Hannover Rueck SE,
Bahrain Branch

FINANCIAL STATEMENTS

31 DECEMBER 2020

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 M.E Limited

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Independent auditor's report to the directors of Hannover Rück SE in respect of its 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 2020, 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 2020;
- the statement of profit or loss and 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 significant accounting policies and other explanatory information.

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 Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for 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 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 the Bahrain Commercial Companies Law number (21) of 2001, as amended (the Commercial Companies Law), the Central Bank of Bahrain (CBB) Rulebook (Volume 3) 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.

PricewaterhouseCoopers M.E Limited, Office no. 4701, Building no. 1459, Road no. 4626,
Block no. 346, P.O. Box 60771, Manama/Sea Front, Kingdom of Bahrain, Floor 47, West Tower,
Bahrain Financial Harbour, T: +973 17 118800, F: +973 17 540556, www.pwc.com/me, CR no. 47378

Independent auditor's report to the directors of Hannover Rück SE in respect of its 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 Branch's 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 the Branch 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 directors of Hannover Rück SE in respect of its Bahrain Branch (continued)

Report on the audit of the financial statements (continued)

Report on other legal and regulatory requirements

As required by the Commercial Companies Law and the Central Bank of Bahrain (CBB) Rulebook (Volume 3), we report that:

- 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, during the year, breached any of the applicable provisions of the Commercial Companies Law, the CBB Rulebook (Volume 3), the Central Bank of Bahrain and Financial Institutions Law and CBB directives that would have a material adverse effect on its activities for the year ended 31 December 2020 or its financial position as at that date; and
- satisfactory explanations and information have been provided to us by management in response to all our requests.

PricewaterhouseCoopers

PricewaterhouseCoopers M.E Limited
1 March 2021
Partner's registration number: 196
Manama, Kingdom of Bahrain

Hannover Rueck SE, Bahrain Branch
Statement of financial position
as at 31 December 2020

Bahraini Dinars

	Note	2020	2019
ASSETS			
Cash and bank balances	4	5,973,960	5,288,567
Statutory deposit		163,454	160,196
Available-for-sale investments	5	102,165,974	89,076,738
Insurance receivables	6 a)	20,301,669	14,688,894
Accrued premium receivables	7	8,401,494	8,269,380
Deferred acquisition costs	8	4,341,676	3,673,016
Retrocessionnaires' share of loss reserves	9	33,629,270	10,006,367
Retrocessionnaires' share of unearned premium reserves	10	942,290	763,751
Prepayments and other assets		45,140	30,222
Total assets		**175,964,927**	131,957,131
HEAD OFFICE FUNDS AND LIABILITIES			
LIABILITIES			
Loss reserves	9	140,784,077	101,446,311
Unearned premium reserves	10	18,405,163	15,623,271
Insurance payables	6 b)	12,924,018	4,433,579
Other payables		11,270	14,500
Total liabilities		**172,124,528**	121,517,661
HEAD OFFICE FUNDS	11	**3,840,399**	10,439,470
Total head office funds and liabilities		**175,964,927**	131,957,131

Management approved the financial statements consisting of pages 5 to 25 on 1 March 2021.

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 2020

Bahraini Dinars

	Note	2020	2019
INCOME			
Gross written premium		59,587,781	53,937,415
Ceded premium		(8,826,221)	(5,108,530)
Change in gross unearned premium reserves	10	(2,765,555)	(2,071,275)
Change in ceded unearned premium reserves	10	178,104	54,158
Net premium earned		**48,174,109**	46,811,768
Foreign exchange gain / (losses)		220,040	(276,099)
Investment and other income	13	2,384,927	2,138,600
Total income		**50,779,076**	48,674,269
EXPENSES			
Gross claims paid		(34,750,344)	(34,110,247)
Claim recoveries		1,191,602	813,948
Movement in loss reserves, net	9	(15,808,073)	2,667,807
Policy acquisition costs		(13,694,591)	(13,387,849)
Ceded policy acquisition cost		64,514	56,490
Movement in deferred acquisition cost, net	8	663,432	572,543
Movement in commission reserves		-	1,167,891
Allowance for doubtful debts		(141,140)	(175,258)
General and administrative expenses	14	(1,224,540)	(1,308,298)
Total expenses		**(63,699,140)**	(43,702,973)
(Loss) / income for the year		**(12,920,064)**	4,971,296
Other comprehensive income			
Items that will be reclassified to profit or loss:			
Changes on remeasurement of available-for-sale investments		2,552,891	2,754,840
Transfers for recognition of gains on disposal of available-for-sale investments	13	(231,898)	(8,849)
Total other comprehensive income for the year	5	**2,320,993**	2,745,991
Total comprehensive (loss) / income for the year		**(10,599,071)**	7,717,287

Management approved the financial statements consisting of pages 5 to 25 on 1 March 2021.

Adham El-Muezzin
Chief Executive Officer

Statement of cash flows

for the year ended 31 December 2020 Bahraini Dinars

	Note	**2020**	2019
OPERATING ACTIVITIES			
(Loss) / profit for the year		(12,920,064)	4,971,296
Adjustments for:			
Investment and other income	13	(2,384,927)	(2,138,600)
Allowance for doubtful debts		141,140	175,258
		(15,163,851)	3,007,954
Changes in operating assets and liabilities:			
- insurance receivables		(5,753,915)	(1,428,441)
- in insurance payables		8,490,439	(656,909)
- in unearned premium reserves		2,781,892	2,132,048
- in retrocessionnaires' share of unearned premium reserves		(178,539)	(53,194)
- in accrued premiums receivables		(132,114)	(531,461)
- in deferred acquisition costs		(668,660)	(592,650)
- in retrocessionaires' share of loss reserve		(23,622,903)	(5,536,443)
- in commission reserve		-	(1,167,115)
- in loss reserves		39,337,766	3,250,438
- in related party receivables		-	634,857
- in prepayments and other assets		(14,918)	(24,222)
- in other payables		(3,230)	596
- in statutory deposit		(3,258)	(3,184)
Net cash generated / (used) in operating activities		**5,068,709**	(967,726)
INVESTING ACTIVITIES			
Purchase of available-for-sale investments	5	(41,948,459)	(17,607,449)
Proceeds from disposal of available-for-sale investments	5	31,345,969	16,344,704
Placement of deposit with maturity over 3 months		(1,205,950)	-
Proceed from deposit with maturity over 3 months		478,410	-
Interest received		2,167,687	2,022,075
Foreign exchange movement in debt instruments		23,366	(31,120)
Net cash (used in) / generated from investing activities		**(9,138,977)**	728,210
FINANCING ACTIVITIES			
Receipt of funds from head office	11	4,000,000	-
Net cash generated from financing activities		**4,000,000**	-
Net decrease in cash and cash equivalents		**(70,268)**	**(239,516)**
Cash and cash equivalents at 1 January		5,288,567	5,528,083
Cash and cash equivalents at 31 December	4	**5,218,299**	5,288,567

The notes on pages 8 to 25 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") and the Bahrain Commercial Companies Law number (21) of 2001, as amended (the Commercial Companies Law), the Central Bank of Bahrain (CBB) Rulebook (Volume 3), the Central Bank of Bahrain and Financial Institutions Law and CBB directives.

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
- Note 18	- COVID - 19 Impact

d) New standards, amendments and interpretations effective from 1 January 2020

The following amendments to standards and the conceptual framework applicable to reporting periods commencing on or after 1 January 2020 have been first time adopted by the Branch. Adoption of those standards does not have any impact on amounts recognized in prior or the current periods, nor is it expected to significantly affect future periods.

- Definition of Material – amendments to IAS 1 and IAS 8;
- Definition of a Business – amendments to IFRS 3;
- Interest Rate Benchmark Reform – amendments to IFRS 7, IFRS 9 and IAS 39; and
- Revised Conceptual Framework for Financial Reporting
- Amendment to IFRS 16, 'Leases' – Covid-19 related rent concessions - 1 June 2020

e) New standards, amendments and interpretations not yet adopted

The Branch has not yet applied the following new standards, amendments and interpretations that have been issued but are not yet effective and expected to have any material impact on the financial statement of the Branch.

- IFRS 17, 'Insurance contracts' – 1 January 2023
- Amendments to IAS 1, Presentation of financial statements' on classification of liabilities – 1 January 2022

2 BASIS OF PREPARATION (continued)

- Amendments to IFRS 3, IAS 16, IAS 37, IFRS 9 and IFRS 16 – 1 January 2022
- Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – 1 January 2021

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 2020.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) Ceded premiums

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

(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 consist 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(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) 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

	2020	2019
Cash and bank balances	4,738,770	5,288,567
Deposits with maturity within 3 months	479,529	-
Cash and cash equivalents	**5,218,299**	5,288,567
Deposits with maturity over 3 months	755,661	-
	5,973,960	5,288,567

5 AVAILABLE-FOR-SALE INVESTMENTS

	2020	2019
Balances as at 1 January	89,076,738	84,920,357
Additions during the year	41,948,459	17,610,633
Disposals during the year	(31,114,071)	(16,344,704)
Change in fair value	2,320,993	2,745,991
Amortisation and others	(66,145)	144,461
	102,165,974	89,076,738
Investment in bonds		
Quoted securities	98,624,823	87,148,042
Unquoted securities	3,541,151	1,928,696
	102,165,974	89,076,738

6 INSURANCE RECEIVABLES AND PAYABLES

a) Insurance receivables

	2020	2019
Due from cedants	10,502,181	6,181,525
Deposits held by cedants	10,524,817	9,091,558
	21,026,998	15,273,083
Provision for impairment	(725,329)	(584,189)
Net insurance receivables	**20,301,669**	14,688,894

b) Insurance payables

	2020	2019
Property and casualty	7,476,592	2,613,405
Life and health	2,058,278	1,450,995
Balance payable to retrocessionaires	3,389,148	369,179
	12,924,018	4,433,579

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

7 ACCRUED PREMIUM RECEIVABLES

	2020	2019
Property and casualty	8,120,921	7,943,410
Life and health	280,573	325,970
	8,401,494	8,269,380

8 DEFERRED ACQUISITION COSTS

	2020	2019
At 1 January	3,673,016	3,080,366
Movement	663,432	572,543
Foreign exchange gains	5,228	20,107
	4,341,676	3,673,016

9 LOSS RESERVES

	2020			2019		
	Gross	**Retroceded**	**Net**	Gross	Retroceded	Net
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 1 January	101,446,311	(10,006,367)	91,439,944	98,195,873	(4,469,924)	93,725,949
Movement	39,387,480	(23,579,407)	15,808,073	2,962,290	(5,630,097)	(2,667,807)
Foreign exchange gains / (losses)	(49,714)	(43,496)	(93,210)	288,148	93,654	381,802
At 31 December	140,784,077	(33,629,270)	107,154,807	101,446,311	(10,006,367)	91,439,944
Claim reserves	84,926,569	(33,629,270)	51,297,299	53,924,191	(10,006,367)	43,917,824
IBNR reserves	55,857,508	-	55,857,508	47,522,120	-	47,522,120
At 31 December	**140,784,077**	**(33,629,270)**	**107,154,807**	101,446,311	(10,006,367)	91,439,944
Property and casualty	138,618,560	(33,629,270)	104,989,290	98,386,286	(10,006,367)	88,379,919
Life and health	2,165,517	-	2,165,517	3,060,025	-	3,060,025
At 31 December	**140,784,077**	**(33,629,270)**	**107,154,807**	101,446,311	(10,006,367)	91,439,944

10 UNEARNED PREMIUM RESERVES

	2020			2019		
	Gross	**Retroceded**	**Net**	Gross	Retroceded	Net
At 1 January	15,623,271	(763,751)	14,859,520	13,491,223	(710,557)	12,780,666
Movement	2,765,555	(178,104)	2,587,451	2,071,275	(54,158)	2,017,117
Foreign exchange gains / (losses)	16,337	(435)	15,902	60,773	964	61,737
At 31 December	**18,405,163**	**(942,290)**	**17,462,873**	15,623,271	(763,751)	14,859,520

11 HEAD OFFICE FUNDS

	Head office account	Fair value reserve	Accumulated losses	Total
Balance as at 1 January 2020	16,166,950	1,435,473	(7,162,953)	10,439,470
Receipt of funds from head office	4,000,000	-	-	4,000,000
Loss for the year	-	-	(12,920,064)	(12,920,064)
Other comprehensive income	-	2,320,993	-	2,320,993
Balance at 31 December 2020	**20,166,950**	**3,756,466**	**(20,083,017)**	**3,840,399**
Balance as at 1 January 2019	16,166,950	(1,310,518)	(12,134,249)	2,722,183
Profit for the year	-	-	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

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**	**2020**	2019
Contribution ceded to:		
- Hannover Re (Bermuda) Ltd., Bermuda		
Entity within the Hannover Re Group	8,193,919	4,453,784
- Hannover Rück SE, Germany		
Parent company of the Hannover Re Group	-	431,906
Expenses recharged by:		
- Hannover Retakaful B.S.C. (c), Bahrain		
Entity within the Hannover Re Group	1,020,737	1,208,199
- Hannover Rück SE, Germany		
Parent company of the Hannover Re Group	222,060	126,524
- Ampega Asset Management GmbH, Germany		
Entity within the Talanx Group	104,747	93,599

b) **Balances as at 31 December**	**2020**	2019
Balance payable to retrocessionaires		
- Hannover Rück SE, Germany		
Parent company of the Hannover Re Group	-	7,515

12 RELATED PARTY TRANSACTIONS (continued)

	2020	2019
- Hannover Re (Bermuda) Ltd., Bermuda		
Entity within the Hannover Re Group	2,849,393	123,339
Retrocessionaires' share of loss reserves		
- Hannover Re (Bermuda) Ltd., Bermuda		
Entity within the Hannover Re Group	33,458,409	9,029,091

13 INVESTMENT AND OTHER INCOME

	2020	2019
Investment income:		
Interest income from investments	1,998,578	1,992,164
Net gains on disposal of investments	231,898	8,849
	2,230,476	2,001,013
Other income:		
Interest from deposits held by cedants	154,451	137,587
	2,384,927	2,138,600

14 GENERAL AND ADMINISTRATIVE EXPENSES

	2020	2019
Management fee (Note 12 a)	1,020,737	1,208,199
IT maintenance and licencing expenses	179,320	75,871
Other operating expense	24,483	24,228
	1,224,540	1,308,298

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 covers 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.

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

	2020			2019		
	Life and Health	**Property and Casualty**	**Total**	Life and Health	Property and Casualty	Total
Middle East	6,793,857	37,154,677	43,948,534	8,135,122	35,604,189	43,739,311
North Africa	73,985	13,187,776	13,261,761	65,735	9,674,859	9,740,594
Other	158,180	2,219,306	2,377,486	40,526	416,984	457,510
	7,026,022	**52,561,759**	**59,587,781**	8,241,383	45,696,032	53,937,415

(ii) Analysis of assets and liabilities

	2020			2019		
	Life and Health	**Property and Casualty**	**Total**	Life and Health	Property and Casualty	Total
Assets	7,120,793	168,844,134	175,964,927	8,912,703	123,044,428	131,957,131
Liabilities	7,065,989	165,058,539	172,124,528	7,491,887	114,025,774	121,517,661

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.

	2020		2019	
	Profit and loss / Head office funds		Profit and loss / Head office funds	
	Gross	**Net**	Gross	Net
Expense rate				
1 % increase	(595,878)	(507,616)	(539,374)	(488,289)
1 % decrease	595,878	507,616	539,374	488,289
Expected loss ratio				
1 % increase	(568,222)	(481,741)	(518,661)	(468,118)
1 % decrease	568,222	481,741	518,661	468,118

15 INSURANCE RISK MANAGEMENT (continued)

f) Claim development data

The following tables show the estimate of cumulative property and casualty loss reserves for each underwriting year from years 2016 to 2020 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)* Property and casualty - Gross**

Underwriting years	2016	2017	2018	2019	2020	Total
Estimate of incurred claims costs:						
- End of underwriting year	19,819,534	19,884,260	18,909,850	24,324,048	40,511,499	
- One year later	36,026,977	39,566,842	36,291,695	52,677,015	-	
- Two years later	33,701,976	38,076,179	34,027,282	-	-	
- Three years later	34,108,697	37,813,785	-	-	-	
- Four years later	34,385,372	-	-	-		
Current estimate of incurred claims	34,385,372	37,813,785	34,027,282	52,677,015	40,511,499	199,414,953
Cumulative payments to date	(24,326,484)	(23,953,152)	(16,481,781)	(18,209,800)	(4,232,548)	(87,203,765)
Liability recognised	**10,058,888**	**13,860,633**	**17,545,501**	**34,467,215**	**36,278,951**	**112,211,188**
Liability in respect of prior years						26,407,372
Total liability included in the statement of financial position (note 9)						**138,618,560**

***(ii)* Property and casualty - Net**

Underwriting year	2016	2017	2018	2019	2020	Total
Estimate of incurred claims costs:						
- End of underwriting year	19,819,534	19,884,260	16,997,644	22,098,912	14,114,957	
- One year later	36,026,977	39,518,998	28,322,515	50,595,781	-	
- Two years later	33,701,976	31,829,870	25,815,139	-	-	
- Three years later	31,296,164	33,435,533	-	-	-	
- Four years later	31,441,483	-	-	-	-	
Current estimate of incurred claims	31,441,483	33,435,533	25,815,139	50,595,781	14,114,957	155,402,893
Cumulative payments to date	(24,285,766)	(21,957,057)	(9,492,039)	(16,232,698)	(4,232,548)	(76,200,108)
Liability recognised	**7,155,717**	**11,478,476**	**16,323,100**	**34,363,083**	**9,882,409**	**79,202,785**
Liability in respect of prior years						25,786,505
Total liability included in the statement of financial position (note 9)						**104,989,290**

16 FINANCIAL RISK MANAGEMENT

a) Overview

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

Financial risk management 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:

	2020	2019
Cash and bank balances	5,973,960	5,288,567
Statutory deposit	163,454	160,196
Available-for-sale investments	102,165,974	89,076,738
Insurance receivables	20,301,669	14,688,894
Accrued premium receivables	8,401,494	8,269,380
Retrocessionaires' share of loss reserves	33,629,270	10,006,367
	170,635,821	127,490,142

(iii) Ageing of Insurance receivables

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.

	2020	2019
Neither past due nor impaired	14,771,867	10,278,452
Past due but not impaired (91 – 180 days)	3,624,367	2,970,998
Past due but not impaired (181 – 365 days)	1,509,036	868,595
Past due and impaired (Above 365 days)	1,121,728	1,155,038
Provision for impairment	(725,329)	(584,189)
	20,301,669	14,688,894

16 *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.

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 from the prior periods.

(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.

2020	**Carrying amount**	**Contractual cash flows**	**1 year or less**
Claims reserves	84,926,569	84,926,569	84,926,569
Insurance payables	12,924,018	12,924,018	12,924,018
Other payables	11,270	11,270	11,270
	97,861,857	**97,861,857**	**97,861,857**

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

(iii) Disclosures of non-financial assets and liabilities

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

16 FINANCIAL RISK MANAGEMENT (continued)

	2020	2019
Non-financial assets		
Deferred acquisition costs	4,341,676	3,673,016
Retrocessionaires' share of unearned premium reserves	942,290	763,751
Prepayments and other assets	45,140	30,222
	5,329,106	4,466,989
Non-financial liabilities		
Loss reserves – IBNR	55,857,508	47,522,120
Unearned premium reserves	18,405,163	15,623,271
	74,262,671	63,145,391

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.

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.

e) Classification of financial instruments

Financial instruments comprise of financial assets and financial liabilities as mentioned below in the table. 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.

16 FINANCIAL RISK MANAGEMENT (continued)

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

2020	**Available-for-sale**	**Loans and receivables**	**Amortised cost**	**Total carrying value**	**Total fair value**
Assets					
Cash and bank balances	-	5,973,960	-	5,973,960	5,973,960
Statutory deposit	-	163,454	-	163,454	163,454
Available-for -sale investments	102,165,974	-	-	102,165,974	102,165,974
Insurance receivables	-	20,301,669	-	20,301,669	20,301,669
Accrued premium receivables	-	8,401,494	-	8,401,494	8,401,494
Retrocessionaires' share of claim reserves	-	33,629,270	-	33,629,270	33,629,270
Total financial assets	**102,165,974**	**68,469,847**	**-**	**170,635,821**	**170,635,821**
Liabilities					
Outstanding claims	-	-	84,926,569	84,926,569	84,926,569
Insurance payables	-	-	12,924,018	12,924,018	12,924,018
Other payables	-	-	11,270	11,270	11,270
Total financial liabilities	**-**	**-**	**97,861,857**	**97,861,857**	**97,861,857**

2019	Available-for-sale	Loans and receivables	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

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.

16 FINANCIAL RISK MANAGEMENT (continued)

- 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.

All investments are Level 2, and further that there were no transfers from level 1 or level 3 to level 2 or in the opposite direction in 2020 (2019: Nil).

g) Temporary exemption from IFRS 9

The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 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 2020 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.

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

2020	**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	5,973,960	-	-	-
Statutory deposit	163,454	-	-	-
Accrued premium receivables	8,401,494	-	-	-
Insurance receivables	20,301,669	-	-	-
Available-for-sale investments	101,049,929	2,274,837	1,116,045	46,156
Retrocessionaires' share of loss reserves	33,629,270	-	-	-

Credit risk exposure for financial assets passing SPPI test:

	AAA	**AA**	**A**	**BBB**	**Other investment grade**
Fair value	50,670,189	46,919,286	24,107,007	12,944,250	34,879,044
Carrying amount	49,121,269	46,630,931	23,209,835	11,983,049	34,867,960

2019	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	5,288,567	-	-	-
Statutory deposit	160,196	-	-	-
Accrued premium receivables	8,269,380	-	-	-
Insurance receivables	14,688,894	-	-	-
Available-for-sale investments	88,474,978	2,724,520	601,760	21,471
Retrocessionaires' share of claim reserves	10,006,367	-	-	-

16 *FINANCIAL RISK MANAGEMENT (continued)*

Credit risk exposure for financial assets passing SPPI test:

	AAA	AA	A	BBB	Other investment grade
Fair value	32,557,807	29,343,105	21,205,173	15,452,273	28,330,024
Carrying amount	32,285,436	29,117,493	20,817,699	14,912,469	28,323,390

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.

(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.

2020	**Egyptian Pound**	**Euro**	**Kuwaiti Dinars**	**Total**
Total assets	3,933,739	974,306	485,715	5,393,760
Total liabilities	(5,921,617)	(670,283)	(4,475,082)	(11,066,982)
Net assets	**(1,987,878)**	**304,023**	**(3,989,367)**	**(5,673,222)**
10% strengthening of BD increase / (decrease) in profit or loss and Head Office funds	198,788	(30,402)	398,937	
10% weakening of BD increase / (decrease) in profit or loss and Head Office funds	(198,788)	30,402	(398,937)	

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)
Strengthening of BD by 10% increase / (decrease) in profit or loss and Head Office funds	172,423	(91,009)	449,622	
Weakening of BD by 10% increase / (decrease) in profit or loss and Head Office funds	(172,423)	91,009	(449,622)	

16 FINANCIAL RISK MANAGEMENT (continued)

(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 0.69% (2019: 1.94%) per annum. A 1% increase in the interest rate will decrease the total comprehensive income for the year by BD 3,212,000 (2019: BD 2,549,00) and 1% decrease in the interest rate will increase the total comprehensive income for the period by BD 3,368,000 (2019: BD 2,658,000)

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.

18 COVID - 19 Impact

The COVID-19 pandemic has developed rapidly in 2020, with a significant number of cases. Measures taken by various governments to contain the virus have affected economic activity. We have taken a number of measures to monitor and mitigate the effects of COVID-19, such as safety and health measures to protect our people which includes social distancing and working from home.

Furthermore, the Branch has performed an assessment of current in-force insurance contracts for its major property and casualty lines of business, which include, engineering, property & motor business. As these lines of business, in general, do not cover pandemic risk, the Branch does not foresee any unusual insurance claims arising as a result of the COVID-19 pandemic. Similarly, an assessment has been performed for the Life and Health business lines. In many jurisdictions, all COVID-19 impacted patients are referred to state medical facilities, which costs are then covered by the respective Governments. In addition, the majority of the Branch's Health contracts, explicitly exclude the coverage of losses arising out of a pandemic. The Branch, therefore, does not foresee any significant claims arising for this line of business.

The Branch's investment securities mainly comprise of investment grade, quoted securities which are measured at market value. These sukuks are not significantly affected by the COVID-19 pandemic as global financial markets have started to recover during the second quarter of 2020. Furthermore, the Branch is closely monitoring the situation and assessing the adequacy of liquid assets to meet its obligations.

The overall financial impact of COVID-19 on the Branch's operations are mentioned below.

	COVID-19 Impact
Increase in loss reserves	(1,440,212)
Reduction in management fee	51,688