Hannover Rueck SE
Bahrain Branch

FINANCIAL STATEMENTS

31 DECEMBER 2018

Office	:	Al Zamil Tower, 17th floor P.O.Box 75180 Manama Kingdom of Bahrain
Head office	:	Hannover Rück SE Hannover Germany
Managing Director	:	Mahomed Akoob
Auditors	:	PricewaterhouseCoopers ME Limited

Hannover Rueck SE, Bahrain Branch
Financial Statements
For the year ended 31 December 2018

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Hannover Rueck SE, Bahrain Branch

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Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Hannover Rueck SE, Bahrain Branch (the "Branch") as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Branch's financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in head office funds for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Branch in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Bahrain. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code.

Responsibilities of the management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Branch's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Branch or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Branch's financial reporting process.

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Independent auditor's report to the management of Hannover Rueck SE, Bahrain Branch (continued)

Report on the audit of the financial statements (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Independent auditor's report to the management of Hannover Rueck SE, Bahrain Branch (continued)

Report on other legal and regulatory requirements

As required by the Bahrain Commercial Companies Law number (21) of 2001 as amended and Volume 3 of the Central Bank of Bahrain ("CBB") Rulebook, we report that:

- we have obtained all the information that we considered necessary for the purpose of our audit;
- the Branch has maintained proper books of account and the financial statements are in agreement therewith;
- we are not aware of any violations during the year of the Bahrain Commercial Companies Law number (21) of 2001 as amended, the Central Bank of Bahrain and Financial Institutions Law, the Rulebook (Volume 3, applicable provisions of Volume 6 and CBB directives), and procedures or the terms of the Branch's articles of association that would have had a material adverse effect on the business of the Branch or on its financial position; and
- satisfactory explanations and information have been provided to us by the management in response to all our requests.

PricewaterhouseCoopers

Partner's registration number: 196
Manama, Kingdom of Bahrain
28 February 2019

Statement of financial position
as at 31 December 2018

Bahraini Dinars

	Note	2018	2017
ASSETS			
Cash and bank balances	4	5,528,083	12,537,137
Statutory deposit		157,012	150,000
Available-for-sale investments	5	84,920,357	77,742,875
Insurance receivables	6 a)	13,435,711	15,646,141
Accrued premium receivables	7	7,737,919	7,953,405
Deferred acquisition costs	8	3,080,366	4,832,823
Retrocessionnaires' share of claim reserves	9	4,469,924	2,475,563
Retrocessionnaires' share of unearned premium reserves	10	710,557	460,932
Related party receivables	11 b)	634,857	409,822
Prepayments and other assets		6,000	6,000
Total assets		**120,680,786**	122,214,698
HEAD OFFICE FUNDS AND LIABILITIES			
Head office funds			
Head office account		16,166,950	12,166,950
Available-for-sale investments fair value reserve		(1,310,518)	(510,972)
Accumulated losses		(12,134,249)	(6,552,790)
Total head office funds (page 7)		**2,722,183**	5,103,188
Liabilities			
Loss reserves	9	98,195,873	89,013,661
Unearned premium reserves	10	13,491,223	20,672,586
Commission reserves		1,167,115	4,085,465
Insurance payables	6 b)	3,557,321	3,022,995
Balance payable to retrocessionaires		1,533,167	307,293
Other payables		13,904	9,510
Total liabilities		**117,958,603**	117,111,510
Total head office funds and liabilities		**120,680,786**	122,214,698

Management approved the financial statements consisting of pages 5 to 26 on 27 February 2019.

Mahomed Akoob
Managing Director

Statement of profit or loss and comprehensive income
for the year ended 31 December 2018

Bahraini Dinars

	Note	2018	2017
INCOME			
Gross written premium	14 i)	45,382,113	53,575,183
Ceded premium		(4,584,605)	(3,541,496)
Change in gross unearned premium	10	7,164,184	6,027,021
Change in ceded unearned premium	10	254,045	82,099
Net premium earned		**48,215,737**	56,142,807
Foreign exchange (losses) / gains		(167,298)	373,055
Investment and other income	12	1,841,451	1,502,860
Total income		**49,889,890**	58,018,722
EXPENSES			
Gross claims paid		(36,238,520)	(47,168,438)
Claims recoveries		21,961	9,405,634
Movement in loss reserves, net	9	(7,194,505)	(120,166)
Policy acquisition costs, net		(11,758,757)	(13,910,261)
Movement in deferred acquisition cost	8	(1,750,583)	(564,179)
Movement in commission reserves		2,916,602	(4,087,882)
General and administrative expenses	13	(1,467,547)	(1,749,736)
Total expenses		**(55,471,349)**	(58,195,028)
Loss for the year		**(5,581,459)**	(176,306)
Other comprehensive income			
Items that will be reclassified to profit or loss:			
Changes on remeasurement of available-for-sale investments		(840,725)	(66,420)
Transfers for recognition of losses on disposal of available-for-sale investments		41,179	4,351
Total other comprehensive loss for the year	5	**(799,546)**	(62,069)
Total comprehensive loss for the year		**(6,381,005)**	(238,375)

Management approved the financial statements consisting of pages 5 to 26 on 27 February 2019.

Mahomed Akoob
Managing Director

Statement of changes in head office funds
for the year ended 31 December 2018

Bahraini Dinars

2018	**Head office fund**	**Available-for-sale investment fair value reserve**	**Accumulated losses**	**Total**
Balance as at 1 January	12,166,950	(510,972)	(6,552,790)	5,103,188
Receipt of funds from head office	4,000,000	-	-	4,000,000
Loss for the year (page 6)	-	-	(5,581,459)	(5,581,459)
Changes on re-measurement of available-for-sale investments	-	(840,725)	-	(840,725)
Transfers for recognition of losses on disposal of available-for-sale investments	-	41,179	-	41,179
Total comprehensive loss for the year	**-**	**(799,546)**	**(5,581,459)**	**(6,381,005)**
Balance at 31 December	**16,166,950**	**(1,310,518)**	**(12,134,249)**	**2,722,183**

2017	Head office fund	Available-for-sale investment fair value reserve	Accumulated losses	Total
Balance as at 1 January	12,166,950	(448,903)	(6,376,484)	5,341,563
Loss for the year (page 6)	-	-	(176,306)	(176,306)
Changes on re-measurement of available-for-sale investments	-	(66,420)	-	(66,420)
Transfers for recognition of losses on disposal of available-for-sale investments	-	4,351	-	4,351
Total comprehensive loss for the year	-	(62,069)	(176,306)	(238,375)
Balance at 31 December	12,166,950	(510,972)	(6,552,790)	5,103,188

The notes on pages 9 to 26 are an integral part of these financial statements

Bahraini Dinars

	Note	2018	2017
OPERATING ACTIVITIES			
Loss for the year		(5,581,459)	(176,306)
Adjustments for:			
Interest income		(1,885,066)	(1,565,477)
Loss on disposal of bonds, net	12	40,249	2,428
Amortisation of bonds		3,366	60,189
		(7,422,910)	(1,679,166)
Changes in operating assets and liabilities:			
Decrease in insurance receivables		2,210,430	4,809,774
Increase in insurance payables		534,326	2,530,231
Decrease in unearned premium reserves		(7,181,363)	(5,986,825)
Increase in retroceded unearned premium		(249,625)	(82,359)
Decrease in accrued premiums receivables		215,486	11,585,618
Decrease in deferred acquisition costs		1,752,457	557,123
(Increase) / decrease in retrocessionaires' share of loss reserve		(1,994,361)	9,437,436
(Decrease) / increase in commission reserve		(2,918,350)	4,084,751
Increase / (decrease) in loss reserves		9,182,212	(9,564,294)
Increase in related party receivables		(225,035)	(121,442)
Increase / (decrease) in related party and other payables		1,230,268	(101,990)
Net cash (used in) / generated from operating activities		**(4,866,465)**	15,468,857
INVESTING ACTIVITIES			
Purchase of available-for-sale investments	5	(26,847,011)	(34,990,238)
Purchase of long term placements		-	(1,135,536)
Proceeds from disposal of available-for-sale investments	5	18,856,380	25,187,840
Proceeds from disposal of long term placements		1,135,536	-
Interest received		1,797,072	1,457,300
Net cash used in investing activities		**(5,058,023)**	(9,480,634)
FINANCING ACTIVITIES			
Receipt of funds from head office		4,000,000	-
Net cash generated from financing activities		**4,000,000**	-
Net (decrease) / increase in cash and cash equivalents		**(5,924,488)**	5,988,223
Cash and cash equivalents at 1 January		11,401,601	5,455,820
Foreign exchange movement in debt instruments		50,970	(42,442)
Cash and cash equivalents at 31 December	4	**5,528,083**	11,401,601

The notes on pages 9 to 26 are an integral part of these financial statements

1 STATUS AND OPERATIONS

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

2 BASIS OF PREPARATION

a) Statement of compliance

The financial statements of the Branch have been prepared in accordance with International Financial Reporting Standards ("IFRS").

b) Basis of measurement

The financial statements of the Branch have been prepared on the historical cost basis except for the revaluation of available-for-sale investments at fair value.

c) Use of estimates and judgments

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Information about significant areas of estimation and critical judgements in applying accounting policies on the amounts recognised in the financial statements are described in the following notes:

- Note 3 b) *(ii)*	- Estimates of accrued premium
- Note 3 b) *(vii)*	- Reserve estimation for insurance contracts
- Note 3 b) *(viii)*	- Assessment of adequacy of liabilities
- Note 3 e)	- Impairment on insurance receivables

d) New standards, amendments and interpretations effective from 1 January 2018

The Branch has adopted the following new and revised IFRS and interpretations which became effective as of 1 January 2018:

IFRS 15 Revenue from Contracts with Customers
IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. The adoption of this standard has no material impact on the financial statements.

Amendments to IFRS 4 Insurance Contracts
Amendments to the standard permit entities issuing contracts within the scope of IFRS 4 a temporary exemption. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning 1 January 2021 at the latest. An entity may apply the temporary exemption from IFRS 9 if and only if:

- it has not previously applied any version of IFRS 9 before and
- its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016

The Branch has determined that its activities are predominantly connected with insurance for the year ended 31 December 2018 as insurance liabilities exceed 90% of total liabilities. The Branch has therefore applied the temporary exemption from IFRS 9. The temporary exemption from IFRS 9 has been applied from 1 January 2018.

2 *BASIS OF PREPARATION (continued)*

e) New standards, amendments and interpretations issued but not yet effective

The following standards and interpretations have been issued but are applicable for periods subsequent to the year ended 31 December 2018:

IFRS 9 Financial Instruments

IFRS 9 replaces the existing IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The standard is applicable from 1 January 2018 with early adoption permitted. However, the Branch has applied the temporary exemption from IFRS 9 available under IFRS 4 and will therefore only apply this standard for annual periods beginning 1 January 2021. In the interim the Branch will continue to apply IAS 39 to its financial assets and liabilities. Required disclosure on applying the temporary exemption from IFRS 9 are provided in note 15 g).

IFRS 16 Leases

IFRS 16 introduces a single, accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases. The standard is effective for annual reporting periods beginning on or after 1 January 2019. The Branch is not expecting any impact from the adoption of this standard.

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. This standard replaces IFRS 4 insurance contracts. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. The standard is applicable for annual periods beginning on or after 1 January 2021, with comparative figures required for the prior period. The Branch is assessing the impact of IFRS 17 on its financial statements.

f) Early adoption of standards

The Branch did not early adopt new or amended standards issued in 2018 that are not effective for financial period beginning on 1 Jan 2018.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, except for those changes arising from amendments, new IFRS and interpretations issued and effective on or after 1 January 2018.

a) Foreign currency

(i) Functional and presentation currency

Items included in the financial statements of the Branch are measured using the currency of the location in which the entity operates ("the functional currency"). The financial statements are presented in Bahraini Dinars ("BD"), which is the Branch's functional and presentation currency.

(ii) Transactions and balances

Monetary assets and liabilities are translated into Bahraini Dinars at exchange rates ruling at the reporting date. Transactions in foreign currencies during the year are converted at average exchange rates. Foreign exchange gains and losses are recognized in profit or loss.

3 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

b) Insurance

(i) Classification of contracts

The Branch issues contracts that transfer insurance risk. Insurance contracts are those contracts where the insurer accepts significant insurance risk from the cedant by agreeing to compensate the cedant if a specified uncertain future event adversely affects the cedant. The Branch defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event. Insurance risk is risk other than financial risk that is transferred from the holder of a contract to the issuer.

Financial risk is the risk of a possible future change in one or more of a security price, index of prices or rates or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance risk is significant if, and only if, an insured event could cause the Branch to pay significant additional benefits. Once a contract is classified as an insurance contract it remains classified as an insurance contract until all rights and obligations are extinguished or expired.

(ii) Gross written premiums

Gross written premiums comprise the total premiums in relation to contracts entered into during the financial period, together with adjustments arising in the financial period to premiums receivables in respect of business written in previous financial periods. It includes an estimate of premiums written but not reported to the Branch at the reporting date ("pipeline premium"). Pipeline premiums are reported as accrued premiums in the statement of financial position.

Premiums, net of reinsurance, are taken to income over the terms of the related contracts or policies. The earned proportion of premium is recognised as revenue. The unexpired portion of such premiums relating to the period of risk extending to beyond the financial period is included under "Unearned premiums" in the statement of financial position.

(iii) Ceded premiums

Ceded premiums are amounts paid to reinsurers in accordance with the reinsurance contracts of the Branch.

(iv) Unearned premiums

Unearned premium is premium which is allocated to future risk periods to be earned in the following or subsequent financial periods, for the unexpired period of insurance as at the reporting date. In case of proportional treaties, unearned premiums have been calculated on retained premiums by the 1/8th method whereas in case of non-proportional treaties and facultative business, the 1/365th method is used in order to spread the premiums earned over the tenure of the reinsurance contracts. In reinsurance business, flat rates are used if the data required for calculation of pro rata items is not available.

Retrocessionaires' share on unearned premium reserve is calculated according to the contractual conditions on the basis of the gross unearned premium reserves.

(v) Deferred acquisition costs

Deferred acquisition costs principally consist of commissions and other variable costs directly connected with the acquisition or renewal of existing reinsurance contracts. These acquisition costs are amortised over the expected period of the underlying reinsurance contracts.

(vi) Insurance receivables

Insurance receivables are carried at cost less impairment. A provision for impairment is established when there is evidence that the Branch will not be able to collect all amounts due according to the terms of the receivables. Bad debts are written off during the period in which they are identified. Appropriate allowance is made for credit risks.

3 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(vii) Claims

Gross claims are recognised in profit or loss when the claim amount payable to cedants and third parties is determined as per the terms of the reinsurance contracts. Claims incurred comprise the settlement and the handling costs of paid and outstanding claims arising from events occurring during the financial period.

Claims recovered include amounts recovered from reinsurance companies in respect of the gross claims paid by the Branch, in accordance with the reinsurance contracts held by the Branch. It also includes salvage and other claim recoveries.

Loss reserves are constituted for payment obligations from reinsurance losses that have occurred but have not yet been settled. They are further divided into reserves for reinsurance losses reported by the reporting date and reserves for reinsurance losses that have already been incurred but not yet reported (IBNR) by the reporting date. The loss reserves are based on estimates that may diverge from the actual amounts payable. The methods used, and the estimates made, are reviewed regularly. The provision for claims incurred but not reported (IBNR) is calculated based on actuarial valuations of historic claims development.

(viii) Liability adequacy test

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the insurance liabilities using current estimates of future cash flows under insurance contracts. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used. Any deficiency is charged to the profit or loss by establishing a provision for losses arising from liability adequacy tests.

(ix) Reinsurance contracts

Reinsurance contracts are contracts entered into by the Branch with reinsurers for the purpose of limiting its net loss potential through the diversification of its risks, under which the Branch is compensated for losses on reinsurance contracts issued. Assets, liabilities and income and expenses arising from ceded reinsurance contracts are presented separately from the assets, liabilities, income and expenses from the related insurance contracts because the reinsurance arrangements do not relieve the Branch from its direct obligations to its cedants.

The benefits to which the Branch is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consists of balances due from reinsurers on settlement of claims and other receivables such as profit commissions and reinsurers' share of outstanding claims that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

Amounts recoverable from or due to reinsurers are recognised consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

c) Provisions

Provisions are recognised when the Branch has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances in current accounts and call deposits with banks with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Branch in the management of their short-term commitments.

e) Available-for-sale investments

Available-for-sale ("AFS") investments are those investments that are not classified *at fair value through profit or loss* or are *held-to-maturity* or *loans and receivables*. AFS investments are measured initially at fair value, including related transaction costs. Subsequent to initial recognition, they are re-measured to fair value, changes being recognised in other comprehensive income and presented within equity in fair value reserves. When the available-for-sale investments are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in other comprehensive income is transferred to profit or loss.

AFS investments are recognised at the trade date i.e. the date that the Branch contracts to purchase or sell the asset, at which date the Branch becomes party to the contractual provisions of the instrument. Investments are derecognised when the rights to receive cash flows from the financial assets have expired or where the Branch has transferred substantially all risk and rewards of ownership.

f) Impairment

(i) Financial assets

The Branch assesses the financial assets not classified at fair value through profit or loss at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss events had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Financial assets measured at amortised cost

The Branch considers evidence of impairment for financial assets measured at amortised cost at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurrent but not yet identified. Assets that are not individually significant are collectively assessed for impairment by the Branch together with assets with similar risk characteristics.

In assessing the collective impairment, the Branch uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective profit rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Profit on impaired asset continues to be recognised. When an event occurring after the impairment was recognised which causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in head office funds to profit or loss. The cumulative loss that is reclassified from head office funds to profit or loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

If in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

3 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(ii) Non-financial assets

The carrying amount of the Branch's assets (other than for financial assets covered above), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use or fair value less costs to sell.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses are reversed only if there is sufficient certainty that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

g) Employees' end of service benefits

The Branch receives support services towards its administrative works from Hannover ReTakaful B.S.C (c), a related party. Currently, there are no employees on the payroll of the Branch and no provision for employees' end of service benefits is maintained in the books of the Branch.

4 CASH AND BANK BALANCES

	2018	2017
Cash and cash equivalents	5,528,083	11,401,601
Long term placements	-	1,135,536
	5,528,083	12,537,137

5 AVAILABLE-FOR-SALE INVESTMENTS

	2018	2017
Balances as 1 January	77,742,875	67,914,536
Additions during the year	26,847,011	34,990,238
Disposal during the year (at amortised cost)	(18,856,380)	(25,187,840)
Change in fair value	(799,546)	(62,069)
Amortisation and others	(13,603)	88,010
	84,920,357	77,742,875
Investment in bonds		
Quoted securities	83,649,122	75,797,744
Unquoted securities	1,271,235	1,945,131
	84,920,357	77,742,875

6 INSURANCE RECEIVABLES AND PAYABLES

a) Insurance receivables

	2018	2017
Due from cedants	6,151,286	6,722,766
Deposits held by cedants	7,693,356	9,332,306
	13,844,642	16,055,072
Provision for impairment	(408,931)	(408,931)
Net insurance receivables	**13,435,711**	15,646,141

b) Insurance payables

	2018	2017
Non-life reinsurance	2,580,447	2,447,509
Life reinsurance	976,874	575,486
	3,557,321	3,022,995

7 ACCRUED PREMIUM RECEIVABLES

	2018	2017
Non-life reinsurance	7,699,422	7,142,467
Life reinsurance	38,497	810,938
	7,737,919	7,953,405

8 DEFERRED ACQUISITION COSTS

	2018	2017
At 1 January	4,832,823	5,389,946
Movement	(1,750,583)	(564,179)
Foreign exchange (losses) / gains	(1,874)	7,056
	3,080,366	4,832,823

9 LOSS RESERVES

	2018			2017		
	Gross	**Retro-ceded**	**Net**	Gross	Retro-ceded	Net
Claims reserves	58,489,312	(2,475,563)	56,013,749	50,884,905	(11,912,999)	38,971,906
IBNR reserves	30,524,349	-	30,524,349	47,693,050	-	47,693,050
At 1 January	89,013,661	(2,475,563)	86,538,098	98,577,955	(11,912,999)	86,664,956
Movement	9,301,586	(2,107,081)	7,194,505	(9,684,294)	9,804,460	120,166
Foreign exchange (losses) / gains	(119,374)	112,720	(6,654)	120,000	(367,024)	(247,024)
At 31 December	98,195,873	(4,469,924)	93,725,949	89,013,661	(2,475,563)	86,538,098
Claims reserves	63,898,441	(4,469,924)	59,428,517	58,489,312	(2,475,563)	56,013,749
IBNR reserves	34,297,432	-	34,297,432	30,524,349	-	30,524,349
At 31 December	**98,195,873**	**(4,469,924)**	**93,725,949**	89,013,661	(2,475,563)	86,538,098
Non-life reinsurance	94,476,820	(4,469,924)	90,006,896	83,908,450	(2,475,563)	81,432,887
Life reinsurance	3,719,053	-	3,719,053	5,105,211	-	5,105,211
At 31 December	**98,195,873**	**(4,469,924)**	**93,725,949**	89,013,661	(2,475,563)	86,538,098

10 UNEARNED PREMIUM RESERVES

	2018			2017		
	Gross	**Retro-ceded**	**Net**	Gross	Retro-ceded	Net
At 1 January	20,672,586	(460,932)	20,211,654	26,659,411	(378,573)	26,280,838
Movement	(7,164,184)	(254,045)	(7,418,229)	(6,027,021)	(82,099)	(6,109,120)
Foreign exchange (losses) / gains	(17,179)	4,420	(12,759)	40,196	(260)	39,936
At 31 December	**13,491,223**	**(710,557)**	**12,780,666**	20,672,586	(460,932)	20,211,654

11 RELATED PARTY TRANSACTIONS

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

a) Transactions during the year	**2018**	2017
Contribution ceded to:		
- Hannover Re Bermuda Ltd., Bermuda		
Entity within the Hannover Re Group	3,861,243	3,295,549
- Hannover Rück SE, Germany		
Parent company of the Hannover Re Group	483,454	245,947
Expenses recharged by:		
- Hannover Retakaful BSC (c), Bahrain		
Entity within the Hannover Re Group	1,252,894	1,272,128
- Hannover Rück SE, Germany		
Parent company of the Hannover Re Group	210,596	688,338
- Ampega Asset Management GmbH, Germany		
Entity within the Talanx Group (Ultimate Parent)	89,082	81,122

b) Amounts receivable as at 31 December	**2018**	2017
- Hannover Retakaful BSC (c), Bahrain		
Entity within the Hannover Re Group *Hannover Re Group*	634,857	409,822

c) Amounts payable as at 31 December	**2018**	2017
- Hannover Rück SE, Germany		
Parent company of the Hannover Re Group	4,235	174,175
- Hannover Re Bermuda Ltd., Bermuda		
Entity within the Hannover Re Group	256,031	133,118

d) Retrocessionaires' share of loss reserves	**2018**	2017
- Hannover Re Bermuda Ltd., Bermuda		
Entity within the Hannover Re Group	4,390,175	2,475,563

12 INVESTMENT AND OTHER INCOME

	2018	2017
Investment income:		
Interest income from bonds	1,743,339	1,350,075
Loss on disposal of bonds	(40,249)	(2,428)
	1,703,090	1,347,647
Other income:		
Interest from deposits held by cedants	138,361	155,213
	1,841,451	1,502,860

13 GENERAL AND ADMINISTRATIVE EXPENSES

	2018	2017
Salary and related expenses	1,001,650	970,969
Computer maintenance expenses	159,118	128,925
Travel and related expenses	95,390	89,301
Rent expenses	57,841	50,955
Other operating expenses	153,548	509,586
	1,467,547	1,749,736

Common general and administrative expenses are paid by Hannover ReTakaful B.S.C. (c), a related party and subsequently recharged to the Branch, refer note 11.

14 INSURANCE RISK MANAGEMENT

a) Background

The Branch accepts reinsurance risk through its written reinsurance contracts. By the very nature of a reinsurance contract, this risk is random and therefore unpredictable. The Branch is exposed to uncertainty surrounding the timing, frequency and severity of claims under these contracts. The Branch's management monitors the aggregate risk data and takes overall risk management decisions. Two key elements of the Branch's insurance risk management framework are its underwriting strategy and reinsurance strategy, as discussed below.

b) Underwriting strategy

The Branch's underwriting strategy is driven by the general underwriting guidelines of the Hannover Re Group. The objective of this strategy is to build balanced portfolios based on a large number of similar risks, thereby reducing the variability of the portfolios outcome. The underwriting strategy is set out in an annual business plan that is approved by the Hannover Re Group. This strategy is cascaded by the business units through detailed underwriting authorities that set out the limits that any one underwriter can write by line size, class of business, territory and industry in order to ensure appropriate risk selection within the portfolio. The underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal.

The Branch's management meets monthly to review certain management information including premium income and other key ratios. There have been no significant changes in the underwriting strategy since the previous period.

14 *INSURANCE RISK MANAGEMENT (continued)*

c) Reinsurance strategy

The Branch's reinsurance strategy is driven by the Hannover Re Group reinsurance strategy. The Branch reinsures a portion of the insurance risks it underwrites in order to control its exposure to losses and protect capital resources. Ceded reinsurance contains credit risk, as discussed in the financial risk management section. Management monitors developments in the reinsurance program and its ongoing adequacy. The Branch buys a combination of proportional and non-proportional reinsurance treaties to reduce the net exposure to the Branch for any single event. There have been no significant changes in the reinsurance strategy since the previous period. No gain or loss is accounted from retroactive reinsurance contracts.

d) Risk exposure and concentration of insurance risk

The Branch's exposure to insurance risks and the concentration of these risks and the extent to which the Branch has covered these risks by reinsurance are set out below.

(i) Analysis of gross written premium by main geographical location of risk insured

	2018			2017		
	Life	**Non-life**	**Total**	Life	Non-life	Total
Middle East	7,581,200	31,828,149	39,409,349	10,498,128	37,330,676	47,828,804
North Africa	72,876	5,334,076	5,406,952	77,437	4,749,207	4,826,644
Other	-	565,812	565,812	-	919,735	919,735
	7,654,076	**37,728,037**	**45,382,113**	10,575,565	42,999,618	53,575,183

(ii) Analysis of assets and liabilities

	2018			2017		
	Life	**Non-life**	**Total**	Life	Non-life	Total
Assets	12,618,306	108,062,480	120,680,786	12,266,843	109,947,855	122,214,698
Liabilities	9,587,579	108,371,024	117,958,603	10,424,329	106,687,181	117,111,510

e) Sensitivity analysis

The following table provides an analysis of the sensitivity of profit and loss and total Head Office funds to changes in the assumptions used to measure reinsurance contract provisions and reinsurance assets at the reporting date. The analysis has been prepared for a change in one variable at a time with other assumptions remaining constant. The effect is shown before and after reinsurance.

	2018		2017	
	Profit and loss / Head office funds		Profit and loss / Head office funds	
	Gross	**Net**	Gross	Net
Expense rate				
1 % increase	(453,821)	(407,975)	(535,752)	(500,337)
1 % decrease	453,821	407,975	535,752	500,337
Expected loss ratio				
1 % increase	(525,463)	(482,157)	(596,022)	(561,428)
1 % decrease	525,463	482,157	596,022	561,428

14 INSURANCE RISK MANAGEMENT (continued)

f) Claim development data

The following tables show the estimate of cumulative non-life loss reserves for each underwriting year from years 2014 to 2018 at each statement of financial position date, together with cumulative payments to date. The bottom half of the table reconciles the cumulative claims to the amount appearing in the statement of financial position.

***(i)* General retakaful- Gross**

Underwriting years	2014	2015	2016	2017	2018	Total
Estimate of incurred claims costs:						
- End of underwriting year	15,074,860	20,376,310	19,819,534	19,884,260	18,909,850	18,909,850
- One year later	32,645,646	36,603,765	36,026,977	39,566,842	-	39,566,842
- Two years later	31,577,795	35,117,964	33,701,976	-	-	33,701,976
- Three years later	30,777,612	34,645,421	-	-	-	34,645,421
- Four years later	30,723,578	-	-	-	-	30,723,578
Current estimate of incurred claims	30,723,578	34,645,421	33,701,976	39,566,842	18,909,850	157,547,667
Cumulative payments to date	(23,542,203)	(23,667,901)	(18,023,637)	(14,039,145)	(2,072,921)	(81,345,807)
Liability recognised	**7,181,375**	**10,977,520**	**15,678,339**	**25,527,697**	**16,836,929**	**76,201,860**
Liability in respect of prior years						18,274,960
Total liability included in the statement of financial position (note 9)						**94,476,820**

***(ii)* General retakaful- Net**

Underwriting year	2014	2015	2016	2017	2018	Total
Estimate of incurred claims costs:						
- End of underwriting year	15,074,860	20,376,310	19,819,534	19,884,260	16,997,644	16,997,644
- One year later	32,645,646	30,383,743	36,026,977	39,518,998	-	39,518,998
- Two years later	31,577,795	28,484,410	33,701,976	-	-	33,701,976
- Three years later	30,777,612	27,650,962	-	-	-	27,650,962
- Four years later	30,723,578	-	-	-	-	30,723,578
Current estimate of incurred claims	30,723,578	27,650,962	33,701,976	39,518,998	16,997,644	148,593,158
Cumulative payments to date	(23,542,203)	(18,765,054)	(18,023,637)	(14,034,569)	(2,072,921)	(76,438,384)
Liability recognised	**7,181,375**	**8,885,908**	**15,678,339**	**25,484,429**	**14,924,723**	**72,154,774**
Liability in respect of prior years						17,852,122
Total liability included in the statement of financial position (note 9)						**90,006,896**

15 FINANCIAL RISK MANAGEMENT

a) Overview

The Branch has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Branch's exposure to each of the above risks, the Branch's objectives, policies and processes for measuring and managing risk. Further, quantitative disclosures are included throughout these financial statements. The Management of the Branch report to its Head Office and have adopted the risk management guidelines established by the Hannover Re Group. The Hannover Re Group is responsible for developing and monitoring the Group's risk management policies.

b) Credit risk

Credit risk is the risk of financial loss to the Branch if a counterparty fails to meet its contractual obligations. The Branch's key areas of exposure to credit risk include cash and cash equivalents, available for sale investments and insurance receivables.

(i) Management of credit risk

The Branch manages its credit risk in respect of its deposits placing limits on its exposure to a single counterparty. The Branch has a policy of evaluating the credit quality, and reviewing public rating information before making investments. The Branch's exposure to individual cedants and groups of cedants is monitored as part of its credit control process. Financial analyses are conducted for significant exposures to individual cedants or homogenous groups of cedants. The Branch also reinsures within the Hannover Re Group, according to the Hannover Re Group policy.

(ii) Overall exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2018	2017
Cash and bank balances	5,528,083	12,537,137
Statutory deposit	157,012	150,000
Accrued premium receivables	7,737,919	7,953,405
Insurance receivables	13,435,711	15,646,141
Available-for-sale investments	84,920,357	77,742,875
Retrocessionaires' share of claim reserves	4,469,924	2,475,563
Related party receivables	634,857	409,822
	116,883,863	116,914,943

(iii) Assets that are past due

There is no concentration of credit risk with respect to insurance receivables, as the Branch has a large number of internationally dispersed debtors. Following is the ageing of insurance receivables at the end of the reporting period.

	2018	2017
Neither past due nor impaired	11,192,459	11,663,146
Past due but not impaired (91 – 180 days)	371,729	1,797,896
Past due but not impaired (181 – 365 days)	1,536,523	2,133,213
Past due and impaired (Above 365 days)	743,931	460,817
Provision for impairment	(408,931)	(408,931)
	13,435,711	15,646,141

15 FINANCIAL RISK MANAGEMENT (continued)

The Branch believes that the insurance receivables that are past due by more than 180 days are still collectable in full, based on historic payment behaviour and extensive analysis of customer credit risk, including underlying customer credit ratings, when available.

The credit quality of insurance receivables is assessed based on a credit policy established by the risk management committee of the Group. The Group has monitored customer credit risk by analysing the credit quality of insurance receivables. Credit rating of financials assets are mentioned in note 15 g)

c) Liquidity risk

Liquidity risk is the risk that the Branch will encounter difficulty in meeting obligations associated with its financial and insurance liabilities that are settled by delivering cash or other financial assets. The Branch is exposed to calls on its available cash resources mainly from claims arising from insurance contracts. Liquidity risk may arise from a number of potential areas, such as a duration mismatch between assets and liabilities and unexpectedly high levels of lapses/surrenders. The natures of Branch's exposure to liquidity risk and its objective, policies and processes for managing liquidity risk have not changed significantly from the prior period.

(i) Management of liquidity risk

The Hannover Re Group's approach to managing liquidity risk is to ensure, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Branch's liquidity risk approach falls within the overall framework set by the Hannover Re Group policy.

(ii) Exposure to liquidity risk

An analysis of the contractual maturities of the Branch's financial liabilities is presented below. All liabilities of the Branch are due within one year accorindgly the effect of undiscounting is immaterial.

2018	**Carrying amount**	**Contractual cash flows**	**1 year or less**
Outstanding claims	63,898,441	63,898,441	63,898,441
Insurance payables	3,557,321	3,557,321	3,557,321
Balance payable to retrocessionaires	1,533,167	1,533,167	1,533,167
Other payables	13,904	13,904	13,904
	69,002,833	**69,002,833**	**69,002,833**

2017	Carrying amount	Contractual cash flows	1 year or less
Outstanding claims	58,489,312	58,489,312	58,489,312
Insurance payables	3,022,995	3,022,995	3,022,995
Balance payable to retrocessionaires	307,293	307,293	307,293
Other payables	9,510	9,510	9,510
	61,829,110	61,829,110	61,829,110

15 *FINANCIAL RISK MANAGEMENT (continued)*

(iii) Disclosures of non-financial assets and liabilities

Disclosures relating to non-financial assets and liabilities representing best estimates are as stated below.

Non-financial assets	**2018**	2017
Deferred acquisition costs	3,080,366	4,832,823
Retrocessionaires' share of unearned premium reserves	710,557	460,932
Prepayments and other assets	6,000	6,000
	3,796,923	5,299,755

Non-financial liabilities		
Loss reserves – IBNR	34,297,432	30,524,349
Unearned premium reserves	13,491,223	20,672,586
Commission reserves	1,167,115	4,085,465
	48,955,770	55,282,400

d) 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 in the principal, or in its absence, the most advantageous market to which the Branch has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Branch measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Branch uses valuation techniques that maximise the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Branch determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Branch measures assets and long positions at a bid price and liabilities and short positions at an ask price.

15 *FINANCIAL RISK MANAGEMENT (continued)*

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Branch on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Branch recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

e) Classification of financial instruments

Financial instruments comprise financial assets and financial liabilities. Financial assets comprise insurance receivable, cash and bank balances and available-for-sale investments. Financial liabilities comprise claims reported and related party payables. Fair values of financial instruments are based on estimated fair values, calculated using methods such as net present values of future cash flows. Financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition financial instruments are measured as described below. The carrying value of the Branch's financial assets and liabilities except investment measured at fair value were approximate to the fair value due to immediate or short term maturities of them.

The classification of the financial instruments of the Branch is as given below.

2018	**Available-for-sale**	**Loans and receivables**	**Others at amortised cost**	**Total carrying value**	**Total fair value**
Assets					
Cash and bank balances	-	5,528,083	-	5,528,083	5,528,083
Statutory deposit	-	157,012	-	157,012	157,012
Insurance receivables	-	13,435,711	-	13,435,711	13,435,711
Accrued premium receivables	-	7,737,919	-	7,737,919	7,737,919
Available-for -sale investments	84,920,357	-	-	84,920,357	84,920,357
Retrocessionaires' share of claim reserves	-	4,469,924	-	4,469,924	4,469,924
Related party receivables	-	634,857	-	634,857	634,857
Total financial assets	**84,920,357**	**31,963,506**	**-**	**116,883,863**	**116,883,863**
Liabilities					
Outstanding claims	-	-	63,898,441	63,898,441	63,898,441
Insurance payables	-	-	3,557,321	3,557,321	3,557,321
Balance payable to retrocessionaires	-	-	1,533,167	1,533,167	1,533,167
Other payables	-	-	13,904	13,904	13,904
Total financial liabilities	**-**	**-**	**69,002,833**	**69,002,833**	**69,002,833**

15 FINANCIAL RISK MANAGEMENT (continued)

2017	Available-for-sale	Loans and receivables	Others at amortised cost	Total carrying value	Total fair value
Assets					
Cash and bank balances	-	12,537,137	-	12,537,137	12,537,137
Statutory deposit	-	150,000	-	150,000	150,000
Insurance receivables	-	15,646,141	-	15,646,141	15,646,141
Accrued premium receivables	-	7,953,405	-	7,953,405	7,953,405
Available-for -sale investments	77,742,875	-	-	77,742,875	77,742,875
Retrocessionaires' share of claim reserves	-	2,475,563	-	2,475,563	2,475,563
Related party receivables	-	409,822	-	409,822	409,822
Total financial assets	77,742,875	39,172,068	-	116,914,943	116,914,943
Liabilities					
Outstanding claims	-	-	58,489,312	58,489,312	58,489,312
Insurance payables	-	-	3,022,995	3,022,995	3,022,995
Balance payable to retrocessionaires	-	-	307,293	307,293	307,293
Other payables	-	-	9,510	9,510	9,510
Total financial liabilities	-	-	61,829,110	61,829,110	61,829,110

f) 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 measurements:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.

- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. as 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 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 market prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The carrying value of the financial instruments except available-for-sale investments were deemed appropriate due to the immediate or short term maturity of these financial instruments.

15 FINANCIAL RISK MANAGEMENT (continued)

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

	Level 1	Level 2	Level 3	Total
2018				
Available-for-sale investments	-	84,920,357	-	84,920,357
2017				
Available-for-sale investments	-	77,742,875	-	77,742,875

There were no transfers from level 1 or level 3 to level 2 or in the opposite direction in 2018 (2017: Nil).

g) Temporary exemption from IFRS 9

Financial assets that pass the SPPI test (SPPI - "solely payments of principal and interest")

	Asset passing SPPI test		Asset not passing SPPI test	
	Fair value	Change in fair value	Fair value	Change in fair value
Cash and bank balances	5,528,083	-	-	-
Statutory deposit	157,012	-	-	-
Accrued premium receivables	7,737,919	-	-	-
Insurance receivables	13,435,711	-	-	-
Available-for-sale investments	84,744,121	(777,547)	176,236	(21,999)
Retrocessionaires' share of claim reserves	4,469,924	-	-	-
Related party receivables	634,857	-	-	-

Credit risk exposure for financial assets passing SPPI test

	AAA	AA	A	BBB	Other investment grade
Fair value	33,747,151	23,936,515	19,249,771	13,072,478	26,701,713
Carrying amount	34,172,094	24,157,738	19,513,690	13,455,018	26,701,713

h) Market risks

Market risk is the risk that changes in market prices, such as foreign exchange rates, equity price risks and interest rate risks will affect the value of the Branch's assets, the amount of its liabilities and/or the Branch's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(i) Management of market risks

All entities in the Hannover Re Group manage market risks locally in accordance with their asset/liability management framework. For each of the major components of market risk, the Hannover Re Group has policies and procedures in place which detail how each risk should be managed and monitored. Management of each of these major components of major risk and the exposure of the Branch at the reporting date to each major risk are addressed below.

15 FINANCIAL RISK MANAGEMENT (continued)

(ii) Foreign exchange risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Branch's assets and liabilities are denominated in foreign currencies such as the Euro and Kuwaiti Dinar and the currencies of the Gulf Cooperation Council (GCC) countries. The currencies of the countries of the Gulf Cooperation Council (GCC), other than the Kuwaiti Dinar, are effectively pegged to the US Dollar and hence the Branch's exposure to foreign currencies is limited. The Bahraini Dinar is also effectively pegged to the United States Dollar, thus currency rate risks occur only in respect of the Euro and the Kuwaiti Dinar. The Branch does not hedge against such currency risks since they are not considered significant.

2018	**Euro**	**Kuwaiti Dinars**	**Total**
Total assets	3,119,373	974,688	4,094,061
Total liabilities	(411,237)	(3,725,026)	(4,136,263)
Net assets	**2,708,136**	**(2,750,338)**	**(42,202)**

2017	Euro	Kuwaiti Dinars	Total
Total assets	3,800,478	876,622	4,677,100
Total liabilities	(314,498)	(3,656,942)	(3,971,440)
Net assets	3,485,980	(2,780,320)	705,660

The above assets and liabilities were translated at exchange rates as at the reporting date. A10 % strengthening of the Bahraini Dinar against the Euro and the Kuwaiti Dinar as at the reporting date would have decreased profit for the year and Head Office funds of the Branch by BD 270,814 (2017: increase of BD 348,598) and increase BD 275,034 (2017: increase of BD 278,032) respectively. A 10 % weakening of the Bahraini Dinar against the Euro and the Kuwaiti Dinar would have had an equal but opposite effect. This analysis assumes that all other variables remain constant.

(iii) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument (i.e. cash and cash equivalents and available-for-sale investments) will fluctuate due to changes in market interest rates. The effective interest rate on cash and cash equivalents and available-for-sale investments during the year was 2.93% (2017: 2.05%) per annum. A 1% increase in the interest rate will decrease the total comprehensive income for the year by BD 2,387,000 (2017: BD 2,184,000) and 1% decrease in the interest rate will increase the total comprehensive income for the period by BD 2,478,000 (2017: BD 2,269,000).

16 CAPITAL MANAGEMENT

Hannover Rueck SE, Bahrain Branch, is a branch of Hannover Rück SE (Hannover Re), incorporated in Hannover, Germany. Hannover Re's policy is to maintain a capital base on a group basis so as to maintain cedant and market confidence and to sustain future development of the Group. The Hannover Re Group's objective for managing capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The CBB supervises the overseas insurance companies through a set of regulations that set out certain minimum capital requirements of the group as a whole. The Group solo solvency margin as a whole is substantially equivalent to the solvency margin requirements as prescribed by the Capital Adequacy Module of the CBB Rulebook. The Group manages the capital structure as a whole and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

17 COMPARATIVE

Certain corresponding figures of 2018 have been regrouped where necessary to conform to the current year's presentation. Such regrouping did not affect previously reported total assets, total liabilities, total head office funds, profit or loss or comprehensive income.