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

## FINANCIAL STATEMENTS

## 31 DECEMBER 2019

| | | |
|---|---|---|
| Registered Office | : | Zamil Tower, 17th floor<br>P.O. Box 75180<br>Manama<br>Kingdom of Bahrain |
| Board of Directors | : | Sven Althoff, Chairman<br>Claude Chèvre, Deputy Chairman<br>Mahomed Akoob, Retired 30 June 2019<br>Adham El-Muezzin<br>Gerald Segler<br>Olaf Brock<br>Jorge Alfonso Perez,<br>Resigned 27 June 2019 |
| Auditors | : | PricewaterhouseCoopers ME Limited |

**Hannover ReTakaful B.S.C. (c)**
**Financial Statements**
**For the year ended 31 December 2019**

**CONTENTS**

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 2019.

**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 2019 are as follows:

| **Financial highlights** | **2019** | 2018 |
|---|---|---|
| Gross contributions | 67,873,893 | 58,465,827 |
| Shareholders' profit for the year | 9,799,650 | 1,286,532 |
| Equity attributable to shareholders | 68,649,550 | 63,149,900 |
| Policyholders' equity | (18,128,802) | (17,586,722) |

**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 2019 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 2019, which would in any way invalidate the financial statements on pages 13 to 41.

There were no violations of the Bahrain Commercial Companies Law 2001, the Central Bank of Bahrain and Financial Institutions Law 2006, the Rule Book (Volume 3 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, PricewaterhouseCoopers ME Limited (PwC), who have signified their willingness to continue in office for the next accounting year.

*Sven Althoff*
Chairman
26 February 2020

***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 2019 are set out on pages 13 to 41 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.

| | **2019** | 2018 |
|---|---|---|
| Required minimum solvency margin for family retakaful | **400,000** | 400,000 |
| Required minimum solvency margin for general retakaful | **5,363,307** | 4,868,000 |

*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:

| | **2019** | 2018 |
|---|---|---|
| Tier 1 or core capital comprising the highest quality capital elements that fully meet all the essential characteristics of capital | 72,950,000 | 65,349,000 |
| Deduction from Tier 1 capital | (6,219,000) | (9,560,000) |
| Shareholders' available capital | **66,731,000** | 55,789,000 |

**Capital adequacy**

To assess the Company's capital adequacy, the shareholders' available capital is compared to the required solvency margin. As at 31 December 2019, the excess of available capital above required solvency margin is as follows:

| | **2019** | 2018 |
|---|---|---|
| Shareholders' available capital | 66,731,000 | 55,789,000 |
| Net admissible assets to cover solvency margin | | |
| – Family retakaful fund | (692,919) | 716,000 |
| – General retakaful fund | (18,183,431) | (20,262,000) |
| Total available capital to cover required solvency margin | 47,854,651 | 36,243,000 |
| less: required solvency margin | (5,763,307) | (5,268,000) |
| **Excess capital** | **42,091,344** | 30,975,000 |

*Key ratios*

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

| Ratio | **2019** General Retakaful | **2019** Family Retakaful | 2018 General Retakaful | 2018 Family Retakaful |
|---|---|---|---|---|
| **Retakaful ratios** | | | | |
| Retention ratio | 92.42% | 99.44% | 90.64% | 99.43% |
| Gross contribution to shareholders' equity | 46.30% | 52.57% | 39.16% | 53.42% |
| Net contribution to shareholders' equity | 42.79% | 52.27% | 35.50% | 53.12% |

**Combined ratios (shareholders' and policyholders' funds)**

| | **2019** | 2018 |
|---|---|---|
| **Liquidity ratios** | | |
| Current ratio | 8 | 7 |
| Liabilities / liquid assets | 88% | 86% |
| Technical reserves / liquid assets | 81% | 78% |
| **Solvency ratios** | | |
| Solvency ratio | 730% | 588% |
| Share capital and surplus as a % of liabilities | 34% | 28% |
| Technical reserves to shareholders' equity | 164% | 159% |
| Technical reserves to net contribution | 191% | 173% |

| **Capital ratios** | **2019** | 2018 |
|---|---|---|
| Investments to technical reserves | 122% | 125% |
| Return on paid up capital | 49% | 6% |
| Return on shareholders' equity | 14% | 2% |
| Return on total assets employed | 5.35% | 0.20% |

**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 2019, the Board of the Company consists of five members. Four out of the five directors are non-executive directors. Resumes of the directors are as follows:

***Sven Althoff, Chairman***
Mr. Althoff studied at Leibniz University in Hannover and obtained his Diploma in Economics in 1993.

He then started his working career at Hannover Re, Germany, in the area of P&C treaty reinsurance business emanating from North America. In 1998 Mr Althoff joined the Marine department as a senior underwriter and became responsible for the worldwide Marine and Aviation business from 2000. In 2003 his responsibility was extended to include all classes of P&C treaty business for UK and Irish ceding companies as a Managing Director.

Mr Althoff was appointed member of the Executive Board in 2014. He took over responsibility for Property & Casualty reinsurance: Australasia, Marine, Aviation, Credit, Surety and Political Risks, United Kingdom, Ireland and London Market, Facultative Reinsurance and Direct Business; Coordination of Property & Casualty Business Group; Quotations.

On 25 March 2019 Mr Althoff was appointed member of the Board of Directors of Hannover ReTakaful B.S.C. (c), where on 26 June 2019 he became Chairman of the Board.

***Claude Chèvre, Deputy Chairman***
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.

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 1 November 2011. Mr Chèvre was appointed to the Board of Directors of Hannover ReTakaful B.S.C. (c) on 18 March 2012.

***Adham El-Muezzin, Managing Director***
Mr. El-Muezzin has an MBA from The University of Applied Sciences Coburg, Germany and a degree in Business Administration from Alexandria University in Egypt.

He began his career in the banking sector and moved to Hannover Re, Hannover, in June 2007 where he spent two years as a treaty underwriter serving the Arabic speaking markets, also working on sharia compliant reinsurance structures.

During 2010, Mr. El-Muezzin moved to Bahrain and in 2012, he assumed the leadership position of the treaty department as Senior Manager, reporting to the Managing Director. Mr. El-Muezzin's responsibilities included all property and casualty lines of business. As a member of the executive team he was responsible for implementing and contributing to the strategy and development of the company.

Mr. El-Muezzin was appointed Managing Director and member of the Board of Directors of Hannover ReTakaful B.S.C. (c) on 1 July 2019.

***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 1 August 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 Board of Directors of Hannover Finance (Luxemburg) S.A. and a Managing Director of Hannover Rück Beteiligung Verwaltungs-GmbH.

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 13 December 2016.

***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;
- 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;
- monitoring the performance of the Company's internal audit function;
- monitoring the business practices and ethical standards of the Company; and assessing the company's 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; Adham El-Muezzin; Gerald Segler.

***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:
Sven Althoff, Chairman; Adham El-Muezzin; Claude Chèvre.

***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; Adham El-Muezzin; Zarita Beeton.

**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 Adham El-Muezzin as Managing Director on 1 July 2019 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 Memorandum and Articles of Association, Volume 3 of the Central Bank of Bahrain (the "CBB") Rulebook, and other corporate governance matters deemed appropriate by the Board.

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.

**Meeting Attendance**

| Director | 27.02.2019 | | 26.06.2019 | | 05.09.2019 | | 07.11.2019 | |
|---|---|---|---|---|---|---|---|---|
| | Board | ARC | Board | ARC | Board | ARC | Board | ARC |
| Sven Althoff, Chairman | * | * | √ | * | √ | * | √ | * |
| Mahomed Akoob | √ | √ | √ | √ | * | * | * | * |
| Adham El-Muezzin | * | * | * | * | √ | √ | √ | √ |
| Claude Chèvre | √ | * | √ | * | √ | * | √ | * |
| Gerald Segler | √ | √ | √ | √ | X | X | √ | √ |
| Olaf Brock | √ | √ | √ | √ | √ | √ | √ | √ |
| Jorge Alfonso Perez | √ | √ | √ | √ | * | * | * | * |

√ Present

X Absent with apology

* not applicable

ARC - Audit & Risk Committee

**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 | 16.02.2019 | 19.11.2019 |
|---|---|---|
| Dr. Mohamed Ali Elgari | X | √ |
| Mufti Muhammad Hassan | √ | √ |
| Sheikh Faizal Manjoo | √ | √ |

√ Present

X Absent with apology

**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, applicable provisions of Volume 6 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.

**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 19 of the Financial Statements for the Company's risk identification and management.

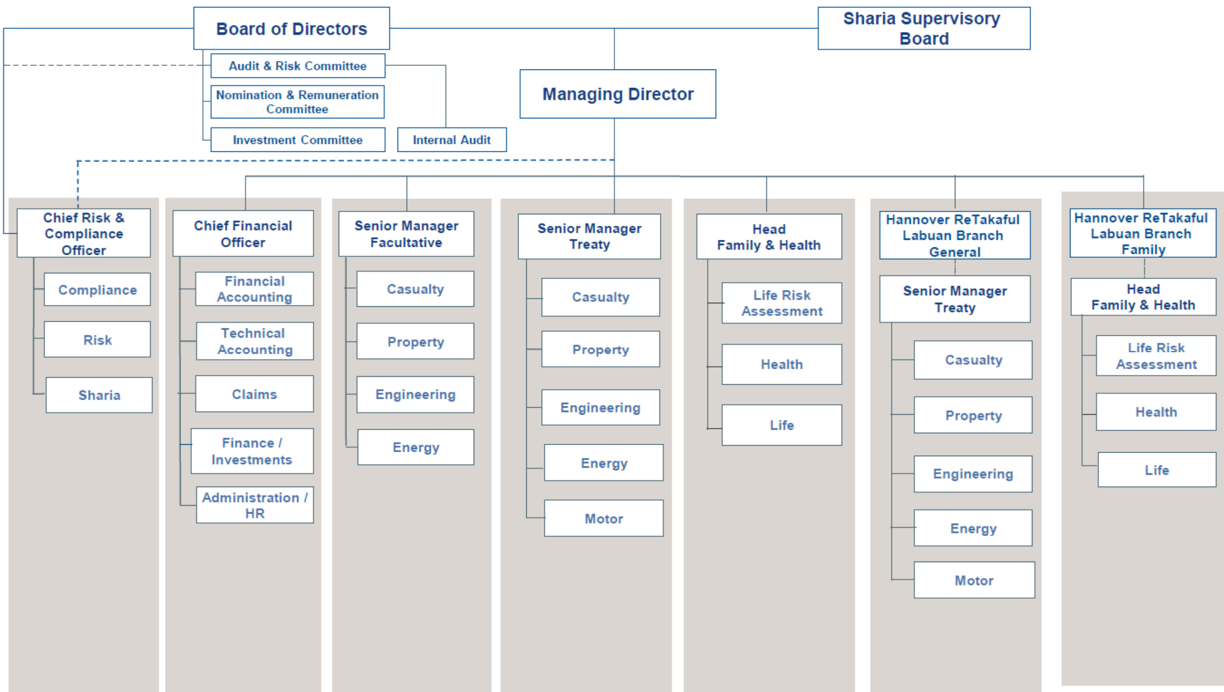
The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors of the Company reports to the Group's Board of Directors. The Hannover Re Group has established global risk management guidelines which the Company's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

**Management of the Company and Organisational Structure**

Management of the Company is as follows:

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

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



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

**Report of the Sharia Supervisory Board**

For the year ended 31 December 2019

**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 2019.

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 year ended 31 December 2019 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 had 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: Rajab 01, 1441 H corresponding to 25 February 2020.

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

.............................................
Mufti Muhammad Hassan

.............................................
Dr. Faizal Manjoo

# *Independent Auditor's Report to the Shareholders of Hannover Retakaful B.S.C. (c)*

## *Report on the financial statements*

We have audited the accompanying financial statements of Hannover Retakaful B.S.C. (c) (the "Company") which comprise the statement of financial position as at 31 December 2019 and the related statements of income, policyholders' revenues and expenses, policyholders' surplus and deficit, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## *Directors' responsibility for the financial statements*

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and to operate in accordance with Islamic Sharia rules and principles. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## *Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Auditing Standards 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 the directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

## *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019 and the results of its operations, policyholders' surplus and deficit, changes in shareholders' equity and its cash flows for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

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# *Independent Auditor's Report to the Shareholders of Hannover Retakaful B.S.C. (c)* (continued)

## Report on regulatory requirements and other matters

As required by the Bahrain Commercial Companies Law number (21) of 2001 (BCCL) and Volume 3 of the Central Bank of Bahrain ("CBB") Rulebook, we report that:

(i) we have obtained all the information that we considered necessary for the purpose of our audit;

(ii) the Company has maintained proper accounting records and the financial statements and the financial information contained in the Directors' report are in agreement therewith;

(iii) nothing has come to our attention which cause us to believe that the Company has breached any of the applicable provision of the BCCL, the CBB Rulebook (Volume 3), Financial Institutions Law 2006 and CBB directives, and procedures 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

(iv) satisfactory explanations and information have been provided to us by the directors in response to all our requests.

The Company has also complied with the Islamic Sharia rules and principles as determined by the Sharia Supervisory Board of the Company.

PricewaterhouseCoopers

26 February 2020
Partner's registration number: 196
Manama, Kingdom of Bahrain

**Hannover ReTakaful B.S.C. (c)**
**Statement of financial position**
**as at 31 December 2019**

Bahraini Dinars

| **ASSETS** | Note | **2019** | 2018 |
|---|---|---|---|
| Cash and cash equivalents | 4 | 7,337,983 | 11,203,204 |
| Statutory deposit | | 150,099 | 150,103 |
| Investment securities | 5 | 123,690,692 | 110,446,522 |
| Retakaful receivables | 6 a) | 14,479,959 | 10,479,168 |
| Accrued contribution receivable | 7 | 22,917,829 | 20,036,825 |
| Related party receivables | 15 d) | 195 | 102,391 |
| Deferred acquisition costs | 8 | 3,773,556 | 2,376,232 |
| Retrocessionaires' share of unearned contribution reserves | 10 | 366,369 | 341,469 |
| Retrocessionaires' share of loss reserves | 11 | 302,435 | 148,424 |
| Prepayments, equipment and other assets | | 141,840 | 186,188 |
| **Total assets** | | **173,160,957** | 155,470,526 |

| **SHAREHOLDERS' EQUITY, POLICYHOLDERS' EQUITY & LIABILITIES** | Note | **2019** | 2018 |
|---|---|---|---|
| **Shareholders' equity** | | | |
| Share capital | 9 | 20,000,000 | 20,000,000 |
| Statutory reserve | | 5,830,955 | 4,850,990 |
| Dividend reserve | | - | 1,000,000 |
| Retained earnings | | 42,818,595 | 37,298,910 |
| **Total shareholders' equity** (page 17) | | **68,649,550** | 63,149,900 |
| **Policyholders' equity** (page 16) | | **(18,128,802)** | (17,586,722) |
| **Liabilities** | | | |
| Loss reserves | 11 | 94,448,733 | 87,548,806 |
| Unearned contribution reserves | 10 | 21,993,082 | 15,288,440 |
| Commission reserves | | 387,363 | 293,193 |
| Retakaful payables | 6 b) | 3,821,889 | 4,488,694 |
| Payables to retrocessionaires | 6 c) | 505,548 | 501,562 |
| Related party payables | 15 c) | 11,735 | 634,857 |
| Other liabilities | | 1,471,859 | 1,151,796 |
| **Total liabilities** | | **122,640,209** | 109,907,348 |
| **Total shareholders' equity, policyholders' fund and liabilities** | | **173,160,957** | 155,470,526 |

The Board of Directors approved the financial statements consisting of pages 13 to 41 on 26 February 2020.

Sven Althoff
*Chairman*

Adham El-Muezzin
*Managing Director*

**Statement of income**

**for the year ended 31 December 2019**

Bahraini Dinars

| | Note | 2019 | 2018 |
|---|---|---|---|
| **INCOME** | | | |
| Wakala fee for managing retakaful activities | | 5,511,632 | 5,726,612 |
| Change in deferred wakala fee | | (66,722) | (70,065) |
| **Net earned wakala fee** | | **5,444,910** | 5,656,547 |
| Net investment income | 13 | 4,661,461 | 450,168 |
| Mudaraba fee | | 1,796,951 | 170,007 |
| Other income | | 7,659 | - |
| **TOTAL INCOME** | | **11,910,981** | 6,276,722 |
| **EXPENSES** | | | |
| General and administrative expenses | 14 | (2,137,867) | (1,707,042) |
| Foreign exchange gain / (loss) | | 26,536 | (3,686) |
| Impairment of Qard Hassan | | - | (3,279,462) |
| **TOTAL EXPENSES** | | **(2,111,331)** | (4,990,190) |
| **PROFIT FOR THE YEAR** | | **9,799,650** | 1,286,532 |

The Board of Directors approved the financial statements consisting of pages 13 to 41 on 26 February 2020.

Sven Althoff
*Chairman*

Adham El-Muezzin
*Managing Director*

**Statement of policyholders' revenues and expenses**
**for the year ended 31 December 2019** Bahraini Dinars

| | Note | **2019** | 2018 |
|---|---|---|---|
| **REVENUE** | | | |
| Gross contributions | | 67,873,893 | 58,465,827 |
| Retrocessionaires' share of contributions | | (2,612,834) | (2,506,397) |
| Change in gross unearned contribution reserves | 10 | (6,527,155) | 1,984,781 |
| Change in retrocessionaires' share of unearned contribution reserves | 10 | 25,422 | 8,412 |
| **Net earned contributions** | | **58,759,326** | 57,952,623 |
| Foreign exchange (loss) / gain | | (104,905) | 297,534 |
| Net investment income | 13 | 4,492,375 | 425,018 |
| **Total revenue** | | **63,146,796** | 58,675,175 |
| **EXPENSES** | | | |
| Net claims settled | | (40,933,763) | (45,720,848) |
| Net movement in loss reserves | 11 | (6,410,504) | 666,781 |
| **Net claims incurred** | | **(47,344,267)** | (45,054,067) |
| Net policy acquisition costs | | (10,024,681) | (8,030,808) |
| Movement in deferred acquisition cost | 8 | 1,342,268 | (532,641) |
| Movement in commission reserve | | (93,907) | (201,881) |
| Wakala fee | | (5,511,632) | (5,726,612) |
| Movement in deferred wakala fee | | 66,722 | 70,065 |
| Mudaraba fee | | (1,796,951) | (170,007) |
| Allowance for doubtful debts | | (217,124) | - |
| Other taxes | | (109,304) | (3,851) |
| **Total expenses** | | **(63,688,876)** | (59,649,802) |
| **Deficit of revenue over expenses for the year** | | **(542,080)** | (974,627) |

The notes on pages 19 to 41 are an integral part of these financial statements.

**Statement of policyholders' surplus and deficit**
**for the year ended 31 December 2019**

Bahraini Dinars

| **2019** | **General retakaful** | **Family retakaful** | **Total accumulated deficit** | **Surplus distribution reserve** | **Total policy holders' equity** |
|---|---|---|---|---|---|
| As at 1 January 2019 | (19,647,857) | 694,584 | (18,953,273) | 1,366,551 | (17,586,722) |
| Deficit for the year | 1,464,667 | (2,006,747) | (542,080) | - | (542,080) |
| **As at 31 December 2019** | **(18,183,190)** | **(1,312,163)** | **(19,495,353)** | **1,366,551** | **(18,128,802)** |

| 2018 | General retakaful | Family retakaful | Total accumulated deficit | Surplus distribution reserve | Total policy holders' equity |
|---|---|---|---|---|---|
| As at 1 January 2018 | (22,517,084) | 1,258,976 | (21,258,108) | 3,094,011 | (18,164,097) |
| Deficit for the year | (410,235) | (564,392) | (974,627) | - | (974,627) |
| Qard hassan allowance | 3,279,462 | - | 3,279,462 | - | 3,279,462 |
| Surplus paid for the year | - | - | - | (1,727,460) | (1,727,460) |
| As at 31 December 2018 | (19,647,857) | 694,584 | (18,953,273) | 1,366,551 | (17,586,722) |

The notes on pages 19 to 41 are an integral part of these financial statements.

**Statement of changes in shareholders' equity**
**for the year ended 31 December 2019**

Bahraini Dinars

| **2019** | **Share capital** | **Statutory reserve** | **Dividend reserve** | **Retained earnings** | **Total** |
|---|---|---|---|---|---|
| As at 1 January 2019 | 20,000,000 | 4,850,990 | 1,000,000 | 37,298,910 | 63,149,900 |
| Profit for the year | - | - | - | 9,799,650 | 9,799,650 |
| Transfer to statutory reserve | - | 979,965 | - | (979,965) | - |
| Dividend reserves | - | - | (1,000,000) | 1,000,000 | - |
| Dividend distributed | - | - | - | (4,300,000) | (4,300,000) |
| At 31 December 2019 | **20,000,000** | **5,830,955** | **-** | **42,818,595** | **68,649,550** |

| 2018 | Share capital | Statutory reserve | Dividend reserve | Retained earnings | Total |
|---|---|---|---|---|---|
| As at 1 January 2018 | 20,000,000 | 4,722,337 | - | 39,341,031 | 64,063,368 |
| Profit for the year | - | - | - | 1,286,532 | 1,286,532 |
| Transfer to statutory reserve | - | 128,653 | - | (128,653) | - |
| Dividend reserves | - | - | 1,000,000 | (1,000,000) | - |
| Dividend distributed | - | - | - | (2,200,000) | (2,200,000) |
| At 31 December 2018 | 20,000,000 | 4,850,990 | 1,000,000 | 37,298,910 | 63,149,900 |

| | Note | **2019** | 2018 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Combined profit for the year | | 9,257,570 | 311,905 |
| | | | |
| *Adjustments for:* | | | |
| Depreciation expenses | | 60,553 | 77,529 |
| Impairment of Qard Hassan | | - | 3,279,462 |
| Increase in provision for employees' end of service benefits | | 7,417 | 54,517 |
| Gain on disposal of equipment | | (7,659) | - |
| Allowance for doubtful debts | | 217,124 | - |
| Net investment income | 13 | (9,153,836) | (875,186) |
| | | **381,169** | 2,848,227 |
| *Changes in operating assets and liabilities:* | | | |
| - in retakaful receivables | | (4,217,915) | 3,207,734 |
| - in unearned contribution reserves net of retrocession | | 6,679,742 | (2,224,143) |
| - in loss reserves net of retrocession | | 6,745,916 | (1,377,758) |
| - in commission reserves | | 94,170 | 201,791 |
| - in deferred acquisition costs | | (1,397,324) | 541,060 |
| - in accrued contribution receivable | | (2,881,004) | 1,093,614 |
| - in other assets | | 8,848 | (26,271) |
| - in retrocessionaires' and related party payables | | (619,136) | 243,966 |
| - in retakaful payables | | (666,805) | (57,187) |
| - in related party receivables | | 102,196 | (102,391) |
| - in other liabilities | | 312,645 | (442,810) |
| **Net cash generated from operating activities** | | **4,542,502** | 3,905,832 |
| | | | |
| **INVESTING ACTIVITIES** | | | |
| Purchase of equipment and other assets | | (21,771) | (96,955) |
| Proceeds from sale of equipment | | 4,381 | - |
| Profit received from sukuks and placements | | 3,580,018 | 3,553,458 |
| Purchase of sukuks | | (42,820,908) | (78,913,296) |
| Proceeds from redemption of sukuks | | 35,283,070 | 77,940,119 |
| Foreign currency exchange movement | | (132,513) | 90,171 |
| **Net cash (used in) / generated from investing activities** | | **(4,107,723)** | 2,573,497 |
| | | | |
| **FINANCING ACTIVITIES** | | | |
| Surplus paid | | - | (1,727,460) |
| Dividend distributed | | (4,300,000) | (2,200,000) |
| **Net cash used in financing activities** | | **(4,300,000)** | (3,927,460) |
| | | | |
| **Net (decrease) / increase in cash and cash equivalents** | | (3,865,221) | 2,551,869 |
| Cash and cash equivalents at 1 January | | 11,203,204 | 8,651,335 |
| **Cash and cash equivalents at 31 December** | | **7,337,983** | 11,203,204 |
| | | | |
| *Represented in the books of* | | | |
| Shareholders | | **1,160,810** | 3,547,734 |
| Policyholders | | **6,177,173** | 7,655,470 |
| **Cash and cash equivalents** | 4 | **7,337,983** | 11,203,204 |

The notes on pages 19 to 41 are an integral part of these financial statements.

## 1 REPORTING ENTITY

Hannover ReTakaful B.S.C. (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 with commercial registration number 62686-1 in the Kingdom of Bahrain and is licensed as an Islamic insurance company, with the Central Bank of Bahrain ("CBB" or "the regulator"). The Company is authorised to carry out reinsurance (i.e. retakaful) activities in conformity with the precepts of Islamic Shari'a. The Company has two separate branches Hannover Retakaful Labuan Branch General, Labuan/Malaysia and Hannover Retakaful Labuan Branch Family, Labuan/Malaysia to carry out retakaful activities. The Company is a wholly owned subsidiary of Hannover Rück SE, the parent company of the Hannover Re group, based in Germany. The retakaful activities are organised on a calendar year basis with the policyholders' pooling their contributions to compensate for losses suffered in the pool 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.

### 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:

| | |
|---|---|
| - 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 e) | - 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 the rules of the Central Bank of Bahrain. Qard Hassan is tested annually for impairment, refer to note 19 (iv). In the statement of financial position, Qard Hassan receivables by shareholders are eliminated against Qard Hassan payables by the policyholders for presentation.

2 *BASIS OF PREPARATION (continued)*

**f) New standards, amendments and interpretations effective from 1 January 2019**

There are no AAOIFI accounting standards or interpretations that are effective for the first time for financial years beginning on or after 1 January 2019 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 onerouse commitments - Effective 1 January 2020.
- FAS 33 - Investment in Sukuk Shares and similar Instruments - Effective from 1 January 2020.

Early adoption of relevant standards mentioned above are permitted, however the Company does not intend to early adopt these standards.

## 3 SIGNIFICANT ACCOUNTING POLICIES

### a) Foreign currency

*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.

*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.

### 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 earned proportion of contributions is recognised as revenue in the policyholders' statement of revenue and expenses.

*3 SIGNIFICANT ACCOUNTING POLICIES (continued)*

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

*(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 19 b) (iii) regarding the provision for impairment.

*(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.

3 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

*(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) 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.

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.

**d) 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*.

3 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

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.

*(iii) Measurement*
Investment securities are measured initially *at fair value* , which is the value of the consideration given.

*(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 recognised in the income statement. All other gains or losses arising from these investments shall be recognised 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.

*(vi) Mudaraba fee*
The Company manages the general and family investment operations on behalf of the policyholders for a mudaraba fee calculated as a proportion of net investment income. The company shares 40% of the investment income earned by general and family retakaful which is approved by Sharia Supervisory Board.

**e) 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:

| Asset class | Estimated useful life |
|---|---|
| Office equipment, furniture & fittings | 4 years |
| Computer equipment & motor vehicles | 3 years |

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

**f) 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.

3 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

**g) 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.

**h) 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.

**i) 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.

**j) 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.

**k) 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.

**l) Dividend reserves**

A dividend reserve was set up in 2011, covering 5% of the paid up capital (BHD 1,000,000). A reserve of BHD 1,000,000 was utilised during the year to pay dividends pertaining to the year ended 31 December 2018.

**m) Wakala fee**

The Company manages the general and family underwriting 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 which is up to a maximum of 10% for treaty proportional, 25% for treaty non proportional and facultative business and a maximum of 25% for family business.

**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.

3 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

*(ii) 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.

## 4 CASH AND CASH EQUIVALENTS

| | **2019** | 2018 |
|---|---|---|
| Cash and bank balances | **7,337,983** | 11,203,204 |

## 5 INVESTMENT SECURITIES

| | **2019** | 2018 |
|---|---|---|
| Investments at fair value through income statement | **123,690,692** | 110,446,522 |

These comprise:

| | **2019** | 2018 |
|---|---|---|
| Debt type | | |
| - Quoted sukuks | 116,113,099 | 106,375,272 |
| - Unquoted sukuks | 4,843,628 | 2,863,266 |
| Equity type | | |
| - Quoted sukuks | 2,733,965 | 1,207,984 |
| | **123,690,692** | 110,446,522 |

## 6 RETAKAFUL RECEIVABLES AND PAYABLES

### a) Retakaful receivables

| | **2019** | 2018 |
|---|---|---|
| General retakaful | 8,200,726 | 5,634,677 |
| Family retakaful | 7,194,997 | 5,630,883 |
| | **15,395,723** | 11,265,560 |
| Less: Provision for doubtful debts | (915,764) | (786,392) |
| | **14,479,959** | 10,479,168 |

General retakaful receivables include deposits amounting to BD 3,399,128 (2018: 1,862,041) held by retakaful participants.

Family retakaful receivables include deposits amounting to BD 2,797,600 (2018: BD 2,210,456) held by retakaful participants.

*6 RETAKAFUL RECEIVABLES AND PAYABLES (continued)*

**b) Retakaful payables**

| | 2019 | 2018 |
|---|---|---|
| General retakaful | 2,193,373 | 3,685,561 |
| Family retakaful | 1,628,516 | 803,133 |
| | **3,821,889** | 4,488,694 |

**c) Payables to retrocessionaires**

| | 2019 | 2018 |
|---|---|---|
| General retakaful | 42,125 | 43,811 |
| Family retakaful | 463,423 | 457,751 |
| | **505,548** | 501,562 |

## 7 ACCRUED CONTRIBUTION RECEIVABLE

| | 2019 | 2018 |
|---|---|---|
| General retakaful | 5,856,474 | 3,536,442 |
| Family retakaful | 17,061,355 | 16,500,383 |
| | **22,917,829** | 20,036,825 |

## 8 DEFERRED ACQUISITION COSTS

| | 2019 | 2018 |
|---|---|---|
| At 1 January | 2,376,232 | 2,917,292 |
| Movement during the year | 1,342,268 | (532,641) |
| Foreign exchange gains / (losses) | 55,056 | (8,419) |
| **At 31 December** | **3,773,556** | 2,376,232 |

## 9 SHARE CAPITAL

| | 2019 | 2018 |
|---|---|---|
| Authorised equity share capital of 50,000,000 (2018: 50,000,000) shares of BD 1 each | **50,000,000** | 50,000,000 |
| Issued, subscribed and paid up capital comprising 20,000,000 (2018: 20,000,000) shares of BD 1 each | **20,000,000** | 20,000,000 |

## 10 UNEARNED CONTRIBUTION RESERVES

| | **2019** | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Gross** | **Retroceded** | **Net** | Gross | Retroceded | Net |
| At 1 January | 15,288,440 | (341,469) | 14,946,971 | 17,506,982 | (335,869) | 17,171,113 |
| Movement during the year | 6,527,155 | (25,422) | 6,501,733 | (1,984,781) | (8,412) | (1,993,193) |
| Foreign exchange gains / (losses) | 177,487 | 522 | 178,009 | (233,761) | 2,812 | (230,949) |
| **At 31 December** | **21,993,082** | **(366,369)** | **21,626,713** | 15,288,440 | (341,469) | **14,946,971** |

## 11 LOSS RESERVES

| | **2019** | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Gross** | **Retroceded** | **Net** | Gross | Retroceded | Net |
| Claims reserves | 41,332,150 | - | 41,332,150 | 46,314,588 | (422,269) | 45,892,319 |
| IBNR reserves | 46,216,656 | (148,424) | 46,068,232 | 43,038,281 | (152,460) | 42,885,821 |
| At 1 January | 87,548,806 | (148,424) | 87,400,382 | 89,352,869 | (574,729) | 88,778,140 |
| Movement during the year | 6,565,670 | (155,166) | 6,410,504 | (1,088,848) | 422,067 | (666,781) |
| Foreign exchange gains / (losses) | 334,257 | 1,155 | 335,412 | (715,215) | 4,238 | (710,977) |
| **At 31 December** | **94,448,733** | **(302,435)** | **94,146,298** | 87,548,806 | (148,424) | 87,400,382 |
| Claims reserves | 40,461,887 | (152,172) | 40,309,715 | 41,332,150 | - | 41,332,150 |
| IBNR reserves | 53,986,846 | (150,263) | 53,836,583 | 46,216,656 | (148,424) | 46,068,232 |
| **At 31 December** | **94,448,733** | **(302,435)** | **94,146,298** | 87,548,806 | (148,424) | 87,400,382 |

## 12 CLAIMS DEVELOPMENT DATA

The table below shows the gross and net General retakaful loss reserves in the underwriting years 2015 to 2019. The bottom half of the table reconciles the cumulative claims to the amount appearing in the statement of financial position.

### a) General retakaful- Gross

| Underwriting years | 2015 | 2016 | 2017 | 2018 | 2019 | Total |
|---|---|---|---|---|---|---|
| Estimate of incurred claims costs: | | | | | | |
| - End of underwriting year | 16,182,411 | 14,385,002 | 10,063,823 | 13,431,552 | 11,966,800 | 11,966,800 |
| - One year later | 28,451,049 | 30,023,296 | 21,042,835 | 21,717,201 | - | 21,717,201 |
| - Two years later | 26,552,520 | 25,760,642 | 17,999,853 | - | - | 17,999,853 |
| - Three years later | 24,464,186 | 25,258,373 | - | - | - | 25,258,373 |
| - Four years later | 24,209,752 | - | - | - | - | 24,209,752 |
| Current estimate of incurred claims | 24,209,752 | 25,258,373 | 17,999,853 | 21,717,201 | 11,966,800 | 101,151,979 |
| Cumulative payments to date | (17,211,786) | (16,767,618) | (8,104,147) | (9,670,352) | (3,002,916) | (54,756,819) |
| Liability recognised | 6,997,966 | 8,490,755 | 9,895,706 | 12,046,849 | 8,963,884 | 46,395,160 |
| Liability in respect of prior years | | | | | | 16,401,089 |
| Total liability included in the statement of financial position (note 16c) | | | | | | **62,796,249** |

### b) General retakaful- Net

| Underwriting year | 2015 | 2016 | 2017 | 2018 | 2019 | Total |
|---|---|---|---|---|---|---|
| Estimate of incurred claims costs: | | | | | | |
| - End of underwriting year | 16,182,411 | 13,977,063 | 10,063,823 | 13,431,552 | 11,966,800 | 11,966,800 |
| - One year later | 28,451,049 | 29,601,027 | 21,042,835 | 21,565,029 | - | 21,565,029 |
| - Two years later | 26,552,520 | 25,760,643 | 17,999,853 | - | - | 17,999,853 |
| - Three years later | 24,464,186 | 25,258,373 | - | - | - | 25,258,373 |
| - Four years later | 24,209,752 | - | - | - | - | 24,209,752 |
| Current estimate of incurred claims | 24,209,752 | 25,258,373 | 17,999,853 | 21,565,029 | 11,966,800 | 100,999,807 |
| Cumulative payments to date | (17,211,786) | (16,767,618) | (8,104,147) | (9,670,352) | (3,002,916) | (54,756,819) |
| Liability recognised | 6,997,966 | 8,490,755 | 9,895,706 | 11,894,677 | 8,963,884 | 46,242,988 |
| Liability in respect of prior years | | | | | | 16,401,089 |
| Total liability included in the statement of financial position (note 16c) | | | | | | **62,644,077** |

## 13 NET INVESTMENT INCOME

| | **2019** | 2018 |
|---|---|---|
| *Shareholder* | | |
| Profit from sukuks | 4,807,278 | 867,381 |
| Net realised gains / (losses) | 19,931 | (300,973) |
| Profit from placements with financial institutions | 3,274 | 71,048 |
| Investment related expenses | (169,022) | (187,288) |
| | **4,661,461** | 450,168 |
| *Policyholders* | | |
| Profit from sukuks | 4,585,379 | 1,084,966 |
| Net realised gains / (losses) | 59,681 | (493,123) |
| Profit from cedants | 30,081 | 27,473 |
| Investment related expenses | (182,766) | (194,298) |
| | **4,492,375** | 425,018 |

## 14 GENERAL AND ADMINISTRATIVE EXPENSES

| | **2019** | 2018 |
|---|---|---|
| Staff cost | 2,191,384 | 2,022,465 |
| Rent expense | 128,074 | 122,971 |
| Depreciation | 60,553 | 77,529 |
| IT and maintenance expenses | 443,517 | 295,614 |
| Other operation expenses | 522,538 | 441,357 |
| Expenses recharged to a related party (note 15a) | (1,208,199) | (1,252,894) |
| | **2,137,867** | 1,707,042 |

## 15 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 all Group companies headed by Talanx AG, which also includes Hannover Re group 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 during the year** | **2019** | 2018 |
|---|---|---|
| Contribution ceded to: | | |
| - Hannover Re Bermuda Ltd., Bermuda | | |
| *Entity within the Hannover Re Group* | 2,272,252 | 2,116,478 |
| - Hannover Rück SE, Germany | | |
| *Parent company of the Hannover Re Group* | 292,953 | 341,659 |
| Profit commission recovered from: | | |
| - Hannover Rück SE, Germany | | |
| *Parent company of the Hannover Re Group* | 37,053 | 104,796 |

*15 RELATED PARTY TRANSACTIONS (continued)*

| | **2019** | 2018 |
|---|---|---|
| Expenses recharged: | | |
| - Ampega Asset Management GmbH, Germany | | |
| *Entity within the Talanx Group* | 55,971 | 56,251 |
| - Hannover Rueck SE, Bahrain Branch, Bahrain | | |
| *Branch of the Parent company of the Hannover Re Group* | 1,208,199 | 1,252,894 |
| - Hannover Rück SE, Germany | | |
| *Parent company of the Hannover Re Group* | 439,159 | 324,888 |
| - Hannover Rück SE Malaysia Branch, Malaysia | | |
| *Branch of the Parent company of the Hannover Re Group* | 6,237 | 7,665 |

| **b) Retrocessionaires' share of loss reserves at 31 December** | **2019** | 2018 |
|---|---|---|
| Hannover Rück SE, Germany | | |
| *Parent company of the Hannover Re Group* | 152,172 | - |

| **c) Amounts payable at 31 December** | **2019** | 2018 |
|---|---|---|
| Hannover Rück SE, Germany | | |
| *Parent company of the Hannover Re Group* | 11,735 | - |
| Hannover Rueck SE, Bahrain Branch, Bahrain | | |
| *Branch of the Parent company of the Hannover Re Group* | - | 634,857 |

| **d) Amounts receivable at 31 December** | **2019** | 2018 |
|---|---|---|
| Hannover Rück SE, Germany | | |
| *Parent company of the Hannover Re Group* | 195 | 102,391 |

| **e) Key management compensation** | **2019** | 2018 |
|---|---|---|
| Salaries and benefits to key management personnel | 753,519 | 642,708 |

| **f) Balances due to key management personnel** | **2019** | 2018 |
|---|---|---|
| Remuneration payable | 590,904 | 598,025 |

## 16 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.

| **2019** | **General Retakaful** | **Family Retakaful** | **Total** |
|---|---|---|---|
| **REVENUE** | | | |
| Gross contributions | 31,785,353 | 36,088,540 | 67,873,893 |
| Retrocessionaires' share of contributions | (2,409,192) | (203,642) | (2,612,834) |
| Change in gross unearned contribution reserves | (4,500,389) | (2,026,766) | (6,527,155) |
| Change in retrocessionaires' share of unearned contribution reserves | 25,406 | 16 | 25,422 |
| **Net earned contributions** | **24,901,178** | **33,858,148** | **58,759,326** |
| Net claims settled | (12,526,637) | (28,407,126) | (40,933,763) |
| Net movement in loss reserves | (3,353,086) | (3,057,418) | (6,410,504) |
| Net policy acquisition costs | (8,792,614) | (1,232,067) | (10,024,681) |
| Movement in deferred acquisition costs | 1,342,185 | 83 | 1,342,268 |
| Movement in commission reserve | - | (93,907) | (93,907) |
| Wakala fee | (2,072,858) | (3,438,774) | (5,511,632) |
| Deferred wakala fee | 124,119 | (57,397) | 66,722 |
| **Total underwriting costs** | **(25,278,891)** | **(36,286,606)** | **(61,565,497)** |
| **Underwriting results** | **(377,713)** | **(2,428,458)** | **(2,806,171)** |
| Foreign exchange (loss) / gain | (110,331) | 5,426 | (104,905) |
| Allowance for doubtful debts | (119,086) | (98,038) | (217,124) |
| Investment income | 3,459,231 | 1,033,144 | 4,492,375 |
| Mudaraba fee | (1,383,693) | (413,258) | (1,796,951) |
| Other taxes | (3,742) | (105,562) | (109,304) |
| **Surplus / (deficit) for the year** | **1,464,666** | **(2,006,746)** | **(542,080)** |

*16 SEGMENT INFORMATION (continued)*

| 2018 | General Retakaful | Family Retakaful | Total |
|---|---|---|---|
| REVENUE | | | |
| Gross contributions | 24,730,849 | 33,734,978 | 58,465,827 |
| Retrocessionaires' share of contributions | (2,314,097) | (192,300) | (2,506,397) |
| Change in gross unearned contributions | 2,553,023 | (568,242) | 1,984,781 |
| Change in retrocessionaires' share of unearned contributions | 8,441 | (29) | 8,412 |
| Net earned contributions | 24,978,216 | 32,974,407 | 57,952,623 |
| Net claims settled | (15,257,686) | (30,463,162) | (45,720,848) |
| Net movement in loss reserves | (1,994,509) | 2,661,290 | 666,781 |
| Net policy acquisition costs | (5,884,071) | (2,146,737) | (8,030,808) |
| Movement in deferred acquisition costs | (533,000) | 359 | (532,641) |
| Movement in commission reserve | - | (201,881) | (201,881) |
| Wakala fee | (2,084,603) | (3,642,009) | (5,726,612) |
| Deferred wakala fee | (150,150) | 220,215 | 70,065 |
| Total underwriting costs | (25,904,019) | (33,571,925) | (59,475,944) |
| Underwriting results | (925,803) | (597,518) | (1,523,321) |
| Foreign exchange gains / (losses) | 321,770 | (24,236) | 297,534 |
| Investment income | 326,206 | 98,812 | 425,018 |
| Mudaraba fee | (130,482) | (39,525) | (170,007) |
| Other taxes | (1,926) | (1,925) | (3,851) |
| Deficit for the year | (410,235) | (564,392) | (974,627) |

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

| **2019** | **General Retakaful** | **Family Retakaful** | **Total** |
|---|---|---|---|
| Gross contribution from takaful companies in: | | | |
| Middle East & North African countries | 31,001,803 | 21,207,592 | 52,209,395 |
| Other countries | 783,550 | 14,880,948 | 15,664,498 |
| | **31,785,353** | **36,088,540** | **67,873,893** |

| 2018 | General Retakaful | Family Retakaful | Total |
|---|---|---|---|
| Gross contribution from takaful companies in: | | | |
| Middle East & North African countries | 22,901,249 | 21,477,731 | 44,378,980 |
| Other countries | 1,829,600 | 12,257,247 | 14,086,847 |
| | 24,730,849 | 33,734,978 | 58,465,827 |

16 *SEGMENT INFORMATION (continued)*

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

| **2019** | **General Retakaful** | **Family Retakaful** | **Shareholder** | **Eliminations** | **Total** |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 2,501,957 | 3,675,215 | 1,160,811 | - | 7,337,983 |
| Statutory deposit | - | - | 150,099 | - | 150,099 |
| Investment securities | 43,741,095 | 17,483,727 | 62,465,870 | - | 123,690,692 |
| Retakaful receivables | 7,483,000 | 6,996,959 | - | - | 14,479,959 |
| Accrued contribution receivable | 5,856,474 | 17,061,355 | - | - | 22,917,829 |
| Related party receivables | - | - | 195 | - | 195 |
| Wakala fee receivable | - | - | 6,208,353 | (6,208,353) | - |
| Deferred wakala fee | 731,421 | 879,225 | - | (1,610,646) | - |
| Deferred acquisition costs | 3,772,793 | 763 | - | - | 3,773,556 |
| Retrocessionaires' share of | | | | | |
| -unearned contribution reserves | 366,369 | - | - | - | 366,369 |
| -loss reserves | 152,172 | 150,263 | - | - | 302,435 |
| Mudaraba receivables | - | - | 2,015,228 | (2,015,228) | - |
| Prepayments, equipment and other assets | - | 3,420,036 | 141,840 | (3,420,036) | 141,840 |
| **Total assets** | **64,605,281** | **49,667,543** | **72,142,396** | **(13,254,263)** | **173,160,957** |

| | **General Retakaful** | **Family Retakaful** | **Shareholder** | **Eliminations** | **Total** |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| Loss reserves | 62,796,249 | 31,652,484 | - | - | 94,448,733 |
| Unearned contribution reserves | 13,035,647 | 8,957,435 | - | - | 21,993,082 |
| Commission reserve | - | 387,363 | - | - | 387,363 |
| Retakaful payables | 2,193,373 | 1,628,516 | - | - | 3,821,889 |
| Wakala fee payable | 480,829 | 5,727,524 | - | (6,208,353) | - |
| Payables to retrocessionaires | 42,125 | 463,423 | - | - | 505,548 |
| Related party payables | 11,735 | - | - | - | 11,735 |
| Mudaraba payables | 1,451,464 | 563,764 | - | (2,015,228) | - |
| Unearned wakala fee | - | - | 1,610,646 | (1,610,646) | - |
| Other liabilities | 2,777,049 | 232,646 | 1,882,200 | (3,420,036) | 1,471,859 |
| **Total liabilities** | **82,788,471** | **49,613,155** | **3,492,846** | **(13,254,263)** | **122,640,209** |
| Policyholders' equity | (18,183,190) | 54,388 | - | - | (18,128,802) |
| **Shareholders' equity** | | | | | |
| Share capital | - | - | 20,000,000 | - | 20,000,000 |
| Statutory reserve | - | - | 5,830,955 | - | 5,830,955 |
| Retained earnings | - | - | 42,818,595 | - | 42,818,595 |
| **Total shareholders' equity** | **-** | **-** | **68,649,550** | **-** | **68,649,550** |
| **Total liabilities and equity** | **64,605,281** | **49,667,543** | **72,142,396** | **(13,254,263)** | **173,160,957** |

16 *SEGMENT INFORMATION (continued)*

| 2018 | General Retakaful | Family Retakaful | Shareholder | Eliminations | Total |
|---|---|---|---|---|---|
| Assets | | | | | |
| Cash and cash equivalents | 3,273,101 | 4,382,369 | 3,547,734 | - | 11,203,204 |
| Statutory deposit | - | - | 150,103 | - | 150,103 |
| Investment securities | 42,431,943 | 12,909,143 | 55,105,436 | - | 110,446,522 |
| Retakaful receivables | 4,948,285 | 5,530,883 | - | - | 10,479,168 |
| Accrued contribution receivable | 3,536,442 | 16,500,383 | - | - | 20,036,825 |
| Related party receivables | 23,429 | 162,773 | - | (83,811) | 102,391 |
| Wakala fee receivable | - | - | 6,687,190 | (6,687,190) | - |
| Deferred wakala fee | 607,302 | 936,622 | - | (1,543,924) | - |
| Deferred acquisition costs | 2,375,450 | 782 | - | - | 2,376,232 |
| Retrocessionaires' share of | | | | | |
| -unearned contribution reserves | 341,469 | - | - | - | 341,469 |
| -loss reserves | - | 148,424 | - | - | 148,424 |
| Mudaraba receivables | - | - | 879,845 | (879,845) | - |
| Prepayments, equipment and other assets | 12,646 | 3,379,990 | 173,542 | (3,379,990) | 186,188 |
| Total assets | 57,550,067 | 43,951,369 | 66,543,850 | (12,574,760) | 155,470,526 |

| | General Retakaful | Family Retakaful | Shareholder | Eliminations | Total |
|---|---|---|---|---|---|
| Liabilities | | | | | |
| Loss reserves | 59,059,155 | 28,489,651 | - | - | 87,548,806 |
| Unearned contribution reserves | 8,380,333 | 6,908,107 | - | - | 15,288,440 |
| Commission reserve | - | 293,193 | - | - | 293,193 |
| Retakaful payables | 3,685,561 | 803,133 | - | - | 4,488,694 |
| Wakala fee payable | 1,982,942 | 4,704,248 | - | (6,687,190) | - |
| Payables to retrocessionaires | 43,811 | 457,751 | - | - | 501,562 |
| Related party payables | 718,668 | - | - | (83,811) | 634,857 |
| Mudaraba payables | 660,496 | 219,349 | - | (879,845) | - |
| Unearned wakala fee | - | - | 1,543,924 | (1,543,924) | - |
| Other liabilities | 2,666,958 | 14,802 | 1,850,026 | (3,379,990) | 1,151,796 |
| Total liabilities | 77,197,924 | 41,890,234 | 3,393,950 | (12,574,760) | 109,907,348 |
| Policyholders' equity | (19,647,857) | 2,061,135 | - | - | (17,586,722) |
| Shareholders' equity | | | | | |
| Share capital | - | - | 20,000,000 | - | 20,000,000 |
| Statutory reserve | - | - | 4,850,990 | - | 4,850,990 |
| Dividend reserve | - | - | 1,000,000 | - | 1,000,000 |
| Retained earnings | - | - | 37,298,910 | - | 37,298,910 |
| Total shareholders' equity | - | - | 63,149,900 | - | 63,149,900 |
| Total liabilities and equity | 57,550,067 | 43,951,369 | 66,543,850 | (12,574,760) | 155,470,526 |

## 17 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 exposure to retakaful risks and the concentration of these risks and the extent to which the it has covered these risks by retrocession are set out in note 16 b).

### e) Sensitivity analysis

The following table provides an analysis of the sensitivity of statement of policyholders' revenues and expenses and policyholders' fund 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' funds** | | Statement of policyholders' revenues and expenses / Policyholders' funds | |
|---|---|---|---|---|
| | **2019** | | 2018 | |
| | **Gross** | **Net** | Gross | Net |
| **Expense rate** | | | | |
| 1 % increase | (678,739) | (652,611) | (584,658) | (559,594) |
| 1 % decrease | 678,739 | 652,611 | 584,658 | 559,594 |
| **Expected loss ratio** | | | | |
| 1 % increase | (613,467) | (587,593) | (604,506) | (579,526) |
| 1 % decrease | 613,467 | 587,593 | 604,506 | 579,526 |

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.

## 18 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 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.

## 19 FINANCIAL RISK MANAGEMENT

### a) Overview

The Company has exposure to the credit risks, liquidity risks & market risks from its use of financial instruments:

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 balances mentioned below.

*(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:

| | **Policyholders** | | **Shareholders** | |
|---|---|---|---|---|
| **Total financial assets** | **2019** | 2018 | **2019** | 2018 |
| Cash and cash equivalents | 6,177,172 | 7,655,470 | 1,160,811 | 3,547,734 |
| Statutory deposit | - | - | 150,099 | 150,103 |
| Investment in securities | 61,224,822 | 55,341,086 | 62,465,870 | 55,105,436 |
| Retakaful receivables | 14,479,959 | 10,479,168 | - | - |
| Accrued contribution receivable | 22,917,829 | 20,036,825 | - | - |
| Related party receivables | - | 186,202 | 195 | - |
| Wakala fee receivables | - | - | 6,208,353 | 6,687,190 |
| Retrocessionaires' share of loss reserves | 152,172 | - | - | - |
| Mudaraba fee receivables | - | - | 2,015,228 | 879,845 |
| Other receivables | 3,420,036 | 3,392,636 | - | 16,407 |
| | 108,371,990 | 97,091,387 | 72,000,556 | 66,386,715 |

19 *FINANCIAL RISK MANAGEMENT (continued)*

*(iii) 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 year was as follows:

| | **General Retakaful** | **Family Retakaful** | **2019** | 2018 |
|---|---|---|---|---|
| Neither past due nor impaired | 3,616,304 | 2,797,600 | 6,413,904 | 7,999,319 |
| Past due and impaired 91 – 180 days | 3,866,663 | 3,452,232 | 7,318,895 | 1,163,784 |
| Past due and impaired 181 – 365 days | 392,406 | 375,439 | 767,845 | 772,730 |
| Past due and impaired Above 365 days | 325,353 | 569,726 | 895,079 | 1,329,727 |
| Total before allowance for doubtful debts | 8,200,726 | 7,194,997 | 15,395,723 | 11,265,560 |
| Less: allowance for doubtful debts | (717,726) | (198,038) | (915,764) | (786,392) |
| | 7,483,000 | 6,996,959 | 14,479,959 | 10,479,168 |

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.

*(iv)* Until 31 December 2018, the Company had, as per Volume 3 of the CBB Rulebook, granted a Qard Hassan, amounting to BHD 11,915,575, to the General retakaful Policyholders' fund, which was fully impaired at year end 2018. The Company's Sharia Supervisory 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 nature 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.

19 *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. All liabilities of the Company are due with in one year accordingly the effect of undiscounting is immaterial.

| **Policyholders 2019** | **Carrying amount** | **Contractual cash flows** | **1 year or less** |
|---|---|---|---|
| Claims reserves | 40,461,887 | 40,461,887 | 40,461,887 |
| Retakaful payables | 3,821,889 | 3,821,889 | 3,821,889 |
| Payables to retrocessionaires | 505,548 | 505,548 | 505,548 |
| Related party payables | 11,735 | 11,735 | 11,735 |
| Wakala fee payable | 6,208,353 | 6,208,353 | 6,208,353 |
| Mudaraba payables | 2,015,228 | 2,015,228 | 2,015,228 |
| Other liabilities | 3,009,695 | 3,009,695 | 3,009,695 |
| | **56,034,335** | **56,034,335** | **56,034,335** |

| 2018 | Carrying amount | Contractual cash flows | 1 year or less |
|---|---|---|---|
| Claims reserves | 41,332,150 | 41,332,150 | 41,332,150 |
| Retakaful payables | 4,488,694 | 4,488,694 | 4,488,694 |
| Payables to retrocessionaires | 501,562 | 501,562 | 501,562 |
| Related party payables | 718,668 | 718,668 | 718,668 |
| Wakala fee payable | 6,687,190 | 6,687,190 | 6,687,190 |
| Mudaraba payables | 879,845 | 879,845 | 879,845 |
| Other liabilities | 2,681,760 | 2,681,760 | 2,681,760 |
| | 57,289,869 | 57,289,869 | 57,289,869 |

| **Shareholders 2019** | **Carrying amount** | **Contractual cash flows** | **1 year or less** |
|---|---|---|---|
| Other liabilities | 1,431,416 | 1,431,416 | 1,431,416 |
| | **1,431,416** | **1,431,416** | **1,431,416** |

| 2018 | Carrying amount | Contractual cash flows | 1 year or less |
|---|---|---|---|
| Other liabilities | 1,406,660 | 1,406,660 | 1,406,660 |
| | 1,406,660 | 1,406,660 | 1,406,660 |

*19 FINANCIAL RISK MANAGEMENT (continued)*

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

Disclosures relating to non-financial assets and liabilities representing best estimates are as stated below.

| | 2019 | 2018 |
|---|---|---|
| **Non-financial assets** | **2019** | 2018 |
| *Policyholders* | | |
| Deferred acquisition costs | 3,773,556 | 2,376,232 |
| Deferred wakala fee | 1,610,646 | 1,543,924 |
| Retrocessionaires' share of unearned contribution reserves | 366,369 | 341,469 |
| Retrocessionaires' share of IBNR | 150,263 | 148,424 |
| | **5,900,834** | 4,410,049 |
| *Shareholder* | | |
| Prepayments | 75,030 | 54,820 |
| Equipment and other assets | 66,810 | 102,315 |
| | **141,840** | 157,135 |
| **Non-financial liabilities** | | |
| *Policyholders* | | |
| Unearned contribution reserves | 21,993,082 | 15,288,440 |
| Commission reserves | 387,363 | 293,193 |
| IBNR reserves | 53,986,846 | 46,216,656 |
| | **76,367,291** | 61,798,289 |
| *Shareholder* | | |
| Unearned wakala fee | 1,610,646 | 1,543,924 |
| Other liabilities | 450,783 | 443,366 |
| | **2,061,429** | 1,987,290 |

## d) FAIR VALUE OF FINANCIAL INSTRUMENTS

*(i) Fair value hierarchy*

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. as derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted market prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

*19 FINANCIAL RISK MANAGEMENT (continued)*

The carrying value of the financial instruments except Investments at fair value through income statement were deemed appropriate due to the immediate or short term maturity of these financial instruments.

The table below analyses financial instruments, measured at fair value as at the end of the year, by level in the fair value hierarchy into which the fair value measurement is categorized:

| | **2019** | 2018 |
|---|---|---|
| Level 2 | | |
| Investments at fair value through income statement | 123,690,692 | 110,446,522 |

There were no transfers from level 1 or level 3 to level 2 or in the opposite direction in 2019 (2018: Nil).

**d) 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.

*(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, Egyptian Pound, 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 Egyptian Pound, 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.

| **2019** | **Egyptian Pound** | **Malaysian Ringgit** | **Euro** | **Kuwaiti Dinars** | **Total** |
|---|---|---|---|---|---|
| Total assets | 3,822,103 | 10,200,648 | 1,293,514 | 1,280,653 | 16,596,918 |
| Total liabilities | (4,973,281) | (14,773,854) | (294,608) | (4,654,357) | (24,696,100) |
| Net (liabilities) / assets | **(1,151,178)** | **(4,573,206)** | **998,906** | **(3,373,704)** | **(8,099,182)** |
| **10% strengthening of BD** increase / (decrease) in policyholder funds | 115,118 | 457,321 | (99,891) | 337,370 | 809,918 |
| **10% weakening of BD** increase / (decrease) in policyholder funds | (115,118) | (457,321) | 99,891 | (337,370) | (809,918) |

*19 FINANCIAL RISK MANAGEMENT (continued)*

| 2018 | Egyptian Pound | Malaysian Ringgit | Euro | Kuwaiti Dinars | Total |
|---|---|---|---|---|---|
| Total assets | 2,404,063 | 8,367,985 | 1,034,824 | 2,233,656 | 14,040,528 |
| Total liabilities | (2,469,952) | (13,036,758) | (660,300) | (4,463,944) | (20,630,954) |
| Net liabilities | (65,889) | (4,668,773) | 374,524 | (2,230,288) | (6,590,426) |
| 10% strengthening of BD increase / (decrease) in policyholder funds | 6,589 | 466,877 | (37,452) | 223,029 | 659,043 |
| 10% weakening of BD increase / (decrease) in policyholder funds | (6,589) | (466,877) | 37,452 | (223,029) | (659,043) |

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

*(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 Compliance 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.

**20 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 47.855 million (2018: BD 36.243 million).

The solvency margin required for the General retakaful funds is BD 5.362 million (2018: BD 4.868 million) and for the Family retakaful funds is BD 0.4 million (2018: BD 0.4 million) as per the regulations issued by the CBB.

**21 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.

**22 DIVIDEND**

The shareholders of the Company in their meeting held on 25 March 2019 approved a cash dividend payment of BD 4,300,000 (30 June 2018: BD 2,200,000) which has already been paid during the period.

**23 EARNINGS PROHIBITED BY SHARIA**

Interest received on two bank accounts with a financial institution amounting to BD 275 (2018: BD 163) is not recognised as income and voluntarily distributed to charity during 2020.