Hannover ReTakaful B.S.C. (c)

FINANCIAL STATEMENTS

31 DECEMBER 2018

Registered Office	:	Al Zamil Tower, 17th floor P.O. Box 75180 Manama Kingdom of Bahrain
Board of Directors	:	Jürgen Gräber (Chairman, deceased 9 November 2018) Mahomed Akoob Claude Chèvre Gerald Segler Olaf Brock Jorge Alfonso Perez
Auditors	:	PricewaterhouseCoopers ME Limited

CONTENTS

The Board of Directors submits their report together with the audited financial statements of Hannover ReTakaful B.S.C. (c) ("the Company") for the year ended 31 December 2018.

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 2018 are as follows:

Financial highlights

	2018	2017
Gross contributions	58,465,827	64,321,208
Shareholders' profit for the year	1,286,532	7,403,177
Equity attributable to shareholders	63,149,900	64,063,368
Policyholders' equity deficit	(17,586,722)	(18,164,097)

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 2018 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 2018, which would in any way invalidate the financial statements on pages 14 to 43.

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

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

Chairman
27 February 2019

Financial position

Annual audited financial statements and auditor's report

The annual audited financial statements and auditor's report thereon as of and for the year ended 31 December 2018 are set out on pages 14 to 43 of the Financial Statements.

Solvency statement

Required minimum solvency margins

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

	2018	2017
Required minimum solvency margin for family retakaful	**400**	400
Required minimum solvency margin for general retakaful	**4,868**	5,812

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:

	2018	2017
Tier 1 or core capital comprising the highest quality capital elements that fully meet all the essential characteristics of capital	65,349	66,063
Deduction from Tier 1 capital	(9,560)	(6,014)
Shareholders' available capital	**55,789**	60,049

Capital adequacy

To assess the Company's capital adequacy, the shareholders' available capital is compared to the required solvency margin. As at 31 December 2018, the excess of available capital above required solvency margin is as follows:

	2018	2017
Shareholders' available capital	55,789	60,049
Net admissible assets to cover solvency margin		
– Family retakaful fund	716	3,839
– General retakaful fund	(20,262)	(22,647)
Total available capital to cover required solvency margin	36,243	41,241
less: required solvency margin	(5,268)	(6,212)
Excess capital	**30,975**	35,029

Key ratios

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

Ratio	2018 General Retakaful	2018 Family Retakaful	2017 General Retakaful	2017 Family Retakaful
Retakaful ratios				
Retention ratio	90.64%	99.43%	93.00%	99.00%
Gross contribution to shareholders' equity	39.16%	53.42%	47.20%	53.20%
Net contribution to shareholders' equity	35.50%	53.12%	43.90%	52.70%

Combined ratios (shareholders' and policyholders' funds)

	2018	2017
Liquidity ratios		
Current ratio	7	7
Liabilities / liquid assets	86%	87%
Technical reserves / liquid assets	78%	79%
Solvency ratios		
Solvency ratio	588%	564%
Share capital and surplus as a % of liabilities	28%	31%
Technical reserves to shareholders' equity	159%	161%
Technical reserves to net contribution	173%	148%

Capital ratios	2018	2017
Investments to technical reserves	125%	121%
Return on paid up capital	6%	37%
Return on shareholders' equity	2%	12%
Return on total assets employed	0.20%	5.50%

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 2018, the Board of the Company consists of five members. Four out of the five directors are non-executive directors. Resumes of the directors are as follows:

Jürgen Gräber, Chairman (late)
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 had 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. His sedulous dedicated work contributed to the Company and its stakeholders came to an end on 9 November 2018 upon his unexpected death.

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

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

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

In 2006, Mr. Akoob was tasked with the responsibility of setting up Hannover ReTakaful B.S.C. (c) in Bahrain, where he was appointed as the Managing Director. He brought with him a wealth of experience in both treaty and facultative underwriting, as well as finance, strategic planning and management. As per the Group policy Mr Akoob will be attaining retirment age in June 2019.

Claude Chèvre
Mr. Chèvre holds a degree in Mathematics.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Audit & Risk Committee
The Board of Directors has established an Audit & Risk Committee which met four times during the year. The Audit & Risk Committee of the Board of Directors is instrumental in the Board's fulfilment of its oversight responsibilities relating to:
- the integrity of the Company's financial statements;
- the Company's compliance with legal and regulatory requirements;
- the qualifications, independence and performance of the Company's external auditors;
- monitoring the performance of the Company's internal audit function;
- monitoring the business practices and ethical standards of the Company; and assessing the companies risk profile.

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

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

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

The Committee is comprised of the following members:

Jürgen Gräber (late), Chairman; Mahomed Akoob; Claude Chèvre.

The Investment Committee

The Investment Committee consists of Board members to:

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

The Committee is comprised of the following members:
Gerald Segler, Chairman; Jürgen Gräber (late), Mahomed Akoob.

Meeting Attendance

Director	**06.03.2018**		**26.04.2018**		**03.09.2018**		**25.10.2018**	
	Board	**ARC**	**Board**	**ARC**	**Board**	**ARC**	**Board**	**ARC**
Jürgen Gräber (late)	√	*	√	*	√	*	√	*
Mahomed Akoob	√	√	√	√	√	√	√	√
Claude Chèvre	√	*	√	*	√	*	√	*
Gerald Segler	√	√	√	√	√	√	√	√
Olaf Brock	√	√	√	√	√	√	√	√
Jorge Alfonso Perez	√	√	√	√	√	√	√	√

√ Present

* not applicable

ARC - Audit & Risk Committee

The Roles of the Chairman and the Managing Director

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

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

Corporate Governance

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

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

The Sharia Supervisory Board

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

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

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

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

Member	26.02.2018	22.10.2018
Dr. Mohamed Ali Elgari	√	√
Mufti Muhammad Hassan	√	X
Sheikh Faizal Manjoo	√	√

√ Present

X Absent with apology

Internal control

The Board of Directors:

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

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

Compliance

The Company has complied with applicable provisions of the regulations stipulated in the Central Bank of Bahrain Financial Institutions Law 2006, Volume 3 of the CBB Rulebook and CBB directives, Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), Bahrain Commercial Companies Law 2001 and the terms of its Memorandum and Articles of Association. The Company has carried out its retakaful activities in conformity with the precepts of Islamic Sharia.

Risk management strategies and practices

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

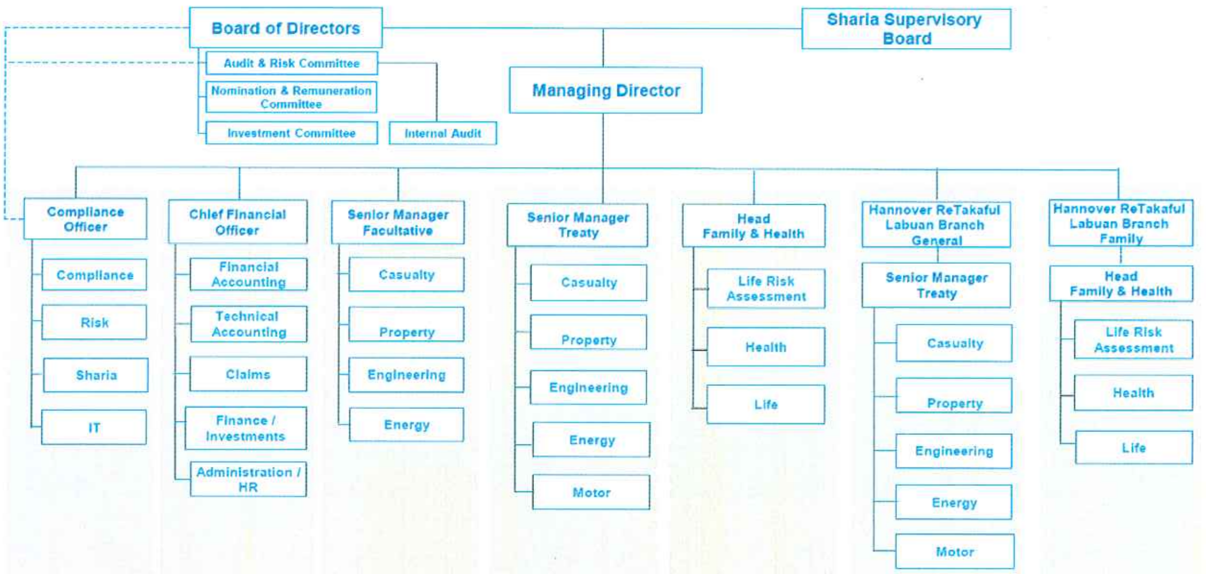
The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors of the Company reports to the Group's Board of Directors. The Hannover Re Group has established global risk management guidelines which the Company's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

Management of the Company and Organisational Structure

Management of the Company is as follows:

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

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



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

Report of the Sharia Supervisory Board

For the year ended 31 December 2018

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 2018.

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

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

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

In our opinion:

- the agreements, transactions and dealings, in so far as applicable, entered into by the Company during the year ended 31 December 2018 that we have reviewed are in compliance with the Islamic Sharia Rules and Principles;
- the allocation of profit and charging of losses relating to Investment accounts conform to the basis that had been approved by us in accordance with Islamic Sharia Rules and Principles.

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

Wassalamu Alaikum Wa Rahmat Allah Wa Barakatuh

Dated: Jamadi Al Thani 22, 1440 H corresponding to 16 February 2019

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

....
Mufti Muhammad Hassan Mufti Faizal Manjoo

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

Report on the financial statements

We have audited the accompanying financial statements of Hannover Retakaful B.S.C. (c) (the "Company") which comprise the statement of financial position as at 31 December 2018 and the related statements of income, policyholders' revenues and expenses, policyholders' surplus and deficit, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018 and the results of its operations, its cash flows, policyholders' surplus and deficit and changes in shareholders' equity for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

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

Report on regulatory requirements and other matters

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

(i) the Company has maintained proper accounting records and the financial statements are in agreement therewith;

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

(iii) the financial information contained in the Directors' report is consistent with the financial statements;

(iv) we are not aware of any violations during the year of the Bahrain Commercial Companies Law number (21) of 2001 as amended, the Central Bank of Bahrain and Financial Institutions Law, the Rule Book (Volume 3, applicable provisions of Volume 6 and CBB directives), and procedures or the terms of the Company's memorandum and articles of association that would have had a material adverse effect on the business of the Company or on its financial position; and

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

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

PricewaterhouseCoopers

Partner's Registration No: 196
28 February 2019
Manama, Kingdom of Bahrain

Statement of financial position
as at 31 December 2018

Bahraini Dinars

	Note	2018	2017
ASSETS			
Cash and cash equivalents	4	11,203,204	8,651,335
Statutory deposit		150,103	150,103
Investment securities	5	110,446,522	112,241,790
Retakaful receivables	6 (a)	10,479,168	13,686,902
Accrued contribution receivable	7	20,036,825	21,130,439
Related party receivables	16 (d)	102,391	-
Deferred acquisition costs	8	2,376,232	2,917,292
Retrocessionaires' share of unearned contribution reserve	10	341,469	335,869
Retrocessionaires' share of loss reserves (related parties)	11 &16 (b)	-	422,269
Retrocessionaires' share of IBNR	11	148,424	152,460
Prepayments, equipment and other assets		186,188	140,491
Total assets		**155,470,526**	159,828,950
SHAREHOLDERS' EQUITY, POLICYHOLDERS' EQUITY & LIABILITIES			
Shareholders' equity			
Share capital	9	20,000,000	20,000,000
Statutory reserve		4,850,990	4,722,337
Dividend reserve		1,000,000	-
Retained earnings		37,298,910	39,341,031
Total shareholders' equity (page 18)		**63,149,900**	64,063,368
Policyholders' equity (page 17)		**(17,586,722)**	(18,164,097)
Liabilities			
Loss reserves	11	87,548,806	89,352,869
Unearned contribution reserves	10	15,288,440	17,506,982
Commission reserves		293,193	91,402
Retakaful payables	6 (b)	4,488,694	4,545,881
Payables to retrocessionaires	6 (c)	501,562	892,455
Related party payables	16 (c)	634,857	409,821
Other liabilities		1,151,796	1,130,269
Total liabilities		**109,907,348**	113,929,679
Total shareholders' equity, policyholders' fund and liabilities		**155,470,526**	159,828,950

The Board of Directors approved the financial statements consisting of pages 14 to 43 on 27 February 2019.

Chairman

Mahomed Akoob
Managing Director

Statement of income
for the year ended 31 December 2018

Bahraini Dinars

	Note	2018	2017
INCOME			
Wakala fee for managing retakaful activities		5,726,612	6,121,015
Change in deferred wakala fee		(70,065)	684,124
Net earned wakala fee		**5,656,547**	6,805,139
Investment income	13	450,168	1,448,790
Mudaraba fee		170,007	687,904
Other income	14	-	1,881,113
TOTAL INCOME		**6,276,722**	10,822,946
EXPENSES			
Staff cost		(1,028,544)	(1,014,001)
General and administrative expenses	15	(678,498)	(869,727)
Foreign exchange loss		(3,686)	(49,273)
Impairment of Qard Hassan		(3,279,462)	(1,486,768)
TOTAL EXPENSES		**(4,990,190)**	(3,419,769)
PROFIT FOR THE YEAR		**1,286,532**	7,403,177

The Board of Directors approved the financial statements consisting of pages 14 to 43 on 27 February 2019.

Chairman

Mahomed Akoob
Managing Director

	Note	**2018**	2017
REVENUE			
Gross contributions		58,465,827	64,321,208
Retrocessionaires' share of contributions		(2,506,397)	(2,453,011)
Change in gross unearned contributions	10	1,984,781	7,659,262
Change in retrocessionaires' share of unearned contributions	10	8,412	20,134
Net earned contributions		**57,952,623**	69,547,593
Foreign exchange gain / (loss)		297,534	(220,451)
Investment income		425,018	1,719,760
Total revenue		**58,675,175**	71,046,902
EXPENSES			
Claims settled – net		(45,720,848)	(45,923,356)
Movement in loss reserves – net	11	666,781	(4,845,510)
Net claims incurred		**(45,054,067)**	(50,768,866)
Policy acquisition costs – net		(8,030,808)	(9,818,782)
Movement in deferred acquisition cost	8	(532,641)	(1,455,912)
Movement in commission reserve		(201,881)	231,474
Wakala fee		(5,726,612)	(6,121,015)
Movement in deferred wakala fee		70,065	(684,124)
Mudaraba fee		(170,007)	(687,904)
Allowance for doubtful debts		-	(300,752)
Other expenses		(3,851)	(3,420)
Total expenses		**(59,649,802)**	(69,609,301)
(Deficit) / surplus of revenue over expenses for the year		**(974,627)**	1,437,601

The notes on pages 20 to 43 are an integral part of these financial statements.

Statement of policyholders' surplus and deficit
for the year ended 31 December 2018

Bahraini Dinars

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

2017	General retakaful	Family retakaful	Total accumulated deficit	Surplus distribution reserve	Total policy holders' equity
As at 1 January 2017	(32,049,544)	3,181,338	(28,868,206)	4,420,398	(24,447,808)
Surplus for the year	896,347	541,254	1,437,601	-	1,437,601
Qard hassan allowance	8,636,113	-	8,636,113	-	8,636,113
Surplus reserve	-	(582,703)	(582,703)	582,703	-
Surplus paid for the year	-	(1,880,913)	(1,880,913)	(1,909,090)	(3,790,003)
As at 31 December 2017	(22,517,084)	1,258,976	(21,258,108)	3,094,011	(18,164,097)

The notes on pages 20 to 43 are an integral part of these financial statements.

Statement of changes in shareholders' equity
for the year ended 31 December 2018

Bahraini Dinars

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

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

The notes on pages 20 to 43 are an integral part of these financial statements.

	Note	2018	2017
OPERATING ACTIVITIES			
Combined profit for the year		311,905	8,840,778
Adjustments for:			
Depreciation expenses		77,529	84,776
Impairment of qard hassan		3,279,462	1,486,768
Increase in provision for employees' end of service benefits		54,517	36,593
Amortisation of sukuks		72,177	450,446
Realised loss / (gain) on disposal of investment securities		794,096	(1,798)
Other income		-	(1,880,913)
Profit from sukuks / placements and fair value changes in sukuks		(1,741,458)	(3,620,794)
		2,848,228	5,395,856
Changes in operating assets and liabilities:			
Decrease in retakaful receivables		3,207,734	623,066
Decrease in unearned contribution reserve		(2,224,143)	(7,458,706)
(Increase) / decrease in loss reserves net of retrocession recovery		(1,381,794)	5,780,981
Increase / (decrease) in commission reserve		201,791	(231,052)
Decrease / (increase) in reinsurance share of IBNR		4,036	(15,009)
Decrease in deferred acquisition costs		541,060	1,442,444
Decrease / (increase) in accrued contribution receivable		1,093,614	(1,851,785)
(Increase) / decrease in other assets		(26,271)	24,818
Increase in retrocessionaires' and related party payables		243,966	260,891
(Decrease) / increase in retakaful payables		(57,187)	2,082,136
Increase in retakaful receivables		(102,391)	-
Decrease in other liabilities		(442,811)	(7,528)
Net cash generated from operating activities		**3,905,832**	6,046,112
INVESTING ACTIVITIES			
Purchase of equipment and other assets		(96,955)	(14,468)
Profit received from sukuks and placements		3,553,458	3,451,108
Purchase of sukuks		(78,913,296)	(50,567,683)
Proceeds from redemption of sukuks		77,940,119	45,353,540
Foreign currency exchange movement		90,171	(69,361)
Net cash generated from / used in investing activities		**2,573,497**	(1,846,864)
FINANCING ACTIVITIES			
Surplus distributed (page 17)		(1,727,460)	(1,909,090)
Dividend distributed (page 18)		(2,200,000)	(2,000,000)
Net cash used in financing activities		**(3,927,460)**	(3,909,090)
Net increase in cash and cash equivalents		2,551,869	290,158
Cash and cash equivalents at 1 January		8,651,335	8,361,177
Cash and cash equivalents at 31 December		**11,203,204**	8,651,335
Represented in the books of			
Shareholders		**3,547,734**	2,378,468
Policyholders		**7,655,470**	6,272,867
Cash and cash equivalents	4	**11,203,204**	8,651,335

The notes on pages 20 to 43 are an integral part of these financial statements.

1 REPORTING ENTITY

Hannover ReTakaful BSC (c) ("the Company") is a Bahrain shareholding Company (closed) incorporated in the Kingdom of Bahrain on 3 October 2006, under the Bahrain Commercial Companies Law 2001 with commercial registration number 62686-1 in the Kingdom of Bahrain and is licensed as an Islamic insurance company, with the Central Bank of Bahrain ("CBB" or "the regulator"). The Company is authorized to carry out reinsurance (i.e. retakaful) activities in conformity with the precepts of Islamic Shari'a. The Company has two separate branches Hannover Retakaful Labuan Branch General and Hannover Retakaful Labuan Branch Family to carry out retakaful activities. The Company is a wholly owned subsidiary of the Hannover Re Group based in Germany. The retakaful activities are organised on a calendar year basis with the policyholders' pooling their contributions to compensate for losses suffered in the pool on occurrence of a defined event.

2 BASIS OF PREPARATION

a) Statement of compliance

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

b) Principal financial statements

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

c) Basis of measurement

The financial statements have been prepared on the historical cost basis except for investment securities at fair value through income statement.

d) Use of estimates and judgments

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

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

e) Qard Hassan

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

2 *BASIS OF PREPARATION (continued)*

f) New standards, amendments and interpretations effective from 1 January 2018
There are no AAOIFI accounting standards or interpretations that are effective for the first time for financial years beginning on or after 1 January 2018 that have a material impact on the Company.

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

- FAS 28 - Murabaha and other deferred payment sales - Effective from 1 January 2019.
- FAS 30 - Impairment, credit losses and onerouse commitments - Effective 1 January 2020.
- FAS 33 - Investment in Sukuk Shares and similar Instruments - Effective from 1 January 2020.
- FAS 34 - Financial reporting for Sukuk-holders - Effective from 1 January 2020

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

3 SIGNIFICANT ACCOUNTING POLICIES

a) Foreign currency

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

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

b) Retakaful

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

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

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

3 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

Contributions, net of retakaful, are taken to income over the terms of the related agreements or policies. Gross contributions are recognised in the policyholders' statement of revenue and expenses from the date of attachment of risk over the policy period. The earned proportion of contributions is recognised as revenue in the policyholders' statement of revenue and expenses.

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

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

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(viii) Liability adequacy test

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

(ix) Retrocession contracts

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

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

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

c) Surplus / deficit in policyholders' funds

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

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

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

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

d) Investment securities

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

(i) Classification

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

3 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

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.

(v) Measurement principles
Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

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

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

e) Furniture and equipment

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

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

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

3 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

f) Provisions

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

g) Zakah

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

h) Statutory reserve

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

i) Employees' end of service benefits

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

j) Cash and cash equivalents

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

k) Statutory deposit

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

l) Dividend reserves

A dividend reserve was set up in 2011, covering 5% of the paid up capital (BHD 1,000,000), which was utilised in 2017. A reserve of BHD 1,000,000 is provided during the year which will be utilised to pay dividend for the year 2018.

m) Wakala fee

The Company manages the general and family undertriting operations on behalf of the policyholders for a wakala fee calculated as a proportion of gross contributions. Wakala fee as a proportion of unearned contributions is deferred and recognised over the subsequent periods. Wakala fee rates are approved by the Sharia Supervisory Board which is upto maximum of 10% for treaty proportional, 25% for treaty non proportional and facultative business. However, the company is charging general retakaful upto 6% for treaty proportional, 15% for treaty non proportional and 12.5% for facultative business. Furthermore, the company is charging wakala fee ranging from 5% to 25% to family retakaful which is as agreed and mentioned in the terms of contract.

n) Impairment

(i) Financial assets

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

3 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(ii) 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

	2018	2017
Cash and bank balances	**11,203,204**	8,651,335

5 INVESTMENT SECURITIES

	2018	2017
Investments at fair value through income statement	**110,446,522**	112,241,790

These comprise:

	2018	2017
Debt type		
- Quoted sukuks	106,375,272	109,165,079
- Unquoted sukuks	2,863,266	1,928,590
Equity type		
- Quoted sukuks	1,207,984	1,148,121
	110,446,522	112,241,790

6 RETAKAFUL RECEIVABLES AND PAYABLES

a) Retakaful receivables

	2018	2017
General retakaful	5,634,677	4,040,793
Family retakaful	5,630,883	10,432,501
	11,265,560	14,473,294
Less: Provision for doubtful debts	(786,392)	(786,392)
	10,479,168	13,686,902

General retakaful receivables include deposits amounting to BD 1,862,041 (2017: 1,850,435) held by retakaful participants.

Family retakaful receivables include deposits amounting to BD 2,210,456 (2017: BD 2,119,187) held by retakaful participants.

6 RETAKAFUL RECEIVABLES AND PAYABLES (continued)

b) Retakaful payables

	2018	2017
General retakaful	3,685,561	3,528,304
Family retakaful	803,133	1,017,577
	4,488,694	4,545,881

c) Payables to retrocessionaires

	2018	2017
General retakaful	43,811	165,128
Family retakaful	457,751	727,327
	501,562	892,455

Payable to retrocessionaires include related party payables amounting BHD Nil (2017: BD 422,253) (Note 16).

7 ACCRUED CONTRIBUTION RECEIVABLE

	2018	2017
General retakaful	3,536,442	1,259,920
Family retakaful	16,500,383	19,870,519
	20,036,825	21,130,439

8 DEFERRED ACQUISITION COSTS

	2018	2017
At 1 January	2,917,292	4,359,736
Net movement during the year	(532,641)	(1,455,912)
Foreign exchange (losses) / gains	(8,419)	13,468
At 31 December	**2,376,232**	2,917,292

9 SHARE CAPITAL

	2018	2017
Authorised equity share capital of 50,000,000 (2018: 50,000,000) shares of BD 1 each	**50,000,000**	50,000,000
Issued, subscribed and paid up capital comprising 20,000,000 (2018: 20,000,000) shares of BD 1 each	**20,000,000**	20,000,000

10 UNEARNED CONTRIBUTION RESERVES

	2018			2017		
	Gross	**Retroceded**	**Net**	Gross	Retroceded	Net
At 1 January	17,506,982	(335,869)	17,171,113	24,945,322	(315,503)	24,629,819
Movement during the year (net)	(1,984,781)	(8,412)	(1,993,193)	(7,659,262)	(20,134)	(7,679,396)
Foreign exchange (gains) / losses	(233,761)	2,812	(230,949)	220,922	(232)	220,690
At 31 December	**15,288,440**	**(341,469)**	**14,946,971**	17,506,982	(335,869)	17,171,113

11 LOSS RESERVES

	2018			2017		
	Gross	**Retroceded**	**Net**	Gross	Retroceded	Net
Claims reserves	46,314,588	(422,269)	45,892,319	39,369,076	(545,390)	38,823,686
IBNR reserves	43,038,281	(152,460)	42,885,821	44,188,483	-	44,188,483
At 1 January	89,352,869	(574,729)	88,778,140	83,557,559	(545,390)	83,012,169
Movement during the year (net)	(1,088,848)	422,067	(666,781)	4,859,563	(14,053)	4,845,510
Foreign exchange (gains) / losses	(715,215)	4,238	(710,977)	935,747	(15,286)	920,461
At 31 December	**87,548,806**	**(148,424)**	**87,400,382**	89,352,869	(574,729)	88,778,140
Claims reserves	41,332,150	-	41,332,150	46,314,588	(422,269)	45,892,319
IBNR reserves	46,216,656	(148,424)	46,068,232	43,038,281	(152,460)	42,885,821
At 31 December	**87,548,806**	**(148,424)**	**87,400,382**	89,352,869	(574,729)	88,778,140

12 CLAIMS DEVELOPMENT DATA

The table below shows the gross and net General retakaful loss reserves in the underwriting years 2014 to 2018. The bottom half of the table reconciles the cumulative claims to the amount appearing in the statement of financial position.

a) General retakaful- Gross

Underwriting years	2014	2015	2016	2017	2018	Total
Estimate of incurred claims costs:						
- End of underwriting year	19,552,736	16,182,411	14,385,002	10,063,823	13,431,552	13,431,552
- One year later	37,755,533	28,451,049	30,023,296	21,042,835	-	21,042,835
- Two years later	35,969,245	26,552,520	25,760,642	-	-	25,760,642
- Three years later	34,532,159	24,464,186	-	-	-	24,464,186
- Four years later	35,305,365	-	-	-	-	35,305,365
Current estimate of incurred claims	35,305,365	24,464,186	25,760,642	21,042,835	13,431,552	120,004,580
Cumulative payments to date	(29,056,677)	(16,384,000)	(15,517,735)	(8,080,791)	(3,974,841)	(73,014,044)
Liability recognised	6,248,688	8,080,186	10,242,907	12,962,044	9,456,711	46,990,536
Liability in respect of prior years						12,068,619
Total liability included in the statement of financial position (note:17c)						**59,059,155**

b) General retakaful- Net

Underwriting year	2014	2015	2016	2017	2018	Total
Estimate of incurred claims costs:						
- End of underwriting year	14,369,211	16,182,411	13,977,063	10,063,823	13,431,552	13,431,552
- One year later	32,072,588	28,451,049	29,601,027	21,042,835	-	21,042,835
- Two years later	30,286,300	26,552,520	25,760,643	-	-	25,760,643
- Three years later	28,849,214	24,464,186	-	-	-	24,464,186
- Four years later	29,622,421	-	-	-	-	29,622,421
Current estimate of incurred claims	29,622,421	24,464,186	25,760,643	21,042,835	13,431,552	114,321,637
Cumulative payments to date	(23,373,732)	(16,384,000)	(15,517,735)	(8,080,791)	(3,974,841)	(67,331,099)
Liability recognised	6,248,689	8,080,186	10,242,908	12,962,044	9,456,711	46,990,538
Liability in respect of prior years						12,068,617
Total liability included in the statement of financial position (note:17c)						**59,059,155**

13 INVESTMENT INCOME

	2018	2017
Profit from sukuks	566,408	1,594,936
Profit from placements with financial institutions	71,048	35,018
Investment related expenses – net	(187,288)	(181,164)
	450,168	1,448,790

14 OTHER INCOME

Other income shown for 2017 consisted of the share of surplus on a contract which had been commuted prior year. The surplus had been calculated on the basis mutually agreed by the Company and takaful operators at BHD 1,880,913 in 2017. No such income occured in 2018.

15 GENERAL AND ADMINISTRATIVE EXPENSES

	2018	2017
Administration expenses	435,865	632,182
Depreciation	38,762	84,776
Other operating expenses	203,871	152,769
	678,498	869,727

16 RELATED PARTY TRANSACTIONS

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

a) Transactions during the year	**2018**	2017
Contribution ceded to:		
- Hannover Re Bermuda Ltd., Bermuda		
Entity within the Hannover Re Group	2,116,478	2,089,352
- Hannover Rück SE, Germany		
Parent company of the Hannover Re Group	341,659	363,659
Profit commission recovered from:		
- Hannover Rück SE, Germany		
Parent company of the Hannover Re Group	104,796	-
Claims recovered from:		
- Hannover Re Bermuda Ltd., Bermuda		
Entity within the Hannover Re Group	-	14,053

16 RELATED PARTY TRANSACTIONS (continued)

	2018	2017
Expenses recharged:		
- Ampega Asset Management GmbH, Germany *Entity within the Talanx Group (Ultimate Parent)*	56,251	55,349
- Hannover Rueck SE, Bahrain Branch, Bahrain *Branch of the Parent company of the Hannover Re Group*	1,252,894	1,272,128
- Hannover Rück SE, Germany *Parent company of the Hannover Re Group*	324,888	297,546
- Hannover Rück SE Malaysia Branch, Malaysia *Branch of the Parent company of the Hannover Re Group*	7,665	6,785

b) Retrocessionaires' share of loss reserves at 31 December	**2018**	2017
Hannover Re Bermuda Ltd., Bermuda *Entity within the Hannover Re Group*	-	422,269

c) Amounts payable at 31 December	**2018**	2017
Hannover Rück SE, Germany *Parent company of the Hannover Re Group*	-	401,123
Hannover Re Bermuda Ltd., Bermuda *Entity within the Hannover Re Group*	-	21,130
Hannover Rueck SE, Bahrain Branch, Bahrain *Branch of the Parent company of the Hannover Re Group*	634,857	409,821

d) Amounts receivable at 31 December	**2018**	2017
Hannover Rück SE, Germany *Parent company of the Hannover Re Group*	102,391	-

e) Key management compensation	**2018**	2017
Salaries and benefits to key management personnel	642,708	574,473

f) Balances due to key management personnel	**2018**	2017
Remuneration payable	598,025	533,444

17 SEGMENT INFORMATION

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

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

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

17 SEGMENT INFORMATION (continued)

2017	General Retakaful	Family Retakaful	Total
REVENUE			
Gross contributions	30,246,822	34,074,386	64,321,208
Retrocessionaires' share of contributions	(2,128,094)	(324,917)	(2,453,011)
Change in gross unearned contributions	7,680,520	(21,258)	7,659,262
Change in retrocessionaires' share of unearned contributions	20,153	(19)	20,134
Earned contributions	35,819,401	33,728,192	69,547,593
Claims settled	(23,184,074)	(22,739,282)	(45,923,356)
Movement in loss reserves - net	1,304,851	(6,150,361)	(4,845,510)
Policy acquisition costs - net	(8,843,974)	(974,808)	(9,818,782)
Movement in deferred acquisition costs	(1,456,413)	501	(1,455,912)
Movement in commission reserve	-	231,474	231,474
Wakala fee	(2,378,902)	(3,742,113)	(6,121,015)
Deferred wakala fee	(531,482)	(152,642)	(684,124)
Total underwriting costs	(35,089,994)	(33,527,231)	(68,617,225)
Underwriting results	729,407	200,961	930,368
Foreign exchange (losses) / gains	(319,014)	98,563	(220,451)
Allowance for doubtful debts	(300,752)	-	(300,752)
Investment income	1,314,048	405,712	1,719,760
Mudaraba fee	(525,619)	(162,285)	(687,904)
Other expenses	(1,723)	(1,697)	(3,420)
Surplus for the year	896,347	541,254	1,437,601

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

2018	**General Retakaful**	**Family Retakaful**	**Total**
Gross contribution from takaful companies in:			
Middle East & North African countries	22,901,248	21,477,732	44,378,980
Other countries	1,829,600	12,257,247	14,086,847
	24,730,848	**33,734,979**	**58,465,827**

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

17 *SEGMENT INFORMATION (continued)*

c) Analysis of segment assets and segment liabilities

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

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

17) *SEGMENT INFORMATION (continued)*

2017	General Retakaful	Family Retakaful	Shareholder	Eliminations	Total
Assets					
Cash and cash equivalents	1,811,146	4,461,721	2,378,468	-	8,651,335
Statutory deposit	-	-	150,103	-	150,103
Investment securities	45,650,557	13,025,688	53,565,545	-	112,241,790
Retakaful receivables	3,354,401	10,332,501	-	-	13,686,902
Accrued contribution receivable	1,259,920	19,870,519	-	-	21,130,439
Wakala fee receivable	-	-	5,585,234	(5,585,234)	-
Deferred wakala fee	757,452	716,408	-	(1,473,860)	-
Deferred acquisition costs	2,916,789	503	-	-	2,917,292
Retrocessionaires' share of					
- unearned contribution reserves	335,869	-	-	-	335,869
- loss reserves	422,269	-	-	-	422,269
- IBNR	-	152,460	-	-	152,460
Mudaraba receivables	-	-	795,933	(795,933)	-
Qard Hassan receivable	-	-	3,279,500	(3,279,500)	-
Prepayments, equipment & others	-	3,419,523	2,021,405	(5,300,437)	140,491
Total assets	56,508,403	51,979,323	67,776,188	(16,434,964)	159,828,950

	General Retakaful	Family Retakaful	Shareholder	Eliminations	Total
Liabilities					
Loss reserves	57,792,182	31,560,687	-	-	89,352,869
Unearned contribution reserve	10,983,626	6,523,356	-	-	17,506,982
Commission reserve	-	91,402	-	-	91,402
Retakaful payables	3,528,305	1,017,576	-	-	4,545,881
Wakala fee payable	14,926	5,570,308	-	(5,585,234)	-
Payables to retrocessionaires	165,126	727,329	-	-	892,455
Related party payables	-	-	409,821	-	409,821
Qard Hassan payable	3,279,500	-	-	(3,279,500)	-
Mudaraba payables	562,352	233,581	-	(795,933)	-
Unearned wakala fee	-	-	1,473,861	(1,473,861)	-
Other liabilities	2,699,470	1,902,097	1,829,138	(5,300,436)	1,130,269
Total liabilities	79,025,487	47,626,336	3,712,820	(16,434,964)	113,929,679
Policyholders' equity	(22,517,084)	4,352,987	-	-	(18,164,097)
Shareholders' equity					
Share capital	-	-	20,000,000	-	20,000,000
Statutory reserve	-	-	4,722,337	-	4,722,337
Retained earnings	-	-	39,341,031	-	39,341,031
Total shareholders' equity	-	-	64,063,368	-	64,063,368
Total liabilities and equity	56,508,403	51,979,323	67,776,188	(16,434,964)	159,828,950

18 INSURANCE RISK MANAGEMENT

a) Background

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

b) Underwriting strategy

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

c) Retrocession strategy

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

d) Risk exposure and concentration of retrocession risk

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

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.

18 *INSURANCE RISK MANAGEMENT (continued)*

	Statement of policyholders' revenues and expenses		**Policyholders' equity**	
2018	**Gross of retakaful**	**Net**	**Gross of retakaful**	**Net**
Expense rate				
1 % increase	(584,658)	(559,594)	(584,658)	(559,594)
1 % decrease	584,658	559,594	584,658	559,594
Expected loss ratio				
1 % increase	(604,506)	(579,526)	(604,506)	(579,526)
1 % decrease	604,506	579,526	604,506	579,526
2017				
Expense rate				
1 % increase	(643,212)	(618,682)	(643,212)	(618,682)
1 % decrease	643,212	618,682	643,212	618,682
Expected loss ratio				
1 % increase	(719,805)	(695,476)	(719,805)	(695,476)
1 % decrease	719,805	695,476	719,805	695,476

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.

19 CAPITAL MANAGEMENT

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

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

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

20 FINANCIAL RISK MANAGEMENT

a) Overview

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

- credit risk
- liquidity risk
- market risk

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

b) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty fails to meet its contractual obligations. The Company's key areas of exposure to credit risk include balances mentioned in note 20 b) ii).

(i) Management of credit risk

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

(ii) Overall exposure to credit risk

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

Total financial assets

	Policyholders		Shareholders	
	2018	2017	**2018**	2017
Cash and cash equivalents	7,655,470	6,272,867	3,547,734	2,378,468
Statutory deposit	-	-	150,103	150,103
Investment in securities	55,341,086	58,676,245	55,105,436	53,565,545
Retakaful receivables	10,479,168	13,686,902	-	-
Accrued contribution receivable	20,036,825	21,130,439	-	-
Related party receivables	186,202	-	-	-
Retrocessionaires' share of loss reserves	-	422,269	-	-
Wakala fee receivables	-	-	6,687,190	5,585,234
Mudaraba fee receivables	-	-	879,845	795,933
Qard Hassan receivables	-	-	-	3,279,500
Other receivables	3,392,636	3,419,523	16,407	1,897,468
	97,091,387	103,608,245	66,386,715	67,652,251

20 *FINANCIAL RISK MANAGEMENT (continued)*

(iii) Assets that are past due

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

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

	General Retakaful	**Family Retakaful**	**2018**	2017
Neither past due nor impaired	4,200,975	3,798,344	7,999,319	10,933,914
Past due 91 – 180 days	271,478	892,306	1,163,784	2,108,532
Past due 181 – 365 days	417,899	354,831	772,730	87,311
Above 365 days	744,325	585,402	1,329,727	1,343,537
Total before allowance for doubtful debts	5,634,677	5,630,883	11,265,560	14,473,294
Less: allowance for doubtful debts	(686,392)	(100,000)	(786,392)	(786,392)
	4,948,285	5,530,883	10,479,168	13,686,902

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

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

(iv) As per Volume 3 of the CBB Rulebook, the Company has further impaired the Qard Hassan during the year, amounting to BD 3,279,462 (2017: BD 1,486,768), resulting now into full provisioning for BHD 11,915,575 provided to the General retakaful Policyholders' fund. The Company's Sharia Board is of the view that the retakaful operator still holds the right to recover the Qard Hassan from policyholders.

c) Liquidity risk

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

(i) Management of liquidity risk

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

20 *FINANCIAL RISK MANAGEMENT (continued)*

(ii) Exposure to liquidity risk

An analysis of the contractual maturities of the Company's financial liabilities (including contractual undiscounted profit payments) is presented below. All liabilities of the Company are due with in one year accorindgly the effect of undiscounting is immaterial.

Policyholders

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

2017	Carrying amount	Contractual cash flows	1 year or less
Claims reserves	46,314,588	46,314,588	46,314,588
Retakaful payables	4,545,881	4,545,881	4,545,881
Payables to retrocessionaires	892,455	892,455	892,455
Qard Hassan payables	3,279,500	3,279,500	3,279,500
Wakala fee payable	5,585,234	5,585,234	5,585,234
Mudaraba payables	795,933	795,933	795,933
Other liabilities	4,601,567	4,601,567	4,601,567
	66,015,158	66,015,158	66,015,158

Shareholders

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

2017	Carrying amount	Contractual cash flows	1 year or less
Payable to related parties	409,821	409,821	409,821
Other liabilities	1,440,289	1,440,289	1,440,289
	1,850,110	1,850,110	1,850,110

20 FINANCIAL RISK MANAGEMENT (continued)

(iii) Disclosures of non-financial assets and liabilities

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

Non-financial assets	**2018**	2017
Policyholders		
Deferred acquisition costs	2,376,232	2,917,292
Deferred wakala fee	1,543,924	1,473,860
Retrocessionaires' share of unearned contribution reserves	341,469	335,869
Retrocessionaires' share of IBNR	148,424	152,460
	4,410,049	4,879,481
Shareholders		
Prepayments	54,820	41,048
Equipment and other assets	102,315	82,889
	157,135	123,937
Non-financial liabilities		
Policyholders		
Unearned contribution reserves	15,288,440	17,506,982
Commission reserves	293,193	91,402
IBNR reserves	46,216,656	43,038,281
	61,798,289	60,636,665
Shareholders		
Unearned wakala fee	1,543,924	1,473,860
Other liabilities	443,366	388,850
	1,987,290	1,862,710

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.

20 *FINANCIAL RISK MANAGEMENT (continued)*

(i) Management of market risk

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

(ii) Currency risk

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

2018	**Malaysian Ringgit**	**Euro**	**Kuwaiti Dinars**	**Total**
Total assets	8,367,985	1,034,824	2,233,656	11,636,465
Total liabilities	(13,036,758)	(660,300)	(4,463,944)	(18,161,002)
Net (liabilities) / assets	**(4,668,773)**	**374,524**	**(2,230,288)**	**(6,524,537)**

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

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 37,452 (2017: BD 52,185), 10% variance in Malaysian Ringgit exchange rate will have an impact of BD 466,877 (2017: BD 347,132), 10% variance in Kuwaiti Dinars exchange rate will have an impact of BD 223,029 (2017: BD 214,092) on the statement of policyholders' revenue and expenses, statement of income, policyholders' equity and shareholders' equity respectively.

(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.

20 FINANCIAL RISK MANAGEMENT (continued)

(iv) Other market price risk

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

21 SOLVENCY MARGIN AND CAPITAL ADEQUACY

The CBB Rulebook stipulates that solvency margin requirements are determined separately for the policyholders' funds (General retakaful and Family retakaful). The total available capital to cover the required solvency margin is BD 36.243 million (2017: BD 41.241).

The solvency margin required for the General retakaful funds is BD 4.868 million (2017: BD 5.812 million) and for the Family retakaful funds is BD 0.4 million (2017: BD 0.4 million) as per the regulations issued by the CBB.

22 SHARIA SUPERVISORY BOARD

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

23 PROPOSED DIVIDEND

The Board of Directors recommend a dividend appropriation of 215 fils (2017: 110 fils) per share equating to BD 4,300,000 (2017: BD 2,200,000) for approval by the Shareholders at the Annual General Meeting, to be held during the first quarter of 2019.

24 EARNINGS PROHIBITED BY SHARIA

Interest received on two bank accounts with NBAD amounting to BD 163 (2017: BD 188) is not recognised as income and will be distributed to charity during 2019.

25 COMPARATIVES

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