

Hannover ReTakaful BSC (c)

CONDENSED INTERIM FINANCIAL INFORMATION

30 JUNE 2017

Board of Directors	:	Jürgen Gräber, <i>Chairman</i> Mahomed Akoob Claude Chèvre Olaf Brock Jorge Alfonso Perez
Registered Office	:	Al Zamil Tower, 17th floor P.O. Box 75180 Manama Kingdom of Bahrain
Auditors	:	KPMG Fakhro

CONDENSED INTERIM FINANCIAL INFORMATION
For the six-month period ended 30 June 2017

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KPMG Fakhro
Audit
12th Floor, Fakhro Tower
PO Box 710, Manama
Kingdom of Bahrain

Telephone +973 17 224807
Fax +973 17 227443 ¹
Website: www.kpmg.com/bh
CR No. 6220

Independent auditors' report on review of condensed interim financial information

The Board of Directors
Hannover ReTakaful BSC (c)
Manama, Kingdom of Bahrain

20 September 2017

Introduction

We have reviewed the accompanying 30 June 2017 condensed interim financial information of Hannover ReTakaful BSC (c) (the "Company"), which comprises:

- the condensed statement of financial position as at 30 June 2017;
- the condensed income statement for the six-month period ended 30 June 2017;
- the condensed statement of policyholders' revenue and expenses for the six-month period ended 30 June 2017;
- the condensed statement of changes in policyholders' surplus and deficit for the six-month period ended 30 June 2017;
- the condensed statement of changes in shareholders' equity 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.

The Board of Directors of the Company is responsible for the preparation and presentation of this condensed interim financial information in accordance with Financial Accounting Standards issued by Accounting and Auditing Organisation for Islamic Financial Institutions. 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 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 Auditing Standards for Islamic Financial Institutions 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 Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

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	7	7,649,728	8,361,177
Statutory deposit		151,512	150,079
Investment securities	8	111,320,828	107,232,684
Retakaful receivables		14,173,136	14,309,967
Accrued contribution receivable		16,660,313	19,278,653
Deferred acquisition costs		3,805,939	4,359,736
Retrocessionaires' share of unearned contribution reserves		1,396,699	315,503
Retrocessionaires' share of technical reserve (related party)	11(b)	422,397	407,938
Retrocessionaires' share of IBNR		143,741	137,451
Related party receivables	11(b)	42,441	-
Prepayments, equipment and other assets		135,940	235,620
Total assets		155,902,674	154,788,808
SHAREHOLDERS' EQUITY, POLICYHOLDERS' FUND & LIABILITIES			
Shareholders' equity			
Share capital		20,000,000	20,000,000
Statutory reserve		3,982,019	3,982,019
Dividend reserve		-	1,000,000
Retained earnings		43,840,088	40,827,517
Total shareholders' equity		67,822,107	65,809,536
Policyholders' fund (page 5)		(24,180,827)	(24,447,808)
Liabilities			
Loss reserves		83,720,666	83,557,559
Unearned contribution reserve		21,553,757	24,945,322
Commission reserve		322,656	322,454
Retakaful payables		2,439,014	2,463,745
Payables to retrocessionaires	11(c)	2,584,793	747,005
Related party payables	11(c)	594,782	294,380
Other liabilities		1,045,726	1,096,615
Total liabilities		112,261,394	113,427,080
Total shareholders' equity, policyholders' fund and liabilities		155,902,674	154,788,808

The Board of Directors approved the condensed interim financial information consisting of pages 2 to 14 on 20 September 2017.

Jürgen Gräber
Chairman

Mahomed Akoob
Managing Director

CONDENSED INCOME STATEMENT
For the six-month period ended 30 June 2017

Bahraini Dinars

	Note	30 June 2017 (reviewed)	30 June 2016 (reviewed)
INCOME			
Wakala fee for managing retakaful activities		3,611,813	2,871,037
Change in deferred wakala fee		178,904	(79,859)
Earned wakala fee		3,790,717	2,791,178
Investment income		803,340	1,595,743
Mudaraba fee income		405,264	552,092
Foreign exchange gain		15,072	56
Other income		200	-
Total income		5,014,593	4,939,069
EXPENSES			
Staff cost		504,681	460,199
General and administrative expenses		497,341	258,551
Impairment of Qard Hassan	10	1,191,558	1,191,558
Total expenses		2,193,580	1,910,308
Profit for the period		2,821,013	3,028,761

The Board of Directors approved the condensed interim financial information consisting of pages 2 to 14 on 20 September 2017.


 Jürgen Gräber
 Chairman


 Mahomed Akoob
 Managing Director

CONDENSED STATEMENT OF POLICYHOLDERS' REVENUE AND EXPENSES
For the six-month period ended 30 June 2017

Bahraini Dinars

	30 June 2017 (reviewed)	30 June 2016 (reviewed)
REVENUE		
Gross contributions	33,142,067	27,187,661
Retrocessionairs' share of contributions	(2,244,940)	(2,229,862)
Change in gross unearned contributions	3,541,789	1,806,409
Change in retrocessionaires' share of unearned contributions	1,080,845	1,045,151
Earned contributions	35,519,761	27,809,359
Foreign exchange gains / (losses)	65,375	(99,480)
Investment income	1,013,161	1,380,230
Mudarib share	(405,264)	(552,092)
Total revenue	36,193,033	28,538,017
EXPENSES		
Gross claims paid	26,452,848	15,043,779
Claims recovered from retrocessionaires	-	(522,608)
Movement in loss reserves, net	(236,422)	5,428,323
Net claims incurred	26,216,426	19,949,494
Policy acquisition costs, net	5,352,887	4,366,252
Movement in deferred acquisition costs	562,612	598,290
Wakala fee	3,611,813	2,871,037
Change in deferred wakala fee	178,904	(79,859)
Other expenses	3,410	-
Provision for doubtful receivables	-	100,000
Total expenses	35,926,052	27,805,214
Surplus of revenue over expenses for the period	266,981	732,803

The notes on pages 8 to 14 are an integral part of this condensed interim financial information.

CONDENSED STATEMENT OF CHANGES IN POLICYHOLDERS' SURPLUS AND DEFICIT
For the six-month period ended 30 June 2017

Bahraini Dinars

2017 (Reviewed)

	General retakaful	Family retakaful	Total accumulated deficit	Surplus distribution reserve	Total policy holders' fund
Balance as at 1 January 2017	(32,049,544)	3,181,338	(28,868,206)	4,647,156	(24,447,808)
Surplus for the period (page 4)	982,166	(715,185)	266,981	-	266,981
As at 30 June 2017	(31,067,377)	2,466,152	(28,601,225)	4,647,156	(24,180,827)

2016 (Reviewed)

	General retakaful	Family retakaful	Total accumulated deficit	Surplus distribution reserve	Total policy holders' equity
Balance as at 1 January 2016	(30,825,097)	2,816,310	(28,008,787)	2,083,893	(25,924,894)
Surplus for the period (page 4)	55,463	677,340	732,803	-	732,803
Foreign currency exchange movement	-	-	-	52,183	52,183
Surplus distributed during the period	-	-	-	(4,671)	(4,671)
As at 30 June 2016	(30,769,634)	3,493,650	(27,275,984)	2,131,405	(25,144,579)

The notes on pages 8 to 14 are an integral part of this condensed interim financial information.

CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the six-month period ended 30 June 2017

Bahraini Dinars

2017 (Reviewed)

	Share capital	Statutory reserve	Dividend Reserve	Retained earnings	Total
Balance as at 1 January 2017	20,000,000	3,982,019	1,000,000	40,827,517	65,809,536
Profit for the period (page 3)	-	-	-	2,821,013	2,821,013
Dividends paid (Note 9)	-	-	(1,000,000)	(1,000,000)	(2,000,000)
Impairment of Qard Hasan	-	-	-	1,191,558	1,191,558
As at 30 June 2017	20,000,000	3,982,019	-	43,840,088	67,822,107

2016 (Reviewed)

	Share capital	Statutory reserve	Dividend Reserve	Retained earnings	Total
Balance as at 1 January 2016	20,000,000	3,573,995	1,000,000	35,932,193	60,506,188
Profit for the period (page 3)	-	-	-	3,028,761	3,028,761
Dividends (Note 9)	-	-	-	(1,160,000)	(1,160,000)
Impairment of Qard Hasan	-	-	-	1,191,558	1,191,558
As at 30 June 2016	20,000,000	3,573,995	1,000,000	38,992,512	63,566,507

The notes on pages 8 to 14 are an integral part of this condensed interim financial information.

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		
Combined profit for the period	3,087,994	3,761,565
<i>Adjustments for:</i>		
Impairment of Qard Hassan	1,191,558	1,191,558
Provision for employees' end of service benefits	40,763	37,057
Depreciation expenses	45,781	59,272
Amortisation of investments	259,785	222,775
Fair value movement for investments securities	(274,878)	(1,756,254)
Decrease in unearned contribution reserve, net	(4,472,761)	(2,866,773)
Increase in loss reserves, net	142,360	6,013,465
Decrease in deferred acquisition costs	553,796	642,670
Decrease / Increase in profit commission reserve	201	(1,023)
Realised Gain on investment securities	(19,764)	(17,806)
Profit from investments securities and placements with financial institutions	(1,775,940)	(1,424,687)
	(1,221,105)	5,861,819
<i>Changes in operating assets and liabilities:</i>		
Retakaful receivables	136,831	2,481,777
Takaful payables	(24,732)	(2,381,971)
Accrued contribution receivable	2,618,340	(4,322,565)
Prepayments and other assets	55,378	35,964
Related party receivables	(42,441)	(31,901)
Related party payables	2,138,190	2,237,654
Other liabilities	(91,700)	(87,752)
Cash flows from operating activities	3,568,761	3,793,025
INVESTING ACTIVITIES		
Purchase of equipment	(1,478)	(29,322)
Profit from investments securities	1,670,862	1,455,956
Purchase of investment securities	(28,376,197)	(25,835,296)
Redemption of investment securities	23,969,897	19,945,047
Cash flows used in investing activities	(2,736,916)	(4,463,615)
FINANCING ACTIVITIES		
Surplus distributed	-	(4,671)
Dividend distributed	(2,000,000)	(1,160,000)
Cash flows used in financing activities	(2,000,000)	(1,164,671)
Net decrease in cash and cash equivalents	(1,168,155)	(1,835,261)
Cash and cash equivalents at the beginning of the period	8,361,177	16,498,972
Foreign currency exchange movement	(107,925)	(11,438)
Cash and cash equivalents at the end of the period	7,085,097	14,652,273
<i>Represented by:</i>		
Shareholders	754,496	4,144,044
Policyholders	6,330,601	10,508,229
	7,085,097	14,652,273

The notes on pages 8 to 14 are an integral part of this condensed interim financial information.

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

Bahraini Dinars

1 REPORTING ENTITY

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

2 BASIS OF PREPARATION

- a) This condensed interim financial information has been prepared in accordance with 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. Accordingly, the interim financial information has been presented in condensed form in accordance with International Accounting Standard 34 –Interim Financial Reporting, which permits the interim financial statements to be in summarized form and not to include all of the information required for the annual financial statements. The condensed interim financial information does not include all of the information required for the annual financial statements and should be read in conjunction with the audited financial statements of the Company as at and for the year ended 31 December 2016.
- b) The condensed interim financial information is not audited but has been reviewed by KPMG Fakhro and their review report is set out on page 1. The comparatives for the condensed statement of financial position have been extracted from the audited financial statements for the year ended 31 December 2016. The comparatives for the condensed income statement, policyholders' revenues and expenses, policyholders' surplus and deficit, changes in shareholders' equity and cash flows have been extracted from reviewed condensed interim financial information for the six-month period ended 30 June 2016.

3 ACCOUNTING POLICIES

The accounting policies, judgements and estimates, and risk management framework have been consistently applied by the Company 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 Company for the year ended 31 December 2016.

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

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

For the six-month period ended 30 June 2017

Bahraini Dinars

4 FINANCIAL RISK MANAGEMENT

The Company's financial risk management objectives and policies are consistent with those disclosed in the audited financial statements as at and for the year ended 31 December 2016.

5 USE OF JUDGMENT, ESTIMATES AND ASSUMPTIONS

Preparation of condensed interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The significant judgements made by management in applying the Company's accounting policies and the key sources of estimations uncertainty were same as those that applied to the financial statements as at and for the year ended 31 December 2016.

6 SEASONALITY OF INTERIM OPERATIONS

As a result of the seasonality associated with the insurance business, gross premiums written over the financial year are not evenly spread out. This seasonality does not however, have any material impact on the Company's underwriting result as the contribution are taken to income over the terms of the related contracts or policies. Claims are not cyclical and could impact the reported result for each interim period.

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

7 CASH AND BANK BALANCES

	30 June 2017 (reviewed)	31 December 2016 (audited)
Cash in banks	5,953,009	8,239,519
Placements with banks and financial institutions	1,132,088	120,658
Cash and cash equivalents	7,085,097	8,361,177
Deposits with maturity over 3 months	564,631	-
Cash and bank balances	7,649,728	8,361,177

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

For the six-month period ended 30 June 2017

Bahraini Dinars

8 INVESTMENT SECURITIES

	30 June 2017 (reviewed)	31 December 2016 (audited)
Investments at fair value through income statement	111,320,828	107,232,684
Debt type		
- Quoted sukuk	109,099,094	105,680,597
- Unquoted sukuk	-	-
Equity type		
- Quoted sukuk	2,221,734	1,552,087
	111,320,828	107,232,684

9 APPROPRIATION & DIVIDENDS PAID

The shareholders of the Company in their meeting held on 27th April 2017 approved a cash dividend payment of BD 2,000,000.

10 IMPAIRMENT ON QARD HASAN

Qard Hasan is a profit free loan funded by shareholder to the Takaful funds based on solvency margin and capital adequacy rules of the CBB. Where the Qard Hasan has been granted for solvency purposes under the rules, the amount of the Qard Hassan is assessed annually for impairment. Accordingly, the Company has adopted a policy to write down 20% of Qard Hasan each year in line with CBB's rules and regulations.

11 RELATED PARTY TRANSACTIONS

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

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

For the six-month period ended 30 June 2017

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11 RELATED PARTY TRANSACTIONS (continued)

a) Transactions with related parties

		30 June 2017 (reviewed)	30 June 2016 (reviewed)
- Retakaful share of contributions to Hannover Re Bermuda Ltd., Bermuda	<i>Entity within the Hannover Re Group</i>	2,089,352	2,067,394
- Retakaful share of contributions to Hannover Rück SE, Germany	<i>Parent company</i>	155,587	162,468
- Claims recovery from Hannover Re Bermuda Ltd., Bermuda	<i>Entity within the Hannover Re Group</i>	-	522,608
- Reimbursement of investment related expenses to Talanx Assets Management, Germany	<i>Entity within the Talanx Group (Ultimate Parent Company)</i>	27,926	22,683
- Reimbursement of administrative expenses to Hannover Rück SE Malaysia Branch, Malaysia	<i>Branch of parent Company</i>	2,738	3,591
- Expenses recharged to Hannover Rueck SE, Bahrain Branch	<i>Branch of parent company</i>	811,657	561,985
- Expenses recharged by Hannover Rück SE, Germany	<i>Parent company</i>	119,685	42,031

b) Amounts receivable

		30 June 2017 (reviewed)	31 December 2016 (audited)
- Hannover Rueck SE, Bahrain Branch	<i>Branch of parent Company</i>	422,397	407,938
- Hannover Rück SE, Germany	<i>Parent company</i>	42,441	-
		464,838	407,938

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

For the six-month period ended 30 June 2017

Bahraini Dinars

11 RELATED PARTY TRANSACTIONS (continued)

c) Amounts payable

		30 June 2017 (reviewed)	31 December 2016 (audited)
- Hannover Re Bermuda Ltd., Bermuda	Entity within the Hannover Re Group	1,942,221	-
- Hannover Rueck SE, Bahrain Branch	Branch of parent company	66,419	294,380
- Hannover Rück SE, Germany	Parent company	727,626	747,005
		2,736,266	1,041,385

12 FAIR VALUE OF FINANCIAL INSTRUMENTS

(i) Fair value hierarchy

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. The table below sets out the group's classification of each class of financial assets and liabilities, and their fair values.

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

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*
inputs other than quoted prices included within Level 1 that are observable 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 in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- *Level 3*
inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and where 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 for which

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

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12 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

(ii) Financial instruments measured at fair value

The table below analyses financial instruments, measured at fair value as at the end of the year, by level in the fair value hierarchy into which the fair value measurement is categorized:

		30 June 2017			
		Level 1	Level 2	Level 3	Total
Investments at fair value through					
income statement		111,320,828	-	-	111,320,828
		111,320,828	-	-	111,320,828

No transfers out of, or into, the level 3 measurement classification occurred during the period ended 30 June 2017.

		31 December 2016			
		Level 1	Level 2	Level 3	Total
Investments at fair value through					
income statement		107,232,684	-	-	107,232,684
		107,232,684	-	-	107,232,684

Fair value represents 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 the presumption that the company is a going concern without any intention or requirement to curtail materially the scale of its operation or to undertake a transaction on adverse terms.

(iii) Other financial assets and liabilities

The carrying amount of the Company's other financial assets and liabilities approximate their fair values due to their short term nature.

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

Bahraini Dinars

13 SEGMENT INFORMATION**30 June 2017**

	General Retakaful	Family Retakaful	Total
Gross contributions	18,428,853	14,713,214	33,142,067
Earned contributions	20,007,340	15,512,420	35,519,761
Total underwriting costs	(17,874,484)	(14,257,441)	32,131,925
Surplus / (deficit) of revenue over expenses for the year	982,166	(715,185)	266,981
Total assets	60,111,016	43,655,026	103,766,042
Total liabilities	91,178,393	36,768,476	127,946,869
Policyholders' fund	(31,067,377)	6,886,551	(24,180,827)
Shareholders' assets	-	-	62,988,922
Shareholders' liabilities	-	-	3,507,718

30 June 2016

	General Retakaful	Family Retakaful	Total
Gross contributions	16,774,353	10,413,308	27,187,661
Earned contributions	16,867,958	10,941,401	27,809,359
Total underwriting costs	(15,819,550)	(9,094,487)	(24,914,037)
Surplus of revenue over expenses for the year	55,462	677,340	732,803
31 December 2016			
Total assets	63,558,180	44,163,738	107,219,918
Total liabilities	95,607,724	36,562,002	132,169,726
Policyholders' fund	(32,049,544)	7,601,736	(24,447,808)
Shareholders' assets	-	-	62,988,922
Shareholders' liabilities	-	-	3,621,600