business Administration/Insurance at the University of Applied Sciences in Cologne and successfully completed the degree course in 1991 with Diploma in Business Economics as 'Diplom-Betriebswirt'.

Following his business studies he started his professional career joining the insurance sector of KPMG Wirtschaftsprüfungsgesellschaft AG, where he worked as Senior Auditor responsible for the execution of annual audits as well as for the revision of tax-related matters of (re-) insurance clients.

In July 1999, after nine years with KPMG AG, Olaf Brock joined *Hannover Rückversicherung AG*, assuming responsibility for the Internal Audit department as Vice President Group Auditing.

Thereafter in 2001, he became Associate Director of the department Group Accounting & Consolidation and in April 2009, Olaf Brock took over responsibility for the Finance & Accounting division as Managing Director, where he is in charge of all matters of financial reporting & accounting for the Hannover Re Group.

Mr. Brock is a member of the Executive Board of Hannover Life Re AG, the Board of Directors of Hannover Finance (Luxemburg) S.A. and a Managing Director of Hannover Rück Beteiligung Verwaltungs-GmbH.



## Appendix 1 (Public Disclosures)

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Beyond these memberships Olaf Brock is a member of the Insurance Working Group of the Accounting Standards Committee of Germany since April 2009.

Mr. Brock was appointed to the Board of Directors of Hannover ReTakaful B.S.C. (c) on December 13, 2016.

### Jorge Alfonso Perez

Mr. Alfonso Perez studied economics at the University of Hannover, Germany, and finished his studies in 1997 with a diploma in economics (Diplom-Ökonom).

He started his professional career in 1997 with *Hannover Rückversicherung AG*. The next 13 years Mr. Alfonso Perez worked as a facultative reinsurance underwriter for the European and Latin American countries and became team leader for the facultative Business in Europe in 2005.

In 2010 he was appointed General Manager for the Ibero America and South & Central Europe department within the Facultative Division of *Hannover Rück SE*.

His appointment as Managing Director for the complete Facultative Division of *Hannover Rück SE* was in September 2016. His responsibility covers worldwide facultative business of the Hannover Re Group.

On December 13, 2016, Mr. Alfonso Perez was appointed to the Board of Directors of Hannover ReTakaful B.S.C. (c).

### Responsibilities of the Board of Directors

The Board, which met four times during the year, has a schedule of matters reserved for its approval. The specific responsibilities reserved for the Board of Directors include:

- setting the strategy and approving an annual budget and medium-term projections;
- reviewing operational and financial performance;
- approving major acquisitions, divestments and capital expenditure; for major acquisitions and divestments additional approval by the shareholders would be required;
- reviewing the systems of financial control and risk management;
- ensuring that appropriate management development and succession plans are in place;
- approving policies relating to Directors' remuneration and the severance of Directors' contracts;
- ensuring that a satisfactory dialogue takes place with shareholders, policyholders and the Sharia Board; and
- ensuring conduct of business is in compliance with Sharia rules and principles.

### The Audit & Risk Committee

The Board of Directors has established an Audit & Risk Committee which met four times during the year. The Audit & Risk Committee of the Board of Directors is instrumental in the Board's fulfilment of its oversight responsibilities relating to:

- the integrity of the Company's financial statements;
- the Company's compliance with legal and regulatory requirements;
- the qualifications, independence and performance of the Company's external auditors;

**Appendix 1 (Public Disclosures)**

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- monitoring the performance of the Company's internal audit function;
- monitoring the business practices and ethical standards of the Company; and
- assessing the companies risk profile.

The internal audit function which has been outsourced reports to the Committee. The Committee is comprised of the following members:

Olaf Brock, Chairman; Mahomed Akoob; Gerald Segler; Jorge Alfonso Perez.

**The Nomination & Remuneration Committee**

The Nomination and Remuneration Committee consists of Board Members to assist the Board in discharging its oversight duties relating to:

- identify persons qualified to become members of the Board of Directors or Chief Executive Officer, Chief Financial Officer, Corporate Secretary and any other officers of the Company considered appropriate by the Board;
- make recommendations to the whole Board of Directors including recommendations of candidates for Board membership to be included by the Board of Directors on the agenda for the annual general meeting;
- review the Company's remuneration policies for the Board of Directors and senior management;
- make recommendations regarding remuneration policies and amounts for specific persons to the whole Board, taking account of total remuneration including salaries, fees, expenses and employee benefits; and
- remunerate Board members based on their attendance and performance.

The Committee is comprised of the following members:

Jürgen Gräber, Chairman; Mahomed Akoob; Claude Chèvre; Jorge Alfonso Perez.

**The Investment Committee**

The Investment Committee consists of Board members to:

- support the Board in making investment decisions which add to and enhance the Company's current strategy;
- support the Board in keeping tight contact with the Company's Sharia Supervisory Board whenever necessary;
- Approve the investment strategy determined. This strategy is set ensuring compliance with any legislative requirements and compliance with any Hannover Re Group Investment Guidelines.

The Committee is comprised of the following members:

Gerald Segler, Chairman; Jürgen Gräber, Mahomed Akoob.

**Appendix 1 (Public Disclosures)**Meeting Attendance

Director	01.03.2017		03.05.2017		20.09.2017		24.10.2017	
	Board	ARC	Board	ARC	Board	ARC	Board	ARC
Jürgen Gräber	√	*	√	*	√	*	√	*
Mahomed Akoob	√	√	√	√	√	√	√	√
Claude Chèvre	√	*	√	*	X	*	√	*
Gerald Segler	√	√	√	√	√	√	X	X
Olaf Brock	√	√	√	√	√	√	√	√
Jorge Alfonso Perez	√	√	√	√	√	√	√	√

√ Present

X Absent with apology

\* not applicable

ARC - Audit &amp; Risk Committee

The Roles of the Chairman and the Managing Director

The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives. The Chairman is responsible for organising the business of the Board, ensures its effectiveness and sets its agenda. The Chairman is a Non-Executive and has no involvement in the day to day business of the Company. The Chairman facilitates the effective contribution of non-executive Directors and constructive relations between executive and non-executive Directors. He ensures that the Directors receive accurate, timely and clear information and facilitates effective communication with the Company's shareholders.

The Company has appointed Mahomed Akoob as Managing Director on 3 October 2006 who has been vested with the direct charge of the Company on a day to day basis and is accountable to the Board for the financial and operational performance of the Company.

Corporate Governance

The Company remains committed to comply with the regulatory requirements of the Corporate Governance Guidelines as a framework for the governance of the Company. These guidelines developed to cover matters specifically stated in the Bahrain Commercial Companies Law, Bahrain's Corporate Governance Code (the "CGC"), the Company's Articles of Association, Volume 3 of the Central Bank of Bahrain (the "CBB") Rulebook, and other corporate governance matters deemed appropriate by the Board.

**Appendix 1 (Public Disclosures)**

With reference to the principles as stipulated in Module HC of Volume 3 of the Central Bank of Bahrain Rulebook, we are pleased to apprise that the Company is in compliance with the regulation as stated, reinforcing the values of responsibility, accountability, fairness and transparency of the Company.

**The Sharia Supervisory Board**

The Sharia Supervisory Board (SSB) is appointed by the Shareholders upon the recommendation of the Board of Directors. The responsibilities of the SSB are to:

- set out the rules, regulations and procedures in terms of Shariah compliance;
- advise on any Sharia matter and ensure compliance with Sharia within the Company.

The Company has in addition employed the services of IFAAS (Islamic Financial Advisory & Assurance Services), an independent Sharia audit and advisory firm, to review annually the Sharia compliance of the Company.

The Sharia Supervisory Board consists of three Sharia scholars and meets twice a year.

Member	26.02.2017	16.10.2017
Dr. Mohamed Ali Elgari	√	√
Mufti Muhammad Hassan	√	√
Sheikh Faizal Manjoo	√	√

√ Present

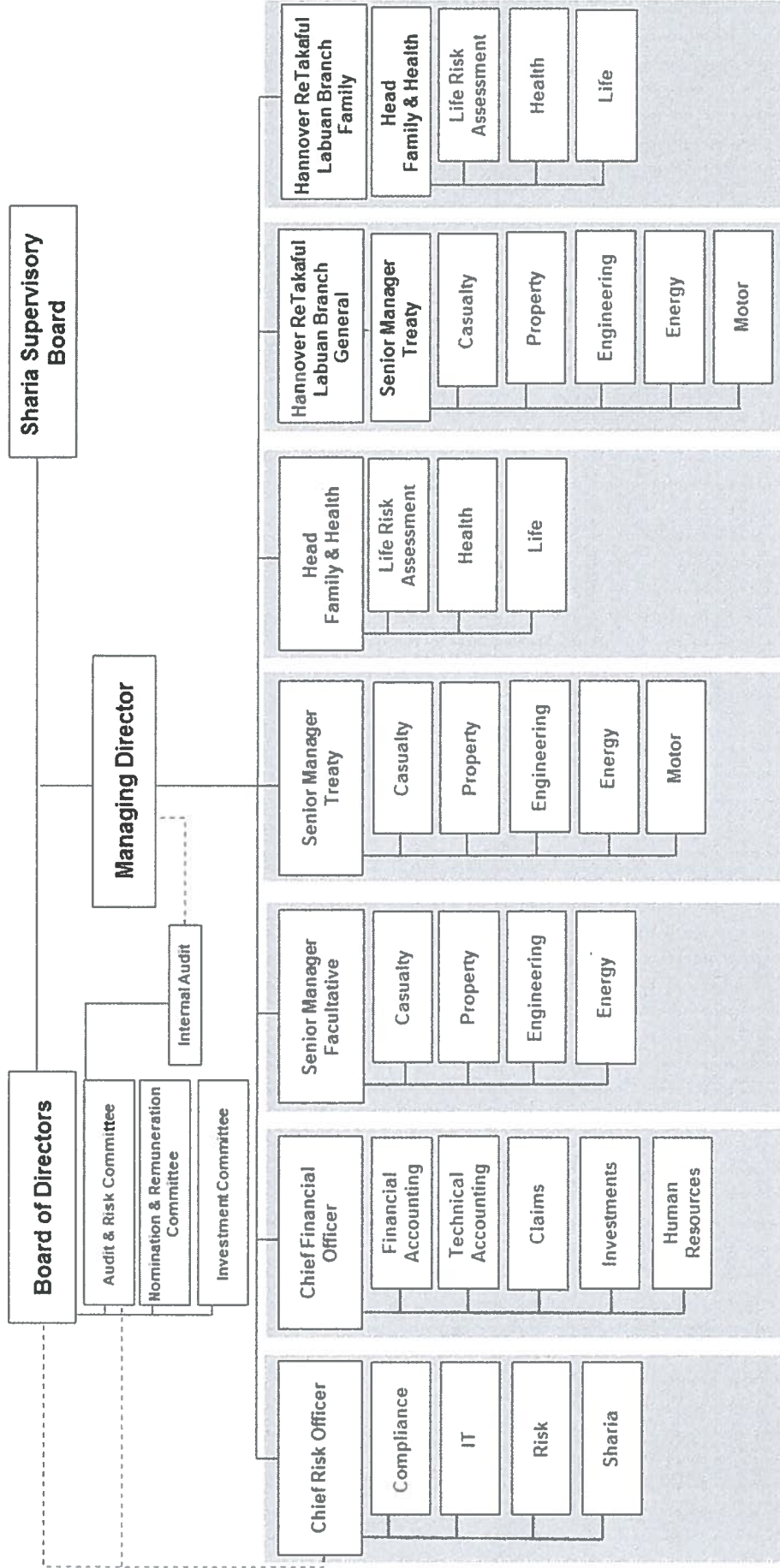
**Management of the Company and Organisational Structure**

Management of the Company is as follows:

Managing Director	Mahomed Akoob
Chief Financial Officer	Zarita Beeton
Chief Risk Officer*	Ridwaan Patel
Senior Manager – Treaty	Fadhel Al Sabea
Senior Manager – Treaty	Adham El-Muezzin
Senior Manager – Facultative	Kumaraswamy Puvvada
Head of Family & Health	Naveed Shahid
Senior Manager – Family & Health	Hania Abdeljalil
Senior Manager – Health Business	Dr. Zakir Hussain
Manager – Finance	Sathyajith Tiranagama
Manager – Life Risk Assessment	Mansoor Iftikar
Chief Actuary - Pricing, Family & Health	Mohammad Altaf

\* Chief Risk Officer is also the Company Secretary, Compliance Officer and Money Laundering Reporting Officer.

Appendix 1 (Public Disclosures)



**Appendix 1 (Public Disclosures)**

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***Internal control***

The Board of Directors:

- is responsible for the Company's system of internal control;
- sets appropriate policies on internal controls;
- seeks regular assurance that enable it to satisfy itself that the system is functioning effectively; and
- ensures that the system of internal control is effective in managing risks in the manner which it has approved.

The Directors have continued to review the effectiveness of the Company's system of financial and non-financial controls, including operational and compliance controls, risk management and the Company's high level internal control arrangements. These reviews have included an assessment of internal controls, and in particular internal financial controls, management assurance of the maintenance of controls and reports by the external auditor on matters identified in the course of its statutory audit work.

***Compliance***

The Company has complied with applicable provisions of the regulations stipulated in the Central Bank of Bahrain Financial Institutions Law 2006, Volume 3 of the CBB Rulebook and CBB directives, Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), Bahrain Commercial Companies Law 2001 and the terms of its Memorandum and Articles of Association. The Company has carried out its retakaful activities in conformity with the precepts of Islamic Sharia. During the year the Company paid a penalty amounting to BHD 11,000 to the Central Bank of Bahrain due to the late submission of Financial Condition Report (FCR).

***Risk management strategies and practices***

The Company classifies its risks relating to retakaful and investment funds both from an external and internal perspective. Underwriting and claims processes are standardized and are subject to frequent review by management. There are clear authority limits on claims processing and underwriting and operational practices in line with international standards. The Company's investment policy is diversified to provide stable and sustainable investment returns. Internal control risks are mitigated by putting in place adequate internal control systems and testing them on a frequent basis. Refer to notes 18 to 20 of the Financial Statements for the Company's risk identification and management.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors of the Company reports to the Group's Board of Directors. The Hannover Re Group has established global risk management guidelines which the Company's Board of Directors takes into consideration while developing and monitoring the Company's risk management policies.



**Hannover ReTakaful BSC (c)**

**REPORT OF THE SHARIA SUPERVISORY BOARD  
for the year ended 31 December 2017**

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In the name of Allah, The Most Compassionate, The Most Merciful

**Report of the Sharia Supervisory Board**

For the period ended 31 December 2017

**To the Shareholders of Hannover ReTakaful B.S.C. (c) (“the Company”)**

Assalamu Alaikum Wa Rahmat Allah Wa Barakatuh

In compliance with the letter of appointment, we are required to submit the following report:

We have reviewed the principles and the agreements relating to the transactions and applications introduced by the Company during the year ended 31 December 2017.

We have also conducted our review to form an opinion as to whether the Company has complied with the Sharia Rules and Principles and also with the specific fatwas, rulings and guidelines issued by us.

The Company's management is responsible for ensuring that the Company conducts its business in accordance with Islamic Sharia Rules and Principles, it is our responsibility to form an independent opinion, based on our review of the Company and report to you. We conducted our review which included examining, on a test basis of each type of transaction, the relevant documentation and procedures adopted by the Company.

We planned and performed our review so as to obtain all the Information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Company has not violated Islamic Sharia Rules and Principles.

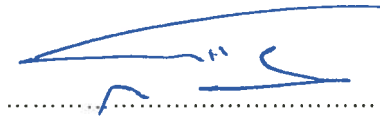
In our opinion:

- the agreements, transactions and dealings, in so far as applicable, entered into by the Company during the period ended 31 December 2017 that we have reviewed are in compliance with the Islamic Sharia Rules and Principles;
- the allocation of profit and charging of losses relating to Investment accounts conform to the basis that has been approved by us in accordance with Islamic Sharia Rules and Principles.

We beg Allah, the Almighty to grant the Company all the success and straight-forwardness.

Wassalamu Alaikum Wa Rahmat Allah Wa Barakatuh

Dated 10-Jumada Al-Thani-1439 H corresponding to 26 February 2018



.....  
Dr. Mohamed Ali Elgari (Chairman)



.....  
Mufti Muhammad Hassan



.....  
Mufti Faizal Manjoo



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CR No. 6220

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Hannover ReTakaful BSC (c),  
Manama, Kingdom of Bahrain

### Report on the financial statements

We have audited the accompanying financial statements of Hannover ReTakaful BSC (c) ("the Company"), which comprise the statement of financial position as at 31 December 2017, the statements of income, policyholders' revenues and expenses, policyholders' surplus and deficit, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes.

#### *Respective responsibilities of Board of Directors and auditors*

These financial statements and the Company's undertaking to operate in accordance with Islamic Sharia rules and principles are the responsibility of the board of directors of the Company. Our responsibility is to express an opinion on these financial statements based on our audit.

#### *Basis of opinion*

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

#### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2017 and of the results of its operations, policyholders' revenues and expenses, policyholders' surplus and deficit, changes in shareholders' equity and cash flows for the year then ended, in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and Sharia rules and principles as determined by the Sharia Supervisory Board of the Company.

### Report on other regulatory requirements

As required by the Bahrain Commercial Companies Law 2001 as amended, and (Volume 3) of the Central Bank of Bahrain (CBB) Rule Book, we report that:

- a) the Company has maintained proper accounting records and the financial statements are in agreement therewith;
- b) the financial information contained in the directors' report is consistent with the financial statements;
- c) we are not aware of any violations during the year of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 3 and CBB directives) or the terms of the Company's memorandum and articles of association that would have had a material adverse effect on the business of the Company or on its financial position; and
- d) satisfactory explanations and information have been provided to us by management in response to all our requests.


KPMG Fakhro  
Partner Registration No. 83  
6 March 2018

**STATEMENT OF FINANCIAL POSITION**  
**as at 31 December 2017**

Bahraini Dinars

	Note	2017	2016
<b>ASSETS</b>			
Cash and cash equivalents	4	8,651,335	8,361,177
Statutory deposit		150,103	150,079
Investment securities	5	112,241,790	107,232,684
Retakaful receivables	6 (a)	13,686,902	14,309,967
Accrued contribution receivable	7	21,130,439	19,278,653
Deferred acquisition costs	8	2,917,292	4,359,736
Retrocessionaires' share of unearned contribution reserves	10	335,869	315,503
Retrocessionaires' share of loss reserves (related parties)	11 & 16 (b)	422,269	407,938
Retrocessionaires' share of IBNR	11	152,460	137,451
Prepayments, equipment and other assets		140,491	235,620
<b>Total assets</b>		<b>159,828,950</b>	<b>154,788,808</b>
<b>SHAREHOLDERS' EQUITY, POLICYHOLDERS' EQUITY &amp; LIABILITIES</b>			
<b>Shareholders' equity</b>			
Share capital	9	20,000,000	20,000,000
Statutory reserve		4,722,337	3,982,019
Dividend reserve		-	1,000,000
Retained earnings		39,341,031	40,827,517
<b>Total shareholders' equity (page 19)</b>		<b>64,063,368</b>	<b>65,809,536</b>
<b>Policyholders' equity (page 18)</b>		<b>(18,164,097)</b>	<b>(24,447,808)</b>
<b>Liabilities</b>			
Loss reserves	11	89,352,869	83,557,559
Unearned contribution reserve	10	17,506,982	24,945,322
Commission reserve		91,402	322,454
Retakaful payables	6 (b)	4,545,881	2,463,745
Payables to retrocessionaires and related parties	16 (c)	1,302,276	1,041,385
Other liabilities		1,130,269	1,096,615
<b>Total liabilities</b>		<b>113,929,679</b>	<b>113,427,080</b>
<b>Total shareholders' equity, policyholders' equity and liabilities</b>		<b>159,828,950</b>	<b>154,788,808</b>

The Board of Directors approved the financial statements consisting of pages 15 to 47 on 6 March 2018.

  
 Jürgen Gräber  
 Chairman

  
 Mahomed Akoob  
 Managing Director

The accompanying notes from 1 to 25 form an integral part of these financial statements.

**STATEMENT OF INCOME**  
for the year ended 31 December 2017

Bahraini Dinars

	Note	2017	2016
<b>INCOME</b>			
Wakala fee for managing retakaful activities		6,121,015	6,017,691
Change in deferred wakala fee		684,124	233,888
<b>Earned wakala fee</b>		<b>6,805,139</b>	6,251,579
Investment income	13	2,136,694	1,799,619
Other income	14	1,881,113	15,967
<b>Total income</b>		<b>10,822,946</b>	8,067,165
<b>EXPENSES</b>			
Staff cost		(1,014,001)	(1,063,653)
General and administrative expenses	15	(869,727)	(562,480)
Foreign exchange gain		(49,273)	22,316
Impairment of Qard Hassan		(1,486,768)	(2,383,115)
<b>Total expenses</b>		<b>(3,419,769)</b>	(3,986,932)
<b>Profit for the year</b>		<b>7,403,177</b>	4,080,233

The Board of Directors approved the financial statements consisting of pages 15 to 47 on 6 March 2018.

  
Jürgen Gräber  
Chairman

  
Mahomed Akoob  
Managing Director

The accompanying notes from 1 to 25 form an integral part of these financial statements.

**STATEMENT OF POLICYHOLDERS' REVENUES AND EXPENSES**  
for the year ended 31 December 2017

Bahraini Dinars

	Note	2017	2016
<b>REVENUE</b>			
Gross contributions		64,321,208	60,191,486
Retrocessionaires' share of contributions		(2,453,011)	(3,026,870)
Change in gross unearned contributions	10	7,659,262	2,056,201
Change in retrocessionaires' share of unearned contributions	10	20,134	22,986
<b>Earned contributions</b>		<b>69,547,593</b>	<b>59,243,803</b>
Foreign exchange (loss) / gain		(220,451)	442,803
Investment income		1,031,856	599,437
<b>Total revenue</b>		<b>70,358,998</b>	<b>60,286,043</b>
<b>EXPENSES</b>			
Claims settled – net		(45,923,356)	(36,813,426)
Movement in loss reserves – net	11	(4,845,510)	(5,367,435)
<b>Claims incurred</b>		<b>(50,768,866)</b>	<b>(42,180,861)</b>
Policy acquisition costs		(9,818,782)	(9,628,665)
Movement in deferred acquisition cost	8	(1,455,912)	(369,671)
Movement in commission reserve		231,474	-
Wakala fee		(6,121,015)	(6,017,691)
Movement in deferred wakala fee		(684,124)	(233,888)
Allowance for doubtful debts		(300,752)	(150,000)
Other expenses		(3,420)	-
<b>Total expenses</b>		<b>(68,921,397)</b>	<b>(58,580,776)</b>
<b>Surplus of revenue over expenses for the year</b>		<b>1,437,601</b>	<b>1,705,267</b>

The accompanying notes from 1 to 25 form an integral part of these financial statements.

**STATEMENT OF POLICYHOLDERS' SURPLUS AND DEFICIT**  
for the year ended 31 December 2017

Bahraini Dinars

	General retakaful	Family retakaful	Total accumulated deficit	Surplus distribution reserve	Total policy holders' equity
<b>2017</b>					
(Deficit) / surplus as at 1 January 2017 representing policyholders' equity	(32,049,544)	3,181,338	(28,868,206)	4,420,398	(24,447,808)
Surplus of revenue over expenses for the year	896,347	541,254	1,437,601	-	1,437,601
Qard Hassan allowance	8,636,113	-	8,636,113	-	8,636,113
Surplus reserve	-	(582,703)	(582,703)	582,703	-
Foreign exchange movement	-	-	-	115,454	115,454
Surplus distribution for the year	-	(1,880,913)	(1,880,913)	(2,024,544)	(3,905,457)
<b>Accumulated (deficit) / surplus at 31 December 2017 representing policyholders' equity</b>	<b>(22,517,084)</b>	<b>1,258,976</b>	<b>(21,258,108)</b>	<b>3,094,011</b>	<b>(18,164,097)</b>

	General retakaful	Family retakaful	Total accumulated deficit	Surplus distribution reserve	Total policy holders' equity
<b>2016</b>					
(Deficit) / surplus as at 1 January 2016 representing policyholders' equity	(30,825,097)	2,816,310	(28,008,787)	2,083,893	(25,924,894)
(Deficit) / surplus of revenue over expenses for the year	(1,224,447)	2,929,714	1,705,267	-	1,705,267
Surplus reserve	-	(2,807,268)	(2,807,268)	2,807,268	-
Reinsurance share of surplus reserves	-	242,582	242,582	(242,582)	-
Foreign exchange movement	-	-	-	(183,793)	(183,793)
Surplus distribution for the year	-	-	-	(44,388)	(44,388)
<b>Accumulated (deficit) / surplus at 31 December 2016 representing policyholders' equity</b>	<b>(32,049,544)</b>	<b>3,181,338</b>	<b>(28,868,206)</b>	<b>4,420,398</b>	<b>(24,447,808)</b>

The accompanying notes from 1 to 25 form an integral part of these financial statements.



**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
for the year ended 31 December 2017**

Bahraini Dinars

2017	Share capital	Statutory reserve	Dividend reserve	Retained earnings	Total
Balance as at 1 January 2017	20,000,000	3,982,019	1,000,000	40,827,517	65,809,536
Profit for the year (page 16)	-	-	-	7,403,177	7,403,177
Impairment of Qard Hassan	-	-	-	(7,149,345)	(7,149,345)
Transfer to statutory reserve	-	740,318	-	(740,318)	-
Dividend paid	-	-	(1,000,000)	(1,000,000)	(2,000,000)
<b>At 31 December 2017</b>	<b>20,000,000</b>	<b>4,722,337</b>	<b>-</b>	<b>39,341,031</b>	<b>64,063,368</b>

2016	Share capital	Statutory reserve	Dividend reserve	Retained earnings	Total
Balance as at 1 January 2016	20,000,000	3,573,995	1,000,000	35,932,193	60,506,188
Profit for the year (page 16)	-	-	-	4,080,233	4,080,233
Impairment of Qard Hassan	-	-	-	2,383,115	2,383,115
Transfer to statutory reserve	-	408,023	-	(408,023)	-
Dividend paid	-	-	-	(1,160,000)	(1,160,000)
<b>At 31 December 2016</b>	<b>20,000,000</b>	<b>3,982,019</b>	<b>1,000,000</b>	<b>40,827,517</b>	<b>65,809,536</b>

The accompanying notes from 1 to 25 form an integral part of these financial statements.

**STATEMENT OF CASH FLOWS**  
for the year ended 31 December 2017

Bahraini Dinars

	Note	2017	2016
<b>OPERATING ACTIVITIES</b>			
Combined profit for the year		<b>8,840,778</b>	5,785,500
<i>Adjustments for non-cash items</i>			
Depreciation expenses		84,776	112,616
Impairment of Qard Hassan		1,486,768	2,383,115
Decrease in unearned contribution reserve		(7,458,706)	(3,197,371)
Increase in loss reserves net of retrocession recovery		5,780,981	4,004,035
Decrease in deferred acquisition costs		1,442,444	641,060
Decrease in commission reserve		(231,052)	(6,941)
Increase in Reinsurance share of IBNR		(15,009)	(137,451)
Increase in provision for employees' end of service benefits		36,593	91,412
Amortisation of sukuks		450,446	412,399
Realised gain on disposal of investment securities		(1,798)	251,779
Other income		(1,880,913)	-
Profit from sukuks / placements and fair value changes in sukuks		(3,620,794)	(3,063,236)
		<b>4,914,514</b>	7,276,917
<i>Changes in operating assets and liabilities</i>			
Decrease in retakaful receivables		623,066	1,948,606
(Increase) / decrease in accrued contribution receivable		(1,851,785)	3,597,403
Decrease / (increase) in other assets		24,818	(41,429)
Increase in related party payables		260,891	883,397
Increase / (decrease) in retakaful payables		2,082,136	(2,543,861)
(Decrease) / increase in other liabilities		(7,528)	116,697
<b>Net cash generated from operating activities</b>		<b>6,046,112</b>	11,237,730
<b>INVESTING ACTIVITIES</b>			
Purchase of equipment and other assets		(14,468)	(50,738)
Profit received from sukuks and placements		3,451,108	2,659,098
Purchase of sukuks		(50,567,683)	(81,474,351)
Proceeds from redemption of sukuks		45,399,633	60,694,854
<b>Net cash used in investing activities</b>		<b>(1,731,410)</b>	(18,171,137)
<b>FINANCING ACTIVITIES</b>			
Surplus distributed		(2,024,544)	(44,388)
Dividend distributed		(2,000,000)	(1,160,000)
<b>Net cash used in financing activities</b>		<b>(4,024,544)</b>	(1,204,388)
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>290,158</b>	(8,137,795)
Cash and cash equivalents at 1 January		8,361,177	16,498,972
<b>Cash and cash equivalents at 31 December</b>		<b>8,651,335</b>	8,361,177
<i>Represented in the books of</i>			
Shareholders		2,378,468	2,235,843
Policyholders		6,272,867	6,125,334
<b>Cash and cash equivalents</b>	4	<b>8,651,335</b>	8,361,177

The accompanying notes from 1 to 25 form an integral part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 31 December 2017**

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**1 REPORTING ENTITY**

Hannover ReTakaful BSC (c) ("the Company") is a Bahrain Shareholding Company (closed) incorporated in the Kingdom of Bahrain on 3 October 2006 under the Bahrain Commercial Companies Law 2001 and is licensed as a retakaful company with the Central Bank of Bahrain ("CBB" or "the regulator"). The Company is authorized to carry out Family (life) and General (non-life) retakaful activities in conformity with the precepts of Islamic Sharia. The Company is a wholly owned subsidiary of Hannover Rück SE based in Hannover, Germany. The retakaful activities are organised on a calendar year basis with the policyholders pooling their contributions to compensate for losses suffered in the pools on occurrence of a defined event.

**2 BASIS OF PREPARATION****a) Statement of compliance**

The financial statements of the Company have been prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"). In line with the requirements of AAOIFI and the CBB Rulebook, for matters that are not covered by AAOIFI standards, the Company uses guidance from the relevant International Financial Reporting Standards.

**b) Principal financial statements**

As per FAS 12 General Presentation and Disclosure in the Financial Statements of Islamic Takaful Companies issued by the AAOIFI, the Company is required to present the statement of financial position comprising shareholder and policyholder assets and liabilities, shareholders' statement of income, the statement of policyholders' revenues and expenses, the statement of policyholders' surplus and deficit, the statement of changes in shareholders' equity, and the statement of cash flows.

**c) Basis of measurement**

The financial statements have been prepared on the historical cost basis except for investment securities at fair value through income statement and derivative financial instruments that are measured at fair value.

**d) Use of estimates and judgments**

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Information about significant areas of estimation and critical judgments in applying accounting policies on the amounts recognised in the financial statements are described in the following notes:

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 31 December 2017**

**2 BASIS OF PREPARATION (continued)**

- Note 3 b) (ii) - Estimates of accrued contributions
- Note 3 b) (vi) - Reserve estimation for retakaful agreements
- Note 3 b) (viii) - Assessment of adequacy of liability arising from retakaful agreements
- Note 3 f) - Estimates of useful lives and residual values of furniture and equipment
- Note 3 n) - Impairment

**e) Qard Hassan**

Qard Hassan is a funding by shareholders to policyholders computed based on solvency margin and capital adequacy rules of the Central Bank of Bahrain. Qard Hassan is tested annually for impairment. In the statement of financial position, Qard Hassan receivables by shareholders are eliminated against Qard Hassan payables by the policyholders for presentation. In line with the changes made to CBB Rulebook, the Company has adopted a policy of writing down 20% of Qard Hassan each year subject to recovery based on policyholders' surplus for the year.

**f) New standards, amendments and interpretations effective from 1 January 2017**

There are no AAOIFI accounting standards or interpretations that are effective for the first time for financial years beginning on or after 1 January 2017 that have a material impact on the Company.

**g) New Standards, amendments and interpretations issued but not yet effective**

**FAS 30 – Impairment, credit losses and onerous commitments**

AAOIFI has issued FAS 30 *Impairment, Credit losses and onerous commitments* in 2017. The objective of this standard is to establish the principles of accounting and financial reporting for the impairment and credit losses on various Islamic financing, investment and certain other assets of Islamic financial institutions (the institutions), and provisions against onerous commitments enabling in particular the users of financial statements to fairly assess the amounts, timing and uncertainties with regard to the future cash flows associated with such assets and transactions. FAS 30 will replace FAS 11 *Provisions and Reserves* and parts of FAS 25 *Investment in Sukuk, shares and similar instruments* that deals with impairment for financial years beginning on or after 1 January 2018.

FAS 30 classifies assets and exposures into three categories based on the nature of risks involved (i.e. credit risk and other risks) and prescribes three approaches for assessing losses for each of these categories of assets 1) Credit Losses approach, 2) Net Realizable Value approach ("NRV") and 3) Impairment approach.

For the purpose of this standard, the assets and exposures shall be categorized, as under:

- a. Assets and exposures subject to credit risk (subject to credit losses approach):
  - i. Receivables; and
  - ii. Off-balance sheet exposures;
- b. Inventories (subject to NRV)

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 31 December 2017**

**2 BASIS OF PREPARATION (continued)**

c. Other financing and investment assets and exposures subject to risks other than credit risk (subject to impairment approach), excluding inventories; and

Credit losses approach for receivables and of balance sheet exposures uses a dual measurement approach, under which the loss allowance is measured as either a 12-month expected credit loss or a lifetime expected credit loss.

Expected credit losses

FAS 30 introduces the credit losses approach with a forward-looking 'expected credit loss' model. The new impairment model will apply to financial assets which are subject to credit risk. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- determining criteria for significant increase in credit risk (SICR);
- choosing appropriate models and assumptions for the measurement of expected credit loss;
- establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- establishing banks of similar financial assets for the purposes of measuring ECL.

Impairment loss is the amount by which the carrying amount of assets exceeds its recoverable amount.

The standard shall be effective from the financial periods beginning on or after 1 January 2020. Early adoption is permitted.

The Company does not intend to early adopt this standard.

**3 SIGNIFICANT ACCOUNTING POLICIES**

**a) Foreign currency**

*(i) Functional and presentation currency*

Items included in the financial statements of the Company are measured using the currency of the location in which the entity operates ("the functional currency"). The financial statements are presented in Bahraini Dinars ("BD"), which is also the Company's functional currency.

*(ii) Transactions and balances*

Monetary assets and liabilities are translated into Bahraini Dinars at exchange rates ruling at the balance sheet date. Transactions in foreign currencies during the year are converted at average exchange rates. Foreign exchange gains and losses are recognized in the statement of income and the statement of policyholders' revenue and expenses.

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 31 December 2017**

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**3**      *SIGNIFICANT ACCOUNTING POLICIES (continued)*

**b) Retakaful**

*(i) Classification of agreements*

The Company issues agreements to manage the retakaful risk on the basis of solidarity. Retakaful agreements are those agreements where the retakaful operator accepts to manage the retakaful fund of the policyholders by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. The Company defines "adversely affects" as the possibility of having to compensate the policyholder on the occurrence of an event as per the terms of the agreement. Takaful risk is risk other than financial risk that is managed by the retakaful operator on behalf of the takaful operator.

Financial risk is the risk of a possible future change in one or more of a security price, index of prices or rates or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the agreement. Takaful risk is significant if, and only if, a covered event could cause the Company to pay significant additional benefits. Once an agreement is classified as a takaful agreement it remains classified as a takaful agreement until all rights and obligations are extinguished or expired.

*(ii) Gross contributions*

Gross contributions comprise the total contributions in relation to agreements entered into during the financial year, together with adjustments arising in the financial year to contributions receivable in respect of business written in previous financial years. It includes an estimate of contributions written but not reported to the Company at the reporting date ("pipeline contributions") which are reported in the statement of financial position as accrued contributions receivable.

Contributions, net of retakaful, are taken to income over the terms of the related agreements or policies. Gross contributions are recognised in the policyholders' statement of revenue and expenses from the date of attachment of risk over the policy period. The unexpired portion of such contributions relating to the period of risk extending to beyond the financial year is included under "unearned contributions reserves" in the statement of financial position. The earned proportion of contributions is recognised as revenue in the policyholders' statement of revenue and expenses.

*(iii) Retrocessionaires' share of contributions*

Retrocessionaires' share of contributions depicts amounts paid to retrocessionaires in accordance with the retrocession contracts of the Company.



**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 31 December 2017**

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**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(iv) Unearned contribution reserves**

Unearned contribution reserves are set up regarding future risk periods to be earned in the following or subsequent financial periods, for the unexpired period of takaful as at the reporting date. In case of proportional treaties unearned contribution reserves have been calculated on retained contributions by the 1/8th method, whereas in case of non-proportional treaties and facultative business, the 1/365th method is used in order to spread the contribution earned over the tenure of the retakaful agreements. In retakaful business, flat rates are used if the data required for calculation of pro rata items is not available.

Retrocessionaires' share of unearned contributions reserve is calculated according to the contractual conditions on the basis of the gross unearned contribution reserves.

**(v) Policy acquisition costs and deferred acquisition costs**

Policy acquisition costs, principally consisting of commissions and other variable costs directly connected with the acquisition or renewal of existing retakaful agreements, are recognised in the policyholders' statement of revenue and expenses. The deferred portion of acquisition costs for proportional treaties have been calculated by the 1/8th method whereas for non-proportional treaties and facultative business, deferred acquisition costs are calculated by the 1/365th method.

**(vi) Claims**

*Gross claims* are recognised in the policyholders' statement of revenue and expenses when the claim amount payable to policyholders and third parties is determined as per the terms of the retakaful agreements. *Claims incurred* comprise the settlement and the handling costs of paid and outstanding claims arising from events occurring during the financial period.

*Claims recovered* include amounts recovered from retrocessionaires' in respect of the gross claims paid by the Company, in accordance with the retrocession contracts held by the Company. It also includes salvage and other claim recoveries.

*Loss reserves* represent estimates of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not. Provision for outstanding claims reported is based on estimates of the loss, which will eventually be payable on each unpaid claim, established by the management based on currently available information and past experience modified for changes reflected in current conditions, increased exposure, rising claims costs and the severity and frequency of recent claims, as appropriate. The loss reserves are based on estimates that may diverge from the actual amounts payable. The methods used, and the estimates made, are reviewed regularly. The provision for claims incurred but not reported ("IBNR") is calculated based on actuarial valuations of historic claims developments.

**(vii) Retakaful receivables**

*Retakaful receivables* comprise the accounts receivable under retakaful business which are carried at cost less impairment. A provision for impairment is established when there is evidence that the Company may not be able to collect the full amounts due according to the terms of the receivables. Bad debts are written off during the year in which they are identified. Please refer to Note 20 b) (iv) regarding the provision for impairment.

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 31 December 2017**

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

*(viii) Liability adequacy test*

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the takaful liabilities using current estimates of future cash flows under retakaful agreements. In performing these tests, current best estimates of future contractual cash flows and claims handling expenses are used. Any deficiency is charged to the statement of policyholders' revenue and expenses by establishing a provision for losses arising from liability adequacy tests.

*(ix) Retrocession contracts*

*Retrocession contracts* are contracts entered into by the Company with reinsurers for the purpose of limiting its net loss potential through the diversification of its risks, under which the Company is compensated for losses on retakaful agreements issued. Assets, liabilities and income and expenses arising from ceded retakaful agreements are presented separately from the assets, liabilities, income and expenses from the related retakaful agreements because the retrocession contracts do not relieve the Company from its direct obligations to its policyholders.

The benefits, to which the Company are entitled under its retrocession contracts held, are recognised as retakaful assets. These assets consist of balances due from reinsurers on settlement of claims and other receivables such as reinsurers' share of outstanding claims that are dependent on the expected claims and benefits arising under the related reinsured retakaful agreements. Amounts recoverable from or due to reinsurers are recognised consistently with the amounts associated with the underlying retakaful agreements and in accordance with the terms of each retrocession contract.

Retakaful liabilities are primarily contributions payable for retrocession contracts and are recognised as an expense when due.

**c) Wakala fee**

The Company manages the general and family operations on behalf of the policyholders for a wakala fee calculated as a proportion of gross contributions. Wakala fee as a proportion of unearned contributions is deferred and recognised over the subsequent periods. Wakala fee rates are approved by the Sharia Supervisory Board.

**d) Surplus / deficit in policyholders' funds**

Surplus in policyholders' funds represents surplus of revenues over expenses arising from retakaful activities and are distributed among the policyholders by calendar year depending on development of business. The policy for surplus distribution must be approved by the Sharia Supervisory Board as well as the Board of Directors. Any surplus distribution or remedial action for deficit reduction must be recommended by the Appointed Actuary and endorsed by the Sharia Supervisory Board and the Board of Directors. Distributions of surpluses from the policyholders' funds are subject to the CBB's prior written approval.

Deficiency in policyholders' funds is made good by an interest free loan (Qard Hassan) from the shareholders' fund to the extent required to meet the policyholders' claims and liabilities as and when they arise.

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 31 December 2017****3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

This loan is to be repaid from future surplus arising from retakaful operations. This loan is tested at each reporting date for impairment and any portion of the loan considered impaired will be charged to the income statement.

On liquidation of the Company, the surplus, if any, in the policyholders' fund will be donated to charity or distributed to policyholders in accordance with the decision of the Sharia Supervisory Board.

**e) Investment securities**

Investment securities comprise investments in sukuks (Islamic bonds) issued by entities where the Company holds less than 20% of the equity. Investment securities exclude investments in subsidiaries, associates and jointly controlled entities.

**(i) Classification**

Investment securities are classified as *fair value through income statement*, *carried at amortised costs* or *at fair value through equity*. Management determines the appropriate classification of investments at the time of purchase.

Securities are classified as *at fair value through income statement* if they are acquired for the purpose of generating a profit from short-term fluctuations in price or if so designated by management. Equity type instruments that are not designated as fair value through income statement are classified as *at fair value through equity*.

A debt type investment shall be classified and measured *at amortised cost* if the following conditions are met (a) the instrument is managed on a contractual yield basis; (b) the instrument is not held for trading and has not been designated *at fair value through income statement*.

A debt type investment shall be classified and measured *at fair value through income statement* if it does not meet the conditions to be measured *at amortised cost*.

**(ii) Recognition and derecognition**

Investment securities are recognised at the trade date i.e. the date at which the Company becomes party to the contractual provisions of the instrument. Investment securities are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all risk and rewards of ownership.

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2017**

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(iii) Measurement**

Investment securities are measured initially *at fair value*, which is the value of the consideration given. Trading investments are initially recognised at fair value and transaction costs are expensed in the income statement. Other investment securities are recognised initially at fair value, plus attributable transaction costs.

**(iv) Subsequent measurement**

Investments *at fair value through income statement* shall be re-measured at their fair value at the end of each reporting period. The resultant re-measurement gain/loss, if any, will be the difference between the book value or carrying amount and the fair value and shall be recognized in the income statement. All other gains or losses arising from these investments shall be recognized in the income statement.

**(v) Measurement principles**

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 on the measurement date.

The Company measures the fair value of quoted investments using the market bid-prices in an active market for that instrument.

**f) Furniture and equipment**

Furniture and equipment are stated at cost less accumulated depreciation. The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the statement of income as incurred. Gains or losses on disposal are reflected in other income. Depreciation is provided on straight-line basis over the expected useful lives of the assets, which are as follows:

<b>Asset class</b>	<b>Estimated useful life</b>
Office equipment, furniture & fittings	4 years
Computer equipment & motor vehicles	3 years

Depreciation methods, useful lives, and residual values are reassessed annually.

**g) Provisions**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event 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.

**h) Zakah**

As per the requirements of AAOIFI standards, disclosure of Zakah due per share is required to be made in the financial statements. However, all shareholders of the Company are non-Muslim corporates and not obliged to pay Zakah, hence the Company does not collect or pay Zakah on behalf of its shareholders.

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 31 December 2017**

Bahraini Dinars

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)****i) Statutory reserve**

In accordance with the Bahrain Commercial Companies Law 2001, 10% of any profit for the year is appropriated to a statutory reserve until it reaches 100% of the paid up share capital of the Company. This reserve is distributable only in accordance with the provisions of the law.

**j) Employees' end of service benefits**

Employees are covered by the pension schemes prevailing in the Kingdom of Bahrain. Eligible employees are entitled to end of service benefits as per the labour law in the Kingdom of Bahrain, based on length of service and final remuneration. The Company accrues for its liability annually on the basis as if all employees left the Company at the reporting date.

**k) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and balances in current accounts and short term placements with banks with an original maturity period of 3 months or less. They are carried at amortized cost.

**l) Statutory deposit**

In accordance with the regulations of the Central Bank of Bahrain Law, the Company maintains a deposit with a designated national bank which cannot be withdrawn, except with the prior approval of the CBB.

**m) Dividend reserves**

A dividend reserve was set up in 2011, covering 5% of the paid up capital (BHD 1,000,000), which was utilized in 2017.

**n) Impairment****(i) Financial assets**

The Company assesses at each reporting date whether there is objective evidence that an asset is impaired. Objective evidence that investment securities / other assets (including equity securities) are impaired can include the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

**(ii) Other non-financial assets**

The carrying amount of the Company's assets (other than for financial assets covered above), 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. The recoverable amount of an asset is the greater of its value in use or fair value less costs to sell. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the statement of income / statement of policyholders' revenue and expenses. Impairment losses are reversed only if there is evidence that the impairment no longer exists and there has been a change in the estimates used to determine the recoverable amount.

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**4 CASH AND CASH EQUIVALENTS**

	2017	2016
Cash and bank balances	8,651,335	8,240,519
Placements with financial institutions	-	120,658
	<b>8,651,335</b>	<b>8,361,177</b>

**5 INVESTMENT SECURITIES**

	2017	2016
Investments at fair value through income statement	<b>112,241,790</b>	107,232,684

These comprise:

	2017	2016
Debt type		
- Quoted sukuks	109,165,079	105,680,597
- Unquoted sukuks	1,928,590	-
Equity type		
- Quoted sukuks	1,148,121	1,552,087
	<b>112,241,790</b>	<b>107,232,684</b>

**6 RETAKAFUL RECEIVABLES AND PAYABLES****(a) Retakaful Receivables**

	2017	2016
- General	4,040,793	3,863,934
- Family	10,432,501	10,931,673
	<b>14,473,294</b>	<b>14,795,607</b>
Less: Provision for doubtful debts	(786,392)	(485,640)
	<b>13,686,902</b>	<b>14,309,967</b>

General retakaful receivables include deposits amounting to BD 1,850,435 (2016: BD 1,642,449) held by retakaful participants.

Family retakaful receivables include deposits amounting to BD 2,119,187 (2016: BD 5,677,156) held by retakaful participants.

**(b) Retakaful Payables**

	2017	2016
- General	3,528,304	2,356,410
- Family	1,017,577	107,335
	<b>4,545,881</b>	<b>2,463,745</b>



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**7 ACCRUED CONTRIBUTION RECEIVABLE**

	<b>2017</b>	<b>2016</b>
- General	1,259,920	7,610,481
- Family	19,870,519	11,668,172
	<b>21,130,439</b>	<b>19,278,653</b>

**8 DEFERRED ACQUISITION COSTS**

	<b>2017</b>	<b>2016</b>
At 1 January	4,359,736	5,000,796
Net movement during the year	(1,455,912)	(369,671)
Foreign exchange gains / (loss)	13,468	(271,389)
<b>At 31 December</b>	<b>2,917,292</b>	<b>4,359,736</b>

**9 SHARE CAPITAL**

	<b>2017</b>	<b>2016</b>
Authorised equity share capital of 50,000,000 (2016: 50,000,000) shares of BD 1 each	<b>50,000,000</b>	50,000,000
Issued, subscribed and paid up capital comprising 20,000,000 (2016: 20,000,000) shares of BD 1 each	<b>20,000,000</b>	20,000,000

**10 UNEARNED CONTRIBUTION RESERVES**

	<b>2017</b>			<b>2016</b>		
	<b>Gross</b>	<b>Retro- ceded</b>	<b>Net</b>	<b>Gross</b>	<b>Retro- ceded</b>	<b>Net</b>
At 1 January	24,945,322	(315,503)	24,629,819	28,121,043	(293,853)	27,827,190
Movement during the year (net)	(7,659,262)	(20,134)	(7,679,396)	(2,056,201)	(22,986)	(2,079,188)
Foreign exchange losses / (gains)	220,922	(232)	220,690	(1,119,520)	1,336	(1,118,183)
<b>At 31 December</b>	<b>17,506,982</b>	<b>(335,869)</b>	<b>17,171,113</b>	<b>24,945,322</b>	<b>(315,503)</b>	<b>24,629,819</b>

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**11 LOSS RESERVES**

	2017			2016		
	Gross	Retroceded	Net	Gross	Retroceded	Net
Outstanding claims reported	39,369,076	(545,390)	38,823,686	35,148,547	(932,559)	34,215,988
IBNR reserves	44,188,483	-	44,188,483	44,929,596	-	44,929,596
At 1 January	83,557,559	(545,390)	83,012,169	80,078,143	(932,559)	79,145,584
Movement during the year (net)	4,859,563	(14,053)	4,845,510	4,993,876	373,559	5,367,435
Foreign exchange gains/(losses)	935,747	(15,286)	920,461	(1,514,460)	13,611	(1,500,849)
<b>At 31 December</b>	<b>89,352,869</b>	<b>(574,729)</b>	<b>88,778,140</b>	<b>83,557,559</b>	<b>(545,389)</b>	<b>83,012,170</b>
Outstanding claims reported	46,314,588	(422,269)	45,892,319	39,369,076	(407,938)	38,961,138
IBNR reserves	43,038,281	(152,460)	42,885,821	44,188,483	(137,451)	44,051,032
<b>At 31 December</b>	<b>89,352,869</b>	<b>(574,729)</b>	<b>88,778,140</b>	<b>83,557,559</b>	<b>(545,389)</b>	<b>83,012,170</b>

**12 CLAIMS DEVELOPMENT DATA**

The table below shows the net General (non-life) loss reserves in the years 2013 to 2017. The bottom half of the table reconciles the cumulative claims to the amount appearing in the statement of financial position.

Underwriting year	2013	2014	2015	2016	2017	Total
<b>General retakaful- Gross Estimate of incurred claims costs:</b>						
- End of underwriting year	10,249,085	19,552,736	16,182,411	14,385,002	10,063,823	10,063,823
- One year later	24,657,289	37,755,533	28,451,049	30,023,296	-	30,023,296
- Two years later	22,984,713	35,969,245	26,552,520	-	-	26,552,520
- Three years later	21,863,962	34,532,159	-	-	-	34,532,159
- Four years later	21,581,091	-	-	-	-	21,581,091
Current estimate of incurred claims	21,581,091	34,532,159	26,552,520	30,023,296	10,063,823	122,752,889
Cumulative payments to date	(16,303,266)	(27,974,574)	(15,064,498)	(14,535,490)	(2,066,769)	(75,944,597)
Liability recognised	<b>5,277,825</b>	<b>6,557,585</b>	<b>11,488,022</b>	<b>15,487,806</b>	<b>7,997,054</b>	<b>46,808,292</b>
Liability in respect of prior years						<b>10,983,890</b>
Total liability included in the statement of financial position						<b>57,792,182</b>
Liability in respect of Family retakaful						<b>31,560,687</b>
Total liability included in the statement of financial position						<b>89,352,869</b>

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**12 CLAIMS DEVELOPMENT DATA (continued)**

Underwriting year	2013	2014	2015	2016	2017	Total
<b>General retakaful- Net</b>						
Estimate of incurred claims costs:						
- End of underwriting year	10,249,085	14,369,211	16,182,411	13,977,063	10,063,823	<b>10,063,823</b>
- One year later	24,657,289	32,072,588	28,451,049	29,601,027	-	<b>29,601,027</b>
- Two years later	22,984,713	30,286,300	26,552,520	-	-	<b>26,552,520</b>
- Three years later	21,863,962	28,849,214	-	-	-	<b>28,849,214</b>
- Four years later	21,581,091	-	-	-	-	<b>21,581,091</b>
Current estimate of incurred claims	21,581,091	28,849,214	26,552,520	29,601,027	10,063,823	<b>116,647,675</b>
Cumulative payments to date	(16,303,266)	(22,291,629)	(15,064,498)	(14,535,490)	(2,066,769)	<b>(70,261,652)</b>
Liability recognised	<b>5,277,825</b>	<b>6,557,585</b>	<b>11,488,022</b>	<b>15,065,537</b>	<b>7,997,054</b>	<b>46,386,023</b>
Liability in respect of prior years						<b>10,983,890</b>
Total liability included in the statement of financial position						<b>57,369,913</b>
Liability in respect of Family retakaful						<b>31,408,227</b>
Total liability included in the statement of financial position						<b>88,778,140</b>

**13 INVESTMENT INCOME**

	2017	2016
Profit from sukuks	2,282,840	2,154,133
Profit from placements with financial institutions	35,018	10,962
Investment related expenses – net	(181,164)	(365,476)
	<b>2,136,694</b>	<b>1,799,619</b>

Investment income includes Mudaraba fee of BHD 687,904 (2016: BHD 399,625).

**14 OTHER INCOME**

Other income includes the share of surplus on a contract which has been commuted during the year. The surplus has been calculated on the basis mutually agreed by the Company and takaful operators amounting to BHD 1,880,913 (2016: Nil).

**15 GENERAL AND ADMINISTRATIVE EXPENSES**

	2017	2016
Administration expenses	632,182	286,777
Depreciation	84,776	112,616
Other operating expenses	152,769	163,087
	<b>869,727</b>	<b>562,480</b>

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**16 RELATED PARTY TRANSACTIONS**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include other group companies and the key management personnel of the Company. Key management personnel comprise of the Board of Directors and key members of management, having authority and responsibility for planning, directing and controlling the activities of the Company.

**a) Transactions with Related Parties**

		2017	2016
Retrocessionaires' share of contributions to			
- Hannover Re Bermuda Ltd., Bermuda	<i>Entity within the Hannover Re Group</i>	2,089,352	2,097,430
- Hannover Rück SE, Germany	<i>Parent company of the Hannover Re Group</i>	363,659	290,751
Claims paid – retroceded to Hannover Re Bermuda Ltd., Bermuda	<i>Entity within the Hannover Re Group</i>	-	522,608
Claims recovery from Hannover Re Bermuda Ltd., Bermuda	<i>Entity within the Hannover Re Group</i>	14,053	(520,602)
Expenses recharged to - Hannover Rueck SE, Bahrain Branch, Bahrain	<i>Branch of the Parent company of the Hannover Re Group</i>	1,272,128	1,222,321
Reimbursement of administrative expenses to			
- Hannover Rück SE, Germany	<i>Parent company of the Hannover Re Group</i>	297,546	114,571
- Hannover Rück SE Malaysia Branch, Malaysia	<i>Branch of the Parent Company of the Group</i>	6,785	7,424
Reimbursement of investment related expenses			
- Talanx Asset Management GmbH, Germany	<i>Entity within the Talanx Group (Ultimate Parent)</i>	55,349	47,205

**b) Retrocessionaires' share of loss reserves at 31 December**

		2017	2016
Hannover Re Bermuda Ltd., Bermuda	<i>Entity within the Hannover Re Group</i>	422,269	407,938

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16 *RELATED PARTY TRANSACTIONS (continued)*

c) **Amounts payable at 31 December**

		2017	2016
Hannover Rück SE, Germany	<i>Parent company of the Hannover Re Group</i>	401,123	323,093
Hannover Re Bermuda Ltd., Bermuda	<i>Entity within the Hannover Re Group</i>	21,130	-
Hannover Rueck SE, Bahrain Branch	<i>Branch of the Parent company of the Hannover Re Group</i>	409,822	294,380
		<b>832,075</b>	<b>617,473</b>

17 **SEGMENT INFORMATION**

a) **Analysis of policyholders' revenue and expenses by primary segment**

The Company's retakaful business consists of two business segments, General and Family Retakaful.

	General Retakaful	Family Retakaful	Total
<b>2017 REVENUE</b>			
Gross contributions	30,246,822	34,074,386	64,321,208
Retrocessionaires' share of contributions	(2,128,094)	(324,917)	(2,453,011)
Change in gross unearned contributions	7,680,520	(21,258)	7,659,262
Change in retrocessionaires' share of unearned contributions	20,153	(19)	20,134
<b>Earned contributions</b>	<b>35,819,401</b>	<b>33,728,192</b>	<b>69,547,593</b>
Claims settled	(23,184,074)	(22,739,282)	(45,923,356)
Movement in loss reserves	1,304,851	(6,150,361)	(4,845,510)
Policy acquisition costs	(8,843,975)	(974,808)	(9,818,783)
Movement in deferred acquisition costs	(1,456,413)	501	(1,455,912)
Movement in commission reserve	-	231,474	231,474
Wakala fee	(2,378,902)	(3,742,113)	(6,121,015)
Deferred wakala fee	(531,481)	(152,642)	(684,123)
<b>Total underwriting costs</b>	<b>729,407</b>	<b>200,961</b>	<b>930,368</b>
<b>Underwriting results</b>			
Foreign exchange (losses) / gains	(319,014)	98,563	(220,451)
Allowance for doubtful debts	(300,752)	-	(300,752)
Investment income	788,429	243,427	1,031,856
Other expenses	(1,723)	(1,697)	(3,420)
<b>Surplus of revenue over expenses for the year</b>	<b>896,347</b>	<b>541,254</b>	<b>1,437,601</b>

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## 17 SEGMENT INFORMATION (CONTINUED)

2016	General Retakaful	Family Retakaful	Total
<b>REVENUE</b>			
Gross contributions	35,877,123	24,314,363	60,191,486
Retrocessionaires' share of contributions	(2,073,403)	(953,467)	(3,026,870)
Change in gross unearned contributions	761,134	1,295,067	2,056,201
Change in retrocessionaires' share of unearned contributions	22,979	7	22,986
<b>Earned contributions</b>	<b>34,587,833</b>	<b>24,655,970</b>	<b>59,243,803</b>
Claims settled	(21,553,215)	(15,260,211)	(36,813,426)
Movement in loss reserves	(2,496,905)	(2,870,530)	(5,367,435)
Policy acquisition costs	(8,985,516)	(643,149)	(9,628,665)
Movement in deferred acquisition costs	(369,671)	-	(369,671)
Movement in commission reserve	-	-	-
Wakala fee	(2,690,657)	(3,327,034)	(6,017,691)
Deferred wakala fee	(172,544)	(61,344)	(233,888)
<b>Total underwriting costs</b>	<b>(1,680,675)</b>	<b>2,493,702</b>	<b>813,027</b>
<b>Underwriting results</b>			
Foreign exchange gains	108,587	334,216	442,803
Allowance for doubtful debts	(50,000)	(100,000)	(150,000)
Investment income	397,641	201,796	599,437
<b>(Deficit) / surplus of revenue over expenses for the year</b>	<b>(1,224,447)</b>	<b>2,929,714</b>	<b>1,705,267</b>

**b) Analysis of policyholders' contribution by secondary segment**  
**- geographical location of the risk insured**

2017	General Retakaful	Family Retakaful	Total
Gross contribution from takaful companies in:			
Middle East & North African countries	28,562,672	26,238,503	54,801,175
Other countries	1,684,150	7,835,883	9,520,033
	<b>30,246,822</b>	<b>34,074,386</b>	<b>64,321,208</b>

2016	General Retakaful	Family Retakaful	Total
Gross contribution from takaful companies in:			
Middle East & North African countries	34,430,231	18,563,333	52,993,564
Other countries	1,446,892	5,751,030	7,197,922
	<b>35,877,123</b>	<b>24,314,363</b>	<b>60,191,486</b>



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**17 SEGMENT INFORMATION (CONTINUED)**

**c) Analysis of segment assets and segment liabilities**

	General Retakaful		Family Retakaful		Shareholder		Eliminations		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Cash and cash equivalents	1,811,146	3,057,524	4,461,721	3,067,810	2,378,468	2,235,843	-	-	8,651,335	8,361,177
Statutory deposit	-	-	-	-	150,103	150,079	-	-	150,103	150,079
Investment securities	45,650,557	43,033,476	13,025,688	14,161,397	53,565,545	50,037,810	-	-	112,241,790	107,232,684
Retakaful receivables	3,354,401	3,478,295	10,332,501	10,831,673	-	-	-	-	13,686,902	14,309,967
Accrued contribution receivable	1,259,920	7,610,482	19,870,519	11,668,172	-	-	-	-	21,130,439	19,278,653
Wakala fee receivable	-	-	-	-	5,585,234	4,469,167	(5,585,234)	(4,469,167)	-	-
Deferred wakala fee	757,452	1,288,935	716,408	869,049	-	-	(1,473,860)	(2,157,984)	-	-
Deferred acquisition costs	2,916,789	4,359,736	503	-	-	-	-	-	2,917,292	4,359,736
Retrocessionaires' share of unearned contribution reserves	335,869	315,503	-	-	-	-	-	-	335,869	315,503
Retrocessionaires' share of loss reserves	422,269	407,938	-	-	-	-	-	-	422,269	407,938
Reinsurance share for IBNR	-	-	152,460	137,451	-	-	-	-	152,460	137,451
Mudaraba & other receivables	-	-	-	-	795,933	399,625	(795,933)	(399,625)	-	-
Qard Hassan loan/receivable	-	-	-	-	3,279,500	4,766,230	(3,279,500)	(4,766,230)	-	-
Prepayments, equipment & others	-	6,291	3,419,523	3,428,186	2,021,405	223,037	(5,300,437)	(3,421,894)	140,491	235,620
<b>Total assets</b>	<b>56,508,403</b>	<b>63,558,180</b>	<b>51,979,323</b>	<b>44,163,738</b>	<b>67,776,188</b>	<b>62,281,791</b>	<b>(16,434,964)</b>	<b>(15,214,900)</b>	<b>159,828,950</b>	<b>154,788,808</b>

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**17 SEGMENT INFORMATION (CONTINUED)**

	General Retakaful		Family Retakaful		Shareholder		Eliminations		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Liabilities										
Loss reserves	57,792,182	58,706,643	31,560,687	24,850,915	-	-	-	-	89,352,869	83,557,558
Unearned contribution reserve	10,983,626	18,594,208	6,523,356	6,351,114	-	-	-	-	17,506,982	24,945,322
Commission reserve	-	-	91,402	322,454	-	-	-	-	91,402	322,454
Retakaful payables	3,528,305	2,356,410	1,017,576	107,335	-	-	-	-	4,545,881	2,463,745
Wakala fee payable	14,926	352,183	5,570,308	4,116,984	-	-	(5,585,234)	(4,469,167)	-	-
Related party payables	165,126	70,702	727,328	676,303	409,822	294,380	-	-	1,302,276	1,041,385
Qard Hassan loan/payable	3,279,462	11,915,575	-	-	-	-	(3,279,462)	(11,915,575)	-	-
Mudaraba Payables	562,351	265,094	233,582	134,531	-	-	(795,933)	(399,625)	-	-
Unearned wakala fee	-	-	-	-	1,473,860	2,157,984	(1,473,860)	(2,157,984)	-	-
Other liabilities	2,699,509	3,346,909	1,902,097	2,365	1,829,138	1,169,236	(5,300,475)	(3,421,893)	1,130,269	1,096,615
Total liabilities	79,025,487	95,607,724	47,626,336	36,562,002	3,712,820	3,621,600	(16,434,964)	(22,364,245)	113,929,679	113,427,078
Policyholders' equity	(22,517,084)	(32,049,544)	4,352,987	7,601,736	-	-	-	-	(18,164,097)	(24,447,808)
Shareholders' equity	-	-	-	-	-	-	-	-	-	-
Share capital	-	-	-	-	20,000,000	20,000,000	-	-	20,000,000	20,000,000
Statutory reserve	-	-	-	-	4,722,337	3,982,019	-	-	4,722,337	3,982,019
Dividend reserve	-	-	-	-	-	1,000,000	-	-	-	1,000,000
Retained earnings	-	-	-	-	39,341,032	33,678,172	-	7,149,345	39,341,032	40,827,517
Total shareholders' equity	-	-	-	-	64,063,368	58,660,191	-	7,149,345	64,063,368	65,809,536
Total liabilities and equity	56,508,403	63,558,180	51,979,323	44,163,738	67,776,188	62,281,791	(16,434,964)	(15,214,900)	159,828,950	154,788,808

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**18 INSURANCE RISK MANAGEMENT****a) Background**

The Company accepts to manage the retakaful pools through its written retakaful agreements with policyholders. By the very nature of a retakaful agreement, this risk is random and therefore unpredictable. The policyholder pool is exposed to uncertainty surrounding the timing, frequency and severity of claims under these agreements. The Company's Board of Directors monitors the aggregate risk data and takes overall risk management decisions. Two key elements of the Company's takaful risk management framework are its underwriting strategy and retakaful strategy, as discussed below.

**b) Underwriting strategy**

The Company's underwriting strategy for the policyholders' pools is driven by the general underwriting guidelines of the Hannover Re Group. The objective of this strategy is to build balanced pools based on a large number of similar risks, thereby reducing the variability of the pools' outcome. The underwriting strategy is set out in an annual group business plan that is approved by the Hannover Re Group. This strategy is cascaded by the business units through detailed underwriting authorities that set out the limits that any one underwriter can write by line size, class of business, territory and industry in order to ensure appropriate risk selection within the pool. The underwriters have the right to refuse renewal or to change the terms and conditions of the agreement at renewal. The Company's Board of Directors meets quarterly to review certain management information including contribution income and other key ratios.

**c) Retrocession strategy**

The Company uses retrocession for a portion of the retakaful risks it underwrites in order to control the pools' exposure to losses and protect capital resources. Ceded retrocession contains credit risk, as discussed in the financial risk management section. The Board monitors developments in the retro programme and its ongoing adequacy. The Company buys a combination of proportional and non-proportional retro treaties to reduce the net exposure to the entity for an event.

**d) Risk exposure and concentration of retrocession risk**

The Company's risk exposure to retro risk, its geographical concentration and the extent to which the entity has covered these risks by retrocession is set out in note 17.

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18 *INSURANCE RISK MANAGEMENT (continued)*e) **Sensitivity analysis**

The following table provides an analysis of the sensitivity of profit and policyholder equity to changes in the assumptions used to measure retakaful agreement provisions and retakaful assets at the reporting date. The analysis has been prepared for a change in one variable at a time with other assumptions remaining constant. The effect is shown before and after retakaful.

	Statement of policyholders' revenues and expenses		Policyholders' equity	
	Gross of retakaful	Net	Gross of retakaful	Net
<b>2017</b>				
<b>Expense rate</b>				
1 % increase	(643,212)	(618,682)	(643,212)	(618,682)
1 % decrease	643,212	618,682	643,212	618,682
<b>Expected loss ratio</b>				
1 % increase	(719,805)	(695,476)	(719,805)	(695,476)
1 % decrease	719,805	695,476	719,805	695,476
<b>2016</b>				
<b>Expense rate</b>				
1 % increase	(601,915)	(571,646)	(601,915)	(571,646)
1 % decrease	601,915	571,646	601,915	571,646
<b>Expected loss ratio</b>				
1 % increase	(622,477)	(592,438)	(622,477)	(592,438)
1 % decrease	622,477	592,438	622,477	592,438

The nature of the Company's exposures to retakaful risk and its objectives, policies and processes for managing retakaful risk have not changed significantly from the prior period.

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**19 CAPITAL MANAGEMENT**

The Board's policy is to maintain a strong capital base so as to maintain cedant and market confidence and to sustain the future development of the business. The Board of Directors monitors contribution income and profit earned during the period as key indicators for capital management. The Company's objectives for managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The CBB supervises the Company through a set of regulations that set out certain minimum capital requirements. It is the Company's policy to hold capital as an aggregate of the capital requirement of the relevant supervisory body and a specified margin, to absorb changes in both capital and capital requirements. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

**20 FINANCIAL RISK MANAGEMENT****a) Overview**

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

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's exposure to each of the above risks, and the Company's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

**b) Credit risk**

Credit risk is the risk of financial loss to the Company if a counterparty fails to meet its contractual obligations. The Company's key areas of exposure to credit risk include cash and cash equivalents, statutory deposit, investment securities - debt type, retrocessionaires' share of loss reserves and retakaful receivables.

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20 *FINANCIAL RISK MANAGEMENT (continued)*

b) *Credit risk (continued)*

(i) *Management of credit risk*

The Company manages its credit risk by placing limits on its exposure to counterparties and asset classes. The Company has a policy of evaluating the credit quality and reviewing public rating information before making investments. The Company's exposure to individual policyholders and groups of policyholders is monitored as part of its credit control process. Financial analyses are conducted for significant exposures to individual policyholders and related groups of policyholders. The Company seeks retrocession with financially sound (AA rated) counterparties.

(ii) *Overall exposure to credit risk*

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

*Total financial assets*

	Policyholders		Shareholders	
	2017	2016	2017	2016
Cash and cash equivalents	6,272,867	6,125,334	2,378,468	2,235,842
Statutory deposit	-	-	150,103	150,079
Investment in securities	58,676,245	57,194,874	53,565,544	50,037,810
Retakaful receivables	13,686,902	14,309,967	-	-
Accrued contribution receivable	21,130,439	19,278,653	-	-
Retrocessionaires' share of loss reserves	422,269	407,938	-	-
Wakala fee receivables	-	-	5,585,234	4,469,167
Mudaraba fee receivables	-	-	795,933	399,625
Qard Hassan receivables	-	-	3,279,500	4,766,230
Other Receivables	-	-	1,897,468	38,055
	<b>100,188,722</b>	<b>97,316,766</b>	<b>67,652,250</b>	<b>62,096,808</b>

(iii) *Concentration of credit risk*

Of the above exposure to credit risk, the Company has entered into placements with banks for BD Nil (2016: BD 120,658).

(iv) *Assets that are past due*

The nature of the Company's exposures to credit risk and its objectives, policies and processes for managing credit risk have not changed significantly from the prior period.

The ageing of retakaful receivables at the end of the reporting period was as follows:



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20 *FINANCIAL RISK MANAGEMENT (continued)*

	<b>General Retakaful</b>	<b>Family Retakaful</b>	<b>2017</b>	<b>2016</b>
Neither past due nor impaired	2,975,946	7,957,968	<b>10,933,914</b>	12,599,336
Past due 91 – 180 days	248,277	1,860,255	<b>2,108,532</b>	1,081,409
Past due 181 – 365 days	-	87,311	<b>87,311</b>	507,470
Above 365 days	816,570	526,967	<b>1,343,537</b>	607,392
Total before allowance for doubtful debts	<b>4,040,793</b>	<b>10,432,501</b>	<b>14,473,294</b>	14,795,607
Less: allowance for doubtful debts	<b>(686,392)</b>	<b>(100,000)</b>	<b>(786,392)</b>	(485,640)
	<b>3,354,401</b>	<b>10,332,501</b>	<b>13,686,902</b>	14,309,967

The Company believes that the retakaful receivables that are past due by more than 180 days are still collectable in full to the extent that no allowance for doubtful debts is made, based on historic payment behaviour and extensive analysis of customer credit risk, including underlying customer credit ratings, when available. An allowance for doubtful debts is made when there is evidence that the company will be unable to collect the full amount due of all debt.

The credit quality of retakaful receivables is assessed based on credit policy established by the risk management committee of the Group. The Company has monitored customer credit risk by analysing the credit quality of retakaful receivables periodically.

- (v) As per the Volume 3 of CBB Rulebook, the Company has impaired the Qard Hassan during the year amounting to BD 1,486,768 (2016: BD 2,383,115). In prior years (2014-2016) the company has written off 20% of the Qard Hassan every year. In the current year, the 20% provision is reduced by the surplus generated in the general retakaful fund. The corresponding effect of impairment has been recorded in the policyholders' statement of surplus and deficit. The Company's Sharia Board is of the view that the retakaful operator still holds the right to recover the Qard Hassan from policyholders.

**c) Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations from its financial and retakaful liabilities that are settled by delivering cash or another financial asset. The Company is exposed to calls on its available cash resources mainly from claims arising from retakaful agreements. Liquidity risk may arise from a number of potential areas, such as a duration mismatch between assets and liabilities and unexpectedly high levels of lapses/surrenders. The natures of Company's exposure to liquidity risk and its objective, policies and processes for managing liquidity risk have not changed significantly from the prior period.

*(i) Management of liquidity risk*

The Hannover Re Group's approach to managing liquidity is to ensure, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Company's liquidity risk approach is prescribed in the Investment Guidelines and is consistently monitored to ensure adequate liquidity.

**NOTES TO THE FINANCIAL STATEMENTS**  
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20 **FINANCIAL RISK MANAGEMENT (continued)**

(ii) *Exposure to liquidity risk*

An analysis of the contractual maturities of the Company's financial liabilities (including contractual undiscounted profit payments) is presented below.

**Policyholders**

**2017**

Claims reserves reported  
 Retakaful payables  
 Related party payables  
 Qard Hassan payables  
 Wakala fee payable  
 Mudaraba fee payable  
 Other liabilities

	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>1 year or less</b>
Claims reserves reported	46,314,588	46,314,588	46,314,588
Retakaful payables	4,545,881	4,545,881	4,545,881
Related party payables	892,453	892,453	892,453
Qard Hassan payables	3,279,462	3,279,462	3,279,462
Wakala fee payable	5,585,234	5,585,234	5,585,234
Mudaraba fee payable	795,933	795,933	795,933
Other liabilities	1,910,614	1,910,614	1,910,614
	<b>63,324,165</b>	<b>63,324,165</b>	<b>63,324,165</b>

**2016**

Claims reserves reported  
 Retakaful payables  
 Related party payables  
 Qard Hassan payables  
 Wakala fee payable  
 Mudaraba fee payable  
 Other liabilities

	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>1 year or less</b>
Claims reserves reported	39,369,076	39,369,076	39,369,076
Retakaful payables	2,463,745	2,463,745	2,463,745
Related party payables	747,005	747,005	747,005
Qard Hassan payables	11,915,575	11,915,575	11,915,575
Wakala fee payable	4,469,167	4,469,167	4,469,167
Mudaraba fee payable	399,625	399,625	399,625
Other liabilities	51,728	51,728	51,728
	<b>59,415,921</b>	<b>59,415,921</b>	<b>59,415,921</b>

**Shareholders**

**2017**

Payable to related parties  
 Other payables

	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>1 year or less</b>
Payable to related parties	409,822	409,822	409,822
Other payables	711,718	711,718	711,718
	<b>1,121,540</b>	<b>1,121,540</b>	<b>1,121,540</b>
<b>2016</b>			
Payable to related parties	294,380	294,380	294,380
Other payables	692,334	692,334	692,334
<b>Total</b>	<b>986,714</b>	<b>986,714</b>	<b>986,714</b>

(iii) *Disclosures of non-financial assets and liabilities*

Disclosures relating to financial assets and liabilities - current and non-current - are provided throughout these financial statements. Disclosures relating to non-financial assets and liabilities representing best estimates are as stated below.

<b>Non-financial assets</b>	<b>2017</b>	<b>2016</b>
<i>Policyholders</i>		
Deferred acquisition costs	2,917,292	4,359,736
Deferred wakala fee	1,473,860	2,157,984
Retrocessionaires' share of unearned contribution reserves	335,869	315,503
Retrocessionaires' share of IBNR	152,460	137,451
Other receivables	41,087	44,368
	<b>4,920,568</b>	<b>7,015,042</b>
<i>Shareholders</i>		
Equipment and other assets	<b>82,889</b>	153,197
<b>Non-financial liabilities</b>		
<i>Policyholders</i>		
Unearned contribution reserves	17,506,982	24,945,322
Commission reserves	91,402	322,454
IBNR reserves	43,038,281	44,188,483
	<b>60,636,665</b>	<b>69,456,259</b>
<b>Non-financial liabilities</b>		
<i>Shareholders</i>		
Unearned wakala fee	1,473,860	2,157,984
Other liabilities	388,850	352,257
	<b>1,862,710</b>	<b>2,510,241</b>

c) **Market risk**

Market risk is the risk that changes in market prices, such as profit rates, foreign exchange rates and equity prices will affect the value of the Company's assets, the amount of its liabilities and / or the Company's income. Market risk affects in the Company due to fluctuations in the value of liabilities and the value of investments held. The Company is exposed to market risk on all of its financial assets. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The nature of the Company's exposures to market risks and its objectives, policies and processes for managing market risk have not changed significantly from the prior period.

## NOTES TO THE FINANCIAL STATEMENTS

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## 20 FINANCIAL RISK MANAGEMENT (continued)

## (i) Management of market risk

All entities in the Hannover Re Group manage market risks locally in accordance with their asset/liability management framework. For each of the major components of market risk, the Hannover Re Group has policies and procedures in place which detail how each risk should be managed and monitored. The management of each of these major components of risk and the exposure of the Company at the reporting date to each major risk are addressed below.

## (ii) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's liabilities are denominated in Bahraini Dinars, United States Dollars, Malaysian Ringgit, Kuwaiti Dinars, Euros and other currencies. The Bahraini Dinar is effectively pegged to the United States Dollar, thus currency rate risks occur only in respect of Malaysian Ringgit, Euros and Kuwaiti Dinars. The Company is not significantly exposed to currency risk in relation to other currencies as these include exposure in currencies of other GCC countries which are pegged with United States Dollars. The Company actively pursues a natural hedge between its assets and liabilities.

31 December 2017	Malaysian Ringgit	Euro	Kuwaiti Dinars	Total
Total assets	9,119,736	666,933	1,091,009	10,877,678
Total liabilities	(12,591,059)	(1,188,781)	(3,231,925)	(17,011,765)
<b>Net (liabilities)</b>	<b>(3,471,323)</b>	<b>(521,848)</b>	<b>(2,140,916)</b>	<b>(6,134,087)</b>

31 December 2016	Malaysian Ringgit	Euro	Kuwaiti Dinars	Total
Total assets	9,934,439	892,414	2,299,757	13,126,610
Total liabilities	(11,118,732)	(330,029)	(3,150,708)	(14,599,469)
Net (liabilities) / assets	(1,184,293)	562,385	(850,951)	(1,472,859)

The assets and liabilities above were translated at exchange rates at the reporting date.

A 10% variance in Euro exchange rate will have an impact of BD 52,185 (2016: BD 56,239), 10% variance in Malaysian Ringgit exchange rate will have an impact of BD 347,132 (2016: BD 118,429), 10% variance in Kuwaiti Dinars exchange rate will have an impact of BD 214,092 (2016: BD 85,095) on the statement of policyholders' revenue and expenses, statement of income, policyholders' equity and shareholders' equity respectively.



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**20 FINANCIAL RISK MANAGEMENT (continued)****(iii) Profit rate risk**

Profit rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market profit rates. The Company does not have material exposure to variations in profit rates as it invests primarily in fixed income instruments.

**(iv) Other market price risk**

The primary goal of the Company's investment strategy is to ensure low risk returns and invest excess surplus funds available with the Company in low risk securities. Market price risk arises from the sukuk investments held by the Company. The Investment Guidelines prescribe the acceptable limits in market price movement of securities. The Managing Director and Chief Risk Officer are responsible for ensuring compliance with the Investment Guidelines and reporting on the performance of the portfolio to the Investment Committee of the Company's Board of Directors.

**21 SOLVENCY MARGIN AND CAPITAL ADEQUACY**

The CBB Rulebook stipulates that solvency margin requirements are determined separately for the policyholders' funds (General retakaful and Family retakaful). The total available capital to cover the required solvency margin is BD 41.241 million (2016: BD 27.964 million).

The solvency margin required for the General retakaful funds is BD 6.372 million (2016: BD 8.291 million) and for the Family retakaful funds is BD 0.4 million (2016: BD 0.4 million) as per the regulations issued by the CBB.

**22 SHARIA SUPERVISORY BOARD**

The Company's business activities are subject to the supervision of the Sharia Supervisory Board consisting of three scholars appointed by the Annual General Meeting for a period of three years. The Sharia Supervisory Board has the power to review the Company's business operations and activities in order to confirm that the Company is complying with Sharia rules and principles. The Sharia Supervisory Board has access to all the Company's records, transactions and information sources.

**23 PROPOSED DIVIDEND**

The Board of Directors recommend a dividend appropriation of 110 fils per share equating to BD 2,200,000 for approval by the Shareholders at the Annual General Meeting, to be held during the first quarter of 2018.

**24 EARNINGS PROHIBITED BY SHARIA**

Interest received on two bank accounts with NBAD amounting to BD 188 (2016: 522) is not recognized as income and will be distributed to charity during 2018.

**25 COMPARATIVES**

The comparative figures for the previous year have been regrouped, where necessary, in order to conform to the current year's presentation. Such regrouping does not affect the previously reported profit, comprehensive income or equity.