Hannover ReTakaful B.S.C. (c)

FINANCIAL STATEMENTS

31 DECEMBER 2021

Registered Office	:	Zamil Tower, Office 171 Government Avenue Manama Kingdom of Bahrain
Board of Directors	:	Claude Chevre, Chairman Michael Pickel, Deputy Chairman Adham El-Muezzin Gerald Segler Olaf Brock Sven Althoff, Resigned 31 March 2021
Auditors	:	PricewaterhouseCoopers M.E Limited

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The Board of Directors submit their report together with the audited financial statements of Hannover ReTakaful B.S.C. (c) ("the Company") for the year ended 31 December 2021. 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.

Financial performance highlights	**2021**	2020
Gross contributions	64,891,151	78,222,991
Shareholders' profit for the year	4,890,233	8,477,473
Equity attributable to shareholders	82,017,256	77,127,023
Policyholders' equity	(31,722,954)	(29,051,091)

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.

Name	Fixed remunerations					Variable remunerations					End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
	Remunerations of the chairman and BOD	Total allowance for attending Board and committee meetings	Salaries	Others	Total	Remunerations of the chairman and BOD	Bonus	Incentive plans	Others	Total			
First: Independent Directors:													
Second: Non-Executive Directors:													
Claude Chèvre	-	-	-	-	-	-	-	-	-	-	-	-	-
Michael Pickel	-	-	-	-	-	-	-	-	-	-	-	-	-
Gerald Segler	-	-	-	-	-	-	-	-	-	-	-	-	-
Olaf Brock	-	-	-	-	-	-	-	-	-	-	-	-	-
Third: Executive Directors:													
Adham El-Muezzin	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-	-	-	-	-

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration for 2021	Aggregate Amount
Top 6 remunerations for executives, including CEO and Senior Financial Officer	407,978	107,892	-	515,870

Representations and audit

The Company's activities for the year ended 31 December 2021 have been conducted in accordance with the Bahrain Commercial Companies Law number (21) of 2001, as amended (the Commercial Companies Law), 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 2021, which would in any way invalidate the financial statements on pages 14 to 43.

There were no violations of the Commercial Companies Law, the CBB Rulebook (Volume 3), the Central Bank of Bahrain and Financial Institutions Law 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 M.E Limited (PwC), who have signified their willingness to continue in office for the next accounting year.

Claude Chèvre
Chairman
28 February 2022

Adham El-Muezzin
Managing Director
28 February 2022

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 2021 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.

	2021	2020
Required minimum solvency margin for family retakaful	**400,000**	400,000
Required minimum solvency margin for general retakaful	**3,829,992**	5,633,605

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:

	2021	2020
Tier 1 or core capital comprising the highest quality capital elements that fully meet all the essential characteristics of capital	82,017,800	77,127,600
Deduction from Tier 1 capital	(6,197,045)	(1,944,808)
Shareholders' available capital	**75,820,755**	75,182,792

Capital adequacy

To assess the Company's capital adequacy, the shareholders' available capital is compared to the required solvency margin. As at 31 December 2021, the excess of available capital above required solvency margin is as follows:

	2021	2020
Shareholders' available capital	75,820,755	75,182,792
Net admissible assets to cover solvency margin		
– Family retakaful fund	(19,843,529)	(13,516,964)
– General retakaful fund	(14,620,452)	(19,483,285)
Total available capital to cover required solvency margin	41,356,774	42,182,544
less: required solvency margin	(4,229,992)	(6,033,605)
Excess capital	**37,126,781**	36,148,939

Key ratios

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

Ratio	2021 General Retakaful	2021 Family Retakaful	2020 General Retakaful	2020 Family Retakaful
Retakaful ratios				
Retention ratio	88.57%	99.26%	92.03%	99.54%
Gross contribution to shareholders' equity	30.40%	48.72%	44.13%	57.29%
Net contribution to shareholders' equity	26.92%	48.36%	40.62%	57.02%

Combined ratios (shareholders' and policyholders' funds)

	2021	2020
Liquidity ratios		
Current ratio	6	12
Liabilities / liquid assets	87%	92%
Technical reserves / liquid assets	80%	85%
Solvency ratios		
Solvency ratio	978%	699%
Share capital and surplus as a % of liabilities	29%	25%
Technical reserves to shareholders' equity	164%	177%
Technical reserves to net contribution	207%	192%

Capital ratios	2021	2020
Investments to technical reserves	125%	113%
Return on paid up capital	24%	42%
Return on shareholders' equity	6%	11%
Return on total assets employed	1.13%	-1.22%

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 2021, the Board of Directors of the Company consists of five members. Four out of the five directors are non-executive directors. Resumes of the directors are as follows:

Claude Chèvre, Chairman

Mr. Chèvre holds a degree in Mathematics.

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

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

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

Adham El-Muezzin, Managing Director

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

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

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

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

Gerald Segler

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

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

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

Olaf Brock

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

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

In July 1999, after nine years with KPMG AG, Olaf Brock joined Hannover Rückversicherung AG, assuming responsibility for the Internal Audit department as Vice President Group Auditing. Thereafter in 2001, he became Associate Director of the department Group Accounting & Consolidation and in April 2009, Olaf Brock took over responsibility for the Finance & Accounting division as Managing Director, where he is in charge of all matters of financial reporting & accounting for the Hannover Re Group.

Mr. Brock is a member of the Board of Directors of Hannover Finance (Luxemburg) S.A. and a Managing Director of Hannover Rück Beteiligung Verwaltungs-GmbH. Beyond these memberships Olaf Brock is a member of the Insurance Working Group of the Accounting Standards Committee of Germany since April 2009.

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

Dr. Michael Pickel, Deputy Chairman

Dr. Pickel studied Law at the University of Cologne, Germany. He was awarded a doctorate in 1986.

He started his working career in 1989 at Gerling Globale Rück in Germany as a Life reinsurance trainee, then joined Gerling Globale Rück in Italy in 1991 as assistant to the Managing Director, Property and Life Reinsurance. He returned in 1996 to Gerling Globale Rückversicherungs-AG in Germany as Head of Treaty Reinsurance for Europe and South America and Head of Legal Department and Claims Management.

During 2000, he became a member of the Executive Boards of Hannover Rückversicherung AG and E+S Rück AG, assuming the role of Chief Executive Officer of the latter in 2019. Currently his duties include global responsibility for Run-Off Solutions; Agricultural Risks; regional responsibility for Asia, Australia and Middle East; Germany, Switzerland, Austria and Italy; Latin America, and the Iberian Peninsula.

Dr. Pickel joined the Board of Directors of Hannover ReTakaful B.S.C. (c) on 24 March 2021, where on 30 June 2021, he was voted to the position of Deputy Chairman.

Responsibilities of the Board of Directors

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

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

The Audit & Risk Committee

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

- the integrity of the Company's financial statements;
- the Company's compliance with legal and regulatory requirements;
- the qualifications, independence and performance of the Company's external auditors;
- monitoring the performance of the Company's internal audit function;
- monitoring the business practices and ethical standards of the Company; and assessing the Company's risk profile.

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

Olaf Brock, Chairman; Adham El-Muezzin; Gerald Segler.

The Compensation Committee
The Nomination and Remuneration Committee consists of Board Members to assist the Board of Directors 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
- 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;
- remunerate Board members based on their attendance and performance.

The Committee is comprised of the following members:
Claude Chèvre, Chairman; Adham El-Muezzin; Michael Pickel.

The Investment Committee
The Investment Committee is responsible to:

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

The Committee is comprised of the following members:
Gerald Segler, Chairman; Adham El-Muezzin; Zarita Beeton.

The Roles of the Chairman and the Managing Director
The Chairman leads the Board of Directors 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.

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 are developed to cover matters specifically stated in the Bahrain Commercial Companies Law, Bahrain's Corporate Governance Code (the "CGC"), the Company's Memorandum and Articles of Association, Volume 3 of the Central Bank of Bahrain (the "CBB") Rulebook, and other corporate governance matters deemed appropriate by the Board.

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

Meeting Attendance

Director	01.03.2021		30.06.2021		23.09.2021		11.11.2021	
	Board	ARC	Board	ARC	Board	ARC	Board	ARC
Sven Althoff	√	*	*	*	*	*	*	*
Claude Chèvre, Chairman	√	*	√	*	√	*	√	*
Adham El-Muezzin	√	√	√	√	√	√	√	√
Gerald Segler	√	√	√	√	√	√	X	X
Olaf Brock	√	√	√	√	√	√	√	√
Dr. Michael Pickel	*	*	√	*	√	*	√	*

√ Present
* not applicable
X Absent with apology
ARC - Audit & Risk Committee

The Sharia Supervisory Board

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

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

The Company has employed the services of IFAAS (Islamic Financial Advisory & Assurance Services), an independent Sharia audit and advisory firm, as Internal Sharia Reviewer.

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

Member	28.02.2021	10.11.2021
Sheikh Dr. Mohamed Ali Elgari	√	√
Sheikh Dr. Faizal Ahmad Manjoo	√	√
Mufti Muhammad Hassan	√	√

√ Present

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.

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 aims to diversify the portfolio to provide stable and sustainable investment returns. Internal control risks are mitigated by putting in place adequate internal control systems and testing them on a frequent basis. Refer to notes 18 to 19 of the Financial Statements for the Company's risk identification and management.

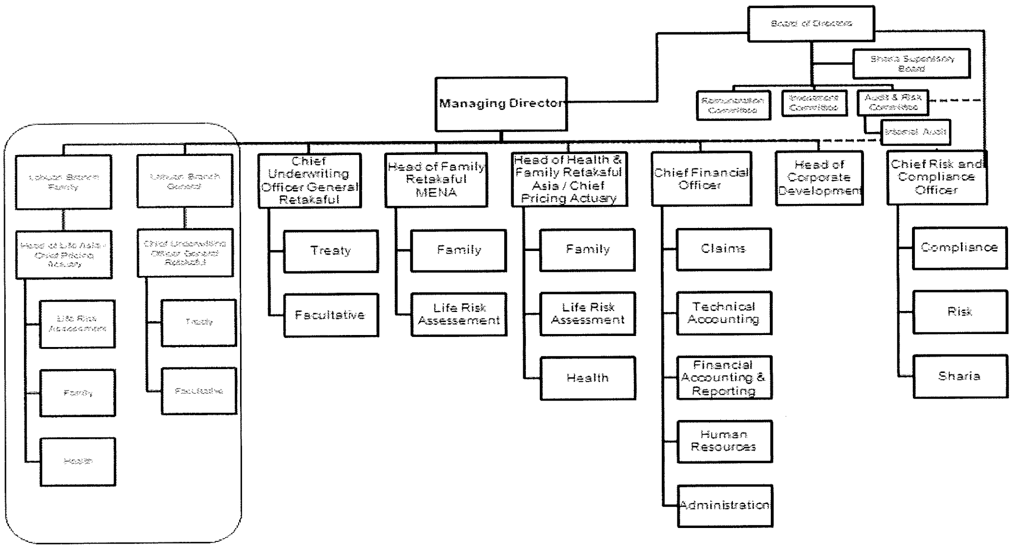
The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors of the Company reports to the Group's Board of Directors. The Hannover Re Group has established global risk management guidelines which the Company's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

Management of the Company and Organisational Structure

Management of the Company is as follows:

Managing Director	Adham El-Muezzin
Chief Financial Officer	Zarita Beeton
Chief Risk & Compliance Officer *	Ridwaan Patel
Chief Underwriting Officer General Retakaful	Fadhel Al Sabea
Head of Health & Family Retakaful Asia / Chief Pricing Actuary	Mohammad Altaf
Head of Corporate Development	Naveed Shahid
Head of Family Retakaful MENA	Hania Abdeljalil

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



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

Report of the Sharia Supervisory Board

For the year ended 31 December 2021

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 2021.

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 2021 that we have reviewed are in compliance with the Islamic Sharia Rules and Principles;
- the allocation of profit and charging of losses relating to Investment accounts conform to the basis that had been approved by us in accordance with Islamic Sharia Rules and Principles.

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

Wassalamu Alaikum Wa Rahmat Allah Wa Barakatuh

Dated: Rajab 26, 1443 H corresponding to 27 February 2022.

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

....
Sheikh Dr. Faizal Ahmad Manjoo

....
Mufti Muhammad Hassan

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

Report on the audit of the financial statements

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Hannover Retakaful B.S.C.(c) (the "Company") as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI").

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2021;
- the statement of income for the year then ended;
- the statement of policyholders' revenue and expenses for the year then ended;
- the statement of policyholders' surplus and deficit for the year then ended;
- the statement of changes in shareholders' equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with the Auditing Standards for Islamic Financial Institutions issued by AAOIFI. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions (AAOIFI Code) and the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Bahrain. We have fulfilled our other ethical responsibilities in accordance with these requirements and the AAOIFI Code.

Other information

The Board of Directors are responsible for the other information. The other information comprises the Directors' report, Public disclosures and the Report of the Sharia Supervisory Board but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Report on the audit of the financial statements (continued)

Other information (continued)

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the financial statements

These financial statements and the Company's undertaking to operate in accordance with Islamic Sharia Rules and Principles are the responsibility of the Board of Directors.

The Board of Directorsare responsible for the preparation and fair presentation of the financial statements in accordance with the Financial Accounting Standards issued by AAOIFI and the Bahrain Commercial Companies Law number (21) of 2001, as amended (the Commercial Companies Law), the Central Bank of Bahrain (CBB) Rulebook (Volume 3) and for such internal control as the Board of Directorsdetermine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directorsare responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directorseither intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Auditing Standards for Islamic Financial Institutions issued by AAOIFI will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Auditing Standards for Islamic Financial Institutions issued by AAOIFI, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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

Report on the audit of the financial statements (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directorsuse of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on other legal and regulatory requirements and sharia requirements

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

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

(ii) the financial information contained in the Directors' report and the Report of the Sharia Supervisory Board is consistent with the financial statements;

(iii) nothing has come to our attention which causes us to believe that the Company has, during the year, breached any of the applicable provisions of the Commercial Companies Law, the CBB Rulebook (Volume 3), the Central Bank of Bahrain and Financial Institutions Law and CBB directives or the items of its Memorandum and Articles of Association that would have a material adverse effect on its activities for the year ended 31 December 2021 or its financial position as at that date; and

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

Further, we report that the Company has complied with the Islamic Sharia Principles and Rules as determined by the Sharia Supervisory Board of the Company during the year under audit.

PricewaterhouseCoopers

PricewaterhouseCoopers M.E Limited
Partner's registration number: 254
Manama, Kingdom of Bahrain
28 February 2022

Statement of financial position
as at 31 December 2021

Bahraini Dinars

ASSETS	Note	2021	2020
Cash and cash equivalents	4	8,560,994	13,114,874
Investment securities	5	152,237,315	134,525,028
Retakaful receivables	6 a)	13,967,325	19,537,754
Accrued contribution receivable	7	16,680,014	22,788,923
Deferred acquisition costs	8	3,281,451	4,079,199
Retrocessionaires' share of unearned contribution reserves	10	415,473	406,762
Retrocessionaires' share of loss reserves	11	152,414	772,139
Prepayments, equipment and other assets		97,496	93,501
Statutory deposit		169,483	166,196
Total assets		**195,561,965**	195,484,376

SHAREHOLDERS' EQUITY, POLICYHOLDERS' EQUITY & LIABILITIES

	Note	2021	2020
Shareholders' equity			
Share capital	9	20,000,000	20,000,000
Statutory reserve		7,167,725	6,678,702
Retained earnings		54,849,531	50,448,321
Total shareholders' equity (page 18)		**82,017,256**	77,127,023
Policyholders' equity (page 17)		**(31,722,954)**	(29,051,091)
Liabilities			
Loss reserves	11	115,634,494	115,729,824
Unearned contribution reserves	10	22,762,816	26,277,190
Commission reserves		63,821	63,988
Retakaful payables	6 b)	4,230,969	3,167,647
Payables to retrocessionaires	6 c)	586,957	710,141
Other liabilities	13	1,988,606	1,459,654
Total liabilities		**145,267,663**	147,408,444
Total shareholders' equity, policyholders' fund and liabilities		**195,561,965**	195,484,376

The Board of Directors approved the financial statements consisting of pages 14 to 43 on 28 February 2022.

Claude Chèvre
Chairman

Adham El-Muezzin
Managing Director

Statement of income
for the year ended 31 December 2021

Bahraini Dinars

	Note	**2021**	2020
INCOME			
Wakala fee for managing retakaful activities		5,478,374	6,448,318
Change in deferred wakala fee		45,220	(362,046)
Net earned wakala fee		**5,523,594**	6,086,272
Net investment income	14	864,050	3,178,165
Mudaraba fee		498,530	1,089,545
Other income		5,770	67
TOTAL INCOME		**6,891,944**	10,354,049
EXPENSES			
General and administrative expenses	15	(2,024,830)	(1,854,656)
Foreign exchange gain / (loss)		23,119	(21,920)
TOTAL EXPENSES		**(2,001,711)**	(1,876,576)
PROFIT FOR THE YEAR		**4,890,233**	8,477,473

The Board of Directors approved the financial statements consisting of pages 14 to 43 on 28 February 2022.

Claude Chèvre
Chairman

Adham El-Muezzin
Managing Director

Statement of policyholders' revenues and expenses
for the year ended 31 December 2021

Bahraini Dinars

	Note	2021	2020
REVENUE			
Gross contributions		64,891,151	78,222,991
Retrocessionaires' share of contributions		(3,144,664)	(2,916,835)
Change in gross unearned contribution reserves	10	3,265,918	(4,131,141)
Change in retrocessionaires' share of unearned contribution reserves	10	8,481	40,189
Net earned contributions		**65,020,886**	71,215,204
Foreign exchange gain		234,901	137,669
Net investment income	14	1,246,326	2,723,864
Total revenue		**66,502,113**	74,076,737
EXPENSES			
Claims settled		(52,563,930)	(48,234,325)
Retrocessionaires' share of claims settled		619,678	1,304,775
Change in loss reserves	11	(696,260)	(20,843,586)
Retrocessionaires' share of change in loss reserves	11	(614,232)	470,857
Net claims incurred		**(53,254,744)**	(67,302,279)
Policy acquisition costs		(8,623,341)	(10,726,408)
Retrocessionaires' share of policy acquisition costs		11,848	13,424
Movement in deferred acquisition cost	8	(796,288)	291,182
Movement in commission reserve		-	323,118
Wakala fee		(5,478,374)	(6,448,318)
Movement in deferred wakala fee		(45,220)	362,046
Mudaraba fee		(498,530)	(1,089,545)
Allowance for doubtful debts	6 a)	(160,396)	(365,848)
Other taxes		(328,931)	-
Total expenses		**(69,173,976)**	(84,942,628)
Deficit of revenue over expenses for the year		**(2,671,863)**	(10,865,891)

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 2021

Bahraini Dinars

2021	**General retakaful**	**Family retakaful**	**Total accumulated deficit**	**Surplus distribution reserve**	**Total policy holders' equity**
As at 1 January 2021	(17,239,631)	(13,121,613)	(30,361,244)	1,310,153	(29,051,091)
Surplus / deficit for the year	4,361,939	(7,033,802)	(2,671,863)	-	(2,671,863)
As at 31 December 2021	**(12,877,692)**	**(20,155,415)**	**(33,033,107)**	**1,310,153**	**(31,722,954)**

2020	General retakaful	Family retakaful	Total accumulated deficit	Surplus distribution reserve	Total policy holders' equity
As at 1 January 2020	(18,183,190)	(1,312,163)	(19,495,353)	1,366,551	(18,128,802)
Surplus / deficit for the year	943,559	(11,809,450)	(10,865,891)	-	(10,865,891)
Surplus paid for the year	-	-	-	(56,398)	(56,398)
As at 31 December 2020	(17,239,631)	(13,121,613)	(30,361,244)	1,310,153	(29,051,091)

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 2021

Bahraini Dinars

2021	**Share capital**	**Statutory reserve**	**Retained earnings**	**Total**
As at 1 January 2021	20,000,000	6,678,702	50,448,321	77,127,023
Profit for the year	-	-	4,890,233	4,890,233
Transfer to statutory reserve	-	489,023	(489,023)	-
At 31 December 2021	**20,000,000**	**7,167,725**	**54,849,531**	**82,017,256**

2020	Share capital	Statutory reserve	Retained earnings	Total
As at 1 January 2020	20,000,000	5,830,955	42,818,595	68,649,550
Profit for the year	-	-	8,477,473	8,477,473
Transfer to statutory reserve	-	847,747	(847,747)	-
At 31 December 2020	20,000,000	6,678,702	50,448,321	77,127,023

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

	Note	2021	2020
OPERATING ACTIVITIES			
Combined profit / (loss) for the year		2,218,370	(2,388,418)
Adjustments for:			
Depreciation expenses		17,451	40,946
Increase in provision for employees' end of service benefits		40,658	60,858
Gain on disposal of equipment		(5,714)	(67)
Allowance for doubtful debts		160,396	365,848
Net investment income	14	(2,110,375)	(5,902,029)
		320,786	(7,822,862)
Changes in operating assets and liabilities:			
- in retakaful receivables		5,730,825	(5,423,643)
- in accrued contribution receivable		6,108,909	128,906
- in deferred acquisition costs		797,748	(305,642)
- in other assets		(21,439)	(7,725)
- in related party receivables		-	195
- in loss reserves net of retrocession		524,395	20,811,387
- in unearned contribution reserves net of retrocession		(3,523,085)	4,243,714
- in commission reserves		(167)	(323,375)
- in retakaful payables		1,063,322	(654,242)
- in payables to retrocessionaires		(123,184)	192,858
- in other liabilities		159,332	(73,073)
Net cash generated from operating activities		**11,037,442**	10,766,498
INVESTING ACTIVITIES			
Purchase of equipment and other assets		(3,294)	(980)
Proceeds from sale of equipment		5,714	67
Profit received from sukuks and placements		4,508,637	4,301,034
Purchase of sukuks		(67,393,518)	(52,973,431)
Proceeds from redemption of sukuks		46,943,067	43,826,027
Foreign currency exchange movement		348,072	(85,926)
Net cash used in investing activities		**(15,591,322)**	(4,933,209)
FINANCING ACTIVITIES			
Surplus paid		-	(56,398)
Net cash used in financing activities		**-**	(56,398)
Net (decrease) / increase in cash and cash equivalents		(4,553,880)	5,776,891
Cash and cash equivalents at 1 January		13,114,874	7,337,983
Cash and cash equivalents at 31 December		**8,560,994**	13,114,874
Represented in the books of			
Shareholders		**919,462**	1,861,852
Policyholders		**7,641,532**	11,253,022
Cash and cash equivalents	4	**8,560,994**	13,114,874

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

1 REPORTING ENTITY

Hannover ReTakaful B.S.C. (c) ("the Company") is a Bahrain shareholding Company (closed) incorporated in the Kingdom of Bahrain on 3 October 2006, under the Bahrain Commercial Companies Law number (21) of 2001, as amended (the Commercial Companies Law) with commercial registration number 62686-1 in the Kingdom of Bahrain and is licensed as an Islamic insurance company, with the Central Bank of Bahrain ("CBB" or "the regulator"). The Company is authorised to carry out reinsurance (i.e. retakaful) activities in conformity with the precepts of Islamic Shari'a. The Company has two separate branches, Hannover Retakaful Labuan Branch General Labuan/Malaysia and Hannover Retakaful Labuan Branch Family Labuan/Malaysia, to carry out retakaful activities. The Company is a wholly owned subsidiary of Hannover Rück SE, the parent company of the Hannover Re group ("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 shareholders' and policyholders' 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 m)	- Impairment of financial and non-financial assets
- Note 25	- COVID - 19 Impact

e) New standards, amendments and interpretations effective from 1 January 2021

There are following AAOIFI accounting standards or interpretations that are effective for the first time for financial years beginning on or after 1 January 2021

FAS 36 First Time Adoption of AAOIFI Financial Accounting Standards

FAS 32 Ijarah

2 *BASIS OF PREPARATION (continued)*

There is no impact on the financial statements of the Company from the adoption of FAS 32 since all the Company's Ijarah are short-term Ijarah which have been recognised on a straight-line basis as an expense.

f) New standards issued but deferred by AAOIFI

The Accounting Board of AAOIFI, in its meeting held on 22-23 June 2020, has clarified that untill the project of revision of certain FASs is complete, the takaful companies are subject to the investments impairment and classification requirements of FAS 25 'investments in Sukuk, shares and similar instruments' therefore, the following issued AAOIFI FASs are extended untill the date of completion of revision of certain takaful standards.

FAS 30 Impairment, credit losses and onerous commitments

FAS 33 Investment in sukuk, shares and similar instruments

g) New standards issued but not yet effective

FAS 1 (Revised 2021) – General Presentation and Disclosures in the Financial Statements is applicable from 1 January 2023, with an option to adopt early. The management is currently assessing the impact of the standard on the financial statement of the Company. There are no other new accounting standards or interpretations that are effective for the first time for financial years beginning on or after 1 January 2022 which have material impact on the Company.

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. Retakaful operator manages the takaful risk on behalf of the retakaful operator.

(ii) Gross contributions

Gross contributions comprise the total contributions in relation to agreements entered into during the financial year, together with adjustments arising in the financial year to contributions receivable in respect of business written in previous financial years. It includes an estimate of contributions written but not reported to the Company at the reporting date ("pipeline contributions") which are reported in the statement of financial position as accrued contributions receivable. Contributions, net of retakaful, are taken to income over the terms of the related agreements or policies. Gross contributions are recognised in the policyholders' statement of revenue and expenses from the date of attachment of risk over the policy period. The earned proportion of contributions is recognised as revenue in the policyholders' statement of revenue and expenses.

3 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(iii) Retrocessionaires' share of contributions

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

(iv) Unearned contribution reserves

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

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

(v) Policy acquisition costs and deferred acquisition costs

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

(vi) Claims

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

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

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

(vii) Retakaful receivables

Retakaful receivables comprise the accounts receivable under retakaful business which are carried at cost less impairment. A provision for impairment is established when there is evidence that the Company may not be able to collect the full amounts due according to the terms of the receivables. Bad debts are written off during the year in which they are identified. Please refer to Note 19 b) (iii) regarding the provision for impairment.

(viii) Liability adequacy test

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

3 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(ix) Retrocession contracts

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

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

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

c) Surplus / deficit in policyholders' funds

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

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

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

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

d) Investment securities

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

(i) Classification

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

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

3 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

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

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

(ii) Recognition and derecognition

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

(iii) Measurement

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

(iv) Subsequent measurement

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

(v) Measurement principles

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

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

(vi) Mudaraba fee

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

The Company manages the general and family underwriting operations on behalf of the policyholders for a wakala fee calculated as a proportion of gross contributions. Wakala fee as a proportion of unearned contributions is deferred and recognised over the subsequent periods. Wakala fee rates are approved by the Sharia Supervisory Board which is up to a maximum of 10% for treaty proportional, 25% for treaty non proportional and facultative business and a maximum of 25% for family business.

m) Impairment

(i) Financial assets

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

3 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(ii) Non-financial assets

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

4 CASH AND CASH EQUIVALENTS

	2021	2020
Cash and bank balances	**8,560,994**	13,114,874

5 INVESTMENT SECURITIES

	2021	2020
Investments at fair value through income statement	**152,237,315**	134,525,028

These comprise:

	2021	2020
Debt type		
- Quoted sukuks	151,286,966	133,020,475
- Unquoted sukuks	950,349	1,504,553
	152,237,315	134,525,028

6 RETAKAFUL RECEIVABLES AND PAYABLES

a) Retakaful receivables

	2021	2020
General retakaful	8,272,074	10,570,522
Family retakaful	7,137,362	10,248,844
	15,409,436	20,819,366
Provision for doubtful debts, as at 1 January	(1,281,612)	(915,764)
Allowance for doubtful debts	(160,396)	(365,848)
Foreign exchange (losses) / gains	(103)	-
Provision for doubtful debts, as at 31 December	(1,442,111)	(1,281,612)
	13,967,325	19,537,754

General retakaful receivables include deposits amounting to BD 3,861,392 (2020: BD 3,309,375) held by retakaful participants.

Family retakaful receivables include deposits amounting to BD 3,173,097 (2020: BD 2,970,272) held by retakaful participants.

6 RETAKAFUL RECEIVABLES AND PAYABLES (continued)

b) Retakaful payables

	2021	2020
General retakaful	2,935,989	2,154,528
Family retakaful	1,294,980	1,013,119
	4,230,969	3,167,647

c) Payables to retrocessionaires

	2021	2020
General retakaful	131,342	238,704
Family retakaful	455,615	471,437
	586,957	710,141

7 ACCRUED CONTRIBUTION RECEIVABLE

	2021	2020
General retakaful	3,498,983	7,133,035
Family retakaful	13,181,031	15,655,888
	16,680,014	22,788,923

8 DEFERRED ACQUISITION COSTS

	2021	2020
At 1 January	4,079,199	3,773,556
Movement during the year	(796,288)	291,182
Foreign exchange (losses) / gains	(1,460)	14,461
At 31 December	**3,281,451**	4,079,199

9 SHARE CAPITAL

	2021	2020
Authorised equity share capital of 50,000,000 (2020: 50,000,000) shares of BD 1 each	**50,000,000**	50,000,000
Issued, subscribed and paid up capital comprising 20,000,000 (2020: 20,000,000) shares of BD 1 each	**20,000,000**	20,000,000

10 UNEARNED CONTRIBUTION RESERVES

	2021			2020		
	Gross	**Retroceded**	**Net**	Gross	Retroceded	Net
At 1 January	26,277,190	(406,762)	25,870,428	21,993,082	(366,369)	21,626,713
Change during the year	(3,265,918)	(8,481)	(3,274,399)	4,131,141	(40,189)	4,090,952
Foreign exchange (losses) / gains	(248,456)	(230)	(248,686)	152,967	(204)	152,763
At 31 December	**22,762,816**	**(415,473)**	**22,347,343**	26,277,190	(406,762)	**25,870,428**

11 LOSS RESERVES

	2021			2020		
	Gross	**Retroceded**	**Net**	Gross	Retroceded	Net
Claims reserves	49,333,775	(614,204)	48,719,571	40,461,887	(152,172)	40,309,715
IBNR reserves	66,396,049	(157,935)	66,238,114	53,986,846	(150,263)	53,836,583
At 1 January	115,729,824	(772,139)	114,957,685	94,448,733	(302,435)	94,146,298
Change during the year	696,260	614,232	1,310,492	20,843,586	(470,857)	20,372,729
Foreign exchange (losses) / gains	(791,590)	5,493	(786,097)	437,505	1,153	438,658
At 31 December	**115,634,494**	**(152,414)**	**115,482,080**	115,729,824	(772,139)	114,957,685
Claims reserves	46,077,090	-	46,077,090	49,333,775	(614,204)	48,719,571
IBNR reserves	69,557,405	(152,414)	69,404,991	66,396,049	(157,935)	66,238,114
At 31 December	**115,634,495**	**(152,414)**	**115,482,081**	115,729,824	(772,139)	114,957,685

12 CLAIMS DEVELOPMENT DATA

The table below shows the gross and net General retakaful loss reserves in the underwriting years 2017 to 2021. 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	2017	2018	2019	2020	2021	Total
Estimate of incurred claims costs:						
- End of underwriting year	10,063,823	13,431,552	11,966,800	11,629,314	7,911,136	
- One year later	21,042,835	21,717,201	25,555,638	25,047,432	-	
- Two years later	17,999,853	19,691,139	22,928,308	-	-	
- Three years later	17,169,035	18,725,433	-	-	-	
- Four years later	15,733,919	-	-	-	-	
Current estimate of incurred claims	15,733,919	18,725,433	22,928,308	25,047,432	7,911,136	90,346,228
Cumulative payments to date	(9,445,172)	(11,232,560)	(9,932,705)	(9,544,046)	(1,366,279)	(41,520,762)
Liability recognised	6,288,747	7,492,873	12,995,603	15,503,386	6,544,857	48,825,466
Liability in respect of prior years						19,547,700
Total liability included in the statement of financial position (note 17c)						**68,373,166**

b) General retakaful- Net

Underwriting year	2017	2018	2019	2020	2021	Total
Estimate of incurred claims costs:						
- End of underwriting year	10,063,823	13,431,552	11,966,800	11,629,314	7,911,136	
- One year later	21,042,835	21,565,029	25,550,565	25,047,511	-	
- Two years later	17,999,853	19,524,862	22,923,235	-	-	
- Three years later	17,169,035	18,559,156	-	-	-	
- Four years later	15,733,919	-	-	-	-	
Current estimate of incurred claims	15,733,919	18,559,156	22,923,235	25,047,511	7,911,136	90,174,957
Cumulative payments to date	(9,445,172)	(11,066,283)	(9,932,705)	(9,543,733)	(1,366,279)	(41,354,172)
Liability recognised	6,288,747	7,492,873	12,990,530	15,503,778	6,544,857	48,820,785
Liability in respect of prior years						19,547,700
Total liability included in the statement of financial position (note 17c)						**68,368,485**

13 OTHER LIABILITIES

	2021	2020
Employees end of service benefits	552,299	511,641
Accrual for staff related expenses	649,305	567,919
Accrued expenses	343,321	274,744
Provision for other taxes	328,963	-
Other payables	114,718	105,350
	1,988,606	1,459,654

14 NET INVESTMENT INCOME

	2021	2020
Shareholder		
Profit from sukuks	794,304	2,825,340
Net realised gains	263,246	540,125
Profit from placements with financial institutions	3,288	3,529
Investment related expenses	(196,788)	(190,829)
	864,050	3,178,165
Policyholders		
Profit from sukuks	1,196,542	2,348,395
Net realised gains	135,519	498,309
Profit from cedants	176,384	52,643
Investment related expenses	(262,119)	(175,483)
	1,246,326	2,723,864

15 GENERAL AND ADMINISTRATIVE EXPENSES

	2021	2020
Staff cost	2,226,347	2,105,965
Rent expense	128,733	120,633
Depreciation	17,451	40,946
IT and maintenance expenses	500,263	353,996
Other operation expenses	316,912	253,853
Expenses recharged to a related party (note 16a)	(1,164,876)	(1,020,737)
	2,024,830	1,854,656

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 all Group companies headed by Talanx AG, which also includes Hannover Re group and the key management personnel of the Company. Key management personnel comprise of the Board of Directors and key members of management, having authority and responsibility for planning, directing and controlling the activities of the Company.

16 RELATED PARTY TRANSACTIONS (continued)

a) Transactions during the year

	2021	2020
Contribution ceded to:		
- Hannover Re (Bermuda) Ltd., Bermuda		
Entity within the Hannover Re Group	2,720,591	2,561,227
- Hannover Rück SE, Germany		
Parent company of the Hannover Re Group	156,600	95,529
Claims recovered from:		
- Hannover Rück SE, Germany		
Parent company of the Hannover Re Group	619,365	1,287,965
Expenses recharged:		
- Ampega Asset Management GmbH, Germany		
Entity within the Talanx Group	72,813	62,209
- Hannover Rueck SE, Bahrain Branch, Bahrain		
Branch of the Parent company of the Hannover Re Group	1,164,876	1,020,737
- Hannover Rück SE, Germany		
Parent company of the Hannover Re Group	493,359	349,969
- Hannover Rück SE Malaysia Branch, Malaysia		
Branch of the Parent company of the Hannover Re Group	3,968	1,370

b) Retrocessionaires' share of loss reserves at 31 December

	2021	2020
Hannover Rück SE, Germany		
Parent company of the Hannover Re Group	-	614,204

c) Key management compensation

	2021	2020
Salaries and benefits to key management personnel	636,148	631,659

d) Balances due to key management personnel

	2021	2020
Remuneration payable	594,243	603,270

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.

2021	General Retakaful	Family Retakaful	Total
REVENUE			
Gross contributions	24,931,408	39,959,743	64,891,151
Retrocessionaires' share of contributions	(2,848,680)	(295,984)	(3,144,664)
Change in gross unearned contribution reserves	3,853,659	(587,741)	3,265,918
Change in retrocessionaires' share of unearned contribution reserves	8,484	(3)	8,481
Net earned contributions	**25,944,871**	**39,076,015**	**65,020,886**
Claims settled	(13,549,961)	(39,013,969)	(52,563,930)
Retrocessionaires' share of claims settled	313	619,365	619,678
Change in loss reserves	2,286,993	(2,983,253)	(696,260)
Retrocessionaires' share of change in loss reserves	-	(614,232)	(614,232)
Policy acquisition costs	(7,961,752)	(661,589)	(8,623,341)
Retrocessionaires' share of policy acquisition costs	11,848	-	11,848
Movement in deferred acquisition costs	(796,365)	77	(796,288)
Wakala fee	(1,875,458)	(3,602,916)	(5,478,374)
Deferred wakala fee	(98,112)	52,892	(45,220)
Total underwriting costs	**(21,982,494)**	**(46,203,625)**	**(68,186,119)**
Underwriting results	**3,962,377**	**(7,127,610)**	**(3,165,233)**
Foreign exchange gains	156,411	78,490	234,901
Allowance for doubtful debts	(154,658)	(5,738)	(160,396)
Investment income	868,721	377,605	1,246,326
Mudaraba fee	(347,488)	(151,042)	(498,530)
Other taxes	(123,424)	(205,507)	(328,931)
Surplus / (deficit) for the year	**4,361,939**	**(7,033,802)**	**(2,671,863)**

17 SEGMENT INFORMATION (continued)

2020	General Retakaful	Family Retakaful	Total
REVENUE			
Gross contributions	34,037,769	44,185,222	78,222,991
Retrocessionaires' share of contributions	(2,711,887)	(204,948)	(2,916,835)
Change in gross unearned contributions	(1,373,849)	(2,757,292)	(4,131,141)
Change in retrocessionaires' share of unearned contributions	40,198	(9)	40,189
Net earned contributions	29,992,231	41,222,973	71,215,204
Claims settled	(10,892,324)	(37,342,001)	(48,234,325)
Retrocessionaires' share of claims settled	166,277	1,138,498	1,304,775
Change in loss reserves	(8,069,580)	(12,774,006)	(20,843,586)
Retrocessionaires' share of change in loss reserves	(144,523)	615,380	470,857
Policy acquisition costs	(9,348,490)	(1,377,918)	(10,726,408)
Retrocessionaires' share of policy acquisition costs	13,424	-	13,424
Movement in deferred acquisition costs	291,731	(549)	291,182
Movement in commission reserve	-	323,118	323,118
Wakala fee	(2,308,540)	(4,139,778)	(6,448,318)
Deferred wakala fee	132,846	229,200	362,046
Total underwriting costs	(30,159,179)	(53,328,056)	(83,487,235)
Underwriting results	(166,948)	(12,105,083)	(12,272,031)
Foreign exchange (losses) / gains	203,411	(65,742)	137,669
Allowance for doubtful debts	(283,882)	(81,966)	(365,848)
Investment income	1,984,963	738,901	2,723,864
Mudaraba fee	(793,985)	(295,560)	(1,089,545)
Surplus / (deficit) for the year	943,559	(11,809,450)	(10,865,891)

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

2021	**General Retakaful**	**Family Retakaful**	**Total**
Gross contribution from takaful companies in:			
Middle East & North African countries	22,998,254	22,747,957	45,746,211
Other countries	1,933,154	17,211,786	19,144,940
	24,931,408	**39,959,743**	**64,891,151**

2020	General Retakaful	Family Retakaful	Total
Gross contribution from takaful companies in:			
Middle East & North African countries	33,036,330	28,596,674	61,633,004
Other countries	1,001,439	15,588,548	16,589,987
	34,037,769	44,185,222	78,222,991

17 *SEGMENT INFORMATION (continued)*

c) Analysis of segment assets and segment liabilities

2021	**General Retakaful**	**Family Retakaful**	**Shareholder**	**Eliminations**	**Total**
Assets					
Cash and cash equivalents	4,348,986	3,292,546	919,462	-	8,560,994
Investment securities	52,005,937	28,143,220	72,088,158	-	152,237,315
Retakaful receivables	7,115,808	6,851,517	-	-	13,967,325
Accrued contribution receivable	3,498,983	13,181,031	-	-	16,680,014
Wakala fee receivable	-	-	10,559,232	(10,559,232)	-
Deferred wakala fee	766,155	1,161,317	-	(1,927,472)	-
Deferred acquisition costs	3,281,233	218	-	-	3,281,451
Retrocessionaires' share of					
-unearned contribution reserves	415,473	-	-	-	415,473
-loss reserves	4,682	147,732	-	-	152,414
Mudaraba receivables	-	-	1,568,880	(1,568,880)	-
Prepayments, equipment and other assets	-	-	97,496	-	97,496
Statutory deposit	-	-	169,483	-	169,483
Total assets	**71,437,257**	**52,777,581**	**85,402,711**	**(14,055,584)**	**195,561,965**
Liabilities					
Loss reserves	68,373,166	47,261,328	-	-	115,634,494
Unearned contribution reserves	10,577,738	12,185,078	-	-	22,762,816
Commission reserve	-	63,821	-	-	63,821
Retakaful payables	2,935,989	1,294,980	-	-	4,230,969
Wakala fee payable	1,312,534	9,246,698	-	(10,559,232)	-
Payables to retrocessionaires	131,342	455,615	-	-	586,957
Mudaraba payables	798,537	770,342	-	(1,568,879)	-
Unearned wakala fee	-	-	1,927,473	(1,927,473)	-
Other liabilities	185,643	344,981	1,457,982	-	1,988,606
Total liabilities	**84,314,949**	**71,622,843**	**3,385,455**	**(14,055,584)**	**145,267,663**
Policyholders' equity	(12,877,692)	(18,845,262)	-	-	(31,722,954)
Shareholders' equity					
Share capital	-	-	20,000,000	-	20,000,000
Statutory reserve	-	-	7,167,725	-	7,167,725
Retained earnings	-	-	54,849,531	-	54,849,531
Total shareholders' equity	**-**	**-**	**82,017,256**	**-**	**82,017,256**
Total liabilities and equity	**71,437,257**	**52,777,581**	**85,402,711**	**(14,055,584)**	**195,561,965**

17 *SEGMENT INFORMATION (continued)*

2020	General Retakaful	Family Retakaful	Shareholder	Eliminations	Total
Assets					
Cash and cash equivalents	4,792,347	6,460,675	1,861,852	-	13,114,874
Investment securities	47,807,032	18,016,609	68,701,387	-	134,525,028
Retakaful receivables	9,568,914	9,968,840	-	-	19,537,754
Accrued contribution receivable	7,133,035	15,655,888	-	-	22,788,923
Wakala fee receivable	-	-	8,984,916	(8,984,916)	-
Deferred wakala fee	864,269	1,108,424	-	(1,972,693)	-
Deferred acquisition costs	4,079,032	167	-	-	4,079,199
Retrocessionaires' share of					
-unearned contribution reserves	406,762	-	-	-	406,762
-loss reserves	5,072	767,067	-	-	772,139
Mudaraba receivables	-	-	1,291,965	(1,291,965)	-
Prepayments, equipment and other assets	-	3,805,006	93,501	(3,805,006)	93,501
Statutory deposit	-		166,196		166,196
Total assets	74,656,463	55,782,676	81,099,817	(16,054,580)	195,484,376
Liabilities					
Loss reserves	70,950,317	44,779,507	-	-	115,729,824
Unearned contribution reserves	14,446,597	11,830,593	-	-	26,277,190
Commission reserve	-	63,988	-	-	63,988
Retakaful payables	2,154,528	1,013,119	-	-	3,167,647
Wakala fee payable	437,418	8,547,498	-	(8,984,916)	-
Payables to retrocessionaires	238,704	471,437	-	-	710,141
Mudaraba payables	518,656	773,309	-	(1,291,965)	-
Unearned wakala fee	-	-	1,972,693	(1,972,693)	-
Other liabilities	3,149,874	114,685	2,000,101	(3,805,006)	1,459,654
Total liabilities	91,896,094	67,594,136	3,972,794	(16,054,580)	147,408,444
Policyholders' equity	(17,239,631)	(11,811,460)	-	-	(29,051,091)
Shareholders' equity					
Share capital	-	-	20,000,000	-	20,000,000
Statutory reserve	-	-	6,678,702	-	6,678,702
Retained earnings	-	-	50,448,321	-	50,448,321
Total shareholders' equity	-	-	77,127,023	-	77,127,023
Total liabilities and equity	74,656,463	55,782,676	81,099,817	(16,054,580)	195,484,376

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 risk

The Company's exposure to retakaful risks and the concentration of these risks are set out in note 17 b).

e) Sensitivity analysis

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

	Statement of policyholders' revenues and expenses / Policyholders' funds		Statement of policyholders' revenues and expenses / Policyholders' funds	
	2021		2020	
	Gross	**Net**	Gross	Net
Expense rate				
1 % increase	(648,912)	(617,465)	(782,230)	(753,062)
1 % decrease	648,912	617,465	782,230	753,062
Expected loss ratio				
1 % increase	(681,571)	(650,209)	(740,919)	(712,152)
1 % decrease	681,571	650,209	740,919	712,152

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 at a defined level. The Board of Directors monitors contribution income and profit earned during the period as key indicators for capital management. The Company's objectives for managing capital are:

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

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

20 FINANCIAL RISK MANAGEMENT

a) Overview

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

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

b) Credit risk

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

(i) Management of credit risk

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

(ii) Overall exposure to credit risk

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

	Policyholders		Shareholders	
Total financial assets	**2021**	2020	**2021**	2020
Cash and cash equivalents	7,641,532	11,253,022	919,462	1,861,852
Investment in securities	80,149,157	65,823,641	72,088,158	68,701,387
Retakaful receivables	13,967,325	19,537,754	-	-
Accrued contribution receivable	16,680,014	22,788,923	-	-
Wakala fee receivables	-	-	10,559,232	8,984,916
Retrocessionaires' share of loss reserves	-	614,204	-	-
Mudaraba fee receivables	-	-	1,568,880	1,291,965
Other receivables	-	3,805,006	-	-
Statutory deposit	-	-	169,483	166,196
	118,438,028	123,822,550	85,305,215	81,006,316

20 *FINANCIAL RISK MANAGEMENT (continued)*

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.

(iii) Ageing of retakaful receivables

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

	General Retakaful	**Family Retakaful**	**2021**	2020
Neither past due nor impaired	4,875,696	6,017,953	10,893,649	14,614,940
Past due but not impared 91 – 180 days	497,358	54,291	551,649	1,459,537
Past due but not impared 181 – 365 days	279,186	354,413	633,599	1,924,819
Past due and impaired Above 365 days	2,619,840	710,699	3,330,539	2,820,070
Total before allowance for doubtful debts	8,272,080	7,137,356	15,409,436	20,819,367
Less: allowance for doubtful debts	(1,156,266)	(285,845)	(1,442,111)	(1,281,612)
	7,115,814	6,851,511	13,967,325	19,537,754

The Company believes that the retakaful receivables that are past due as mentioned above are still collectible 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 a credit policy established by the risk management committee of the Group. The Company has monitored customer credit risk by analysing the credit quality of retakaful receivables periodically.

(iv) Until 31 December 2018, the Company had, as per Volume 3 of the CBB Rulebook, granted a Qard Hassan, amounting to BHD 11,915,575, to the General retakaful Policyholders' fund, which was fully impaired at year end 2018. The Company's Sharia Supervisory Board is of the view that the retakaful operator still holds the right to recover the Qard Hassan from policyholders.

c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations from its financial and retakaful liabilities that are settled by delivering cash or another financial asset. The Company is exposed to calls on its available cash resources mainly from claims arising from retakaful agreements. Liquidity risk may arise from a number of potential areas, such as a duration mismatch between assets and liabilities and unexpectedly high levels of lapses/surrenders. The nature of the 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 within one year.

Policyholders **2021**	**Carrying amount**	**Contractual cash flows**	**1 year or less**
Claims reserves	46,077,090	46,077,090	46,077,090
Retakaful payables	4,230,969	4,230,969	4,230,969
Payables to retrocessionaires	586,957	586,957	586,957
Wakala fee payable	10,559,232	10,559,232	10,559,232
Mudaraba payables	1,568,879	1,568,879	1,568,879
Other liabilities	530,624	530,624	530,624
	63,553,751	**63,553,751**	**63,553,751**

2020	Carrying amount	Contractual cash flows	1 year or less
Claims reserves	49,333,775	49,333,775	49,333,775
Retakaful payables	3,167,647	3,167,647	3,167,647
Payables to retrocessionaires	710,141	710,141	710,141
Wakala fee payable	8,984,916	8,984,916	8,984,916
Mudaraba payables	1,291,965	1,291,965	1,291,965
Other liabilities	3,264,559	3,264,559	3,264,559
	66,753,003	66,753,003	66,753,003

Shareholders **2021**	**Carrying amount**	**Contractual cash flows**	**1 year or less**
Other liabilities	1,457,982	1,457,982	1,457,982
	1,457,982	**1,457,982**	**1,457,982**

2020	Carrying amount	Contractual cash flows	1 year or less
Other liabilities	2,000,101	2,000,101	2,000,101
	2,000,101	2,000,101	2,000,101

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.

	2021	2020
Non-financial assets		
Policyholders		
Deferred acquisition costs	3,281,451	4,079,199
Deferred wakala fee	1,927,473	1,972,693
Retrocessionaires' share of unearned contribution reserves	415,473	406,762
Retrocessionaires' share of IBNR	152,414	157,935
	5,776,811	6,616,589
Shareholder		
Prepayments and other assets	84,810	66,659
Equipment	12,685	26,842
	97,495	93,501
Non-financial liabilities		
Policyholders		
Unearned contribution reserves	22,762,816	26,277,190
Commission reserves	63,821	63,988
IBNR reserves	69,557,405	66,396,049
	92,384,042	92,737,227
Shareholder		
Unearned wakala fee	1,927,473	1,972,693
	1,927,473	1,972,693

d) Fair value of financial instruments

(i) Fair value hierarchy

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

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

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

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

20 *FINANCIAL RISK MANAGEMENT (continued)*

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

All investments are Level 2, and further that there were no transfers from level 1 or level 3 to level 2 or in the opposite direction in 2021 (2020: Nil).

e) 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 the Company due to fluctuations in the value of liabilities and the value of investments held. The Company is exposed to market risk on all of its financial assets. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The nature of the Company's exposures to market risks and its objectives, policies and processes for managing market risk have not changed significantly from the prior period.

(i) Management of market risk

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

(ii) Currency risk

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

2021	**Egyptian Pound**	**Malaysian Ringgit**	**Euro**	**Kuwaiti Dinars**	**Total**
Total assets	2,758,066	23,522,681	1,020,729	1,796,421	29,097,897
Total liabilities	(5,250,887)	(26,487,455)	(284,192)	(9,430,934)	(41,453,468)
Net (liabilities) / assets	**(2,492,821)**	**(2,964,774)**	**736,537**	**(7,634,513)**	**(12,355,571)**
10% strengthening of BD					
increase / (decrease) in policyholder funds	249,282	296,477	(73,654)	763,451	
10% weakening of BD					
increase / (decrease) in policyholder funds	(249,282)	(296,477)	73,654	(763,451)	

20 FINANCIAL RISK MANAGEMENT (continued)

2020	Egyptian Pound	Malaysian Ringgit	Euro	Kuwaiti Dinars	Total
Total assets	3,993,154	17,017,270	1,084,146	2,656,185	24,750,755
Total liabilities	(5,750,873)	(21,061,269)	(385,518)	(7,115,656)	(34,313,316)
Net liabilities	(1,757,719)	(4,043,999)	698,628	(4,459,471)	(9,562,561)
10% strengthening of BD increase / (decrease) in policyholder funds	175,772	404,400	(69,863)	445,947	
10% weakening of BD increase / (decrease) in policyholder funds	(175,772)	(404,400)	69,863	(445,947)	

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

(iii) Profit rate risk

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

(iv) Other market price risk

The primary goal of the Company's investment strategy is to ensure acceptable risk returns and invest excess surplus funds available. 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 Financial Officer are responsible for ensuring compliance with the Investment Guidelines and reporting on the performance of the portfolio to the Company's Investment Committee.

21 SOLVENCY MARGIN AND CAPITAL ADEQUACY

The CBB Rulebook stipulates that solvency margin requirements are determined separately for the policyholders' funds (General retakaful and Family retakaful). The total available capital to cover the required solvency margin is BD 41.357 million (2020: BD 42.183 million).

The solvency margin required for the General retakaful funds is BD 3.830 million (2020: BD 5.634 million) and for the Family retakaful funds is BD 0.4 million (2020: 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. 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 DIVIDEND

The Board of Directors of the Company in their meeting holding on 28 february 2022 proposed a cash dividend payment of BD 4,300,000 (2020: BD Nil).

24 EARNINGS PROHIBITED BY SHARIA

Interest received on two bank accounts with a financial institution amounting to BD 160 (2020: BD 97) is not recognised as income and will be distributed to charity during 2022.

25 COVID - 19 Impact

The COVID-19 pandemic has developed rapidly in 2020 and 2021, with a significant number of cases. Measures taken by various governments to contain the virus have affected economic activity. We have taken a number of measures to monitor and mitigate the effects of COVID-19, such as safety and health measures to protect our people which includes social distancing and working from home.

The overall financial impact of COVID-19 on the Company's operations are mentioned below.

2021	**General Retakaful**	**Family Retakaful**
Increase in loss reserves	(114,848)	(4,214,256)
Increase in retrocessionaires' share of claims paid	313	-
Increase in claims settled	(1,701)	-

2020	Shareholder	General Retakaful	Family Retakaful
Increase in loss reserves	-	(349,448)	(1,910,000)
Increase in retrocessionaires' share of contributions	-	(33,946)	-
Government relief	116,056	-	-
Rent incentive	2,386	-	-
Management fee charged to related party	(51,688)	-	-

26 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.