

Hannover Rueck SE, Bahrain Branch

CONDENSED INTERIM FINANCIAL INFORMATION

30 JUNE 2020

Office	: Zamil Tower, 17th floor P.O.Box 75180 Manama Kingdom of Bahrain
Head office	: Hannover Rück SE Hannover Germany
Chief Executive Officer	: Adham El-Muezzin
Auditors	: PricewaterhouseCoopers ME Limited

Hannover Rueck SE, Bahrain Branch
Condensed interim financial information
For the six-month period ended 30 June 2020

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Independent Auditor's Review report to the management of Hannover Rueck SE, Bahrain Branch

Report on the review of the condensed interim financial information

Introduction

We have reviewed the accompanying condensed interim statement of financial position of Hannover Rueck SE, Bahrain Branch (the "Branch" or "Hannover") as at 30 June 2020 and the related condensed interim statements of profit or loss and other comprehensive income and cash flows for the six month period then ended and other explanatory notes. The management is responsible for the preparation and presentation of this condensed interim financial information in accordance with International Accounting Standard 34, 'Interim Financial Reporting' ("IAS 34"), as issued by the International Accounting Standard Board ("IASB"). 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 International Standard on Review Engagements 2410, 'Review of condensed 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 condensed interim financial information is not prepared, in all material respects, in accordance with IAS 34.

A handwritten signature in blue ink that reads "PricewaterhouseCoopers".

29 September 2020

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

	Note	30 June 2020 (reviewed)	31 December 2019 (audited)
ASSETS			
Cash and bank balances	5	6,131,241	5,288,567
Statutory deposit		161,807	160,196
Available-for-sale investments	6	95,901,635	89,076,738
Insurance receivables		19,899,748	14,688,894
Accrued premium receivables		13,963,185	8,269,380
Deferred acquisition costs		4,866,140	3,673,016
Retrocessionnaires' share of loss reserves	7	7,151,470	10,006,367
Retrocessionnaires' share of unearned premium reserves		739,776	763,751
Related party receivables	9 b)	38,425	-
Prepayments and other assets		23,874	30,222
Total assets		148,877,301	131,957,131
HEAD OFFICE FUNDS AND LIABILITIES			
LIABILITIES			
Loss reserves	7	115,090,447	101,446,311
Unearned premium reserves		20,883,546	15,623,271
Insurance payables		5,127,377	4,433,579
Other payables		10,385	14,500
Total liabilities		141,111,755	121,517,661
HEAD OFFICE FUNDS	8	7,765,546	10,439,470
Total head office funds and liabilities		148,877,301	131,957,131

Management approved the condensed interim financial information consisting of pages 3 to 10 on 29 September 2020.

Adham El-Muezzin
 Chief Executive Officer

Condensed interim statement of profit or loss and comprehensive income
For the six-month period ended 30 June 2020

Bahraini Dinars

	Note	30 June 2020 (reviewed)	30 June 2019 (reviewed)
INCOME			
Gross written premium		33,516,266	27,764,963
Ceded premium		(1,192,540)	(4,814,608)
Change in gross unearned premium reserves		(5,283,021)	(4,572,379)
Change in ceded unearned premium reserves		(24,220)	2,436,652
Net premium earned		27,016,485	20,814,628
Foreign exchange gains / (losses)		61,388	(110,540)
Investment and other income		1,111,514	1,020,417
Total income		28,189,387	21,724,505
EXPENSES			
Gross claims paid		(10,262,651)	(14,382,103)
Claim recoveries		1,173,556	17,826
Movement in loss reserves, net	7	(16,620,155)	4,944,075
Policy acquisition costs, net		(7,285,726)	(6,697,069)
Movement in deferred acquisition cost, net		1,196,472	928,877
Movement in commission reserves		-	1,167,891
General and administrative expenses		(637,370)	(665,500)
Total expenses		(32,435,874)	(14,686,003)
(Loss) / income for the period		(4,246,487)	7,038,502
Other comprehensive income			
Items that will be reclassified to profit or loss:			
Changes on remeasurement of available-for-sale investments		2,690,274	2,396,608
Transfers for recognition of (gains) / losses on disposal of available-for-sale investments		(40,571)	16,691
Total other comprehensive income for the period	8	2,649,703	2,413,299
Total comprehensive (loss) / income for the period		(1,596,784)	9,451,801

Management approved the condensed interim financial information consisting of pages 3 to 10 on 29 September 2020.


Adham E. Muezzin
Chief Executive Officer

	Note	30 June 2020 (reviewed)	30 June 2019 (reviewed)
OPERATING ACTIVITIES			
(Loss) / profit for the period		(4,246,487)	7,038,502
<i>Adjustments for:</i>			
Investment and other income		(1,111,514)	(1,020,417)
Movement in Head Office funds		(1,077,139)	204,074
		(6,435,140)	6,222,159
<i>Changes in operating assets and liabilities:</i>			
- insurance receivables		(5,210,854)	(2,762,395)
- insurance payables		693,798	4,989,644
- unearned contribution reserves		5,260,275	4,610,472
- retrocessionnaires' share of unearned premium reserves		23,975	(2,435,663)
- accrued contribution receivables		(5,693,805)	(4,176,895)
- deferred acquisition costs		(1,193,124)	(941,334)
- retrocessionnaires' share of loss reserves		2,854,897	(7,687,140)
- commission reserves		-	(1,167,115)
- loss reserves		13,644,136	2,950,588
- related party receivables		(38,425)	634,857
- statutory deposit		(1,611)	(1,571)
- prepayments and other assets		6,348	(8,813)
- other payables		(4,115)	60,764
Net cash generated from operating activities		3,906,355	287,558
INVESTING ACTIVITIES			
Purchase of available-for-sale investments		(18,361,339)	(5,877,909)
Purchase of placements over three months		(1,186,812)	-
Proceeds from disposal of available-for-sale investments		14,252,535	7,109,238
Investment income received		1,054,996	970,075
Net cash (used in) / generated from investing activities		(4,240,620)	2,201,404
Net (decrease) / increase in cash and cash equivalents		(334,265)	2,488,962
Cash and cash equivalents at 1 January		5,288,567	5,528,083
Foreign exchange movement in debt instruments		(9,873)	(26,123)
Cash and cash equivalents at the end of the period	5	4,944,429	7,990,922

The notes on pages 6 to 10 are an integral part of this condensed interim financial information

1 STATUS AND OPERATIONS

Hannover Rueck SE, Bahrain Branch ("the Branch") is a Branch of Hannover Rück SE (Hannover Re) (the "Head Office") 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 & Tourism 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 has been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting, which permits the condensed interim financial information to be in summarised 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 2019 unless otherwise stated.

The condensed interim financial information is not audited but has been reviewed by PricewaterhouseCoopers ME Limited. The comparative information for the condensed interim statement of financial position has been extracted from the audited financial statements for the year ended 31 December 2019 and comparatives for the condensed interim statements of profit or loss and other comprehensive income and cash flows have been extracted from the reviewed condensed interim financial information for the six months ended 30 June 2019.

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 2019.

A number of new or amended standards became applicable for the current reporting period. The Branch did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

New and revised IFRS have been issued but are not yet effective in the condensed interim financial information.

IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. This standard replaces IFRS 4 insurance contracts. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. The standard is applicable for annual periods beginning on or after 1 January 2023, with comparative figures required for the prior period. The Company is assessing the impact of IFRS 17 on its financial statements.

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 2019.

a) 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 Chief Financial Officer.

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 Chief Executive Officer.

4 SEASONALITY OF INTERIM OPERATIONS

As a result of the seasonality associated with the insurance business, gross written premium over the financial year from 1 January to 31 December are not evenly spread out. 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.

5 CASH AND BANK BALANCES

	30 June 2020 (reviewed)	31 December 2019 (audited)
Cash and cash equivalents	4,944,429	5,288,567
Placements over three months	1,186,812	-
	6,131,241	5,288,567

The placements carries a interest rate ranging from 6.7% to 6.85% (2019: NIL) per annum .

6 AVAILABLE FOR SALE INVESTMENTS

	30 June 2020 (reviewed)	31 December 2019 (audited)
Investment in bonds		
Quoted securities	92,792,156	87,148,042
Unquoted securities	3,109,479	1,928,696
	95,901,635	89,076,738

7 LOSS RESERVES

	30 June 2020 (reviewed)			31 December 2019 (audited)		
	Gross	Retro-ceded	Net	Gross	Retro-ceded	Net
Claims reserves	53,924,191	(10,006,367)	43,917,824	63,898,441	(4,469,924)	59,428,517
IBNR reserves	47,522,120	-	47,522,120	34,297,432	-	34,297,432
At 1 January	101,446,311	(10,006,367)	91,439,944	98,195,873	(4,469,924)	93,725,949
Movement	13,774,831	2,845,324	16,620,155	2,962,290	(5,630,097)	(2,667,807)
Foreign exchange movement	(130,695)	9,573	(121,122)	288,148	93,654	381,802
At period/year ended	115,090,447	(7,151,470)	107,938,977	101,446,311	(10,006,367)	91,439,944
Claims reserves	60,929,341	(7,151,470)	53,777,871	53,924,191	(10,006,367)	43,917,824
IBNR reserves	54,161,106	-	54,161,106	47,522,120	-	47,522,120
At period/year ended	115,090,447	(7,151,470)	107,938,977	101,446,311	(10,006,367)	91,439,944
Non-life reinsurance	112,223,825	(7,151,470)	105,072,355	98,386,286	(10,006,367)	88,379,919
Life reinsurance	2,866,622	-	2,866,622	3,060,025	-	3,060,025
At period/year ended	115,090,447	(7,151,470)	107,938,977	101,446,311	(10,006,367)	91,439,944

8 HEAD OFFICE FUNDS

	Head office account	Fair value reserve	Accumulated losses	Total
Balance as at 1 January 2020	16,166,950	1,435,473	(7,162,953)	10,439,470
Movement in head office funds	(1,077,139)	-	-	(1,077,139)
Loss for the period	-	-	(4,246,487)	(4,246,487)
Other comprehensive income	-	2,649,703	-	2,649,703
Balance at 30 June 2020 (reviewed)	15,089,811	4,085,175	(11,409,440)	7,765,546
Balance as at 1 January 2019	16,166,950	(1,310,518)	(12,134,249)	2,722,183
Profit for the year	-	-	4,971,296	4,971,296
Other comprehensive income	-	2,745,991	-	2,745,991
Balance at 31 December 2019 (audited)	16,166,950	1,435,473	(7,162,953)	10,439,470

9 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 the key members of management having authority and responsibility for planning, directing and controlling the activities of the Branch.

a) Transactions during the period

Premium ceded to:

Hannover Re Bermuda Ltd., Bermuda
Entity within the Hannover Re Group

30 June 2020 (reviewed)	30 June 2019 (reviewed)
935,298	4,563,152
515,850	620,017
127,482	51,488
51,320	47,147

Expenses recharged by:

- Hannover Retakaful BSC (c), Bahrain
Entity within the Hannover Re Group
- Hannover Rück SE, Germany
Parent company of the Hannover Re Group
- Ampega Asset Management GmbH, Germany
Entity within the Talanx Group (Ultimate Parent)

b) Balances with related parties

Amounts receivable

- Hannover Retakaful B.S.C. (c), Bahrain
Entity within the Hannover Re Group

30 June 2020 (reviewed)	31 December 2019 (audited)
38,425	-
-	7,515
1,058,700	123,339
6,837,439	9,029,091

Insurance payables

- Hannover Rück SE, Germany
Parent company of the Hannover Re Group
- Hannover Re Bermuda Ltd., Bermuda
Entity within the Hannover Re Group

Retrocessionaires' share of loss reserves

- Hannover Re Bermuda Ltd., Bermuda
Entity within the Hannover Re Group

10 FAIR VALUE OF FINANCIAL INSTRUMENTS

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.

a) 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:

- 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 2020, 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 2020				
Available-for-sale investments	-	95,901,635	-	95,901,635
31 December 2019				
Available-for-sale investments	-	89,076,738	-	89,076,738

b) 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.

For the period ended 30 June 2020, there were no transfers in and out of level 1, level 2 and level 3 (31 December 2019: Nil).

11 COVID - 19 Impact

The COVID-19 pandemic has developed rapidly in 2020, 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.

Furthermore, the Branch has performed an assessment of current in-force insurance contracts for its major property and casualty lines of business, which include, engineering, property & motor business. As these lines of business, in general, do not cover pandemic risk, the Branch does not foresee any unusual insurance claims arising as a result of the COVID-19 pandemic. Similarly, an assessment has been performed for the Life and Health business lines. In many jurisdictions, all COVID-19 impacted patients are referred to state medical facilities, which costs are then covered by the respective Governments. In addition, the majority of the Branch's Health contracts, explicitly exclude the coverage of losses arising out of a pandemic. The Branch, therefore, does not foresee any significant claims arising for this line of business.

The Branch's investment securities mainly comprise of investment grade, quoted sukuks which are measured at market value. These sukuks are not significantly affected by the COVID-19 pandemic as global financial markets have started to recover during the second quarter of 2020. Furthermore, the Branch is closely monitoring the situation and assessing the adequacy of liquid assets to meet its obligations.

The Government of the Kingdom of Bahrain announced several support schemes to provide reliefs to business activities of companies operating in Bahrain. Details of such government grants are mentioned below along with the financial impact of COVID-19 on the Branch's operations.

	COVID-19 Impact
Increase in loss reserves	277,510
Government relief	50,647
Rent expenses	1,041

12 Subsequent event

On 4 August 2020, an explosion occurred in the Lebanese Republic which caused significant damages to the country's main port and the surrounding city of Beirut. The Branch considers this incident to be a non-adjusting post condensed interim statement of financial position event. Management does not consider it practicable to provide a quantitative estimate of the potential impact of this incident on the Branch as it's exposure is yet to be quantified in full through the cedants.

Management is currently assessing the impact of this incident and it will be incorporated in the financial statements for the year ending 31 December 2020.