

Hannover ReTakaful B.S.C. (c)

CONDENSED INTERIM FINANCIAL INFORMATION

30 June 2020

Registered Office	: Zamil Tower, 17th floor P.O. Box 75180 Manama Kingdom of Bahrain
Board of Directors	: Sven Althoff, Chairman Claude Chèvre Adham El-Muezzin Gerald Segler Olaf Brock
Auditors	: PricewaterhouseCoopers ME Limited

Hannover ReTakaful B.S.C. (c)
Condensed interim financial information
For the six-month period ended 30 June 2020

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Independent Auditor's Review report to the directors of Hannover Retakaful B.S.C. (c)

Report on the review of the condensed interim financial information

Introduction

We have reviewed the accompanying condensed interim statement of financial position of Hannover Retakaful B.S.C. (c) (the "Company" or "Hannover") as at 30 June 2020 and the related condensed interim statements of income, policyholders' revenues and expenses, changes in policyholders' surplus and deficit, changes in shareholders' equity and cash flows for the six month period then ended and explanatory notes. The directors are responsible for the preparation and presentation of this condensed interim financial information in accordance with the basis of preparation stated in Note 2 to this condensed interim financial information. 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 the basis of preparation stated in Note 2 to this condensed interim financial information.

29 September 2020

Partner's registration number: 196

Manama, Kingdom of Bahrain

Hannover ReTakaful B.S.C. (c)
 Condensed interim statement of financial position
 as at 30 June 2020

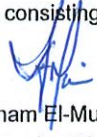
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Bahraini Dinars

ASSETS	Note	30 June 2020 (reviewed)	31 December 2019 (audited)
Cash and cash equivalents		10,022,259	7,337,983
Statutory deposit		164,406	150,099
Investment securities	6	125,159,811	123,690,692
Retakaful receivables		18,088,194	14,479,959
Accrued contribution receivable		36,104,139	22,917,829
Related party receivables	9 d)	-	195
Deferred acquisition costs		3,920,208	3,773,556
Retrocessionaires' share of unearned contribution reserves		108,519	366,369
Retrocessionaires' share of loss reserves	7	1,894,115	302,435
Prepayments, equipment and other assets		186,243	141,840
Total assets		195,647,894	173,160,957
SHAREHOLDERS' EQUITY, POLICYHOLDERS' EQUITY & LIABILITIES			
Shareholders' equity			
Share capital		20,000,000	20,000,000
Statutory reserve		5,830,955	5,830,955
Retained earnings		45,860,295	42,818,595
Total shareholders' equity		71,691,250	68,649,550
Policyholders' equity (page 6)		(24,082,267)	(18,128,802)
Liabilities			
Loss reserves	7	115,589,157	94,448,733
Unearned contribution reserves		26,049,765	21,993,082
Commission reserves		387,129	387,363
Retakaful payables		3,866,405	3,821,889
Payables to retrocessionaires		703,547	505,548
Related party payables	9 c)	38,414	11,735
Other liabilities		1,404,494	1,471,859
Total liabilities		148,038,911	122,640,209
Total shareholders' equity, policyholders' fund and liabilities		195,647,894	173,160,957

The Board of Directors approved the condensed interim financial information consisting of pages 3 to 14 on 29 September 2020.


 Sven Althoff
 Chairman


 Adham El-Muezzin
 Managing Director

Hannover ReTakaful B.S.C. (c)
 Condensed interim statement of income
 For the six-month period ended 30 June 2020


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Bahraini Dinars

	Note	30 June 2020 (reviewed)	30 June 2019 (reviewed)
INCOME			
Wakala fee for managing retakaful activities		3,021,777	2,893,456
Change in deferred wakala fee		(296,035)	(60,418)
Net earned wakala fee		2,725,742	2,833,038
Investment income		974,556	2,963,632
Mudaraba fee		229,690	1,139,398
Foreign exchange gains		8,464	17,451
TOTAL INCOME		3,938,452	6,953,519
EXPENSES			
Staff cost		(609,428)	(642,395)
General and administrative expenses		(287,324)	(430,694)
Total expenses		(896,752)	(1,073,089)
PROFIT FOR THE PERIOD		3,041,700	5,880,430

The Board of Directors approved the condensed interim financial information consisting of pages 3 to 14 on 29 September 2020


 Sven Althoff
 Chairman


 Adham El-Muezzin
 Managing Director

Condensed interim statement of policyholders' revenue and expenses
For the six-month period ended 30 June 2020

Bahraini Dinars

	Note	30 June 2020 (reviewed)	30 June 2019 (reviewed)
REVENUES			
Gross contributions		38,332,445	34,049,526
Retrocessionaires' share of contributions		(293,814)	(2,380,983)
Change in gross unearned contributions		(4,281,797)	(5,448,812)
Change in retrocessionaires' share of unearned contributions		(257,917)	1,165,466
Net earned contributions		33,498,917	27,385,197
Foreign exchange gains / (losses)		392,498	(16,733)
Investment income		574,225	2,848,496
Mudarib fee		(229,690)	(1,139,398)
Total revenues		34,235,950	29,077,562
EXPENSES			
Gross claims paid		(13,130,489)	(18,488,378)
Movement in loss reserves, net	7	(20,155,116)	(3,797,194)
Net claims incurred		(33,285,605)	(22,285,572)
Policy acquisition costs, net		(4,311,805)	(4,855,195)
Movement in deferred acquisition costs		147,157	1,003,110
Wakala fee		(3,021,777)	(2,893,456)
Change in deferred wakala fee		296,035	60,418
Other taxes		(13,420)	(3,707)
Total expenses		(40,189,415)	(28,974,402)
(Deficit) / surplus for the period		(5,953,465)	103,160

The notes on pages 9 to 14 are an integral part of this condensed interim financial information.

Condensed interim statement of changes in policyholders' surplus and deficit

For the six-month period ended 30 June 2020

Bahraini Dinars

2020 (reviewed)

	General retakaful	Family retakaful	Total accumulated deficit	Surplus distribution reserve	Total policy holders' fund
As at 1 January 2020	(18,183,190)	(1,312,163)	(19,495,353)	1,366,551	(18,128,802)
Deficit for the period	(103,285)	(5,850,180)	(5,953,465)	-	(5,953,465)
As at 30 June 2020	(18,286,475)	(7,162,343)	(25,448,818)	1,366,551	(24,082,267)

2019 (reviewed)

	General retakaful	Family retakaful	Total accumulated deficit	Surplus distribution reserve	Total policy holders' fund
As at 1 January 2019	(19,647,857)	694,584	(18,953,273)	1,366,551	(17,586,722)
Surplus / (deficit) for the period	843,864	(740,704)	103,160	-	103,160
As at 30 June 2019	(18,803,993)	(46,120)	(18,850,113)	1,366,551	(17,483,562)

The notes on pages 9 to 14 are an integral part of this condensed interim financial information.

Condensed interim statement of changes in shareholders' equity

For the six-month period ended 30 June 2020

Bahraini Dinars

2020 (reviewed)

	Share capital	Statutory reserve	Dividend reserve	Retained earnings	Total
As at 1 January 2020	20,000,000	5,830,955	-	42,818,595	68,649,550
Profit for the period	-	-	-	3,041,700	3,041,700
As at 30 June 2020	20,000,000	5,830,955	-	45,860,295	71,691,250

2019 (reviewed)

	Share capital	Statutory reserve	Dividend reserve	Retained earnings	Total
As at 1 January 2019	20,000,000	4,850,990	1,000,000	37,298,910	63,149,900
Profit for the period	-	-	-	5,880,430	5,880,430
Dividends paid	-	-	(1,000,000)	(3,300,000)	(4,300,000)
As at 30 June 2019	20,000,000	4,850,990	-	39,879,340	64,730,330

The notes on pages 9 to 14 are an integral part of this condensed interim financial information.

Hannover ReTakaful B.S.C. (c)
Condensed interim statement of cash flows
For the six-month period ended 30 June 2020

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Bahraini Dinars

	30 June 2020 (reviewed)	30 June 2019 (reviewed)
OPERATING ACTIVITIES		
Combined (deficit) / profit for the period	(2,911,765)	5,983,590
<i>Adjustments for:</i>		
Depreciation expenses	21,866	30,853
Investment income	(1,548,781)	(5,812,128)
	(4,438,680)	202,315
<i>Changes in operating assets and liabilities:</i>		
Changes in unearned contribution reserves, net	4,314,533	4,359,493
Changes in loss reserves, net	19,548,744	3,939,813
Changes in deferred acquisition costs	(146,652)	(1,034,758)
Changes in commission reserves, net	(234)	(84,168)
Changes in retakaful receivables	(3,608,235)	(2,426,625)
Changes in retakaful payables	44,516	(975,064)
Changes in accrued contribution receivable	(13,186,310)	(4,602,821)
Changes in prepayments and other assets	(65,289)	(19,741)
Changes in related party receivables / payables	26,874	(523,650)
Changes in payables to retrocessionaires	197,999	2,292,528
Changes in other liabilities	(67,365)	(1,433)
Cash flows generated from operating activities	2,619,901	1,125,889
INVESTING ACTIVITIES		
Purchase of equipment	(980)	-
Addition to statutory deposit	(14,307)	-
Profit from investments securities	2,090,647	1,829,188
Purchase of investment securities	(22,863,568)	(20,626,137)
Redemption of investment securities	20,631,532	20,769,832
Cash flows (used in) / generated from investing activities	(156,676)	1,972,883
FINANCING ACTIVITIES		
Dividend paid	-	(4,300,000)
Cash flows used in financing activities	-	(4,300,000)
Net increase / (decrease) in cash and cash equivalents	2,463,225	(1,201,228)
Cash and cash equivalents at the beginning of the period	7,337,983	11,203,204
Foreign currency exchange movement	221,051	(154,343)
Cash and cash equivalents at the end of the period	10,022,259	9,847,633
Represented by:		
Shareholders	1,627,479	450,435
Policyholders	8,394,780	9,397,198
	10,022,259	9,847,633

The notes on pages 9 to 14 are an integral part of this condensed interim financial information.

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

2 BASIS OF PREPARATION

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 2019.

The condensed interim financial information is not audited but has been reviewed by PricewaterhouseCoopers ME Limited and their review report is set out on page 2. The comparatives for the condensed statement of financial position have been extracted from the audited financial statements for the year ended 31 December 2019. The comparatives for the condensed statements of income, 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 2019.

The following new accounting standards were effective for the first time for financial years beginning on or after 1 January 2020. However, the accounting Board of AAOIFI clarified that the standard can be deferred till the completion of revised takaful standard.

- FAS 30 - Impairment, Credit Losses and Onerous Commitments
- FAS 33 - Investment in Sukuk Shares and similar Instruments

3 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 2019.

4 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 2019, except as mentioned and disclosed in note 12 (Covid - 19 impact).

5 SEASONALITY OF INTERIM OPERATIONS

As a result of the seasonality associated with the insurance business, gross written contribution 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.

6 INVESTMENT SECURITIES

	30 June 2020 (reviewed)	31 December 2019 (audited)
Debt type		
- Quoted sukuks	120,449,477	116,113,099
- Unquoted sukuks	3,300,158	4,843,628
Equity type		
- Quoted sukuk	1,410,176	2,733,965
Investments at fair value through income statement	125,159,811	123,690,692

7 LOSS RESERVE

	30 June 2020			31 December 2019		
	Gross	Retro-ceded	Net	Gross	Retro-ceded	Net
Claims reserves	40,461,887	(152,172)	40,309,715	41,332,150	-	41,332,150
IBNR reserves	53,986,846	(150,263)	53,836,583	46,216,656	(148,424)	46,068,232
At 1 January	94,448,733	(302,435)	94,146,298	87,548,806	(148,424)	87,400,382
Movement	21,756,514	(1,601,398)	20,155,116	6,565,670	(155,166)	6,410,504
Foreign exchange (losses) / gains	(616,089)	9,718	(606,371)	334,257	1,155	335,412
At period/year ended	115,589,158	(1,894,115)	113,695,043	94,448,733	(302,435)	94,146,298
Claims reserves	45,222,577	(1,749,990)	43,472,587	40,461,887	(152,172)	40,309,715
IBNR reserves	70,366,581	(144,125)	70,222,456	53,986,846	(150,263)	53,836,583
At period/year ended	115,589,158	(1,894,115)	113,695,043	94,448,733	(302,435)	94,146,298
General Takaful	68,964,455	-	68,964,455	62,796,249	(152,172)	62,644,077
Family Takaful	46,624,703	(1,894,115)	44,730,588	31,652,484	(150,263)	31,502,221
At period/year ended	115,589,158	(1,894,115)	113,695,043	94,448,733	(302,435)	94,146,298

8 QARD HASAN

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 Shari'a Supervisory Board is of the view that the retakaful operator still holds the right to recover the Qard Hassan from policyholders.

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 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.

	30 June 2020 (reviewed)	30 June 2019 (reviewed)
a) Transactions with related parties		
Contribution ceded to:		
- Hannover Re Bermuda Ltd., Bermuda <i>Entity within the Hannover Re Group</i>	184,307	2,272,252
- Hannover Rück SE, Germany <i>Parent company of the Hannover Re Group</i>	46,692	80,310
Expenses recharged:		
- Ampega Asset Management GmbH, Germany <i>Entity within the Talanx Group (Ultimate Parent)</i>	30,272	28,138
- Hannover Rück SE Malaysia Branch, Malaysia <i>Branch of the Parent company of the Hannover Re Group</i>	1,231	3,754
- Hannover Rueck SE, Bahrain Branch, Bahrain <i>Branch of the Parent company of the Hannover Re Group</i>	515,850	620,017
- Hannover Rück SE, Germany <i>Parent company of the Hannover Re Group</i>	131,741	188,536
b) Key management compensation		
Salaries and benefits to key management personnel	365,250	420,951

Notes to the condensed interim financial information

For the six-month period ended 30 June 2020

Bahraini Dinars

9 RELATED PARTY TRANSACTIONS (continued)

	30 June 2020 (reviewed)	31 December 2019 (audited)
c) Related party payables		
- Hannover Rueck SE, Bahrain Branch, Bahrain <i>Branch of the Parent company of the Hannover Re Group</i>	38,414	-
- Hannover Rück SE, Germany <i>Parent company of the Hannover Re Group</i>	-	11,735
d) Payables to retrocessionaires		
- Hannover Rück SE, Germany <i>Parent company of the Hannover Re Group</i>	22,897	-
- Hannover Re Bermuda Ltd., Bermuda <i>Entity within the Hannover Re Group</i>	184,312	-
e) Amount receivable		
Hannover Rück SE, Germany <i>Parent company of the Hannover Re Group</i>	-	195
f) Retrocessionaires' share of loss reserves		
Hannover Rück SE, Germany <i>Parent company of the Hannover Re Group</i>	1,749,990	152,172
g) Balances payable to key management personnel		
Remuneration payable	502,273	753,519

10 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 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 Company determines fair values using other valuation

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

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

Notes to the condensed interim financial information

For the six-month period ended 30 June 2020

Bahraini Dinars

10 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(ii) Financial instruments measured at fair value

All financial instruments are categorized as Level 2 classification as at the end of the period 30 June 2020 and year ended 31 December 2019. No transfers out of, or into, the level 3 measurement classification occurred during the period ended 30 June 2020 and 31 December 2019.

(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.

11 SEGMENT INFORMATION

30 June 2020 (reviewed)

Gross contributions
Net earned contributions
Net claims incurred
Net policy acquisition cost
Deficit of revenue over expenses for the period
Total assets
Total liabilities
Policyholders' fund
Interpool and shareholders balances
Shareholders' assets
Shareholders' liabilities

General Retakaful	Family Retakaful	Total
15,965,295	22,367,150	38,332,445
14,630,005	18,868,912	33,498,917
(10,411,006)	(22,874,599)	(33,285,605)
(3,950,560)	(214,088)	(4,164,648)
(103,285)	(5,850,180)	(5,953,465)
70,031,903	62,567,527	132,599,430
88,318,382	68,363,323	156,681,705
(18,286,475)	(5,795,792)	(24,082,267)
-	-	(11,614,862)
-	-	74,663,326
-	-	2,972,068

30 June 2019 (reviewed)

Gross contributions
Earned contributions
Net claims incurred
Net policy acquisition cost
Deficit of revenue over expenses for the period

General Retakaful	Family Retakaful	Total
16,463,255	17,586,271	34,049,526
11,254,388	16,130,809	27,385,197
(7,335,153)	(14,950,419)	(22,285,572)
(3,373,505)	(478,580)	(3,852,085)
843,864	(740,704)	103,160
64,605,282	46,247,508	110,852,790
82,788,473	46,193,118	128,981,591
(18,183,190)	54,388	(18,128,802)
-	-	(9,834,227)
-	-	72,142,393
-	-	3,492,845

31 December 2019 (audited)

Total assets
Total liabilities
Policyholders' fund
Interpool and shareholders balances
Shareholders' assets
Shareholders' liabilities

12 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 Company 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 Company 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 Company's Health contracts, explicitly exclude the coverage of losses arising out of a pandemic. The Company, therefore, does not foresee any significant claims arising for this line of business.

The Company'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 Company 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 Company's operations.

	General Retakaful	Family Retakaful	Shareholder
Increase in loss reserves	41,325	500,000	-
Government relief	-	-	65,409
Rent expenses	-	-	1,345