

# Hannover Rueck SE, Bahrain Branch

## CONDENSED INTERIM FINANCIAL INFORMATION

30 JUNE 2023

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 (Resigned effective from 1 July 2023)
Auditors	: PricewaterhouseCoopers M.E. Limited

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## *Independent auditor's review report to the directors of Hannover Rück SE in respect of its Bahrain Branch*

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### *Introduction*

We have reviewed the accompanying condensed interim statement of financial position of Hannover Rueck SE, Bahrain Branch (the "Branch") as at 30 June 2023 and the related condensed interim statement of profit or loss and other comprehensive income and cash flows for the six month period then ended and explanatory notes. 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 Standards Board ("IASB"). Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

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### *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 condensed 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.

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### *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.

John Molloy  
Partner's registration number: 255  
PricewaterhouseCoopers M.E Limited  
Manama, Kingdom of Bahrain  
28 September 2023

	Note	30 June 2023 (reviewed)	31 December 2022 (unaudited restated)	1 January 2022 (unaudited restated)
<b>ASSETS</b>				
Cash and bank balances	5	8,314,254	6,320,955	8,228,429
Statutory deposit		172,293	169,753	166,546
Investments	6	122,702,511	112,690,209	107,254,248
Retrocessionnaires' share of reinsurance contract liabilities	7	15,867,388	25,529,242	34,492,494
Prepayments, equipment and other assets		249,493	309,196	209,330
<b>Total assets</b>		<b>147,305,939</b>	<b>145,019,355</b>	<b>150,351,047</b>
<b>HEAD OFFICE FUNDS AND LIABILITIES</b>				
<b>LIABILITIES</b>				
Reinsurance contract liabilities	7	121,739,008	126,058,004	143,415,378
Other payables		10,146,358	5,809,099	3,107,304
<b>Total liabilities</b>		<b>131,885,366</b>	<b>131,867,103</b>	<b>146,522,682</b>
<b>HEAD OFFICE FUNDS</b>	8	<b>15,420,573</b>	<b>13,152,252</b>	<b>3,828,365</b>
<b>Total head office funds and liabilities</b>		<b>147,305,939</b>	<b>145,019,355</b>	<b>150,351,047</b>

Management approved the condensed interim financial information consisting of pages 3 to 27 on 28 September 2023.



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Olaf Brock  
 Managing Director Group Finance

Condensed interim statement of profit or loss and comprehensive income  
For the six-month period ended 30 June 2023

Bahraini Dinars

	Note	30 June 2023 (reviewed)	30 June 2022 (unaudited restated)
<b>INCOME</b>			
Reinsurance revenue	7	23,358,264	22,650,238
Reinsurance service expense	7	(16,683,751)	(19,841,376)
<b>Reinsurance service result</b>		<b>6,674,513</b>	<b>2,808,862</b>
Net expense from reinsurance contracts retroceded	7	(5,730,520)	(615,068)
<b>Net reinsurance service result</b>		<b>943,993</b>	<b>2,193,794</b>
Foreign exchange gains		124,480	447,046
Net Investment and other income		1,386,227	879,040
<b>Income from investment</b>		<b>1,510,707</b>	<b>1,326,086</b>
Finance expenses from reinsurance contracts issued	7	(1,541,579)	(867,262)
Finance income from reinsurance contracts retroceded	7	289,348	346,389
<b>Net reinsurance financial result</b>		<b>(1,252,231)</b>	<b>(520,873)</b>
Other income		151,270	726
Other operating expenses		(38,508)	(15,135)
<b>Other income / expenses</b>		<b>112,762</b>	<b>(14,409)</b>
<b>Income for the period</b>		<b>1,315,231</b>	<b>2,984,598</b>
<b>Other comprehensive income / (loss)</b>			
<b>Items that will be reclassified to profit or loss:</b>			
Changes on remeasurement of investments measured at FVOCI		314,826	(6,840,231)
Transfers for recognition of loss on disposal of investments measured at FVOCI		121,466	36,030
	8	436,292	(6,804,201)
Finance income from reinsurance contracts	7	(553,279)	6,498,435
Finance expenses from reinsurance contracts retroceded	7	385,644	(1,083,579)
Movement in insurance finance reserve	8	(167,635)	5,414,856
<b>Total other comprehensive income / (loss) for the period</b>		<b>268,657</b>	<b>(1,389,345)</b>
<b>Total comprehensive income for the period</b>		<b>1,583,888</b>	<b>1,595,253</b>

Management approved the condensed interim financial information consisting of pages 3 to 27 on 28 September 2023.



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Olaf Brock

Managing Director Group Finance

	Note	30 June 2023 (reviewed)	30 June 2022 (unaudited restated)
<b>OPERATING ACTIVITIES</b>			
Income for the period		1,315,231	2,984,598
<b>Adjustments for:</b>			
Net investment and other income		(1,386,227)	(879,040)
Depreciation		7,064	6,350
		<b>(63,932)</b>	<b>2,111,908</b>
<b>Changes in operating assets and liabilities:</b>			
- in Reinsurance contract liabilities		9,661,854	2,064,874
- in prepayments, equipment and other assets		50,098	(525,857)
- in Retrocessionnaires' share of reinsurance contract liabilities		(4,318,996)	(2,227,913)
- in other payables		4,337,259	(111,168)
<b>Net cash generated from operating activities</b>		<b>9,666,283</b>	<b>1,311,844</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of investments		(22,731,458)	(17,047,747)
Proceeds from disposal of investments		13,086,251	11,384,679
Interest received		1,135,426	1,001,328
Foreign exchange movement on investment		152,365	20,036
<b>Net cash used in investing activities</b>		<b>(8,357,416)</b>	<b>(4,641,704)</b>
<b>FINANCING ACTIVITIES</b>			
Movement in head office account	8	684,432	182,363
<b>Net cash generated from financing activities</b>		<b>684,432</b>	<b>182,363</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>1,993,299</b>	<b>(3,147,497)</b>
Cash and cash equivalents at 1 January		6,320,955	8,228,429
<b>Cash and cash equivalents at the end of the period</b>	5	<b>8,314,254</b>	<b>5,080,932</b>

The notes on pages 6 to 27 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 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 2022 with the exception of the provisions of IFRS 17 and IFRS 9 described below, which were applied for the first time, the accounting policies adopted in the period under review were the same as those applied in the preceding annual financial statement. For more details of these other accounting policies, refer to the Branch's annual financial statements for the previous year.

## 3 ACCOUNTING PRINCIPLES INCLUDING MAJOR ACCOUNTING POLICIES

### a) Accounting standards applied for the first time

With effect from 1 January 2023, the Branch applied the accounting standards IFRS 17 "Insurance Contracts" and IFRS 9 "Financial Instruments" for the first time. Both standards were initially applied retrospectively in observance of any options or transitional arrangements. The opening balance in consideration of the principles of IFRS 17 and IFRS 9 was drawn up as at 1 January 2022.

### i) IFRS 17 Insurance contracts

IFRS 17 "Insurance Contracts" replaces the existing transitional arrangements of IFRS 4 and establishes a comprehensive accounting framework for the recognition, measurement and disclosure of insurance contracts. In addition, IFRS 17 requires extensive new disclosures in the notes. The standard is to be applied to insurance contracts issued (including reinsurance contracts issued), reinsurance contracts held ("insurance contracts ceded", retrocessions) as well as investment contracts with discretionary participation features.

The standard introduces three new measurement models, the basis being the "general measurement model" (GMM). The "variable fee approach" (VFA) is a variant of the general measurement model for insurance contracts with a direct surplus participation and is not applicable to reinsurance business. The "premium allocation approach" (PAA) is a simplified method that can be used by insurers and reinsurers when certain criteria are met. The Branch's portfolio contains both contracts that qualify for the premium allocation approach and – predominantly – contracts for which the general measurement model is to be applied. For operational reasons and in order to achieve consistent and comparable presentation and measurement within the portfolio of insurance and reinsurance contracts, the Branch is applying the GMM to its entire business.

The GMM measures receivables and payables from reinsurance business by the fulfilment value plus the contractual service margin.

The fulfilment value constitutes the risk-adjusted present value of the rights and obligations from a reinsurance treaty and is comprised of the estimates of expected future cash flows, their discounting and an explicit risk adjustment for non-financial risks.

If the present value of the expected future cash inflows exceeds the present value of the expected future cash outflows plus the risk adjustment, an expected profit exists that is deferred within the contractual service margin (CSM) and spread across the coverage period. Initial statement of financial position recognition of contracts expected to be profitable thus has no effect on profit or loss.

However, for groups of contracts where the sum of the present value of expected future cash outflows and the risk adjustment exceeds the present value of the expected future cash inflows, we recognise the loss expected at time of acquisition directly in profit or loss in the so-called "loss component".

The Branch discounts all cash flows using currency-specific, risk-free yield curves that are adjusted to reflect the respective characteristics of the cash flows and the liquidity of the underlying insurance contracts ("bottom-up approach").

The non-financial risk adjustment for a group of insurance contracts reflects the amount of compensation needed to carry the uncertainty surrounding the amount and timing of the cash flows that arise out of non-financial risks – such as the insurance risk itself, the cost risk and in particular the risk associated with policyholder behaviour.

As a general principle, insurance contracts are grouped together and measured on an aggregated level. For this purpose, we define as a first step portfolios containing contracts with similar risks that are managed together. In a second step, we split these portfolios into groups of contracts according to profitability criteria and annual cohorts. With regard to the profitability expected at the time of initial recognition, a distinction is made between

- onerous contracts,
- contracts where there is no significant probability of them becoming onerous in subsequent periods and
- the remaining contracts;

these are allocated to separate groups of contracts. Contracts issued within a calendar year are combined into annual cohorts.

The standard must be applied retrospectively unless this is impracticable (IFRS 17.C3). In this case, especially if an adequate data basis for full retrospective application is not available, it is possible to apply either a modified retrospective approach or a fair value approach on the level of the group of contracts.

Using adequately robust information that is available without unreasonable effort, the modified retrospective approach is intended to arrive at an overall result that approximates retrospective application. In connection with application of the modified retrospective approach, the following main simplifications were utilised:

- Contracts issued in intervals of more than one year were combined
- No distinction was made between purchased insurance portfolios and directly written business
- Use of a yield curve approximating the estimated yield curve for at least three years directly prior to the date of transition to IFRS 17 that is based on the general approach used for calculating discount rates
- Restatement of the non-financial risk adjustment as at 1 January 2022 by the amount of the release of the non-financial risk adjustment expected prior to the transition date based on comparable contracts
- The other comprehensive income (OCI) for the technical reserves as at 1 January 2022 is determined as the difference between the technical reserves discounted at the interest rate from the year of acquisition of the contracts and at the current rate on the closing date. Overall, the balance of the technical OCI positions and the investment OCI positions produces the OCI from investments not used to cover underwriting liabilities.

Under the fair value approach, the contractual service margin of a group of contracts at the transition date is established as the difference between the fair value of this group calculated according to IFRS 13 and the corresponding fulfilment value calculated according to IFRS 17.

The Branch is applying each of the aforementioned transition arrangements, differentiated according to certain groups of contracts. The Branch applied full retrospective approach for life and health segment as at transition date of 01 January 2022. Full retrospective approach is applied on transition to all property and casualty segment contracts issued on or after 1 January 2020. For certain groups of contracts issued prior to 2020, the modified retrospective approach and the fair value approach were applied.

The application of IFRS 17 has a number of implications for the structure of the statement of financial position. In addition to the changed technical items under the GMM, certain items that have been reported separately under IFRS 4 are eliminated and recognised under the reinsurance liabilities in accordance with the general model. This is the case, for example, with the deferred acquisition costs, the reinsurance recoverables and funds withheld.



Furthermore, the standard fundamentally changes the statement of profit or loss and other comprehensive income and differentiates between the underwriting result, which is composed of the insurance revenue and insurance service expenses, and the insurance finance income and expenses.

Gross written premium is no longer disclosed, instead being replaced with reinsurance revenue that is defined in such a way as to facilitate comparison with the revenue disclosures of other sectors. Insurance revenue is instead reported when it is earned by recognising in each period the change in the liabilities for providing coverage for which the insurance entity receives compensation, including the pro rata recognition of the contractual service margin in profit and loss, as well as the part of the premiums that covers acquisition costs.

Insurance finance income and expenses result from discounting effects and financial risks. In accordance with the option granted by IFRS 17, they can either be recognised entirely as profit or loss in the statement of profit or loss and other comprehensive income or in part directly in head office funds. This "OCI option" can be exercised on the level of individual portfolios and is utilised by the Branch for a large part of its business.

Changes in assumptions about future cash flows that do not relate to interest rates or financial risks are not recognised directly in the statement of profit or loss and other comprehensive income but are instead booked against the contractual service margin and hence spread across the remaining coverage period.

Recognition in profit or loss is only immediate in the case of those groups of insurance contracts that are expected to be loss-making. If this adjustment to the contractual service margin exceeds its carrying amount, a loss component is established analogously to the initial recognition of groups of contracts that are expected to be loss-making and recognised directly in profit or loss. Conversely, it may happen that a contractual service margin is established in the context of subsequent measurement of a group of contracts originally classified as probably loss-making.

At the transition date of 1 January 2022, the initial application of IFRS 17 gave rise to the following changes in the measurement of key items in the statement of financial position:

The amount of the technical liabilities and assets changes due to the concepts enshrined in the standard relating to the discounting of future cash flows, the establishment of the contractual service margin, loss components and risk adjustment and other measurement differences compared to IFRS 4, including for example the diverging definition of contract boundaries or the aforementioned grouping of contracts for measurement purposes.

The Branch uses the concept of contract boundary to determine what cash flows should be considered in the measurement of groups of insurance contracts. Cash flows are within the boundary of an insurance contract if they arise from the rights and obligations that exist during the period in which the policyholder is obligated to pay premiums or the Branch has a substantive obligation to provide the policyholder with insurance contract services. Cash flows outside the insurance contracts boundary relate to future insurance contracts and are recognised when those contracts meet the recognition criteria.

Insurance acquisition cash flows are the costs that are related to acquiring the contract and that are directly attributable to a portfolio of insurance contracts. Directly attributable expenses are the costs that can be fully or partially attributed to the fulfillment of the groups of insurance contracts. The Group allocates the attributable costs based on a number of drivers. The Branch recognises insurance acquisition cash flows in the LRC on initial recognition as a part of estimated cash outflows. Directly attributable costs fall under the insurance service expense immediately. While the non-attributable costs are reported under other operating expenses.

The retention, to the extent possible under IFRS 17, of the reserving approach until now is adopted by the Branch results in the recognition of a loss component for some groups of contracts at the time of initial recognition, although this may even out over time and lead to run-off profits.

Presentation changes in the interim statement of financial position are introduced by IFRS 17. The previously reported line items: accrued premiums receivable - deferred acquisition costs, insurance payable, unearned premium reserve, loss reserves are presented together by portfolio on lines called insurance contract assets and liabilities.

The previously reported line items: retrocessionnaires' share of unearned premium reserves, retrocessionnaires' share of loss reserves, retrocessionnaires' share of deferred acquisition costs are presented together by portfolio on a single line called reinsurance contract assets or liabilities.

Presentation is driven by portfolios which are composed of groups of contracts covering similar risks and which are managed together. Portfolios of insurance and reinsurance contracts are presented separately between: portfolios of insurance contracts that are assets, portfolios of reinsurance contracts that are assets, portfolios of insurance contracts that are liabilities, and portfolios of reinsurance contracts that are liabilities.

The Branch has applied the transition provisions in IFRS 17 and has not disclosed the impact of the adoption of IFRS 17 on each financial statement line item. The effects of adopting IFRS 17 on the condensed interim financial informations at 1 January 2022 are presented in the statement of changes in equity (Note 8).

**ii) IFRS 9 Financial Instruments**

IFRS 9 "Financial Instruments" replaces IAS 39 "Financial Instruments: Recognition and Measurement" and contains new rules for classifying and measuring financial instruments, for recognition of impairment based on a new, forward-looking model of the expected losses and for the accounting of general hedge relationships.

Initial mandatory application of the standard was envisaged for annual reporting periods beginning on or after 1 January 2018. However, the IASB published "Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" in September 2016 and "Amendments to IFRS 4: Extension of the Temporary Exemption from Applying IFRS 9" in June 2020. These amendments extended the temporary deferral of initial application of IFRS 9 "Financial Instruments" that had been granted to insurers and reinsurers ("deferral approach") until 1 January 2023, with the result that IFRS 9 and IFRS 17 are first applied by the Branch at the same time.

In order to be able to take advantage of the temporary deferral, it was necessary to demonstrate that the Branch's predominant activity is the issuance of insurance and reinsurance contracts within the scope of IFRS 4. The Branch reviewed the application requirements based on the financial statement as at 31 December 2015 with a positive outcome and decided to make use of the option of temporary deferral. Since the review of the application requirements there has been no change in business activity that would have necessitated a re-evaluation of the predominant activity.

While the retrospective application of IFRS 17 provides for the presentation of comparative information for the 2022 financial year, this is not the case with initial application of IFRS 9. By issuing "Amendment to IFRS 17 Insurance Contracts; Initial Application of IFRS 17 and IFRS 9 – Comparative Information" in December 2021, the IASB therefore introduced a transition option relating to comparative information about financial assets that is presented on initial application of IFRS 17.

This option is intended to help entities avoid temporary accounting mismatches between financial assets and insurance contract liabilities in the 2022 comparative year, thereby improving the usefulness of comparative information for users of financial statements.

It allows for an overlay in the classification of financial assets in the comparative period that is presented on initial application of IFRS 17 ("overlay approach"). This overlay makes it possible to classify all financial assets, including those not connected with contracts within the scope of IFRS 17, on a case-by-case basis in the comparative period in a way that corresponds to how the entity expects to classify these assets on initial application of IFRS 9.

The Branch applied this approach, including the provisions of IFRS 9 regarding impairment losses, consistently to all eligible financial instruments.

The classification of financial instruments according to IFRS 9 is guided, on the one hand, by the cash flow characteristics of the financial instruments and, on the other, by the business model used to manage the financial instruments. On the basis of these two criteria, financial instruments are allocated to one of three measurement categories, namely "amortised cost" (business model "hold"), "fair value through other comprehensive income" (business model "hold and sell") or "fair value through profit or loss" (business model "trading").

In view of the nature of reinsurance business, the bulk of our portfolio of debt instruments is allocated to the business model "hold and sell" accordingly the investments are classified as fair value through other comprehensive income "FVOCI", except where debt instruments do not pass the SPPI ("solely payment of principal and interest") test due to their cash flow characteristics. These investments are classified as fair value through profit or loss "FVPL".

Along with the changes described in connection with initial application of IFRS 17 and IFRS 9, the following amendments to existing standards were applicable for the first time in the reporting period. These amendments did not have any significant implications for the financial statement:

- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

**b) Standards or changes in standards that have not yet entered into force or are not yet applicable**

The IASB has issued the following amendments to existing standards, application of which was not yet mandatory in the reporting period, the Branch is refraining from early application of these amendments, which are not expected to have any significant implications for the Group's net assets, financial position or results of operations.

- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current
- Amendments to IAS 1 Presentation of Financial Statements: Non-current Liabilities with Covenants
- Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements
- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback

**c) Summary of significant accounting policies**

Supplementary to our explanatory remarks in the subsection "Accounting standards applied for the first time", we describe below the major accounting policies changed or newly introduced as a consequence of initial application of IFRS 17 and IFRS 9. For details of all other accounting policies refer to the annual financial statements for the year ended 31 December 2022.

**i) Classification of contracts**

A contract is to be classified as a reinsurance contract issued or as a reinsurance contract held pursuant to IFRS 17 if a significant insurance risk is thereby assumed or transferred. These contract types are treated according to the same rules, irrespective of whether the contracts were issued, acquired in connection with a merger or acquired as part of a transfer of contracts that do not constitute business operations. Contracts that may take the legal form of an insurance contract but do not transfer any significant insurance risk are classified as investment contracts. The recognition and measurement of such contracts follows the rules for the recognition of financial instruments according to IFRS 9.

**Notes to the condensed interim financial information****For the six-month period ended 30 June 2023**

Bahraini Dinars

3 *ACCOUNTING PRINCIPLES INCLUDING MAJOR ACCOUNTING POLICIES (continued)***ii) General measurement model – initial measurement**

On initial recognition the Branch measures a group of reinsurance contracts as the sum of

- the fulfilment value, which is comprised of estimates of expected future cash flows, an adjustment that reflects the time value of money and the associated financial risks as well as a risk adjustment for non-financial risks, and
- the contractual service margin (CSM).

In the recognition of the corresponding technical reserves a fundamental distinction is made between a pre-claims phase (liability for remaining coverage; LRC) and a claims phase after occurrence of the insured event (liability for incurred claims; LIC).

**iii) Fulfilment value – cash flows**

Components of the cash flows to be included are, among others, premium payments, payments to cedants, costs for acquisition and management of the contracts as well as for settlement of incurred claims. In this context, the cash flows included in the measurement model at each statement of financial position date always constitute the Branch's current estimate and expectation in connection with the fulfilment of obligations.

**iv) Time value of money – discounting**

The Branch discounts all cash flows with currency-specific, risk-free yield curves that are adjusted to reflect the respective characteristics of the cash flows and the liquidity of the underlying insurance contracts (bottom-up approach). The illiquidity premium used is based on risk-adjusted spreads of corporate and government bonds. These adjustments, which take the form of a supplementary illiquidity premium per currency, satisfy the following requirements / assumptions:

- The illiquidity of the underlying insurance contracts is defined through the predictability of the resulting cash flows, since the harder it is to predict a cash flow, the less it lends itself to coverage with illiquid assets.
- All characteristics of an insurance contract (or a group of insurance contracts) can be fully described and measured through the characteristics of its resulting cash flows.
- The uncertainties in cash flows that may be caused by volatility in financial market parameters are captured in the estimation of expected future cash flows, instead of implicitly reflecting them through adjustment of the risk-free and completely illiquid yield curve in the illiquidity premium.
- The illiquidity premiums are estimated on the basis of liquidity premiums for financial assets observable on the market that are adjusted to reflect the illiquidity characteristics of the cash flows on the liabilities side. The illiquidity premiums used in this context are based on risk-adjusted spreads of corporate and government bonds.
- These coverage units are based on the quantities of benefits provided at the end of the reporting period relative to those expected to be provided over the entire contract duration in order to determine the service rendered for the period. We select the coverage units for each insurance transaction in such a way that they optimally reflect the service provided in each case.

**v) Loss component**

For groups of contracts where the sum of the present value of expected future cash outflows and the risk adjustment exceeds the present value of the expected future cash inflows, we recognise the loss expected at time of acquisition directly in profit or loss in the so-called "loss component".

**vi) General measurement model – subsequent measurement**

The book value of a group of insurance contracts at each closing date is the sum of the LRC and the LIC.

- The liability for remaining coverage consists of the fulfilment value relating to future payments allocated to the group of contracts at this time as well as the CSM for the group at the closing date.
- The liability for incurred claims consists of the fulfilment value for incurred claims plus expenditures not yet paid, including claims already incurred but not yet reported.

The fulfilment value plus the estimates of current assumptions made by the Branch in earlier interim financial statements is updated at the end of each reporting period based on current estimates of the amount, timing and uncertainty of expected future cash flows and discount rates. The Branch splits the insurance finance income and expenses between profit or loss and OCI. Systematic allocation is ensured through use of the discount rate on initial recognition.

#### vii) Changes in cash flows

Changes that relate to future payments and adjust the CSM include, among others:

- Changes to estimates of the present value of expected future cash flows in the LRC, with the exception of changes described in the next section;
- Variances between an investment component that is expected to be payable in the period and the investment component that is actually payable in the period. These variances are established through comparison (i) of the investment component actually payable in the period with (ii) the payment in the period that was expected at the beginning of the period, plus any insurance finance income or expenses in relation to the expected payment, before it is payable;
- Changes to the risk adjustment for non-financial risks that relate to future services;
- Experience-based adjustments due to premiums booked in the period that relate to future services, and associated cash flows such as acquisition costs and premium-based taxes.

The following changes do not result in an adjustment of the CSM and are therefore recognised directly in P&L:

- Changes in the fulfilment value due to the effects of the time value of money, the financial risks and changes in this regard;
- Changes in the fulfilment value in connection with the LIC;
- Experience-based adjustments due to premiums booked in the period that do not relate to future services, and associated cash flows such as acquisition costs and premium-based taxes.

The CSM of each group of contracts is calculated on each closing date as explained below. This means that the year-end results are not influenced by the treatment of accounting-related estimates made in earlier interim financial statements. The book value of the CSM at the closing date corresponds to the book value at the start of the year, adjusted for:

- the CSM of new contracts added to the group in the financial year;
- the interest accretion on the book value of the CSM with the interest rate determined on initial recognition (locked-in rate);
- changes in the fulfilment value connected with cash flows that relate to the fulfilment of future services. These are recognised through adjustment of the CSM for as long as the CSM is available. If an increase in the fulfilment value exceeds the CSM, the excess amount is recognised in insurance service expenses and a loss component is recognised;
- the impact of any exchange rate differences;
- the release of the CSM through insurance revenue that was calculated after allowance for all adjustments.

#### viii) Retrocession treaties

The accounting policies described above are also applied to reinsurance contracts held.

#### ix) Derecognition and contract modification

Contracts are derecognised when they are extinguished or their terms and condition are changed in such a way as to fundamentally impact the economic characteristics of the contractual properties. If this is not the case, the contract modification results in a change in the estimated fulfilment values.

#### x) Financial instruments

Financial instruments are recognised and derecognised on acquisition or sale at the fulfilment date pursuant to IFRS 9.

**Financial assets** are split into one of three categories on acquisition according to their cash flow characteristics and respective purpose: (i) amortised cost (AC), (ii) fair value through other comprehensive income (FVOCI) and (iii) fair value through profit or loss (FVPL).

**Financial liabilities** are classified either as financial instruments at fair value through profit or loss or as financial instruments measured at amortised cost.

Transaction costs directly connected with acquisition of the financial instrument are added or deducted depending on the classification. Subsequent measurement of financial instruments is either at amortised cost or at fair value. The amortised cost is established from the initial cost of acquisition allowing for repayments, the amortisation of premiums and discounts recognised in income according to the effective interest rate method and any impairment losses and reversals.

Debt instruments are classified as financial instruments at fair value through other comprehensive income (FVOCI) if the financial asset is held within a business model whose objective is both collecting contractual cash flows and selling the financial asset and the contractual cash flows meet the SPPI criterion. Financial assets classified in the FVOCI category are measured at fair value, with all changes in fair value recognised in OCI allowing for accrued interest and disclosed in head office funds under fair value reserves. Premiums and discounts are spread across the maturity using the effective interest rate method. A large part of the Branch's investments fall under the business model with the objective of collecting cash flows and selling, because the investments are predominantly used to cover underwriting risks and sales are therefore influenced by the servicing of these obligations.

The financial instruments measured at fair value through profit or loss (FVPL) include all equity instruments that were not designated as FVOCI without subsequent recycling to profit and loss as well as all debt instruments whose cash flows do not meet the SPPI criteria or are not held within the business models whose objective is collecting contractual cash flows or collecting cash flows and selling the instrument.

All securities measured at fair value through profit or loss are carried at the fair value on the closing date. If market prices that can be used as fair values are not available, the book values of the relevant financial instruments are determined using recognised measurement methods. All unrealised gains or losses from measurements of this type are recognised in profit or loss just like realised gains and losses and reported in the investment income.

#### xi) Impairments

The impairment rules set out in IFRS 9 apply to all debt instruments recognised at amortised cost or at fair value through other comprehensive income. Impairments are established under IFRS 9 in accordance with a three-stage model:

- Stage 1 consists of debt instruments in respect of which it is assumed that the credit risk has not significantly increased since initial recognition. The risk provision for such instruments is measured using, among other things, the default probabilities for the next 12 months.
- Stage 2 consists of debt instruments that are not credit impaired, but whose credit risk has increased significantly since initial recognition. The significant increase in the credit risk is established on the basis of quantitative and qualitative information, a credit risk assessment and forward-looking information. In addition, debt instruments are allocated to this stage for which definitively verifiable information on the default probability is not yet available on acquisition. As soon as the criteria for inclusion in Stage 1 are met, they are transferred to this stage. The risk provision is calculated using the default probabilities for the entire remaining maturities of the instruments.
- Stage 3 consists of all debt instruments that are classified as credit-impaired.

The expected credit loss (ECL), which serves as the basis for recognition of impairments, is calculated either automatically using an IT-supported approach or, in the case of credit-impaired assets (Stage 3), on an individual basis. In both cases the calculations are made separately for each specific debt instrument. The automatic IT-supported approach is used to calculate the expected credit losses for all financial assets belonging to Stage 1 and Stage 2. Impairments on Stage 3 financial instruments are always calculated on a case-by-case basis at each quarterly closing date.

Impairments and reversals in connection with the ECL are recognised in profit or loss irrespective of the measurement model.

The Branch primarily uses the following three components to measure the ECL:

- the probability of default (PD),
- the loss given default (LGD) and
- the exposure at default (EAD).

Wherever possible, the ECL is established on the transaction level with the aid of a risk-adjusted cash flow model. The input factors are adjusted as necessary to reflect the requirements of IFRS 9 (e.g. through the use of point-in-time (PIT) factors). The inclusion of forecasts regarding future economic conditions in the ECL measurement has implications for risk provisioning for Stage 1 and Stage 2 assets. Suitable multi-year default probabilities are used to determine the ECL for the remaining maturities of the assets.

Upon acquisition, all financial assets for which sufficiently verifiable information on default probabilities is available are initially allocated to Stage 1. In cases where the credit risk has significantly increased, the financial assets are transferred to Stage 2. Significant deteriorations are established with the aid of rating-specific and process-based indicators. The allocation of financial instruments to Stage 3, on the other hand, is made on the basis of the counterparty's default status.

- Rating-based indicators: the Branch uses a dynamic change in the counterparty's default probability to compare the current actual default probability at the closing date with the original default probability at the time of initial recognition. The threshold used is dependent on the debtor's original credit status. Only when the current rating has decreased by at least two rating downgrades compared to the original rating is reclassification between the stages necessary. The Branch also elects to use the optional simplification applicable to financial instruments with a low credit risk. In accordance with this option, instruments are not allocated to Stage 2 if they still have an investment grade issuer rating.
- Process-based indicators: The qualitative processes used by the Branch are based on the existing risk management indicators used to establish whether the credit risk associated with the financial asset has significantly increased. These indicators encompass obligatory inclusion in a watchlist as well as qualitative evaluation of changes in the risk that have occurred since initial recognition of the assets in the statement of financial position.

If the conditions for regrouping between stages are met, but the financial asset was not classified as credit-impaired, the asset in question remains in Stage 2. If none of the indicators apply any longer and the financial asset is not credit-impaired, the asset is allocated to Stage 1. In the event of credit impairment of the financial asset, it is allocated to Stage 3. If a previously credit impaired financial asset is no longer considered to be credit impaired, it is reclassified to Stage 2 or Stage 1.

Implementation of IFRS 9 resulted into new classification for investment for the securities which were not passing SPPI test, accordingly they were classified as FVPL. The debt securities passing SPPI test were classified as FVOCI. On transition date ECL allowance was determined in accordance with IFRS 9 on investment securities which is appearing in statement of changes in equity in note 8.

#### 4 Development of expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2022	33,967	177	-	34,144
Transfer to Stage 1	177	(177)	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Addition	25,668	-	-	25,668
Disposal	629	-	-	629
Balance as at 31 December 2022	60,441	-	-	60,441

**5 CASH AND BANK BALANCES**

	<b>30 June 2023 (reviewed)</b>	<b>31 December 2022 (unaudited restated)</b>	<b>1 January 2022 (unaudited restated)</b>
Cash and bank balances	8,314,254	6,320,955	6,505,798
Deposits with maturity within 3 months	-	-	721,703
Cash and cash equivalents	8,314,254	6,320,955	7,227,501
Deposits with maturity over 3 months	-	-	1,000,928
	<b>8,314,254</b>	<b>6,320,955</b>	<b>8,228,429</b>

During the period 2023 and year 2022 no new deposits were placed. The deposits placed in 2021, carried an interest rate ranging from 6.9% to 7.05% per annum.

**6 INVESTMENTS**

	<b>Note</b>	<b>30 June 2023 (reviewed)</b>	<b>31 December 2022 (unaudited restated)</b>	<b>1 January 2022 (unaudited restated)</b>
Measured at fair value through profit or loss	6.1	945,298	936,302	982,637
Measured at fair value through other comprehensive income	6.2	121,757,213	111,753,907	106,271,611
		<b>122,702,511</b>	<b>112,690,208</b>	<b>107,254,248</b>

**6.1 Measured at fair value through profit or loss (FVPL)**

	<b>30 June 2023 (reviewed)</b>	<b>31 December 2022 (unaudited restated)</b>	<b>1 January 2022 (unaudited restated)</b>
Balances as at 1 January	<b>936,302</b>	982,637	1,116,045
Additions during the period / year	-	733,888	793,607
Disposals during the period / year	-	(755,989)	(917,566)
Change in fair value	9,195	(28,696)	(9,063)
Amortisation and others	(199)	4,462	(386)
<b>Measured at fair value through profit or loss (FVPL)</b>	<b>945,298</b>	<b>936,302</b>	<b>982,637</b>
<b>Quoted securities</b>	<b>945,298</b>	<b>936,302</b>	<b>982,637</b>
<b>Maturity analysis</b>			
2-3 years	945,298	212,038	563,958
4-5 years	-	724,264	224,780
over 5 years	-	-	193,899
	<b>945,298</b>	<b>936,302</b>	<b>982,637</b>



## 6.2 Measured at fair value through other comprehensive income (FVOCI)

	30 June 2023 (reviewed)	31 December 2022 (unaudited restated)	1 January 2022 (unaudited restated)
Balances as at 1 January	111,753,907	106,271,611	101,049,928
Additions during the period / year	22,731,458	37,743,322	44,774,379
Disposals during the period / year	(13,099,208)	(22,844,404)	(35,956,822)
Change in fair value	439,837	(9,066,859)	(3,379,704)
Amortisation and others	(68,781)	(349,763)	(216,170)
	<b>121,757,213</b>	<b>111,753,907</b>	<b>106,271,611</b>
Quoted securities	117,738,755	107,233,790	102,457,214
Unquoted securities	4,018,458	4,520,117	3,814,397
	<b>121,757,213</b>	<b>111,753,907</b>	<b>106,271,611</b>
<b>Maturity analysis</b>			
1 year or less	10,171,668	12,227,367	12,710,861
2 years	23,045,026	18,307,101	14,809,958
3 years	32,692,298	17,086,974	12,045,681
4 years	23,486,232	29,998,259	13,007,648
5 years	15,145,675	15,479,735	30,982,580
over 5 years	17,216,314	18,654,471	22,714,883
	<b>121,757,213</b>	<b>111,753,907</b>	<b>106,271,611</b>

**7 INSURANCE AND REINSURANCE CONTRACTS**

**7.1 Analysis by remaining coverage and incurred claims for reinsurance contracts**

	For the period ended 30 June 2023 (reviewed)			
	Liability for remaining coverage (LRC)		Liability for incurred claims (LIC)	Total
	Excluding loss component	Loss component		
Reinsurance contract liability at 01 Jan 2023	(46,386,891)	988,738	171,456,157	126,058,004
<b>Reinsurance Revenue</b>	(23,358,264)	-	-	(23,358,264)
<b>Reinsurance service expenses</b>				
Incurring claims and other directly attributable expenses	(6,170,761)	-	29,004,645	22,833,884
Losses on onerous contracts and reversal of those losses	-	118,974	-	118,974
Changes that relate to past service - adjustments to the LIC	-	-	(7,845,245)	(7,845,245)
Reinsurance acquisition cash flows amortization	1,576,138	-	-	1,576,138
<b>Reinsurance service expenses</b>	<b>(4,594,623)</b>	<b>118,974</b>	<b>21,159,400</b>	<b>16,683,751</b>
<b>Reinsurance service result</b>	<b>(27,952,887)</b>	<b>118,974</b>	<b>21,159,400</b>	<b>(6,674,513)</b>
Finance expense from reinsurance contracts	313,188	-	1,228,391	1,541,579
Effect of movement in interest rate - OCI	(198,306)	-	751,585	553,279
Effect of movement in exchange rate	841,482	(12,377)	(1,323,296)	(494,191)
<b>Total changes in comprehensive income</b>	<b>(26,996,523)</b>	<b>106,597</b>	<b>21,816,080</b>	<b>(5,073,846)</b>
<b>Cash flows</b>				
Premiums received	20,286,815	-	-	20,286,815
Claims and other directly attributable expenses paid	-	-	(19,385,870)	(19,385,870)
Reinsurance acquisition cash flows paid	(146,095)	-	-	(146,095)
<b>Total cash flows</b>	<b>20,140,720</b>	<b>-</b>	<b>(19,385,870)</b>	<b>754,850</b>
Reinsurance contract liability at 30 Jun 2023	<b>(53,242,694)</b>	<b>1,095,335</b>	<b>173,886,367</b>	<b>121,739,008</b>

## Notes to the condensed interim financial information

For the six-month period ended 30 June 2023

Bahraini Dinars

## 7 INSURANCE AND REINSURANCE CONTRACTS (continued)

	For the year ended 31 Dec 2022 (unaudited)			
	Liability for remaining coverage (LRC)		Liability for incurred claims (LIC)	Total
	Excluding loss component	Loss component		
Reinsurance contract liability at 01 Jan 2022	(31,188,858)	1,218,032	173,386,204	143,415,378
Reinsurance Revenue	(50,925,852)	-	-	(50,925,852)
Reinsurance service expenses				
Incurred claims and other directly attributable expenses	(11,819,718)	-	47,088,460	35,268,742
Losses on onerous contracts and reversal of those losses	-	(196,150)	-	(196,150)
Changes that relate to past service - adjustments to the LIC	-	-	(335,355)	(335,355)
Reinsurance acquisition cash flows amortization	4,521,472	-	-	4,521,472
Reinsurance service expenses	(7,298,246)	(196,150)	46,753,105	39,258,709
Reinsurance service result	(58,224,098)	(196,150)	46,753,105	(11,667,143)
Finance expense from reinsurance contracts	831,946	-	2,015,838	2,847,784
Effect of movement in interest rate - OCI	(1,427,549)	-	(8,451,561)	(9,879,110)
Effect of movement in exchange rate	1,237,893	(33,144)	(2,891,258)	(1,686,509)
Total changes in comprehensive income	(57,581,808)	(229,294)	37,426,124	(20,384,978)
Cash flows				
Premiums received	43,345,011	-	-	43,345,011
Claims and other directly attributable expenses paid	-	-	(39,356,171)	(39,356,171)
Reinsurance acquisition cash flows paid	(961,236)	-	-	(961,236)
Total cash flows	42,383,775	-	(39,356,171)	3,027,604
Reinsurance contract liability at 31 Dec 2022	(46,386,891)	988,738	171,456,157	126,058,004

## 7 INSURANCE AND REINSURANCE CONTRACTS (continued)

## 7.2 Analysis by remaining coverage and incurred claims for reinsurance recoverables

	For the period ended 30 June 2023 (reviewed)			
	Liability for remaining coverage (LRC)		Liability for incurred claims (LIC)	Total
	Excluding loss component	Loss component		
Retrocessionnaires' share of reinsurance contract liabilities at 01 Jan 2023	354,863	-	(25,884,105)	(25,529,242)
Reinsurance revenue (retroceded)	288,104	-	-	288,104
Claims recovered and other directly attributable expenses	-	-	(217,096)	(217,096)
Changes that relate to past service - adjustments to the asset for incurred claims	-	-	5,659,512	5,659,512
Net expense from reinsurance contracts held	288,104	-	5,442,416	5,730,520
Finance expense from reinsurance contracts	-	-	(289,348)	(289,348)
Effect of movement in interest rate - OCI	1,150	-	(386,794)	(385,644)
Effect of movement in exchange rate	3,681	-	(753)	2,928
Total changes in comprehensive income	292,935	-	4,765,521	5,058,456
Cash flows				
Premiums ceded	(209,603)	-	-	(209,603)
Recoveries from reinsurance	-	-	4,813,001	4,813,001
Total cash flows	(209,603)	-	4,813,001	4,603,398
Retrocessionnaires' share of reinsurance contract liabilities at 30 Jun 2023	438,195	-	(16,305,583)	(15,867,388)

## 7 INSURANCE AND REINSURANCE CONTRACTS (continued)

	For the year ended 31 Dec 2022 (unaudited)			
	Liability for remaining coverage (LRC)		Liability for Incurred claims (LIC)	Total
	Excluding loss component	Loss component		
Retrocessionnaires' share of reinsurance contract liabilities at 01 Jan 2022	255,812	-	(34,748,306)	(34,492,494)
Reinsurance revenue (retroceded)	414,839	-	-	414,839
Claims recovered and other directly attributable expenses	-	-	(5,459)	(5,459)
Changes that relate to past service - adjustments to the asset for incurred claims	-	-	1,758,026	1,758,026
Net expense from reinsurance contracts held	414,839	-	1,752,567	2,167,406
Finance expense from insurance contracts	-	-	(534,246)	(534,246)
Effect of movement in interest rate - OCI	234	-	1,352,374	1,352,608
Effect of movement in exchange rate	94,365	-	30,104	124,469
Total changes in comprehensive income	509,438	-	2,600,799	3,110,237
Cash flows				
Premiums ceded	(410,387)	-	-	(410,387)
Recoveries from reinsurance	-	-	6,263,402	6,263,402
Total cash flows	(410,387)	-	6,263,402	5,853,015
Retrocessionnaires' share of reinsurance contract liabilities at 31 Dec 2022	354,863	-	(25,884,105)	(25,529,242)

**7 INSURANCE AND REINSURANCE CONTRACTS**

**7.3 Analysis of insurance contracts balances by components**

	For the period ended 30 June 2023 (reviewed)			
	Present value of future cash flows	Risk adjustment	Contractual service margin	Total
Reinsurance contract liability at 01 Jan 2023	117,767,498	2,416,441	5,874,065	126,058,004
CSM recognised for the services provided	-	-	(4,033,653)	(4,033,653)
Change in the risk adjustment for nonfinancial risk for the risk expired	-	(203,992)	-	(203,992)
Experience adjustments	5,227,295	-	-	5,227,295
<b>Changes that relate to current service</b>	<b>5,227,295</b>	<b>(203,992)</b>	<b>(4,033,653)</b>	<b>989,650</b>
Changes in estimates that adjust the CSM	2,759,913	281,198	(2,960,039)	81,072
Contracts initially recognised in the period	(5,457,186)	427,382	5,153,903	124,099
<b>Changes that relate to future services</b>	<b>(2,697,273)</b>	<b>708,580</b>	<b>2,193,864</b>	<b>205,171</b>
Changes that relate to past service	(467,911)	(14,684)	-	(482,595)
Experience adjustments	(7,386,739)	-	-	(7,386,739)
<b>Changes that relate to past service</b>	<b>(7,854,650)</b>	<b>(14,684)</b>	<b>-</b>	<b>(7,869,334)</b>
<b>Insurance service result</b>	<b>(5,324,629)</b>	<b>489,904</b>	<b>(1,839,789)</b>	<b>(6,674,513)</b>
Finance expense from reinsurance contracts	1,302,275	958	238,346	1,541,579
Effect of movement in interest rate - OCI	553,322	(43)	-	553,279
Effect of movement in exchange rate	(313,211)	(34,428)	(146,552)	(494,191)
Total changes in comprehensive income	(3,782,242)	456,391	(1,747,995)	(5,073,846)
<b>Cash flows</b>				
Premiums received	20,286,815	-	-	20,286,815
Claims and other directly attributable expenses paid	(19,385,870)	-	-	(19,385,870)
Insurance acquisition cash flows paid	(146,095)	-	-	(146,095)
<b>Total cash flows</b>	<b>754,850</b>	<b>-</b>	<b>-</b>	<b>754,850</b>
Reinsurance contract liability at 30 Jun 2023	<b>114,740,106</b>	<b>2,872,832</b>	<b>4,126,070</b>	<b>121,739,008</b>

## 7 INSURANCE AND REINSURANCE CONTRACTS (continued)

	For the year ended 31 December 2022 (unaudited)			
	Present value of future cash flows	Risk adjustment	Contractual service margin	Total
Reinsurance contract liability at 01 Jan 2022	139,224,126	2,086,882	2,104,370	143,415,378
CSM recognised for the services provided	-	-	(18,425,200)	(18,425,200)
Change in the risk adjustment for nonfinancial risk for the risk expired	-	(293,040)	-	(293,040)
Experience adjustments	(4,699,466)	-	-	(4,699,466)
<b>Changes that relate to current service</b>	<b>(4,699,466)</b>	<b>(293,040)</b>	<b>(18,425,200)</b>	<b>(23,417,706)</b>
Changes in estimates that adjust the CSM	(4,560,992)	286,369	15,625,580	11,350,957
Contracts initially recognised in the period	(6,352,442)	531,241	6,585,664	764,463
<b>Changes that relate to future services</b>	<b>(10,913,434)</b>	<b>817,610</b>	<b>22,211,244</b>	<b>12,115,420</b>
Changes that relate to past service	(560,794)	(140,072)	-	(700,866)
Experience adjustments	336,009	-	-	336,009
<b>Changes that relate to past service</b>	<b>(224,785)</b>	<b>(140,072)</b>	<b>-</b>	<b>(364,857)</b>
<b>Insurance service result</b>	<b>(15,837,685)</b>	<b>384,498</b>	<b>3,786,044</b>	<b>(11,667,143)</b>
Finance expense from reinsurance contracts	2,660,741	411	186,632	2,847,784
Effect of movement in interest rate - OCI	(9,879,010)	(100)	-	(9,879,110)
Effect of movement in exchange rate	(1,428,278)	(55,250)	(202,981)	(1,686,509)
Total changes in comprehensive income	(24,484,232)	329,559	3,769,695	(20,384,978)
Cash flows				
Premiums received	43,345,011	-	-	43,345,011
Claims and other directly attributable expenses paid	(39,356,171)	-	-	(39,356,171)
Reinsurance acquisition cash flows paid	(961,236)	-	-	(961,236)
<b>Total cash flows</b>	<b>3,027,604</b>	<b>-</b>	<b>-</b>	<b>3,027,604</b>
Reinsurance contract liability at 31 Dec 2022	<b>117,767,498</b>	<b>2,416,441</b>	<b>5,874,065</b>	<b>126,058,004</b>

**7 INSURANCE AND REINSURANCE CONTRACTS**

**7.4 Analysis of reinsurance contracts balances by components for reinsurance recoverables**

	<b>For the period ended 30 June 2023 (reviewed)</b>			
	<b>Present value of future cash flows</b>	<b>Risk adjustment</b>	<b>Contractual service margin</b>	<b>Total</b>
Retrocessionnaires' share of reinsurance contract liabilities at 01 Jan 2023	(25,484,523)	(44,693)	(26)	(25,529,242)
CSM recognised for the services provided	-	-	57,731	57,731
Change in the risk adjustment for nonfinancial risk for the risk expired	-	(2,550)	-	(2,550)
Experience adjustments	(273,458)	-	-	(273,458)
<b>Changes that relate to current service</b>	<b>(273,458)</b>	<b>(2,550)</b>	<b>57,731</b>	<b>(218,277)</b>
Changes in estimates that adjust the CSM	122,685	-	(122,747)	(62)
Contracts initially recognised in the period	9,108	(9,108)	-	-
<b>Changes that relate to future services</b>	<b>131,793</b>	<b>(9,108)</b>	<b>(122,747)</b>	<b>(62)</b>
Changes that relate to past service	-	3,326	-	3,326
Experience adjustments	5,945,533	-	-	5,945,533
<b>Changes that relate to past service</b>	<b>5,945,533</b>	<b>3,326</b>	<b>-</b>	<b>5,948,859</b>
<b>Insurance service result</b>	<b>5,803,868</b>	<b>(8,332)</b>	<b>(65,016)</b>	<b>5,730,520</b>
Finance expense from reinsurance contracts	(289,348)	-	-	(289,348)
Effect of movement in interest rate - OCI	(385,644)	-	-	(385,644)
Effect of movement in exchange rate	2,906	11	11	2,928
Total changes in comprehensive income	5,131,782	(8,321)	(65,005)	5,058,456
Cash flows				
Premiums ceded	(209,603)	-	-	(209,603)
Recoveries from reinsurance	4,813,001	-	-	4,813,001
<b>Total cash flows</b>	<b>4,603,398</b>	<b>-</b>	<b>-</b>	<b>4,603,398</b>
Retrocessionnaires' share of reinsurance contract liabilities at 30 Jun 2023	<b>(15,749,343)</b>	<b>(53,014)</b>	<b>(65,031)</b>	<b>(15,867,388)</b>



**7 INSURANCE AND REINSURANCE CONTRACTS**

**7.4 Analysis of reinsurance contracts balances by components**

	<b>For the year ended 31 December 2022 (unaudited)</b>			
	<b>Present value of future cash flows</b>	<b>Risk adjustment</b>	<b>Contractual service margin</b>	<b>Total</b>
Retrocessionnaires' share of reinsurance contract liabilities at 01 Jan 2022	(34,368,366)	(41,225)	(82,903)	(34,492,494)
CSM recognised for the services provided	-	-	213,110	213,110
Change in the risk adjustment for nonfinancial risk for the risk expired	-	(3,387)	-	(3,387)
Experience adjustments	(334,106)	-	-	(334,106)
<b>Changes that relate to current service</b>	<b>(334,106)</b>	<b>(3,387)</b>	<b>213,110</b>	<b>(124,383)</b>
Changes in estimates that adjust the CSM	(78,622)	-	78,139	(483)
Contracts initially recognised in the period	211,919	(4,326)	(207,593)	-
<b>Changes that relate to future services</b>	<b>133,297</b>	<b>(4,326)</b>	<b>(129,454)</b>	<b>(483)</b>
Changes that relate to past service	-	4,245	-	4,245
Experience adjustments	2,288,027	-	-	2,288,027
<b>Changes that relate to past service</b>	<b>2,288,027</b>	<b>4,245</b>	<b>-</b>	<b>2,292,272</b>
<b>Insurance service result</b>	<b>2,087,218</b>	<b>(3,468)</b>	<b>83,656</b>	<b>2,167,406</b>
Finance expense from reinsurance contracts	(534,246)	-	-	(534,246)
Effect of movement in interest rate - OCI	1,353,384	-	(776)	1,352,608
Effect of movement in exchange rate	124,472	-	(3)	124,469
<b>Total changes in comprehensive income</b>	<b>3,030,828</b>	<b>(3,468)</b>	<b>82,877</b>	<b>3,110,237</b>
<b>Cash flows</b>				
Premiums ceded	(410,387)	-	-	(410,387)
Recoveries from reinsurance	6,263,402	-	-	6,263,402
<b>Total cash flows</b>	<b>5,853,015</b>	<b>-</b>	<b>-</b>	<b>5,853,015</b>
Retrocessionnaires' share of reinsurance contract liabilities at 31 Dec 2022	<b>(25,484,523)</b>	<b>(44,693)</b>	<b>(26)</b>	<b>(25,529,242)</b>

**8 HEAD OFFICE FUNDS**

	Head office account	Fair value reserve	Insurance finance reserve	Accumulated losses	Total
1 January 2022 (previously reported)	20,166,950	333,771	-	(13,088,860)	7,411,861
Reclassification under IFRS 9	-	3,161	-	(37,128)	(33,967)
Recognition of expected credit losses under IFRS 9	-	34,144	-	-	34,144
Remeasurement under IFRS 17	-	-	(185,377)	(3,398,295)	(3,583,672)
1 January 2022 (unaudited restated)	20,166,950	371,076	(185,377)	(16,524,283)	3,828,366
Income for the period	-	-	-	9,837,945	9,837,945
Other comprehensive loss	-	(9,040,560)	8,526,502	-	(514,058)
31 December 2022 (unaudited restated)	20,166,950	(8,669,484)	8,341,125	(6,686,338)	13,152,253
Transactions from head office	684,432	-	-	-	684,432
Income for the period	-	-	-	1,315,231	1,315,231
Other comprehensive loss	-	436,292	(167,635)	-	268,657
30 June 2023 (unaudited restated)	20,851,382	(8,233,192)	8,173,490	(5,371,107)	15,420,573

**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.

	30 June 2023 (reviewed)	30 June 2022 (unaudited restated)
<b>a) Transactions during the period</b>		
Insurance revenue		
HDI Sigorta A.S. <i>Entity within the Talanx Group (Ultimate Parent)</i>	27,150	-
HDI Sigorta A.S. <i>Entity within the Talanx Group (Ultimate Parent)</i>	19,848	-
Net expense from reinsurance contracts		
Hannover Re Bermuda Ltd., Bermuda <i>Entity within the Hannover Re Group</i>	5,412,264	92,434
Expenses recharged by:		
- Hannover Retakaful BSC (c), Bahrain <i>Entity within the Hannover Re Group</i>	651,348	634,349
- Hannover Rück SE, Germany <i>Parent company of the Hannover Re Group</i>	374,268	43,566
- Ampega Asset Management GmbH, Germany <i>Entity within the Talanx Group (Ultimate Parent)</i>	66,346	59,391

9 RELATED PARTY TRANSACTIONS (continued)

	30 June 2023 (reviewed)	31 December 2022 (unaudited restated)	1 January 2022 (unaudited restated)
<b>b) Balances with related parties</b>			
Retrocessionnaires' share of reinsurance contract liabilities			
- Hannover Re Bermuda Ltd., Bermuda			
<i>Entity within the Hannover Re Group</i>	16,200,576	26,069,662	34,722,141
Other payables			
- Hannover Retakaful B.S.C. (c), Bahrain			
<i>Entity within the Hannover Re Group</i>	473,705	-	-
Insurance contract assets			
HDI Sigorta A.S.			
<i>Entity within the Talanx Group (Ultimate Parent)</i>	57,288	-	-
Head office account			
- Hannover Rück SE, Germany			
<i>Parent company of the Hannover Re Group</i>	20,851,382	20,166,950	20,166,950

**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 2023, 31 December 2022 and 1 January 2022, by the level in the fair value hierarchy into which the fair value measurement is categorised:

10 FAIR VALUE OF FINANCIAL INSTRUMENTS

	Level 1	Level 2	Level 3	Total
<b>30 June 2023 (reviewed)</b>				
Investments	-	122,702,511	-	122,702,511
<b>31 December 2022 (unaudited restated)</b>				
Investments	-	112,690,209	-	112,690,209
<b>1 January 2022 (unaudited restated)</b>				
Investments	-	107,254,248	-	107,254,248

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 2023, there were no transfers in and out of level 1, level 2 and level 3 (31 December 2022 & 1 January 2022: Nil).