

Hannover Rueck SE, Bahrain Branch

FINANCIAL STATEMENTS

31 DECEMBER 2019

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

Hannover Rueck SE, Bahrain Branch
Financial Statements
For the year ended 31 December 2019

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

Report on the audit of the financial statements

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 2019, 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 2019;
- the statement of profit or loss and other comprehensive income 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 our 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.



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 skepticism 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 the audit of the financial statements (continued)

Report on other legal and regulatory requirements

As required by the Bahrain Commercial Companies Law number (21) of 2001 (BCCL) 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;
- nothing has come to our attention which cause us to believe that the Branch has breached any of the applicable provision of the BCCL, the CBB Rulebook (Volume 3), Financial Institutions Law 2006 and CBB directives which would materially affect its activities or its financial position; and
- satisfactory explanations and information have been provided to us by the management in response to all our requests.

A handwritten signature in blue ink, appearing to read 'Priscilla Hussain', is written over the printed name.

26 February 2020

Partner's registration number: 196

Manama, Kingdom of Bahrain

Hannover Rueck SE, Bahrain Branch
Statement of financial position
as at 31 December 2019

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Bahraini Dinars

	Note	2019	2018
ASSETS			
Cash and bank balances	4	5,288,567	5,528,083
Statutory deposit		160,196	157,012
Available-for-sale investments	5	89,076,738	84,920,357
Insurance receivables	6 a)	14,688,894	13,435,711
Accrued premium receivables	7	8,269,380	7,737,919
Deferred acquisition costs	8	3,673,016	3,080,366
Retrocessionnaires' share of loss reserves	9	10,006,367	4,469,924
Retrocessionnaires' share of unearned premium reserves	10	763,751	710,557
Related party receivables	12 b)	-	634,857
Prepayments and other assets		30,222	6,000
Total assets		131,957,131	120,680,786
LIABILITIES			
Loss reserves	9	101,446,311	98,195,873
Unearned premium reserves	10	15,623,271	13,491,223
Commission reserves		-	1,167,115
Insurance payables	6 b)	4,433,579	5,090,488
Other payables		14,500	13,904
Total liabilities		121,517,661	117,958,603
HEAD OFFICE FUNDS	11	10,439,470	2,722,183
Total head office funds and liabilities		131,957,131	120,680,786

Management approved the financial statements consisting of pages 5 to 26 on 26 February 2020.



Adham El-Muezzin
Chief Executive Officer

Hannover Rueck SE, Bahrain Branch
Statement of profit or loss and comprehensive income
for the year ended 31 December 2019

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Bahraini Dinars

	Note	2019	2018
INCOME			
Gross written premium		53,937,415	45,382,113
Ceded premium		(5,108,530)	(4,584,605)
Change in gross unearned premium reserves	10	(2,071,275)	7,164,184
Change in ceded unearned premium reserves	10	54,158	254,045
Net premium earned		46,811,768	48,215,737
Foreign exchange losses		(276,099)	(167,298)
Investment and other income	13	2,138,600	1,841,451
Total income		48,674,269	49,889,890
EXPENSES			
Gross claims paid		(34,110,247)	(36,238,520)
Claim recoveries		813,948	21,961
Movement in loss reserves, net	9	2,667,807	(7,194,505)
Policy acquisition costs, net		(13,331,359)	(11,758,757)
Movement in deferred acquisition cost, net	8	572,543	(1,750,583)
Movement in commission reserves		1,167,891	2,916,602
Allowance for doubtful debts		(175,258)	-
General and administrative expenses	14	(1,308,298)	(1,467,547)
Total expenses		(43,702,973)	(55,471,349)
Income / (loss) for the year		4,971,296	(5,581,459)
Other comprehensive income			
Items that will be reclassified to profit or loss:			
Changes on remeasurement of available-for-sale investments		2,754,840	(839,795)
Transfers for recognition of (gains) / losses on disposal of available-for-sale investments	13	(8,849)	40,249
Total other comprehensive income / (loss) for the year	5	2,745,991	(799,546)
Total comprehensive income / (loss) for the year		7,717,287	(6,381,005)

Management approved the financial statements consisting of pages 5 to 26 on 26 February 2020.


Adham El-Muezzin
Chief Executive Officer

Hannover Rueck SE, Bahrain Branch
Statement of cash flows
for the year ended 31 December 2019

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Bahraini Dinars

	Note	2019	2018
OPERATING ACTIVITIES			
Profit / (loss) for the year		4,971,296	(5,581,459)
<i>Adjustments for:</i>			
Investment and other income	13	(2,138,600)	(1,841,451)
Allowance for doubtful debts		175,258	-
		3,007,954	(7,422,910)
<i>Changes in operating assets and liabilities:</i>			
- insurance receivables		(1,428,441)	2,210,430
- in insurance payables		(656,909)	534,326
- in unearned premium reserves		2,132,048	(7,181,363)
- in retroceded unearned premium reserves		(53,194)	(249,625)
- in accrued premiums receivables		(531,461)	215,486
- in deferred acquisition costs		(592,650)	1,752,457
- in retrocessionaires' share of loss reserve		(5,536,443)	(1,994,361)
- in commission reserve		(1,167,115)	(2,918,350)
- in loss reserves		3,250,438	9,182,212
- in related party receivables		634,857	(225,035)
- in prepayments and other assets		(24,222)	-
- in related party and other payables		596	1,230,268
Net cash used in operating activities		(964,542)	(4,866,465)
INVESTING ACTIVITIES			
Purchase of available-for-sale investments	5	(17,610,633)	(26,847,011)
Proceeds from disposal of available-for-sale investments	5	16,344,704	18,856,380
Proceeds from disposal of long term placements		-	1,135,536
Interest received		2,022,075	1,797,072
Net cash generated from / (used in) investing activities		756,146	(5,058,023)
FINANCING ACTIVITIES			
Receipt of funds from head office		-	4,000,000
Net cash generated from financing activities		-	4,000,000
Net decrease in cash and cash equivalents		(208,396)	(5,924,488)
Cash and cash equivalents at 1 January		5,528,083	11,401,601
Foreign exchange movement in debt instruments		(31,120)	50,970
Cash and cash equivalents at 31 December	4	5,288,567	5,528,083

The notes on pages 8 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 Tourism and is regulated by the Central Bank of Bahrain, the regulator. The Branch is authorised 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 2019

Standards, amendments to published standards or IFRIC interpretations effective for the Company's accounting period beginning on 1 January 2019:

Amendments to IFRS 9 - 'Prepayment Features with Negative Compensation' (effective 1 January 2019)

The narrow-scope amendments made to IFRS 9 Financial Instruments in October 2017 enable entities to measure certain prepayable financial assets with negative compensation at amortised cost. These assets, which include some loan and debt securities, would otherwise have to be measured at fair value through profit or loss. To qualify for amortised cost measurement, the negative compensation must be 'reasonable compensation for early termination of the contract' and the asset must be held within a 'held to collect' business model. The Branch plans to defer the application of IFRS 9 until the effective date of the new insurance contracts standard "IFRS 17" by applying the temporary exemption from applying IFRS 9 as introduced by the Amendments to IFRS 4.

2 BASIS OF PREPARATION (continued)

IFRS 16 "Leases"

IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases. The statement of profit or loss will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. There is no impact on the financial statements of the Branch from the adoption of IFRS 16 on 1 January 2019 since all the Branch's leases are short-term leases which have been recognised on a straight-line basis as an expense.

There are no other amendments to IFRS or IFRIC interpretations that were effective for the first time for the financial year beginning on 1 January 2019 and have a significant effect on the Company's financial statements.

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

New standards and amendments not yet effective for the financial periods beginning on 1 January 2019 and have not been early adopted by the Company:

IFRS 3 – Definition of Business Amendments (effective 1 January 2020)

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The amendments will likely result in more acquisitions being accounted for as asset acquisitions.

Amendments to IAS 1 and IAS 8 - 'Definition of Material' (effective 1 January 2020)

The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information. In particular, the amendments clarify:

- that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole; and
- the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

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.

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 2019.

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.

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 premium reserves" 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(iv) *Unearned premium reserves*

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.

(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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 incurred 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.

(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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Management fee

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

4 CASH AND BANK BALANCES

	2019	2018
Cash and cash equivalents	5,288,567	5,528,083

5 AVAILABLE-FOR-SALE INVESTMENTS

	2019	2018
Balances as 1 January	84,920,357	77,742,875
Additions during the year	17,610,633	26,847,011
Disposal during the year (at amortised cost)	(16,344,704)	(18,856,380)
Change in fair value	2,745,991	(799,546)
Amortisation and others	144,461	(13,603)
	89,076,738	84,920,357
Investment in bonds		
Quoted securities	87,148,042	83,649,122
Unquoted securities	1,928,696	1,271,235
	89,076,738	84,920,357

6 INSURANCE RECEIVABLES AND PAYABLES

a) Insurance receivables

	2019	2018
Due from cedants	6,181,525	6,151,286
Deposits held by cedants	9,091,558	7,693,356
	15,273,083	13,844,642
Provision for impairment	(584,189)	(408,931)
Net insurance receivables	14,688,894	13,435,711

b) Insurance payables

	2019	2018
Non-life reinsurance	2,613,405	2,674,243
Life reinsurance	1,450,995	1,970,572
Balance payable to retrocessionaires	369,179	445,673
	4,433,579	5,090,488

Balance payable to retrocessionaires includes related party balances, refer to Note 12 b).

7 ACCRUED PREMIUM RECEIVABLES

	2019	2018
Non-life reinsurance	7,943,410	7,699,422
Life reinsurance	325,970	38,497
	8,269,380	7,737,919

8 DEFERRED ACQUISITION COSTS

	2019	2018
At 1 January	3,080,366	4,832,823
Movement	572,543	(1,750,583)
Foreign exchange gains / (losses)	20,107	(1,874)
	3,673,016	3,080,366

9 LOSS RESERVES

	2019			2018		
	Gross	Retroceded	Net	Gross	Retroceded	Net
Claim 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 1 January	98,195,873	(4,469,924)	93,725,949	89,013,661	(2,475,563)	86,538,098
Movement	2,962,290	(5,630,097)	(2,667,807)	9,301,586	(2,107,081)	7,194,505
Foreign exchange gains / (losses)	288,148	93,654	381,802	(119,374)	112,720	(6,654)
At 31 December	101,446,311	(10,006,367)	91,439,944	98,195,873	(4,469,924)	93,725,949
Claim reserves	53,924,191	(10,006,367)	43,917,824	63,898,441	(4,469,924)	59,428,517
IBNR reserves	47,522,120	-	47,522,120	34,297,432	-	34,297,432
At 31 December	101,446,311	(10,006,367)	91,439,944	98,195,873	(4,469,924)	93,725,949
Non-life reinsurance	98,386,286	(10,006,367)	88,379,919	94,476,820	(4,469,924)	90,006,896
Life reinsurance	3,060,025	-	3,060,025	3,719,053	-	3,719,053
At 31 December	101,446,311	(10,006,367)	91,439,944	98,195,873	(4,469,924)	93,725,949

10 UNEARNED PREMIUM RESERVES

	2019			2018		
	Gross	Retroceded	Net	Gross	Retroceded	Net
At 1 January	13,491,223	(710,557)	12,780,666	20,672,586	(460,932)	20,211,654
Movement	2,071,275	(54,158)	2,017,117	(7,164,184)	(254,045)	(7,418,229)
Foreign exchange gains / (losses)	60,773	964	61,737	(17,179)	4,420	(12,759)
At 31 December	15,623,271	(763,751)	14,859,520	13,491,223	(710,557)	12,780,666

11 HEAD OFFICE FUNDS

	Head office account	Fair value reserve	Accumulated losses	Total
Balance as at 1 January 2019	16,166,950	(1,310,518)	(12,134,249)	2,722,183
Profit for the period	-	-	4,971,296	4,971,296
Other comprehensive income	-	2,745,991	-	2,745,991
Balance at 31 December 2019	16,166,950	1,435,473	(7,162,953)	10,439,470
Balance as at 1 January 2018	12,166,950	(510,972)	(6,552,790)	5,103,188
Loss for the year	-	-	(5,581,459)	(5,581,459)
Other comprehensive loss	-	(799,546)	-	(799,546)
Receipt of funds from head office	4,000,000	-	-	4,000,000
Balance at 31 December 2018	16,166,950	(1,310,518)	(12,134,249)	2,722,183

12 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 all Group companies headed by Talanx AG, which also includes Hannover Re group.

a) Transactions during the year

	2019	2018
Contribution ceded to:		
- Hannover Re Bermuda Ltd., Bermuda <i>Entity within the Hannover Re Group</i>	4,453,784	3,861,243
- Hannover Rück SE, Germany <i>Parent company of the Hannover Re Group</i>	431,906	483,454
Expenses recharged by:		
- Hannover Retakaful B.S.C. (c), Bahrain <i>Entity within the Hannover Re Group</i>	1,208,199	1,252,894
- Hannover Rück SE, Germany <i>Parent company of the Hannover Re Group</i>	126,524	210,596
- Ampega Asset Management GmbH, Germany <i>Entity within the Talanx Group</i>	93,599	89,082

b) Balances as at 31 December

	2019	2018
Related party receivables		
- Hannover Retakaful B.S.C. (c), Bahrain <i>Entity within the Hannover Re Group</i>	-	634,857
Balance payable to retrocessionaires		
- Hannover Rück SE, Germany <i>Parent company of the Hannover Re Group</i>	7,515	4,235

12 RELATED PARTY TRANSACTIONS (continued)

	2019	2018
- Hannover Re Bermuda Ltd., Bermuda <i>Entity within the Hannover Re Group</i>	123,339	256,031
Retrocessionaires' share of loss reserves - Hannover Re Bermuda Ltd., Bermuda <i>Entity within the Hannover Re Group</i>	9,029,091	4,390,175

13 INVESTMENT AND OTHER INCOME

	2019	2018
<i>Investment income:</i>		
Interest income from bonds	1,992,164	1,743,339
Net gain / (loss) on disposal of bonds	8,849	(40,249)
	2,001,013	1,703,090
<i>Other income:</i>		
Interest from deposits held by cedants	137,587	138,361
	2,138,600	1,841,451

14 GENERAL AND ADMINISTRATIVE EXPENSES

	2019	2018
Management fee (Note 12 a)	1,208,199	1,252,894
IT maintenance and licencing expenses	75,871	177,826
Other operating expense	24,228	36,827
	1,308,298	1,467,547

Management fee includes common general and administrative expenses which are paid by Hannover ReTakaful B.S.C. (c), a related party and subsequently recharged to the Branch.

15 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.

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. There have been no significant changes in the underwriting strategy since the previous period.

15 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

	2019			2018		
	Life	Non-life	Total	Life	Non-life	Total
Middle East	8,135,122	35,604,189	43,739,311	7,581,200	31,828,149	39,409,349
North Africa	65,735	9,674,859	9,740,594	72,876	5,334,076	5,406,952
Other	40,526	416,984	457,510	-	565,812	565,812
	8,241,383	45,696,032	53,937,415	7,654,076	37,728,037	45,382,113

(ii) Analysis of assets and liabilities

	2019			2018		
	Life	Non-life	Total	Life	Non-life	Total
Assets	8,912,703	123,080,589	131,993,292	12,618,306	108,062,480	120,680,786
Liabilities	7,491,887	114,061,935	121,553,822	9,587,579	108,371,024	117,958,603

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.

	2019		2018	
	Profit and loss / Head office funds		Profit and loss / Head office funds	
	Gross	Net	Gross	Net
Expense rate				
1 % increase	(539,374)	(488,289)	(453,821)	(407,975)
1 % decrease	539,374	488,289	453,821	407,975
Expected loss ratio				
1 % increase	(518,661)	(468,118)	(525,463)	(482,157)
1 % decrease	518,661	468,118	525,463	482,157

15 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 2015 to 2019 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) Non-Life reinsurance - Gross

Underwriting years	2015	2016	2017	2018	2019	Total
Estimate of incurred claims costs:						
- End of underwriting year	20,376,310	19,819,534	19,884,260	18,909,850	24,324,048	24,324,048
- One year later	36,603,765	36,026,977	39,566,842	36,291,695	-	36,291,695
- Two years later	35,117,964	33,701,976	38,076,179	-	-	38,076,179
- Three years later	34,645,421	34,108,697	-	-	-	34,108,697
- Four years later	33,146,584	-	-	-	-	33,146,584
Current estimate of incurred claims	33,146,584	34,108,697	38,076,179	36,291,695	24,324,048	165,947,203
Cumulative payments to date	(24,900,324)	(22,834,364)	(22,002,815)	(14,360,501)	(4,791,972)	(88,889,976)
Liability recognised	8,246,260	11,274,333	16,073,364	21,931,194	19,532,076	77,057,227
Liability in respect of prior years						21,329,059
Total liability included in the statement of financial position (note 9)						98,386,286

(ii) Non-Life reinsurance - Net

Underwriting year	2015	2016	2017	2018	2019	Total
Estimate of incurred claims costs:						
- End of underwriting year	20,376,310	19,819,534	19,884,260	16,997,644	22,098,912	22,098,912
- One year later	30,383,743	36,026,977	39,518,998	28,322,515	-	28,322,515
- Two years later	28,484,410	33,701,976	31,829,870	-	-	31,829,870
- Three years later	27,650,962	31,296,164	-	-	-	31,296,164
- Four years later	27,508,093	-	-	-	-	27,508,093
Current estimate of incurred claims	27,508,093	31,296,164	31,829,870	28,322,515	22,098,912	141,055,554
Cumulative payments to date	(19,827,098)	(22,793,646)	(20,006,783)	(8,543,859)	(2,833,310)	(74,004,696)
Liability recognised	7,680,995	8,502,518	11,823,087	19,778,656	19,265,602	67,050,858
Liability in respect of prior years						21,329,061
Total liability included in the statement of financial position (note 9)						88,379,919

16 FINANCIAL RISK MANAGEMENT

a) Overview

The Branch has exposure to the credit, liquidity and market risks from its use of financial instruments.

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:

	2019	2018
Cash and bank balances	5,288,567	5,528,083
Statutory deposit	160,196	157,012
Available-for-sale investments	89,076,738	84,920,357
Insurance receivables	14,688,894	13,435,711
Accrued premium receivables	8,269,380	7,737,919
Retrocessionaires' share of loss reserves	10,006,367	4,469,924
Related party receivables	-	634,857
	127,490,142	116,883,863

(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.

	2019	2018
Neither past due nor impaired	10,278,452	11,192,459
Past due but not impaired (91 – 180 days)	2,970,998	371,729
Past due but not impaired (181 – 365 days)	868,595	1,536,523
Past due and impaired (Above 365 days)	1,155,038	743,931
Provision for impairment	(584,189)	(408,931)
	14,688,894	13,435,711

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.

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 nature 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 accordingly the effect of undiscounting is immaterial.

2019	Carrying amount	Contractual cash flows	1 year or less
Claims reserves	53,924,191	53,924,191	53,924,191
Insurance payables	4,433,579	4,433,579	4,433,579
Other payables	14,500	14,500	14,500
	58,372,270	58,372,270	58,372,270

2018	Carrying amount	Contractual cash flows	1 year or less
Claims reserves	63,898,441	63,898,441	63,898,441
Insurance payables	5,090,488	5,090,488	5,090,488
Other payables	13,904	13,904	13,904
	69,002,833	69,002,833	69,002,833

16 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	2019	2018
Deferred acquisition costs	3,673,016	3,080,366
Retrocessionaires' share of unearned premium reserves	763,751	710,557
Prepayments and other assets	30,222	6,000
	4,466,989	3,796,923
Non-financial liabilities		
Loss reserves – IBNR	47,522,120	34,297,432
Unearned premium reserves	15,623,271	13,491,223
Commission reserves	-	1,167,115
	63,145,391	48,955,770

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.

16 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 as mentioned in the below table. 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.

2019

	Available-for-sale	Loans and receivables	Others at amortised cost	Total carrying value	Total fair value
Assets					
Cash and bank balances	-	5,288,567	-	5,288,567	5,288,567
Statutory deposit	-	160,196	-	160,196	160,196
Available-for-sale investments	89,076,738	-	-	89,076,738	89,076,738
Insurance receivables	-	14,688,894	-	14,688,894	14,688,894
Accrued premium receivables	-	8,269,380	-	8,269,380	8,269,380
Retrocessionaires' share of claim reserves	-	10,006,367	-	10,006,367	10,006,367
Total financial assets	89,076,738	38,413,404	-	127,490,142	127,490,142
Liabilities					
Outstanding claims	-	-	53,924,191	53,924,191	53,924,191
Insurance payables	-	-	4,433,579	4,433,579	4,433,579
Other payables	-	-	14,500	14,500	14,500
Total financial liabilities	-	-	58,372,270	58,372,270	58,372,270

16 FINANCIAL RISK MANAGEMENT (continued)

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
Available-for -sale investments	84,920,357	-	-	84,920,357	84,920,357
Insurance receivables	-	13,435,711	-	13,435,711	13,435,711
Accrued premium receivables	-	7,737,919	-	7,737,919	7,737,919
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	-	-	5,090,488	5,090,488	5,090,488
Other payables	-	-	13,904	13,904	13,904
Total financial liabilities	-	-	69,002,833	69,002,833	69,002,833

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.

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:

16 FINANCIAL RISK MANAGEMENT (continued)

	Level 2	Total
2019		
Available-for-sale investments	89,076,738	89,076,738
2018		
Available-for-sale investments	84,920,357	84,920,357

There were no transfers from level 1 or level 3 to level 2 or in the opposite direction in 2019 (2018: Nil).

g) 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.

(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 Egyptian Pound, Euro and the Kuwaiti Dinar. The Branch does not hedge against such currency risks since they are not considered significant.

2019	Egyptian Pound	Euro	Kuwaiti Dinars	Total
Total assets	2,477,883	1,256,812	585,159	4,319,854
Total liabilities	(4,202,113)	(346,719)	(5,081,383)	(9,630,215)
Net assets	(1,724,230)	910,093	(4,496,224)	(5,310,361)
10% strengthening of BD increase / (decrease) in profit or loss and Head Office funds	172,423	(91,009)	449,622	531,036
10% weakening of BD increase / (decrease) in profit or loss and Head Office funds	(172,423)	91,009	(449,622)	(531,036)

16 FINANCIAL RISK MANAGEMENT (continued)

2018	Egyptian Pound	Euro	Kuwaiti Dinars	Total
Total assets	1,511,133	3,119,373	974,688	5,605,194
Total liabilities	(2,781,663)	(411,237)	(3,725,026)	(6,917,926)
Net assets	(1,270,530)	2,708,136	(2,750,338)	(1,312,732)
Strengthening of BD by 10% increase / (decrease) in profit or loss and Head Office funds	127,053	(270,814)	275,034	131,273
Weakening of BD by 10% increase / (decrease) in profit or loss and Head Office funds	(127,053)	270,814	(275,034)	(131,273)

(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 1.94% (2018: 2.93%) per annum. A 1% increase in the interest rate will decrease the total comprehensive income for the year by BD 2,549,000 (2018: BD 2,387,000) and 1% decrease in the interest rate will increase the total comprehensive income for the period by BD 2,658,000 (2018: BD 2,478,000.)

17 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.