

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

## **FINANCIAL STATEMENTS**

**31 DECEMBER 2016**

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

**FINANCIAL STATEMENTS**

**For the year ended 31 December 2016**

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<b>CONTENTS</b>	<b>Page</b>
Report of the Board of Directors	1
Public disclosures	2 - 12
Report of the Sharia Supervisory Board	13
Independent auditors' report to the shareholders	14
<b>Financial statements</b>	
Statement of financial position	15
Statement of income	16
Statement of policyholders' revenues and expenses	17
Statement of policyholders' surplus and deficit	18
Statement of changes in shareholders' equity	19
Statement of cash flows	20
Notes to the financial statements	21 - 47

**REPORT OF THE BOARD OF DIRECTORS****For the year ended 31 December 2016**

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 2016.

**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 2016 are as follows:

**Financial highlights**

	<b>2016 Bahraini Dinars</b>	<b>2015 Bahraini Dinars</b>
Gross contribution written	60,191,486	69,091,346
Shareholders' profit for the year	4,080,233	2,734,185
Equity attributable to shareholders	65,809,536	60,506,188
Policyholders' equity deficit	(24,447,808)	(25,924,894)

**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 2016 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 2016, which would in any way invalidate the financial statements on pages 15 to 47.

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

The Company has maintained proper, complete accounting records and these, together with all other information and explanations, have been made freely available to the auditors, KPMG Fakhro, who have signified their willingness to continue in office for the next accounting year.

  
Jürgen Gräber  
Chairman

1 March 2017

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

The annual audited financial statements and auditors' report thereon as of and for the year ended 31 December 2016 are set out on pages 15 to 47 of the Financial Statements.

***Solvency statement*****Required minimum solvency margins**

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

<b>Particulars</b>	<b>2016 Bahraini Dinars (000s)</b>	<b>2015 Bahraini Dinars (000s)</b>
Required minimum solvency margin for family retakaful	400	400
Required minimum solvency margin for general retakaful	6,372	8,291

**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:

<b>Particulars</b>	<b>2016 Bahraini Dinars (000s)</b>	<b>2015 Bahraini Dinars (000s)</b>
Tier 1 or core capital comprising the highest quality capital elements that fully meet all the essential characteristics of capital	64,586	58,123
Deduction from Tier 1 capital	(4,911)	(1,797)
Shareholders' available capital	59,675	56,326

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

To assess the Company's capital adequacy, the shareholders' available capital is compared to the required solvency margin. As of 31 December 2016, the excess of available capital above required solvency margin is as follows:

<b>Particulars</b>	<b>2016 Bahraini Dinars (000s)</b>	<b>2015 Bahraini Dinars (000s)</b>
Shareholders' available capital	59,675	56,326
Net admissible assets to cover solvency margin		
– Family retakaful fund	7,038	4,044
– General retakaful fund	(32,127)	(32,406)
<b>Total available capital to cover required solvency margin</b>	<b>34,586</b>	<b>26,804</b>
<b>less: required solvency margin</b>	<b>(6,772)</b>	<b>(8,691)</b>
<b>Excess capital</b>	<b>27,814</b>	<b>19,273</b>

**Key ratios**

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

<b>Ratio</b>	<b>2016</b>		<b>2015</b>	
	<b>General Retakaful</b>	<b>Family Retakaful</b>	<b>General Retakaful</b>	<b>Family Retakaful</b>
<b>Retakaful ratios</b>				
Retention ratio	94.2%	96.1%	95.1%	98.9%
Gross contribution to shareholders' equity	54.5%	36.9%	79%	35.2%
Net contribution to shareholders' equity	51.4%	35.5%	75.1%	34.8%

**Appendix 1 (Public Disclosures)****Combined ratios (shareholders' and policyholders' funds)**

	<b>2016</b>	<b>2015</b>
<b>Liquidity ratios</b>		
Current ratio	<b>10:1</b>	<b>10:1</b>
Liabilities / liquid assets	<b>93%</b>	<b>103%</b>
Technical reserves / liquid assets	<b>85%</b>	<b>92%</b>
<b>Solvency ratios</b>		
Solvency ratio	<b>411%</b>	<b>222%</b>
Share capital and surplus as a % of liabilities	<b>25%</b>	<b>17%</b>
Technical reserves to shareholders' equity	<b>157%</b>	<b>169%</b>
Technical reserves to net contribution	<b>175%</b>	<b>167%</b>
<b>Capital ratios</b>		
Investments to technical reserves	<b>119%</b>	<b>109%</b>
Return on paid up capital	<b>20%</b>	<b>14%</b>
Return on shareholders' equity	<b>6%</b>	<b>5%</b>
Return on total assets employed	<b>3.7%</b>	<b>0.4%</b>

**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 2016, the Board of the Company consists of six members. Five out of the six directors are non-executive directors. Resumes of the directors are as follows:

**Appendix 1 (Public Disclosures)**

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**Jürgen Gräber, Chairman**

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

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

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

**Mahomed Akoob, Managing Director**

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

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

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

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

**Claude Chèvre**

Mr. Chèvre holds a degree in Mathematics.

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

**Appendix 1 (Public Disclosures)**

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

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

**Gerald Segler**

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

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

Mr. Segler is also the Chairman of the Board of Hannover Re Real Estate Holding, Inc., Orlando; Florida, USA, and a Managing Director of Hannover Re Euro RE Holdings GmbH, Hannover, as well as HAPEP II Komplementär GmbH, Hannover. Mr Segler was appointed to the Board of Directors of Hannover ReTakaful B.S.C. (c) on August 1, 2011.

**Olaf Brock**

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

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

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

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

Since April 2009, Mr. Brock is appointed member of the Executive Board of Hannover Life Re AG, member of the Board of Directors of Hannover Finance (Luxemburg) S.A. as well as Managing Director of Hannover Rück Beteiligung Verwaltungs-GmbH.



**Appendix 1 (Public Disclosures)**

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

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

**Jorge Alfonso Perez**

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

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

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

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

On December 13, 2016 Mr. Alfonso Perez was appointed to the Board of Directors of Hannover Re Takaful B.S.C. (c). He replaces Mr Christian Lefebvre who resigned on 25 October 2016.

**Responsibilities of the Board of Directors**

The Board, which met four times during the year 2016, has a schedule of matters reserved for its approval. The specific responsibilities reserved for the Board of Directors include:

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

**The Audit & Risk Committee**

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

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

**Appendix 1 (Public Disclosures)**

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

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

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

**The Nomination & Remuneration Committee**

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

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

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

**The Investment Committee**

The Investment Committee consists of Board members to:

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

The Committee is comprised of the following members:

Gerald Segler, Chairman; Jürgen Gräber, Mahomed Akoob.

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

Director	02.03.2016		02.05.2016		05.09.2016		25.10.2016	
	Board	ARC	Board	ARC	Board	ARC	Board	ARC
Jürgen Gräber	√	*	√	*	√	*	√	*
Mahomed Akoob	√	√	√	√	√	√	√	√
Claude Chèvre	√	*	√	*	√	*	√	*
Christian Lefebvre	√	√	√	√	√	√	X	X
Gerald Segler	√	√	√	√	X	X	√	√

√ Present

X Absent with apology

\* not applicable

ARC - Audit &amp; Risk Committee

Mr. Christian Lefebvre has resigned from the Board of Directors and the Audit & Risk Committee of Hannover ReTakaful B.S.C. (c) effective 26 October 2016.

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

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

**Corporate Governance**

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

**Appendix 1 (Public Disclosures)**

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

**The Sharia Supervisory Board**

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

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

The company has in addition employed the services of IFAAS (Islamic Financial Advisory & Assurance Services), an independent Sharia auditor 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	15.02.2016	17.10.2016
Dr. Mohamed Ali Elgari	√	√
Mufti Muhammad Hassan	√	√
Mufti Faizal Manjoo	√	√

√ Present

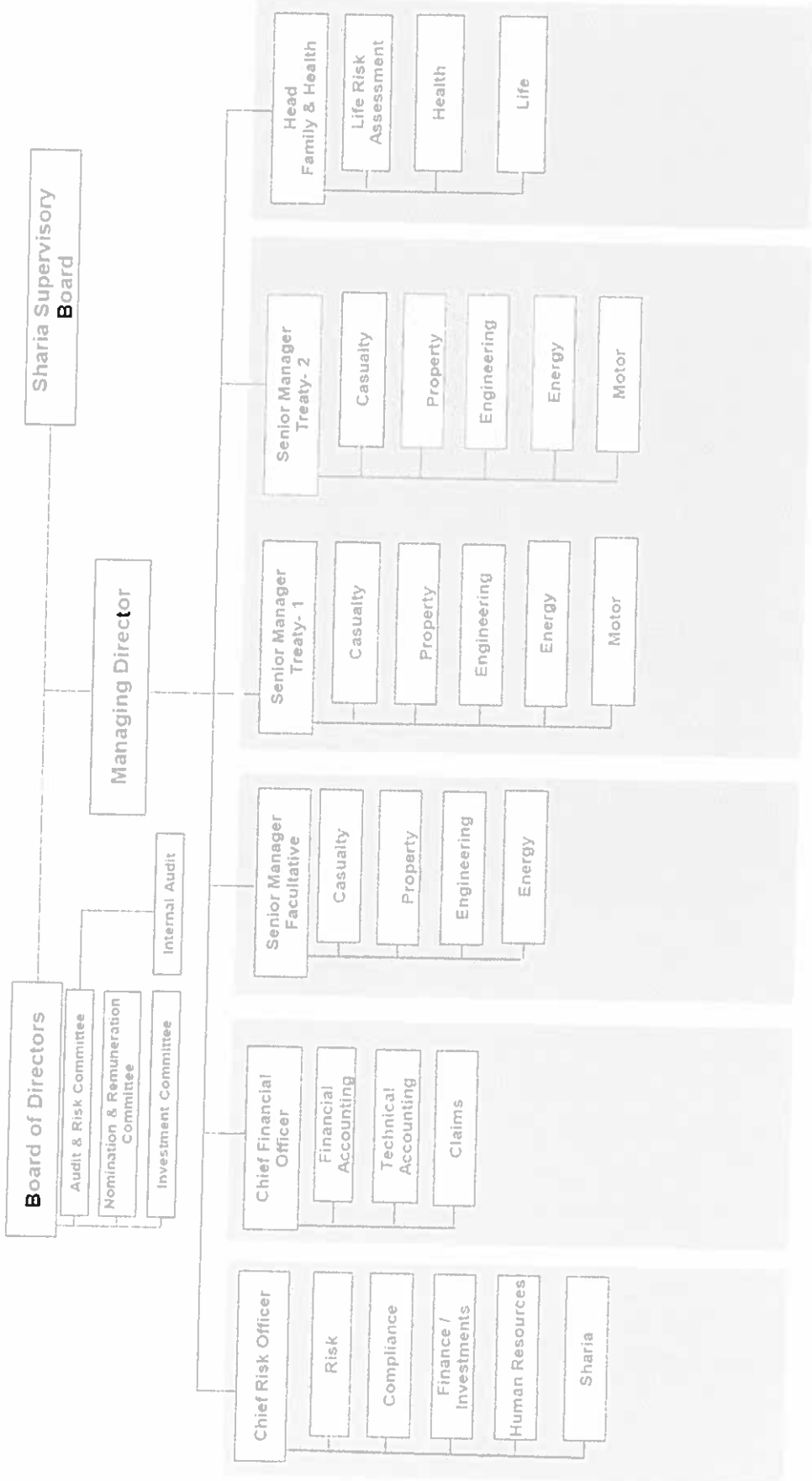
**Management of the Company and Organisational Structure**

Management of the Company is as follows:

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

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

Appendix 1 (Public Disclosures)



**Appendix 1 (Public Disclosures)**

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***Internal control***

The Board of Directors:

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

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

***Compliance***

The Company has complied with applicable provisions of the regulations stipulated in the Central Bank of Bahrain Financial Institutions Law 2006, Volume 3 of the CBB Rulebook and CBB directives, Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), Bahrain Commercial Companies Law 2001, its license 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 17 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.

**Hannover ReTakaful BSC (c)**

**REPORT OF THE SHARIA SUPERVISORY BOARD  
for the year ended 31 December 2016**

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

**Report of the Sharia Supervisory Board**

For the period ended 31 December 2016

**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 2016.

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 fatwa's, rulings and guidelines issued by us.

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

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

In our opinion:

- The agreements, transactions and dealings, in so far as applicable, entered into by the Company during the period ended 31 December 2016 that we have reviewed are in compliance with the Islamic Sharia Rules and Principles;
- The allocation of profit and charging of losses relating to Investment accounts conform to the basis that has been approved by us in accordance with Islamic Sharia Rules and Principles;

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

Wassalamu Alaikum Wa Rahmat Allah Wa Barakatuh

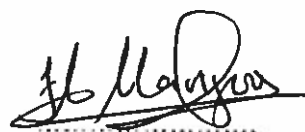
Dated 29 Jamad-al-Awal 1438 H corresponding to 26 February 2017



Dr. Mohamed Ali Elgari (Chairman)



Mufti Muhammad Hassan



Mufti Faizal Manjoo



KPMG Fakhro  
Audit  
12<sup>th</sup> Floor, Fakhro Tower  
PO Box 710, Manama  
Kingdom of Bahrain

Telephone +973 17 224807  
Fax +973 17 227443 14  
Website: [www.kpmg.com/bh](http://www.kpmg.com/bh)  
CR No. 6220

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

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

### Report on the financial statements

We have audited the accompanying financial statements of Hannover ReTakaful BSC (c) ("the Company"), which comprise the statement of financial position as at 31 December 2016, the statements of income, policyholders' revenues and expenses, policyholders' surplus and deficit, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes.

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

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

#### *Basis of opinion*

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

#### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2016 and of the results of its operations, policyholders' revenue and expenses, policyholders' surplus and deficit, changes in shareholders' equity and cash flows for the year then ended, in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and Sharia rules and principles as determined by the Sharia Supervisory Board of the Company.

### Report on other regulatory requirements

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

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

KPMG Fakhro  
Partner Registration No. 83  
1 March 2017




**STATEMENT OF FINANCIAL POSITION**  
**as at 31 December 2016**

Bahraini Dinars

	Note	2016	2015
<b>ASSETS</b>			
Cash and cash equivalents	4	8,361,177	16,498,972
Statutory deposit		150,079	150,064
Investment securities	5	107,232,684	86,897,036
Retakaful receivables	6 (a)	14,309,967	16,258,573
Accrued contribution receivable	7	19,278,653	22,876,056
Deferred acquisition costs	8	4,359,736	5,000,796
Retrocessionaires' share of unearned contribution reserves	10	315,503	293,853
Retrocessionaires' share of loss reserves (related parties)	11 & 15 (b)	407,938	932,559
Retrocessionaires' share of IBNR	11	137,451	-
Prepayments, equipment and other assets		235,620	256,068
<b>Total assets</b>		<b>154,788,808</b>	<b>149,163,977</b>
<b>SHAREHOLDERS' EQUITY, POLICYHOLDERS' EQUITY &amp; LIABILITIES</b>			
<b>Shareholders' equity</b>			
Share capital	9	20,000,000	20,000,000
Statutory reserve		3,982,019	3,573,995
Dividend reserve		1,000,000	1,000,000
Retained earnings		40,827,517	35,932,193
<b>Total shareholders' equity (page 19)</b>		<b>65,809,536</b>	<b>60,506,188</b>
<b>Policyholders' equity (page 18)</b>		<b>(24,447,808)</b>	<b>(25,924,894)</b>
<b>Liabilities</b>			
Loss reserves	11	83,557,559	80,078,143
Unearned contribution reserve	10	24,945,322	28,121,043
Commission reserve		322,454	329,396
Retakaful payables	6 (b)	2,463,745	5,007,606
Related party payables	15 (c)	1,041,385	157,989
Other liabilities		1,096,615	888,506
<b>Total liabilities</b>		<b>113,427,080</b>	<b>114,582,683</b>
<b>Total shareholders' equity, policyholders' equity and liabilities</b>		<b>154,788,808</b>	<b>149,163,977</b>

The Board of Directors approved the financial statements consisting of pages 15 to 47 on 1 March 2017.

  
 Jürgen Gräber  
 Chairman

  
 Mahomed Akoob  
 Managing Director

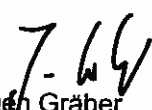
The accompanying notes from 1 to 24 form an integral part of these financial statements.

**STATEMENT OF INCOME**  
**for the year ended 31 December 2016**

Bahraini Dinars

	Note	2016	2015
<b>INCOME</b>			
Wakala fee for managing retakaful activities		6,017,691	6,072,414
Change in deferred wakala fee		233,888	141,457
<b>Earned wakala fee</b>		<b>6,251,579</b>	<b>6,213,871</b>
Investment income	13	1,799,619	344,077
Other income		15,967	-
<b>Total income</b>		<b>8,067,165</b>	<b>6,557,948</b>
<b>EXPENSES</b>			
Staff cost		(1,063,653)	(962,209)
General and administrative expenses	14	(562,480)	(491,218)
Foreign exchange gain		22,316	12,779
Impairment of qard hassan		(2,383,115)	(2,383,115)
<b>Total expenses</b>		<b>(3,986,932)</b>	<b>(3,823,763)</b>
<b>Profit for the year</b>		<b>4,080,233</b>	<b>2,734,185</b>

The Board of Directors approved the financial statements consisting of pages 15 to 47 on 1 March 2017.

  
 Jürgen Gräber  
 Chairman

  
 Mahomed Akoob  
 Managing Director

The accompanying notes from 1 to 24 form an integral part of these financial statements.

**STATEMENT OF POLICYHOLDERS' REVENUES AND EXPENSES**  
**for the year ended 31 December 2016**

Bahraini Dinars

	Note	2016	2015
<b>REVENUE</b>			
Gross contributions		60,191,486	69,091,346
Retrocessionaires' share of contributions		(3,026,870)	(2,591,011)
Change in gross unearned contributions	10	2,056,201	(5,398,255)
Change in retrocessionaires' share of unearned contributions	10	22,986	309,966
<b>Earned contributions</b>		<b>59,243,803</b>	<b>61,412,046</b>
Foreign exchange gain / (loss)		442,803	(101,159)
Investment income		599,437	272,935
<b>Total revenue</b>		<b>60,286,043</b>	<b>61,583,822</b>
<b>EXPENSES</b>			
Claims settled – net		(36,813,426)	(46,220,163)
Movement in loss reserves	11	(5,367,435)	1,575,330
<b>Claims incurred</b>		<b>(42,180,861)</b>	<b>(44,644,833)</b>
Policy acquisition costs		(9,628,665)	(13,976,931)
Movement in deferred acquisition cost	8	(369,671)	589,485
Movement in commission reserve		-	626,751
Wakala fee		(6,017,691)	(6,072,413)
Movement in deferred wakala fee		(233,888)	(141,457)
Allowance for doubtful debts		(150,000)	(125,988)
Other income		-	907
<b>Total expenses</b>		<b>(58,580,776)</b>	<b>(63,744,479)</b>
<b>Surplus / (deficit) of revenue over expenses for the year</b>		<b>1,705,267</b>	<b>(2,160,657)</b>

The accompanying notes from 1 to 24 form an integral part of these financial statements.

**STATEMENT OF POLICYHOLDERS' SURPLUS AND DEFICIT  
for the year ended 31 December 2016**

Bahraini Dinars

2016	General retakaful	Family retakaful	Total accumulated deficit	Surplus distribution reserve	Total policy holders' equity
(Deficit) / surplus as at 1 January 2016 representing policyholders' equity	(30,825,096)	2,816,310	(28,008,787)	2,083,893	(25,924,894)
(Deficit) / surplus of revenue over expenses for the year	(1,224,447)	2,929,714	1,705,267	-	1,705,267
Surplus reserve		(2,807,268)	(2,807,268)	2,807,268	-
Reinsurance share of surplus reserves		242,582	242,582	(242,582)	-
Foreign exchange movement	-	-	-	(183,793)	(183,793)
Surplus distributed during the year				(44,388)	(44,388)
<b>Accumulated (deficit) / surplus at 31 December 2016 representing policyholders' equity</b>	<b>(32,049,544)</b>	<b>3,181,338</b>	<b>(28,868,206)</b>	<b>4,420,398</b>	<b>(24,447,808)</b>

2015	General retakaful	Family retakaful	Total accumulated deficit	Surplus distribution reserve	Total policy holders' equity
(Deficit) / surplus as at 1 January 2015 representing policyholders' equity	(27,694,124)	3,070,071	(24,624,053)	1,044,934	(23,579,119)
(Deficit) / surplus of revenue over expenses for the year	(3,130,973)	970,316	(2,160,657)	-	(2,160,657)
Transfer to surplus reserve	-	(1,224,077)	(1,224,077)	1,224,077	-
Foreign exchange movement	-	-	-	(25,625)	(25,625)
Surplus distributed during the year				(159,493)	(159,493)
<b>Accumulated (deficit) / surplus at 31 December 2015 representing policyholders' equity</b>	<b>(30,825,097)</b>	<b>2,816,310</b>	<b>(28,008,787)</b>	<b>2,083,893</b>	<b>(25,924,894)</b>

The accompanying notes from 1 to 24 form an integral part of these financial statements.

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
for the year ended 31 December 2016**

Bahraini Dinars

<b>2016</b>	<b>Share capital</b>	<b>Statutory reserve</b>	<b>Dividend reserve</b>	<b>Retained earnings</b>	<b>Total</b>
Balance as at 1 January 2015	20,000,000	3,573,995	1,000,000	35,932,193	60,506,188
Profit for the year (page 16)	-	-	-	4,080,233	4,080,233
Impairment of qard Hassan	-	-	-	2,383,115	2,383,115
Transfer to statutory reserve	-	408,023	-	(408,023)	-
Dividend Paid	-	-	-	(1,160,000)	(1,160,000)
<b>At 31 December 2016</b>	<b>20,000,000</b>	<b>3,982,019</b>	<b>1,000,000</b>	<b>40,827,517</b>	<b>65,809,536</b>

<b>2015</b>	<b>Share capital</b>	<b>Statutory reserve</b>	<b>Dividend reserve</b>	<b>Retained earnings</b>	<b>Total</b>
Balance as at 1 January 2015	20,000,000	3,300,577	1,000,000	31,088,311	55,388,888
Profit for the year (page 16)	-	-	-	2,734,185	2,734,185
Impairment of qard hassan	-	-	-	2,383,115	2,383,115
Transfer to statutory reserve	-	273,418	-	(273,418)	-
<b>At 31 December 2015</b>	<b>20,000,000</b>	<b>3,573,995</b>	<b>1,000,000</b>	<b>35,932,193</b>	<b>60,506,188</b>

The accompanying notes from 1 to 24 form an integral part of these financial statements.

**STATEMENT OF CASH FLOWS**  
**for the year ended 31 December 2016**

Bahraini Dinars

	Note	2016	2015
<b>OPERATING ACTIVITIES</b>			
Combined profit for the year		<b>5,785,500</b>	573,528
<i>Adjustments for non-cash items</i>			
Depreciation expenses		112,616	110,401
Impairment of qard hassan		2,383,115	2,383,115
(Decrease) / increase in unearned contribution reserve		(3,197,371)	4,487,881
Increase / (decrease) in loss reserves net of retrocession recovery		4,004,035	(3,928,869)
Decrease / (increase) in deferred acquisition costs		641,060	(473,540)
Decrease in commission reserve		(6,941)	(670,789)
(Increase) in Reinsurance share of IBNR		(137,451)	-
Provision for employees' end of service benefits		91,412	65,453
Amortisation of sukuks		412,399	564,629
Profit from disposal of equipment and other assets			-
Realised gain on disposal of investment securities		251,779	(88,125)
Profit from sukuks / placements and fair value changes in sukuks		(3,063,236)	(1,093,517)
		<b>7,276,917</b>	1,930,167
<i>Changes in operating assets and liabilities</i>			
(Decrease) / increase in retakaful receivables		1,948,606	(7,979,848)
Decrease in accrued contribution receivable		3,597,403	10,307,571
(Increase) in other assets		(41,429)	(5,355)
Increase / (decrease) in related party payables		883,397	(30,902)
(Decrease) / Increase in retakaful payables		(2,543,861)	2,810,036
Increase in other liabilities		116,697	23,402
<b>Net cash generated from operating activities</b>		<b>11,237,730</b>	7,055,071
<b>INVESTING ACTIVITIES</b>			
Purchase of equipment and other assets		(50,738)	(93,869)
Profit received from sukuks and placements		2,659,098	3,075,443
Purchase of sukuks		(81,474,351)	(52,619,538)
Proceeds from redemption of sukuks		60,804,022	45,207,568
<b>Net cash used in investing activities</b>		<b>(18,061,968)</b>	(4,430,486)
<b>FINANCING ACTIVITIES</b>			
Surplus distributed		(44,388)	(159,493)
Dividend distributed		(1,160,000)	-
<b>Net cash used in financing activities</b>		<b>(1,204,388)</b>	(159,493)
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(8,137,795)</b>	2,402,182
Cash and cash equivalents at 1 January 2016		16,498,972	14,096,790
<b>Cash and cash equivalents at 31 December 2016</b>		<b>8,361,177</b>	16,498,972
<i>Represented in the books of</i>			
Shareholders		2,235,843	2,547,654
Policyholders		6,125,334	13,951,318
<b>Cash and cash equivalents</b>	4	<b>8,361,177</b>	16,498,972

The accompanying notes from 1 to 24 form an integral part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**

Bahraini Dinars

**1 STATUS AND OPERATIONS**

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

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

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

**b) Principal financial statements**

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

**c) Basis of measurement**

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

**d) Use of estimates and judgments**

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

**NOTES TO THE FINANCIAL STATEMENTS**

Bahraini Dinars

**2 BASIS OF PREPARATION (continued)**

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

**e) Qard Hassan**

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

**f) New standards, amendments and interpretations effective from 1 January 2016**

There are no AAOIFI accounting standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2016 that have a material impact on the Company.

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

There are no accounting standards and interpretations that have been issued by AAOIFI during 2016 effective from annual periods beginning on or after 1 January 2016 that are relevant to the Company.

**3 SIGNIFICANT ACCOUNTING POLICIES****a) Foreign currency****(i) Functional and presentation currency**

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

**(ii) Transactions and balances**

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



**NOTES TO THE FINANCIAL STATEMENTS****Bahraini Dinars****3 SIGNIFICANT ACCOUNTING POLICIES (continued)****b) Retakaful****(i) Classification of agreements**

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

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

**(ii) Gross contributions**

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

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

**(iii) Retrocessionaires' share of contributions**

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

**(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.

**NOTES TO THE FINANCIAL STATEMENTS**

Bahraini Dinars

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

**NOTES TO THE FINANCIAL STATEMENTS**

Bahraini Dinars

**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) Wakala fee**

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

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

Surplus in policyholders' funds represents surplus of revenues over expenses arising from retakaful activities and are distributed among the policyholders by calendar year on development of business. The policy for Surplus distribution must be approved by the Sharia Supervisory Board as well as the Board of directors. The surplus distribution or remedial action for deficit reduction must be recommended by the actuary and endorsed by the Sharia Supervisory Board and the board of directors. Distribution of surpluses from the Participants' fund is 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' funds to the extent required to meet the policyholders' claims and liabilities as and when they arise.

**NOTES TO THE FINANCIAL STATEMENTS**

Bahraini Dinars

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)****e) Investment securities**

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

**(i) Classification**

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

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

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

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

**(ii) Recognition and derecognition**

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

**(iii) Measurement**

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

**(iv) Subsequent measurement**

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

**f) Furniture and equipment**

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

**NOTES TO THE FINANCIAL STATEMENTS**

Bahraini Dinars

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

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

**g) Provisions**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

**h) Zakah**

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

**i) Statutory reserve**

In accordance with the Bahrain Commercial Companies Law 2001, 10 % of the annual net profit is appropriated to a statutory reserve, until it reaches 100 % of the paid-up share capital according to the Articles of the company. This reserve is distributable only in accordance with the provisions of the law.

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

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

**k) Cash and cash equivalents**

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

**l) Statutory deposit**

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

**m) Dividend reserves**

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

**NOTES TO THE FINANCIAL STATEMENTS**

Bahraini Dinars

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)****n) Impairment****(i) Financial assets**

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

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

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

**4 CASH AND CASH EQUIVALENTS**

	2016	2015
Cash and bank balances	8,240,519	15,619,342
Placements with banks and financial institutions	120,658	879,630
	<b>8,361,177</b>	<b>16,498,972</b>

**5 INVESTMENT SECURITIES**

	2016	2015
Investments at fair value through income statement	<b>107,232,684</b>	<b>86,897,036</b>

These comprise:

	2016	2015
Debt type		
- Quoted sukuks	105,680,597	83,536,977
- Unquoted sukuks	-	2,225,990
Equity type		
- Quoted sukuks	1,552,087	1,134,068
	<b>107,232,684</b>	<b>86,897,036</b>

## NOTES TO THE FINANCIAL STATEMENTS

Bahraini Dinars

## 6 RETAKAFUL RECEIVABLES AND PAYABLES

## (a) Retakaful Receivables

	2016	2015
Current		
- General	3,863,934	7,607,547
- Family	10,931,673	8,986,666
	<b>14,795,607</b>	<b>16,594,213</b>
Less: Provision for doubtful debts	(485,640)	(335,640)
	<b>14,309,967</b>	<b>16,258,573</b>

General retakaful receivables include deposits amounting to BD 1,642,449 (2015: BD 2,435,274) held by cedants.

Family retakaful receivables include deposits amounting to BD 5,677,156 (2015: BD 6,020,556) held by cedants.

## (b) Retakaful Payables

	2016	2015
Current		
- General	2,356,410	3,750,617
- Family	107,335	1,256,989
	<b>2,463,745</b>	<b>5,007,606</b>

## 7 ACCRUED CONTRIBUTION RECEIVABLE

	2016	2015
Current		
- General	7,610,482	9,849,547
- Family	11,668,172	13,026,509
	<b>19,278,653</b>	<b>22,876,056</b>

## 8 DEFERRED ACQUISITION COSTS

	2016			2015		
	Gross	Retro-ceded	Net	Gross	Retro-ceded	Net
At 1 January	5,000,796	-	5,000,796	4,527,257	-	4,527,257
Movement during the year (net)	(369,671)	-	(369,671)	589,485	-	589,485
Foreign exchange losses	(271,389)	-	(271,389)	(115,946)	-	(115,946)
At 31 December	<b>4,359,736</b>	-	<b>4,359,736</b>	<b>5,000,796</b>	-	<b>5,000,796</b>

## NOTES TO THE FINANCIAL STATEMENTS

Bahraini Dinars

## 9 SHARE CAPITAL

Authorised equity share capital of 50,000,000  
(2015: 50,000,000) shares of BD 1 each

Issued, subscribed and paid up capital comprising  
20,000,000 (2015: 20,000,000) shares of BD 1 each

2016	2015
50,000,000	50,000,000
20,000,000	20,000,000

## 10 UNEARNED CONTRIBUTION RESERVES

	2016			2015		
	Gross	Retro-ceded	Net	Gross	Retro-ceded	Net
At 1 January	28,121,043	(293,853)	27,827,190	23,339,309	-	23,339,309
Movement during the year (net)	(2,056,201)	(22,986)	(2,079,188)	5,398,255	(309,966)	5,088,289
Foreign exchange (losses) / gains	(1,119,520)	1,336	(1,118,183)	(616,521)	16,113	(600,408)
At 31 December	24,945,322	(315,503)	24,629,819	28,121,043	(293,853)	27,827,190

## 11 LOSS RESERVES

	2016			2015		
	Gross	Retroceded	Net	Gross	Retroceded	Net
Outstanding claims reported	35,148,547	(932,559)	34,215,988	39,305,476	(5,660,494)	33,644,982
IBNR reserves	44,929,596	-	44,929,596	49,429,472	-	49,429,472
At 1 January	80,078,143	(932,559)	79,145,584	88,734,948	(5,660,494)	83,074,454
Movement during the year (net)	4,993,876	373,559	5,367,435	(5,752,876)	4,177,546	(1,575,330)
Foreign exchange gains/(losses)	(1,514,460)	13,610	(1,500,850)	(2,903,929)	550,389	(2,353,540)
At 31 December	83,557,559	(545,390)	83,012,169	80,078,143	(932,559)	79,145,584
Outstanding claims reported	39,369,076	(407,938)	38,961,137	35,148,547	(932,559)	34,215,988
IBNR reserves	44,188,483	(137,451)	44,051,032	44,929,596	-	44,929,596
At 31 December	83,557,559	(545,390)	83,012,169	80,078,143	(932,559)	79,145,584



## NOTES TO THE FINANCIAL STATEMENTS

Bahraini Dinars

## 12 CLAIMS DEVELOPMENT DATA

The table below shows the net non-life loss reserves in the years 2012 to 2016. The bottom half of the table reconciles the cumulative claims to the amount appearing in the statement of financial position.

Underwriting year General retakaful- Gross	2012	2013	2014	2015	2016	Total
Estimate of incurred claims costs:						
- End of underwriting year	7,793,338	10,249,085	19,552,736	16,182,411	14,385,002	14,385,002
- One year later	19,919,014	24,657,289	37,755,533	28,451,049	-	28,451,049
- Two years later	21,636,029	22,984,713	35,969,245	-	-	35,969,245
- Three years later	21,067,572	21,863,962	-	-	-	21,863,962
- Four years later	21,583,470	-	-	-	-	21,583,470
Current estimate of incurred claims	21,583,470	21,863,962	35,969,245	28,451,049	14,385,002	122,252,728
Cumulative payments to date	(17,739,174)	(15,084,764)	(25,994,044)	(11,896,337)	(1,103,288)	(71,817,608)
Liability recognised	3,844,296	6,779,197	9,975,200	16,554,711	13,281,714	50,435,119
Liability in respect of prior years						8,271,524
Total liability included in the statement of financial position						58,706,643
Liability in respect of family retakaful						24,850,915
Total liability included in the statement of financial position						83,557,558

Underwriting year General retakaful- Net	2012	2013	2014	2015	2016	Total
Estimate of incurred claims costs:						
- End of underwriting year	7,793,338	10,249,085	14,369,211	16,182,411	13,977,063	13,977,063
- One year later	19,462,588	24,657,289	32,072,588	28,451,049	-	28,451,049
- Two years later	21,159,061	22,984,713	30,286,300	-	-	30,286,300
- Three years later	20,135,014	21,863,962	-	-	-	21,863,962
- Four years later	21,060,862	-	-	-	-	21,060,862
Current estimate of incurred claims	21,060,862	21,863,962	30,286,300	28,451,049	13,977,063	115,639,235
Cumulative payments to date	(17,216,566)	(15,084,764)	(20,311,100)	(11,896,337)	(1,103,287)	(65,612,054)
Liability recognised	3,844,296	6,779,197	9,975,200	16,554,711	12,873,776	50,027,181
Liability in respect of prior years						8,271,524
Total liability included in the statement of financial position						58,298,705
Liability in respect of family retakaful						24,713,464
Total liability included in the statement of financial position						83,012,169

**NOTES TO THE FINANCIAL STATEMENTS**

Bahraini Dinars

**13 INVESTMENT INCOME**

	<b>2016</b>	<b>2015</b>
Profit from sukuks	2,154,133	594,392
Profit from placements with banks	10,962	2,679
Investment related expenses – net	(365,476)	(252,994)
	<b>1,799,619</b>	<b>344,077</b>

**14 GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>2016</b>	<b>2015</b>
Administration expenses	286,777	240,186
Depreciation	112,616	110,401
Other operating expenses	163,087	140,631
	<b>562,480</b>	<b>491,218</b>

## NOTES TO THE FINANCIAL STATEMENTS

Bahraini Dinars

## 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 other group companies, directors and key management personnel of the Company. Key management personnel comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Company.

## a) Transactions with related parties

		2016	2015
Retrocessionaires' share of contributions to			
- Hannover Re Bermuda Ltd., Bermuda	<i>Entity within the Hannover Re Group</i>	2,097,430	2,433,593
- Hannover Rück SE, Germany	<i>Parent company of the Hannover Re Group</i>	290,751	157,418
Claims paid – retroceded Hannover Re Bermuda Ltd., Bermuda	<i>Entity within the Hannover Re Group</i>	522,608	5,682,945
Claims recovery from Hannover Re Bermuda Ltd., Bermuda	<i>Entity within the Hannover Re Group</i>	(520,602)	(4,177,546)
Expenses recharged to	<i>Branch of the Parent company of the Hannover Re Group</i>		
- Hannover Rueck SE, Bahrain Branch, Bahrain		1,222,321	1,228,826
Reimbursement of administrative expenses to			
- Hannover Rück SE, Germany	<i>Parent company of the Hannover Re Group</i>	114,571	80,791
- Hannover Rück SE Malaysia Branch, Malaysia	<i>Branch of the Parent Company of the Group</i>	7,424	8,141
Reimbursement of investment related expenses			
- Talanx Asset Management GmbH, Germany	<i>Entity within the Talanx Group (Ultimate Parent)</i>	47,205	52,513

**NOTES TO THE FINANCIAL STATEMENTS**

Bahraini Dinars

**15 RELATED PARTY TRANSACTIONS (continued)****b) Retrocessionaires' share of loss reserves at 31 December**

		<b>2016</b>	<b>2015</b>
Hannover Re Bermuda Ltd., Bermuda	<i>Entity within the Hannover Re Group</i>	<b>407,938</b>	<b>932,559</b>

**c) Amounts payable at 31 December**

		<b>2016</b>	<b>2015</b>
Hannover Rück SE, Germany	<i>Parent company of the Hannover Re Group Branch of the Parent</i>	<b>747,005</b>	<b>157,989</b>
Hannover Rück SE, Bahrain Branch	<i>company of the Hannover Re Group</i>	<b>294,380</b>	<b>-</b>
		<b>1,041,385</b>	<b>157,989</b>

## NOTES TO THE FINANCIAL STATEMENTS

Bahraini Dinars

## 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.

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

**NOTES TO THE FINANCIAL STATEMENTS**

Bahraini Dinars

**16 SEGMENT INFORMATION (CONTINUED)**

2015	General Retakaful	Family Retakaful	Total
<b>REVENUE</b>			
Gross contributions	47,817,078	21,274,268	69,091,346
Retrocessionaires' share of contributions	(2,356,621)	(234,390)	(2,591,011)
Change in gross unearned contributions	(3,942,242)	(1,456,013)	(5,398,255)
Change in retrocessionaires' share of unearned contributions	310,041	(75)	309,966
Earned contributions	41,828,256	19,583,790	61,412,046
Claims settled	(24,384,457)	(21,835,706)	(46,220,163)
Movement in loss reserves	(4,839,150)	6,414,480	1,575,330
Policy acquisition costs	(12,857,153)	(1,119,778)	(13,976,931)
Movement in deferred acquisition costs	589,485	-	589,485
Movement in commission reserve	-	626,751	626,751
Wakala fee	(3,495,305)	(2,577,109)	(6,072,414)
Deferred wakala fee	(227,552)	86,096	(141,456)
Total underwriting costs	(45,214,132)	(18,405,266)	(63,619,398)
Underwriting results	(3,385,876)	1,178,524	(2,207,352)
Foreign exchange gains / (losses)	184,218	(285,377)	(101,159)
Allowance for doubtful debts	(125,988)	-	(125,988)
Investment income	195,767	77,168	272,935
Other income	907	-	907
(Deficit) / surplus of revenue over expenses for the year	(3,130,972)	970,315	(2,160,657)

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

	General Retakaful	Family Retakaful	Total
<b>2016</b>			
Gross contribution from takaful companies in:			
Middle East & African countries	34,430,231	18,563,333	52,993,564
Other countries	1,446,892	5,751,030	7,197,922
	<b>35,877,123</b>	<b>24,314,363</b>	<b>60,191,486</b>
<b>2015</b>			
Gross contribution from takaful companies in:			
Middle East & African countries	43,927,575	16,954,184	60,881,759
Other countries	3,889,503	4,320,084	8,209,587
	<b>47,817,078</b>	<b>21,274,268</b>	<b>69,091,346</b>

**NOTES TO THE FINANCIAL STATEMENTS**

Bahraini Dinars

**16 SEGMENT INFORMATION (CONTINUED)****c) Analysis of segment assets and segment liabilities**

	General Retakaful		Family Retakaful		Shareholder		Eliminations		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Cash and cash equivalents	3,057,524	8,923,009	3,067,810	5,771,898	2,235,843	1,804,066	-	-	8,361,177	16,498,972
Statutory deposit	-	-	-	-	150,079	150,064	-	-	150,079	150,064
Investment securities	43,033,476	34,434,398	14,161,397	8,939,252	50,037,810	43,523,386	-	-	107,232,684	86,897,036
Retakaful receivables	3,478,295	7,271,906	10,831,673	8,986,667	-	-	-	-	14,309,967	16,258,573
Accrued contribution receivable	7,610,482	9,849,547	11,668,172	13,026,509	-	-	-	-	19,278,653	22,876,056
Wakala fee receivable	-	-	-	-	4,469,167	5,366,701	(4,469,167)	(5,366,701)	-	-
Deferred wakala fee	1,288,935	1,461,478	869,049	930,393	-	-	(2,157,984)	(2,391,871)	-	-
Deferred acquisition costs	4,359,736	5,000,796	-	-	-	-	-	-	4,359,736	5,000,796
Retrocessionaires' share of unearned contribution	-	-	-	-	-	-	-	-	-	-
reserves	315,503	293,853	-	-	-	-	-	-	315,503	293,853
Retrocessionaires' share of loss reserves	407,938	932,559	-	-	-	-	-	-	407,938	932,559
Reinsurance share for IBNR	-	-	137,451	-	-	-	-	-	137,451	-
Mudaraba & other receivables	-	-	-	-	399,625	-	(399,625)	-	-	-
Qard Hassan loan/receivable	-	-	-	-	4,766,230	7,149,345	(4,766,230)	(7,149,345)	-	-
Prepayments, equipment & others	6,291	-	3,428,186	3,412,225	223,037	256,068	(3,421,894)	(3,412,225)	235,620	256,068
<b>Total assets</b>	<b>63,558,180</b>	<b>68,167,546</b>	<b>44,163,738</b>	<b>41,066,945</b>	<b>62,281,791</b>	<b>58,249,630</b>	<b>(15,214,900)</b>	<b>(18,320,143)</b>	<b>154,788,808</b>	<b>149,163,977</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 16 SEGMENT INFORMATION (CONTINUED)

Bahraini Dinars

	General Retakaful		Family Retakaful		Shareholder		Eliminations		Total 2016	Total 2015
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
<b>Liabilities</b>										
Loss reserves	58,706,643	57,445,634	24,850,915	22,632,509	-	-	-	-	83,557,558	80,078,143
Unearned contribution reserve	18,594,208	20,440,563	6,351,114	7,680,480	-	-	-	-	24,945,322	28,121,043
Commission reserve	-	-	322,454	329,396	-	-	-	-	322,454	329,396
Retakaful payables	2,356,410	3,750,617	107,335	1,256,989	-	-	-	-	2,463,745	5,007,606
Wakala fee payable	352,183	1,244,692	4,116,984	4,122,008	-	-	(4,469,167)	(5,366,700)	-	-
Related party payables	70,702	12,629	676,303	145,360	294,380	-	-	-	1,041,385	157,989
Qard Hassan loan/payable	11,915,575	11,915,575	-	-	-	-	(11,915,575)	(11,915,575)	-	-
Mudaraba Payables	265,094	-	134,531	-	-	-	(399,625)	-	-	-
Unearned wakala fee	3,346,909	4,182,932	2,365	-	2,157,984	2,391,872	(2,157,984)	(2,391,872)	-	-
Other liabilities					1,169,236	117,800	(3,421,893)	(3,412,225)	1,096,615	888,506
<b>Total liabilities</b>	<b>95,607,724</b>	<b>98,992,643</b>	<b>36,562,002</b>	<b>36,166,742</b>	<b>3,621,600</b>	<b>2,509,672</b>	<b>(22,364,245)</b>	<b>(23,086,373)</b>	<b>113,427,078</b>	<b>114,582,683</b>
<b>Policyholders' equity</b>	<b>(32,049,544)</b>	<b>(30,825,097)</b>	<b>7,601,736</b>	<b>4,900,203</b>	-	-	-	-	<b>(24,447,808)</b>	<b>(25,924,894)</b>
<b>Shareholders' equity</b>										
Share capital	-	-	-	-	20,000,000	20,000,000	-	-	20,000,000	20,000,000
Statutory reserve	-	-	-	-	3,982,019	3,573,995	-	-	3,982,019	3,573,995
Dividend reserve	-	-	-	-	1,000,000	1,000,000	-	-	1,000,000	1,000,000
Retained earnings	-	-	-	-	33,678,172	31,165,963	7,149,345	4,766,230	40,827,517	35,932,193
<b>Total shareholders' equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>58,660,191</b>	<b>55,739,958</b>	<b>7,149,345</b>	<b>4,766,230</b>	<b>65,809,536</b>	<b>60,506,188</b>
<b>Total liabilities and equity</b>	<b>63,558,180</b>	<b>68,167,546</b>	<b>44,163,738</b>	<b>41,066,945</b>	<b>62,281,791</b>	<b>58,249,630</b>	<b>(15,214,900)</b>	<b>(18,320,143)</b>	<b>154,788,808</b>	<b>149,163,977</b>



**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 risk exposure to retro risk, its geographical concentration and the extent to which the entity has covered these risks by retrocession is set out in note 16.

**NOTES TO THE FINANCIAL STATEMENTS**

Bahraini Dinars

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

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

	Statement of policyholders' revenues and expenses		Policyholders' equity	
	Gross of retakaful	Net	Gross of retakaful	Net
<b>2016</b>				
<b>Expense rate</b>				
1 % increase	(601,915)	(571,646)	(601,915)	(571,646)
1 % decrease	601,915	571,646	601,915	571,646
<b>Expected loss ratio</b>				
1 % increase	(622,477)	(592,438)	(622,477)	(592,438)
1 % decrease	622,477	592,438	622,477	592,438
<b>2015</b>				
<b>Expense rate</b>				
1 % increase	(690,913)	(665,003)	(690,913)	(665,003)
1 % decrease	690,913	665,003	690,913	665,003
<b>Expected loss ratio</b>				
1 % increase	(636,931)	(614,120)	(636,931)	(614,120)
1 % decrease	636,931	614,120	636,931	614,120

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 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 following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

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

**b) Credit risk**

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

**NOTES TO THE FINANCIAL STATEMENTS**

Bahraini Dinars

**19 FINANCIAL RISK MANAGEMENT (continued)****(i) Management of credit risk**

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

**(ii) Overall exposure to credit risk**

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

**Total financial assets**

	<b>Policyholders</b>		<b>Shareholders</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Cash and cash equivalents	6,125,334	14,694,907	2,235,842	1,804,066
Statutory deposit	-	-	150,079	150,064
Investment in securities	57,194,874	43,373,650	50,037,810	43,523,386
Retakaful receivables	14,309,967	16,258,573		-
Retrocessionaires' share of loss reserves	407,938	932,559		-
Retrocessionaires' share of IBNR	137,451			
Wakala fee receivables		-	4,469,167	5,366,700
Mudaraba fee receivables			399,625	
Other Receivables			38,055	
	<b>78,175,564</b>	<b>75,259,689</b>	<b>57,330,578</b>	<b>50,844,216</b>

**(iii) Concentration of credit risk**

Of the above exposure to credit risk, the Company has entered into placements with banks for BD 120,658 (2015: BD 1,029,965).

**(iv) Assets that are past due**

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

Bahraini Dinars

**19 FINANCIAL RISK MANAGEMENT (continued)**

	<b>General Retakaful</b>	<b>Family Retakaful</b>	<b>2016</b>	<b>2015</b>
Neither past due nor impaired	3,016,480	9,582,857	12,599,336	11,915,380
Past due 91 – 180 days	389,969	691,441	1,081,409	1,906,534
Past due 181 – 365 days	145,606	361,865	507,470	1,263,714
Above 365 days	311,880	295,512	607,392	1,508,585
Total before allowance for doubtful debts	<b>3,863,935</b>	<b>10,931,673</b>	<b>14,795,607</b>	<b>16,594,213</b>
Less: allowance for doubtful debts	<b>(385,640)</b>	<b>(100,000)</b>	<b>(485,640)</b>	<b>(335,640)</b>
	<b>3,478,295</b>	<b>10,831,673</b>	<b>14,309,968</b>	<b>16,258,573</b>

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

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

- (v) As per the Volume 3 of CBB Rulebook, the Company has impaired 20% of the Qard Hassan during the year amounting to BD 2,383,115 (2015: BD 2,383,115).

**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.

**NOTES TO THE FINANCIAL STATEMENTS**

Bahraini Dinars

**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.

**Policyholders**

	Carrying amount	Contractual cash flows	1 year or less
<b>2016</b>			
Claims reserves reported	39,369,076	39,369,076	39,369,076
Retakaful payables	2,463,745	2,463,745	2,463,745
Related party payables	747,005	747,005	747,005
Other liabilities	51,728	51,728	51,728
Wakala fee payable	4,469,167	4,469,167	4,469,167
Mudaraba fee payable	399,625	399,625	399,625
	<b>47,500,346</b>	<b>47,500,346</b>	<b>47,500,346</b>
<b>2015</b>			
Claims reserves reported	35,148,547	35,148,547	35,148,547
Retakaful payables	5,007,606	5,007,606	5,007,606
Related party payables	157,989	157,989	157,989
Other liabilities	27,119	27,119	27,119
Wakala fee payable	5,366,700	5,366,700	5,366,700
<b>Total</b>	<b>45,707,961</b>	<b>45,707,961</b>	<b>45,707,961</b>

**Shareholders**

	Carrying amount	Contractual cash flows	1 year or less
<b>2016</b>			
Payable to related parties	294,380	294,380	294,380
Other payables	692,334	692,334	692,334
	<b>986,714</b>	<b>986,714</b>	<b>986,714</b>
<b>2015</b>			
Other payables	600,542	600,542	600,542
<b>Total</b>	<b>600,542</b>	<b>600,542</b>	<b>600,542</b>

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

Bahraini Dinars

**19 FINANCIAL RISK MANAGEMENT (continued)**

<b>Non-financial assets</b>	<b>2016</b>	<b>2015</b>
<i>Policyholders</i>		
Accrued contribution receivable	19,278,653	22,876,056
Deferred acquisition costs	4,359,736	5,000,796
Deferred wakala fee	2,157,984	2,391,871
Retrocessionaires' share of unearned contribution reserve	315,503	293,853
Retrocessionaires' share of IBNR	137,451	-
	<b>26,249,327</b>	<b>30,562,576</b>
<i>Shareholders</i>		
Equipment and other assets	<b>153,197</b>	<b>256,068</b>
<b>Non-financial liabilities</b>		
<i>Policyholders</i>		
Unearned contribution reserve	24,945,322	28,121,043
Commission reserve	322,454	329,396
Loss reserves – IBNR	44,188,483	44,929,596
	<b>69,456,259</b>	<b>73,380,035</b>
<b>Non-financial liabilities</b>	<b>2016</b>	<b>2015</b>
<i>Shareholders</i>		
Unearned wakala fee	2,157,984	2,391,871
Other liabilities	352,257	260,846
	<b>2,510,241</b>	<b>2,652,717</b>

**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.

**NOTES TO THE FINANCIAL STATEMENTS**

Bahraini Dinars

**19 FINANCIAL RISK MANAGEMENT (continued)****(i) Management of market risk**

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

**(ii) Currency risk**

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

<b>31 December 2016</b>	<b>Malaysian Ringgit</b>	<b>Euro</b>	<b>Kuwaiti Dinars</b>	<b>Total</b>
Total assets	9,934,439	892,414	2,299,757	<b>13,126,609</b>
Total liabilities	(11,118,732)	(330,029)	(3,150,708)	<b>(14,599,469)</b>
<b>Net (liabilities) / assets</b>	<b>(1,184,293)</b>	<b>562,385</b>	<b>(850,952)</b>	<b>(1,472,859)</b>

<b>31 December 2015</b>	<b>Malaysian Ringgit</b>	<b>Euro</b>	<b>Kuwaiti Dinars</b>	<b>Total</b>
Total assets	11,533,397	2,781,280	1,350,117	<b>15,664,794</b>
Total liabilities	(13,294,628)	(692,270)	(2,759,027)	<b>(16,745,925)</b>
<b>Net (liabilities) / assets</b>	<b>(1,761,231)</b>	<b>2,089,010</b>	<b>(1,408,910)</b>	<b>(1,081,131)</b>

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

A 10% variance in Euro exchange rate will have an impact of BD 56,239 (2015: BD 208,901), 10% variance in Malaysian Ringgit exchange rate will have an impact of BD 118,429 (2015: BD 176,123), 10% variance in Kuwaiti Dinars exchange rate will have an impact of BD 85,095 (2015: BD 140,891) on the statement of policyholders' revenue and expenses, statement of income, policyholders' equity and shareholders' equity respectively.



**NOTES TO THE FINANCIAL STATEMENTS**

Bahraini Dinars

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

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

**(iv) Other market price risk**

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

**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 34.586 million (2015: BD 27.964 million).

The solvency margin required for the general retakaful funds is BD 6.372 million (2015: BD 8.291 million) and for the family retakaful funds is BD 0.4 million (2015: 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 Board consisting of three scholars appointed by the General Assembly 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 PROPOSED DIVIDEND**

The Board of Directors recommend a dividend appropriation of 100 fils per share equating to BD 2,000,000 for approval by the Shareholders at the Annual General Meeting, to be held during the second quarter of 2017.

**23 EARNINGS PROHIBITED BY SHARIA**

Interest received on two bank accounts with NBAD amounting to BD 522 (2015: NIL), is not recognized as income and will be distributed to charity during 2017.

**24 COMPARATIVES**

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