

Hannover Rueck SE Bahrain Branch

CONDENSED INTERIM FINANCIAL INFORMATION

30 JUNE 2017

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Head office	:	Hannover Rück SE, Hannover Germany
General Manager	:	Mahomed Akoob
Auditors	:	KPMG Fakhro

CONDENSED INTERIM FINANCIAL INFORMATION
For the six months ended 30 June 2017

CONTENTS	Page
Independent auditors' report on review of condensed interim financial information	1
Condensed interim financial information	
Condensed statement of financial position	2
Condensed statement of profit or loss and other comprehensive income	3
Condensed statement of changes in head office funds	4
Condensed statement of cash flows	5
Notes to the condensed interim financial information	6 - 11



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INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION

Hannover Rueck SE, Bahrain Branch
Manama
Kingdom of Bahrain

20 September 2017

Introduction

We have reviewed the accompanying 30 June 2017 condensed interim financial information of Hannover Rueck SE, Bahrain Branch (the "Branch") which comprises:

- the condensed statement of financial position as at 30 June 2017;
- the condensed statement of profit or loss and other comprehensive income for the six-month period ended 30 June 2017;
- the condensed statement of changes in head office funds for the six-month period ended 30 June 2017;
- the condensed statement of cash flows for the six-month period ended 30 June 2017; and
- notes to the condensed interim financial information.

Management of the Branch is responsible for the preparation and presentation of this condensed interim financial information in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 June 2017 condensed interim financial information is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

CONDENSED STATEMENT OF FINANCIAL POSITION
As at 30 June 2017

Bahraini Dinars

	Note	30 June 2017 (reviewed)	31 December 2016 (audited)
ASSETS			
Cash and bank balances	5	5,473,005	5,455,820
Statutory deposit		150,000	150,000
Available-for-sale investments	6	74,718,989	67,914,536
Insurance receivables		17,026,518	20,455,914
Accrued premium		12,702,734	19,539,023
Deferred acquisition costs		5,000,550	5,389,946
Retrocessionaires' share of claims reserve		7,039,752	11,912,999
Retrocessionaires' share of unearned premiums reserve		2,224,855	378,573
Related party receivables	7 (b)	66,800	294,380
Other receivables		510	-
Total assets		124,403,713	131,491,191
HEAD OFFICE FUNDS AND LIABILITIES			
Head office funds			
Head office account		12,376,634	12,166,950
Available-for-sale investments fair value reserve		(16,857)	(448,903)
Accumulated losses		(10,183,991)	(6,376,484)
Total head office funds (page 4)		2,175,786	5,341,563
Liabilities			
Loss reserves		94,435,879	98,577,955
Unearned premiums reserve		23,542,004	26,659,411
Commission reserve		714	714
Insurance payables		2,743,697	492,764
Accrued insurance premium		-	405,481
Payable to retrocessionaires		1,497,627	-
Other payables		8,006	13,303
Total liabilities		122,227,927	126,149,628
Total head office funds and liabilities		124,403,713	131,491,191



Mahomed Akoob
 Managing Director

Management approved the condensed interim financial information consisting of pages 2 to 11 on 20 September 2017.

CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six month period ended 30 June 2017

Bahraini Dinars

	30 June 2017 (reviewed)	30 June 2016 (reviewed)
INCOME		
Gross premiums written	24,611,344	23,456,777
Ceded premium	(3,490,053)	(3,483,799)
Change in gross unearned premium	3,129,344	738,196
Change in ceded unearned premium	1,845,854	1,602,449
Net premium earned	26,096,489	22,313,623
Foreign exchange gain / (loss)	433,295	(42,133)
Investment and other income	681,770	705,774
Total income	27,211,554	22,977,264
EXPENSES		
Claims settled – net	22,592,519	15,598,798
Movement in loss reserves – net	1,045,428	1,309,938
Policy acquisition costs	6,038,358	5,281,563
Movement in deferred acquisition costs	388,773	408,706
General and administrative expenses	953,988	658,251
Total expenses	31,019,066	23,257,256
Loss for the period	(3,807,512)	(279,992)
Other comprehensive income		
Items that will be reclassified to profit or loss:		
Changes on remeasurement of available-for-sale investments	435,288	902,583
Transfers for recognition of gains on disposal of available-for-sale investments	(3,242)	(21,890)
Total other comprehensive income for the period	432,046	880,693
Total comprehensive (loss) income for the period	(3,375,466)	600,701



Mahomed Akoob
 Managing Director

Management approved the condensed interim financial information consisting of pages 2 to 11 on 20 September 2017.

CONDENSED STATEMENT OF CHANGES IN HEAD OFFICE FUNDS
For the six month period ended 30 June 2017

Bahraini Dinars

30 June 2017 (reviewed)	Head office account	Available-for-sale investments fair value reserve	Accumulated losses	Total
Balances as at 1 January 2017	12,166,950	(448,903)	(6,376,484)	5,341,563
Total comprehensive income				
Loss for the period	-	-	(3,807,512)	(3,807,512)
Other comprehensive income	-	432,046	-	432,046
Total comprehensive income	-	(16,857)	(3,807,512)	(3,375,466)
Transactions with owners of the Branch				
Expenses recharged by the Head office	209,684	-	-	209,684
Balances at 30 June 2017	12,376,634	(16,857)	(10,183,996)	3,175,781

30 June 2016 (reviewed)	Head office account	Available-for-sale investments fair value reserve	Accumulated losses	Total
Balances as at 1 January 2016	12,166,950	(172,817)	(6,899,370)	5,094,763
Total comprehensive income				
Loss for the period	-	-	(279,992)	(279,992)
Other comprehensive income	-	880,693	-	880,693
Total comprehensive income	-	880,693	(279,992)	600,701
Transactions with owners of the Branch				
Expenses recharged by the Head office	117,189	-	-	117,189
Balances at 30 June 2016	12,284,139	707,876	(7,179,362)	5,812,653

The condensed interim financial information consisting of pages 2 to 11.

CONDENSED STATEMENT OF CASH FLOWS
For the six month period ended 30 June 2017

Bahraini Dinars

	30 June 2017 (reviewed)	30 June 2016 (reviewed)
OPERATING ACTIVITIES		
Loss for the period	(3,807,512)	(279,992)
<i>Adjustments</i>		
Net realised losses from sale of bonds	2,501	(37,373)
Expenses recharged by Head Office	209,683	117,189
Amortisation on bonds	32,832	9,395
Allowance for doubtful debts	-	-
Interest income	(717,103)	(705,774)
	(4,279,599)	(896,555)
<i>Changes in operating assets and liabilities:</i>		
Change in unearned premium reserves	(3,117,407)	(866,027)
Change in profit commission reserve	-	-
Change in deferred acquisition costs	389,396	436,756
Change in retro claims recoverable	4,873,247	(1,673,542)
Change in loss reserves	(4,142,076)	2,834,662
Change in insurance receivable	10,264,795	969,894
Change in retroceded unearned premium	(1,846,282)	(1,602,844)
Change in related party receivables	227,961	(1,146,358)
Change in related party payables	1,497,627	1,432,219
Change in insurance payables	2,250,933	32,318
Change in other payables	(410,782)	(1,600)
Cash flows from / (used in) operating activities	5,707,813	(481,077)
INVESTING ACTIVITIES		
Purchase of available-for-sale investments	(19,542,703)	(8,102,069)
Proceeds from disposal of available-for-sale investments	13,205,186	9,794,778
Interest received	717,481	677,880
Cash flows (used in) / from investing activities	(5,620,036)	2,370,589
Foreign exchange movement in debt instrument	(70,592)	10,992
Net increase in cash and cash equivalents	17,185	1,900,504
Cash and cash equivalents at the beginning of the period	5,455,820	4,980,393
Cash and cash equivalents at the end of the period	5,473,005	6,880,897

The condensed interim financial information consisting of pages 2 to 11.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

For the six-month period ended 30 June 2017

Bahraini Dinars

1 STATUS AND OPERATIONS

Hannover Rueck SE, Bahrain Branch ("the Branch") is a Branch of Hannover Rück SE (Hannover Re) incorporated in Hannover, Germany. The Branch is registered with commercial registration number 65990 in the Kingdom of Bahrain as a Foreign Branch on 22 July 2007 with the Ministry of Industry & Commerce and is regulated by the Central Bank of Bahrain, the regulator. The Branch commenced its operations on 1 January 2008.

2 BASIS OF PREPARATION

The condensed interim financial information have been prepared in accordance with International Accounting Standard 34 - *Interim Financial Reporting*, which permits the condensed interim financial statements to be in summarized form and do not include all of the information required for full annual financial statements.

The accounting policies, judgements and estimates and risk management framework applied by the Branch in the preparation of the condensed interim financial information are consistent with those applied in the preparation of the financial statements for the year ended 31 December 2016.

The condensed interim financial information is not audited but has been reviewed by KPMG Fakhro. The comparative information for the condensed statement of financial position have been extracted from the audited financial statements for the year ended 31 December 2016 and comparatives for the condensed statements of comprehensive income, cash flows and changes in head office funds have been extracted from the reviewed condensed interim financial information for the six months ended 30 June 2016.

The condensed interim financial information has been prepared in a condensed form in accordance with International Accounting Standard 34 *Interim Financial Reporting*. The condensed interim financial information does not include all of the information required for the full annual financial statements and should be read in conjunction with the audited financial statements of the Branch for the year ended 31 December 2016.

3 ACCOUNTING POLICIES

The accounting policies have been consistently applied by the Branch and the condensed interim financial information has been prepared using the same accounting policies and methods of computation applied in the preparation of the latest audited financial statements of the Branch for the year ended 31 December 2016.

3.1 Measurement of Fair Values

The Branch has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, and reports directly to the CFO.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION**For the six-month period ended 30 June 2017**

Bahraini Dinars

3 ACCOUNTING POLICIES (continued)

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the General Manager.

4 SEASONALITY OF INTERIM OPERATIONS

As a result of the seasonality associated with the insurance business, the Branch registers approximately 40 % of its gross premiums during the first half of every year. Due to the effect of seasonal variations, the results reported in the condensed interim financial information may not represent a proportionate share of the overall annual income.

Appropriations of net profit, if any, are made only at the year end.

5 CASH AND BANK BALANCES

	30 June 2017 (reviewed)	31 December 2016 (audited)
Cash in banks	5,473,005	5,455,820
	5,473,005	5,455,820

6 AVAILABLE-FOR-SALE INVESTMENTS

	30 June 2017 (reviewed)	31 December 2016 (audited)
Investment in bonds	74,718,989	67,914,536
	74,718,989	67,914,536

7 RELATED PARTY TRANSACTIONS

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

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
For the six month period ended 30 June 2017

Bahraini Dinars

7 RELATED PARTY TRANSACTIONS (continued)

a) Transactions with related parties

		30 June 2017 (reviewed)	30 June 2016 (reviewed)
-	Reimbursement of administrative expenses to:		
	Hannover Retakaful BSC (c), Bahrain	811,657	561,985
	Hannover Rück SE, Germany	142,968	72,096
-	Talanx Asset Management, Germany	38,428	33,596
-	Retrocession to Hannover Re Bermuda Ltd., Bermuda	3,310,700	3,478,431
-	Retrocession to E+S Rückversicherung AG, Germany		-
-	Retrocession to Hannover Rück SE, Germany	179,353	5,368
-	Claims recovery from Hannover Re Bermuda Ltd., Bermuda	5,362,570	1,854,858

b) Amounts receivable

		30 June 2017 (reviewed)	31 December 2016 (audited)
-	Hannover ReTakaful BSC (c), Bahrain	66,419	294,380
		66,418	294,380

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

For the six month period ended 30 June 2017

Bahraini Dinars

7 RELATED PARTY TRANSACTIONS (continued)

c) Amounts payable

		30 June 2017 (reviewed)	31 December 2016 (audited)
-	Retrocession to E+S Rückversicherung AG, Germany <i>Entity within the Hannover Re Group</i>	-	-
-	Hannover Rück SE, Germany <i>Global parent Company</i>	741	-
	Hannover Re Bermuda Ltd., Bermuda <i>Entity within the Hannover Re Group</i>	1,496,886	405,481
		1,497,627	405,754

d) Retrocessionaires' share of loss reserves

		30 June 2017 (reviewed)	31 December 2016 (audited)
	E+S Rückversicherung AG, Germany <i>Entity within the Hannover Re Group</i>	-	263
	Hannover Re Bermuda Ltd., Bermuda <i>Entity within the Hannover Re Group</i>	7,039,752	11,912,736
	Total	7,039,752	11,912,999

8 FAIR VALUE

The Branch's financial assets and financial liabilities are measured at amortised cost except for available-for-sale investments, which are carried at fair value. The Branch has not disclosed fair value of financial assets and liabilities other than available for sale investments, because the carrying value approximates their fair value. Fair values measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

Fair value hierarchy

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

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION**For the six months ended 30 June 2017**

Bahraini Dinars

8 FAIR VALUE (continued)

- *Level 1:* Quoted market price (unadjusted) in an active market for an identical instrument.
- *Level 2:* Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. 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; quoted prices for identical or similar instruments in markets that are considered less than 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 prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value as at 30 June 2017, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	Total
30 June 2017				
Available-for-sale investments	-	74,718,989	-	74,718,989
31 December 2016				
Available-for-sale investments	-	67,914,536	-	67,914,536

Fair values of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms. The fair values of the Branch's assets and liabilities closely approximate their carrying value.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION**For the six months ended 30 June 2017**

Bahraini Dinars

8 FAIR VALUE (continued)

For the period ended 30 June 2017, there were no transfers in and out of level 1, level 2 and level 3 (31 December 2016: none).

Valuation technique and significant unobservable inputs

The following table show the valuation technique used in measuring Level 2 fair values as at 30 June 2017 and 31 December 2016:

Type	Valuation technique	Significant unobservable inputs	Inter-relation between significant unobservable inputs and fair value measurement
Corporate debt securities	Market comparison technique: The fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.	-	-