Hannover Rueck SE Bahrain Branch

FINANCIAL STATEMENTS

31 DECEMBER 2021

Office	:	Zamil Tower, Office 171 Government Avenue 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

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Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Hannover Rueck SE, Bahrain Branch (the "Branch") as at 31 December 2021, 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 2021;
- 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 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.

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 judgement 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 accounting records and the financial statements are in agreement therewith;

- nothing has come to our attention which causes 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 2021 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
28 February 2022
Partner's registration number: 254
Manama, Kingdom of Bahrain

Statement of financial position
as at 31 December 2021

Bahraini Dinars

	Note	2021	2020
ASSETS			
Cash and bank balances	4	8,228,429	5,973,960
Available-for-sale investments	5	107,254,250	102,165,974
Insurance receivables	6 a)	19,553,416	20,301,669
Accrued premium receivables	7	8,531,784	8,401,494
Deferred acquisition costs	8	4,054,250	4,346,912
Retrocessionnaires' share of loss reserves	9	38,007,002	33,629,270
Retrocessionnaires' share of unearned premium reserves	10	270,111	942,290
Prepayments, equipment and other assets		121,705	45,140
Statutory deposit		166,546	163,454
Total assets		**186,187,493**	175,970,163
HEAD OFFICE FUNDS AND LIABILITIES			
LIABILITIES			
Loss reserves	9	152,815,665	140,784,077
Unearned premium reserves	10	16,982,788	18,405,163
Retrocessionnaires' share of deferred acquisition costs	8	25,079	5,236
Insurance payables	6 b)	8,937,330	12,924,018
Other payables		14,770	11,270
Total liabilities		**178,775,632**	172,129,764
HEAD OFFICE FUNDS	11	**7,411,861**	3,840,399
Total head office funds and liabilities		**186,187,493**	175,970,163

Management approved the financial statements consisting of pages 5 to 25 on 28 February 2022.

Adham El-Muezzin
Chief Executive Officer

Statement of profit or loss and comprehensive income
for the year ended 31 December 2021

Bahraini Dinars

	Note	2021	2020
INCOME			
Gross written premium		55,724,922	59,587,781
Ceded premium		(3,336,583)	(8,826,221)
Change in gross unearned premium reserves	10	1,404,645	(2,765,555)
Change in ceded unearned premium reserves	10	(672,212)	178,104
Net premium earned		**53,120,772**	48,174,109
Foreign exchange gain		14,812	220,040
Investment and other income	13	2,215,161	2,384,927
Total income		**55,350,745**	50,779,076
EXPENSES			
Gross claims paid		(26,607,030)	(34,750,344)
Claim recoveries		2,045,583	1,191,602
Change in loss reserves	9	(11,829,315)	(39,387,480)
Retrocessionnaires' share on change in loss reserve	9	3,959,581	23,579,407
Policy acquisition costs		(14,002,453)	(13,694,591)
Retrocessionnaires' share on policy acquisition cost		66,401	64,514
Change in deferred acquisition cost	8	(291,583)	667,562
Retrocessionnaires' share on change in deferred acquisition cost	8	(19,844)	(4,130)
Allowance for doubtful debts	6 a)	(305,188)	(141,140)
General and administrative expenses	14	(1,372,740)	(1,224,540)
Total expenses		**(48,356,588)**	(63,699,140)
Income / (loss) for the year		**6,994,157**	(12,920,064)
Other comprehensive income			
Items that will be reclassified to profit or loss:			
Changes on remeasurement of available-for-sale investments		(3,234,785)	2,552,891
Transfers for recognition of gains on disposal of available-for-sale investments	13	(187,910)	(231,898)
Total other comprehensive (loss) / income for the year	5	**(3,422,695)**	2,320,993
Total comprehensive income / (loss) for the year		**3,571,462**	(10,599,071)

Management approved the financial statements consisting of pages 5 to 25 on 28 February 2022.

Adham El-Muezzin
Chief Executive Officer

Hannover Rueck SE, Bahrain Branch
Statement of cash flows
for the year ended 31 December 2021

Bahraini Dinars

	Note	2021	2020
OPERATING ACTIVITIES			
Income / (loss) for the year		6,994,157	(12,920,064)
Adjustments for:			
Investment and other income	13	(2,215,161)	(2,384,927)
Allowance for doubtful debts	6 a)	305,188	141,140
		5,084,184	(15,163,851)
Changes in operating assets and liabilities:			
- in insurance receivables		443,065	(5,753,915)
- in insurance payables		(3,986,688)	8,490,439
- in unearned premium reserves		(1,422,375)	2,781,892
- in retrocessionnaires' share of unearned premium reserves		672,179	(178,539)
- in accrued premiums receivables		(130,290)	(132,114)
- in deferred acquisition costs		312,505	(668,660)
- in retrocessionaires' share of loss reserve		(4,377,732)	(23,622,903)
- in commission reserve		-	-
- in loss reserves		12,031,588	39,337,766
- in prepayments and other assets		(42,741)	(14,918)
- in other payables		3,500	(3,230)
- in statutory deposit		(3,092)	(3,258)
Net cash generated from operating activities		**8,584,103**	5,068,709
INVESTING ACTIVITIES			
Purchase of equipment and other assets		(33,824)	-
Purchase of available-for-sale investments	5	(45,567,986)	(41,948,459)
Proceeds from disposal of available-for-sale investments		37,024,190	31,345,969
Placement of deposit with maturity over 3 months		(999,548)	(1,205,950)
Proceed from deposit with maturity over 3 months		755,661	478,410
Interest received		2,254,069	2,167,687
Foreign exchange movement in debt instruments		(7,463)	23,366
Net cash used in investing activities		**(6,574,901)**	(9,138,977)
FINANCING ACTIVITIES			
Receipt of funds from head office	11	-	4,000,000
Net cash generated from financing activities		**-**	4,000,000
Net increase / (decrease) in cash and cash equivalents		**2,009,202**	**(70,268)**
Cash and cash equivalents at 1 January		5,218,299	5,288,567
Cash and cash equivalents at 31 December	4	**7,227,501**	5,218,299

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 2021

The following amendments to standards and the conceptual framework applicable to reporting periods commencing on or after 1 January 2021 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 it is expected to significantly affect future periods.

- Covid-19-related Rent Concessions – Amendments to IFRS 16
- Interest Rate Benchmark Reform Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

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.

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured in each reporting period. Contracts are measured using the building blocks of: discounted probability-weighted cash flows, an explicit risk adjustment, and a contractual service margin (CSM) representing the unearned profit of the contract which is recognised as revenue over the coverage period. The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how Branch accounts for their financial assets under IFRS 9.

2 *BASIS OF PREPARATION (continued)*

The Branch expects that the new standard will result in a change to the accounting policies for insurance contracts and reinsurance, together with amendments to presentation and disclosures. The Branch expects that the adoption of IFRS 17 will have an impact on the amounts reported and disclosures made in these financial statements in respect of its insurance contracts issued and reinsurance contracts held. However, it is not practicable to provide a reasonable estimate of the effects of the application of this standard until the Branch performs a dry run as part of the implementation which is in progress. The standard will be applied retrospectively with required disclosure in the financial statement.

The Branch is implementing IFRS 17 in line with the Group guidance and its accounting policy. As part of the implementation process, several workshops have been conducted with the Group covering key topics in relation to the implementation including portfolio analysis, level of aggregation, classification and measurement, reinsurance held, risk adjustment, discounting and yield curves, expense allocation, financial reporting and transition. Regulatory reporting and updates have been done in accordance with the requirement of CBB. This includes financial impact assessment, quarterly updates and implementation plans.

IFRS 9 - Financial instruments, published on July 24, 2014, has replaced IAS 39. The implementation of IFRS 9 and the assessment of its potential impact on the Branch's financial statements, in combination with IFRS 17, are in progress. However, amendments to IFRS 4 - Insurance Contracts: Applying IFRS 9 - Financial Instruments with IFRS 4 - Insurance Contracts, published on September 12, 2016, changes the existing IFRS 4 to allow entities issuing insurance contracts within the scope of IFRS 4 to mitigate certain effects of applying IFRS 9 before the IASB's new insurance contract standard (IFRS 17) becomes effective. Refer Note 16 g.

- Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16
- Reference to the Conceptual Framework – Amendments to IFRS 3
- Annual Improvements to IFRS Standards 2018–2020
- Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37
- Classification of Liabilities as Current or Non-current – Amendments to IAS 1
- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2
- Definition of Accounting Estimates – Amendments to IAS 8

There are no other applicable new standards and amendments to published standards or International Financial Reporting Interpretations Committee (IFRIC) interpretations that have been issued but are not effective for the Branch's financial year beginning on 1 January 2021 and are expected to have a significant impact on the Branch's 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 2021.

a) Foreign currency

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

3 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

b) Insurance

(i) Classification of contracts

The Branch issues contracts that transfer insurance risk. Insurance contracts are those contracts where the insurer accepts significant insurance risk from the cedant by agreeing to compensate the cedant if a specified uncertain future event adversely affects the cedant. The Branch defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event. Insurance risk is risk other than financial risk that is transferred from the holder of a contract to the issuer. Financial risk is the risk of a possible future change in one or more of a security price, index of prices or rates or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance risk is significant if an insured event could cause the Branch to pay significant additional benefits. A contract remain 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.

(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. 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.

3 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

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

(viii) Liability adequacy test

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

(ix) Reinsurance contracts

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

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.

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.

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. Qualitative analysis is carried out in respect of rating of instrument, rating of issuer/borrower as well as the individual market assessment in order to establish the impairment on fixed asset securities. 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) Equipments

Furniture and equipment are stated at cost less accumulated depreciation. The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the statement of income as incurred. Gains or losses on disposal are reflected in other income. Depreciation is provided on straight-line basis over the expected useful lives of the assets. The estimated usefull life of computer equipment is three years.

h) 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, the Branch does not have any employees on the payroll and no provision for employees related expenses is maintained in the books of the Branch.

4 CASH AND BANK BALANCES

	2021	2020
Cash and bank balances	6,505,798	4,738,770
Deposits with maturity within 3 months	721,703	479,529
Cash and cash equivalents	**7,227,501**	5,218,299
Deposits with maturity over 3 months	1,000,928	755,661
	8,228,429	5,973,960

The deposits carries a interest rate ranging from 6.9% to 7.05% (2020: 6.7% to 6.85%) per annum .

5 AVAILABLE-FOR-SALE INVESTMENTS

	2021	2020
Balances as at 1 January	102,165,974	89,076,738
Additions during the year	45,567,986	41,948,459
Disposals during the year	(36,836,280)	(31,114,071)
Change in fair value	(3,422,695)	2,320,993
Amortisation and others	(220,735)	(66,145)
	107,254,250	102,165,974
Investment in bonds		
Quoted securities	103,439,853	98,624,823
Unquoted securities	3,814,397	3,541,151
	107,254,250	102,165,974

6 INSURANCE RECEIVABLES AND PAYABLES

a) Insurance receivables

	2021	2020
Due from cedants	9,729,543	10,502,181
Deposits held by cedants	10,854,390	10,524,817
	20,583,933	21,026,998
Provision for doubtful debts, as at 1 January	(725,329)	(584,189)
Allowance for doubtful debts	(305,188)	(141,140)
Provision for doubtful debts, as at 31 December	(1,030,517)	(725,329)
Net insurance receivables	**19,553,416**	20,301,669

b) Insurance payables

	2021	2020
Property and casualty	4,998,341	7,476,592
Life and health	1,115,844	2,058,278
Balance payable to retrocessionaires	2,823,145	3,389,148
	8,937,330	12,924,018

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

7 ACCRUED PREMIUM RECEIVABLES

	2021	2020
Property and casualty	8,254,736	8,120,921
Life and health	277,048	280,573
	8,531,784	8,401,494

8 DEFERRED ACQUISITION COSTS

	2021			2020		
	Gross	**Retroceded**	**Net**	Gross	Retroceded	Net
At 1 January	4,346,912	(5,236)	4,341,676	3,674,117	(1,101)	3,673,016
Movement	(291,583)	(19,844)	(311,427)	667,562	(4,130)	663,432
Foreign exchange (losses) / gains	(1,079)	1	(1,078)	5,233	(5)	5,228
	4,054,250	**(25,079)**	**4,029,171**	4,346,912	(5,236)	4,341,676

9 LOSS RESERVES

	2021			2020		
	Gross	**Retroceded**	**Net**	Gross	Retroceded	Net
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 1 January	140,784,077	(33,629,270)	107,154,807	101,446,311	(10,006,367)	91,439,944
Movement	11,829,315	(3,959,581)	7,869,734	39,387,480	(23,579,407)	15,808,073
Foreign exchange gains / (losses)	202,273	(418,151)	(215,878)	(49,714)	(43,496)	(93,210)
At 31 December	152,815,665	(38,007,002)	114,808,663	140,784,077	(33,629,270)	107,154,807
Claim reserves	90,665,568	(37,544,371)	53,121,197	84,926,569	(33,629,270)	51,297,299
IBNR reserves	62,150,097	(462,631)	61,687,466	55,857,508	-	55,857,508
At 31 December	**152,815,665**	**(38,007,002)**	**114,808,663**	140,784,077	(33,629,270)	107,154,807
Property and casualty	151,245,611	(38,007,002)	113,238,609	138,618,560	(33,629,270)	104,989,290
Life and health	1,570,054	-	1,570,054	2,165,517	-	2,165,517
At 31 December	**152,815,665**	**(38,007,002)**	**114,808,663**	140,784,077	(33,629,270)	107,154,807

10 UNEARNED PREMIUM RESERVES

	2021			2020		
	Gross	**Retroceded**	**Net**	Gross	Retroceded	Net
At 1 January	18,405,163	(942,290)	17,462,873	15,623,271	(763,751)	14,859,520
Movement	(1,404,645)	672,212	(732,433)	2,765,555	(178,104)	2,587,451
Foreign exchange (losses) / gains	(17,730)	(33)	(17,763)	16,337	(435)	15,902
At 31 December	**16,982,788**	**(270,111)**	**16,712,677**	18,405,163	(942,290)	17,462,873

11 HEAD OFFICE FUNDS

	Head office account	Fair value reserve	Accumulated losses	Total
Balance as at 1 January 2021	20,166,950	3,756,466	(20,083,017)	3,840,399
Receipt of funds from head office	-	-	-	-
Income for the year	-	-	6,994,157	6,994,157
Other comprehensive income	-	(3,422,695)	-	(3,422,695)
Balance at 31 December 2021	**20,166,950**	**333,771**	**(13,088,860)**	**7,411,861**
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

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 (the Group).

a) **Transactions during the year**	**2021**	2020
Contribution ceded to:		
- Hannover Re (Bermuda) Ltd., Bermuda		
Entity within the Hannover Re Group	2,417,465	8,193,919
Expenses recharged by:		
- Hannover ReTakaful B.S.C. (c), Bahrain		
Entity within the Hannover Re Group	1,164,876	1,020,737
- Hannover Rück SE, Germany		
Parent company of the Hannover Re Group	229,479	222,060
- Ampega Asset Management GmbH, Germany		
Entity within the Talanx Group	116,045	104,747

b) **Balances as at 31 December**	**2021**	2020
Balance payable to retrocessionaires		
- Hannover Re (Bermuda) Ltd., Bermuda		
Entity within the Hannover Re Group	2,409,881	2,849,393

12 RELATED PARTY TRANSACTIONS (continued)

	2021	2020
Retrocessionaires' share of loss reserves		
- Hannover Re (Bermuda) Ltd., Bermuda		
Entity within the Hannover Re Group	37,516,800	33,458,409

13 INVESTMENT AND OTHER INCOME

	2021	2020
Investment income:		
Interest income from investments	1,831,938	1,998,578
Net gains on disposal of investments	187,910	231,898
	2,019,848	2,230,476
Other income:		
Interest from deposits held by cedants	195,313	154,451
	2,215,161	2,384,927

14 GENERAL AND ADMINISTRATIVE EXPENSES

	2021	2020
Management fee (Note 12 a)	1,164,876	1,020,737
IT maintenance and licencing expenses	180,785	179,320
Other operating expense	27,079	24,483
	1,372,740	1,224,540

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. Branch also participate in number of reinsurance covers underwritten by the Group.

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

	2021			2020		
	Life and Health	**Property and Casualty**	**Total**	Life and Health	Property and Casualty	Total
Middle East	2,271,295	30,513,817	32,785,112	6,793,857	37,154,677	43,948,534
North Africa	83,853	13,031,315	13,115,168	73,985	13,187,776	13,261,761
Other	405,662	9,418,980	9,824,642	158,180	2,219,306	2,377,486
	2,760,810	**52,964,112**	**55,724,922**	7,026,022	52,561,759	59,587,781

(ii) Analysis of assets and liabilities

	2021			2020		
	Life and Health	**Property and Casualty**	**Total**	Life and Health	Property and Casualty	Total
Assets	3,864,120	182,298,294	186,162,414	7,120,793	168,844,134	175,964,927
Liabilities	4,235,008	174,515,545	178,750,553	7,065,989	165,058,539	172,124,528

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.

	2021		2020	
	Profit and loss / Head office funds		Profit and loss / Head office funds	
	Gross	**Net**	Gross	Net
Expense rate				
1 % increase	(557,249)	(523,883)	(595,878)	(507,616)
1 % decrease	557,249	523,883	595,878	507,616
Expected loss ratio				
1 % increase	(571,296)	(531,208)	(568,222)	(481,741)
1 % decrease	571,296	531,208	568,222	481,741

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 2017 to 2021 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	2017	2018	2019	2020	2021	Total
Estimate of incurred claims costs:						
- End of underwriting year	19,884,260	18,909,850	24,324,048	40,511,499	22,588,814	
- One year later	39,566,842	36,291,695	52,677,015	56,802,489	-	
- Two years later	38,076,179	34,027,282	52,084,877	-	-	
- Three years later	37,813,785	33,628,325	-	-	-	
- Four years later	37,201,120	-	-	-		
Current estimate of incurred claims	37,201,120	33,628,325	52,084,877	56,802,489	22,588,814	202,305,625
Cumulative payments to date	(25,321,841)	(18,159,990)	(19,568,275)	(15,852,892)	(3,231,286)	(82,134,284)
Liability recognised	**11,879,279**	**15,468,335**	**32,516,602**	**40,949,597**	**19,357,528**	**120,171,341**
Liability in respect of prior years						31,074,270
Total liability included in the statement of financial position (note 9)						**151,245,611**

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

Underwriting year	2017	2018	2019	2020	2021	Total
Estimate of incurred claims costs:						
- End of underwriting year	19,884,260	16,997,644	22,098,912	14,114,957	22,444,278	
- One year later	39,518,998	28,322,515	50,595,781	29,910,094	-	
- Two years later	31,829,870	25,815,139	40,564,077	-	-	
- Three years later	33,435,533	25,678,696	-	-	-	
- Four years later	34,278,379	-	-	-	-	
Current estimate of incurred claims	34,278,379	25,678,696	40,564,077	29,910,094	22,444,278	152,875,524
Cumulative payments to date	(23,282,530)	(11,170,248)	(17,521,082)	(14,065,153)	(3,086,750)	(69,125,763)
Liability recognised	**10,995,849**	**14,508,448**	**23,042,995**	**15,844,941**	**19,357,528**	**83,749,761**
Liability in respect of prior years						29,488,848
Total liability included in the statement of financial position (note 9)						**113,238,609**

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.

(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:

	2021	2020
Cash and bank balances	8,228,429	5,973,960
Available-for-sale investments	107,254,250	102,165,974
Insurance receivables	19,553,416	20,301,669
Accrued premium receivables	8,531,784	8,401,494
Retrocessionaires' share of loss reserves	38,007,002	33,629,270
Statutory deposit	166,546	163,454
	181,741,427	170,635,821

(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.

	2021	2020
Neither past due nor impaired	16,166,464	14,771,867
Past due but not impaired (91 – 180 days)	1,206,264	3,624,367
Past due but not impaired (181 – 365 days)	936,048	1,509,036
Past due and impaired (Above 365 days)	2,275,157	1,121,728
Provision for impairment	(1,030,517)	(725,329)
	19,553,416	20,301,669

16 *FINANCIAL RISK MANAGEMENT (continued)*

The Branch believes that the insurance receivables that are past due are still collectible 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.

2021	**Carrying amount**	**Contractual cash flows**	**1 year or less**
Claims reserves	90,665,568	90,665,568	90,665,568
Insurance payables	8,937,330	8,937,330	8,937,330
Other payables	14,770	14,770	14,770
	99,617,668	**99,617,668**	**99,617,668**

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

(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)

	2021	2020
Non-financial assets		
Deferred acquisition costs	4,054,250	4,341,676
Retrocessionaires' share of unearned premium reserves	270,111	942,290
Prepayments and other assets	-	45,140
	4,324,361	5,329,106
Non-financial liabilities		
Loss reserves – IBNR	62,150,097	55,857,508
Unearned premium reserves	16,982,788	18,405,163
Retrocessionnaires' share of deferred acquisition costs	25,079	-
	79,157,964	**74,262,671**

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.

2021	**Available-for-sale**	**Loans and receivables**	**Amortised cost**	**Total carrying value**	**Total fair value**
Assets					
Cash and bank balances	-	8,228,429	-	8,228,429	8,228,429
Available-for -sale investments	107,254,250	-	-	107,254,250	107,254,250
Insurance receivables	-	19,553,416	-	19,553,416	19,553,416
Accrued premium receivables	-	8,531,784	-	8,531,784	8,531,784
Retrocessionaires' share of claim reserves	-	38,007,002	-	-	-
Statutory deposit	-	166,546	-	166,546	166,546
Total financial assets	**107,254,250**	**74,487,177**	**-**	**143,734,425**	**143,734,425**
Liabilities					
Outstanding claims	-	-	90,665,568	90,665,568	90,665,568
Insurance payables	-	-	8,937,330	8,937,330	8,937,330
Other payables	-	-	14,770	14,770	14,770
Total financial liabilities	**-**	**-**	**99,617,668**	**99,617,668**	**99,617,668**

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
Available-for -sale investments	102,165,974	-	-	115,255,210	115,255,210
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
Statutory deposit	-	163,454	-	163,454	163,454
Total financial assets	102,165,974	68,469,847	-	183,725,057	183,725,057
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

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, there were no transfers from level 1 or level 3 to level 2 or in the opposite direction in 2021 (2020: 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 2021 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")

2021	**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	8,228,429	-	-	-
Accrued premium receivables	8,531,784	-	-	-
Insurance receivables	19,553,416	-	-	-
Available-for-sale investments	106,271,613	(3,413,641)	982,637	(9,054)
Retrocessionaires' share of loss reserves	38,007,002	-	-	-
Statutory deposit	166,546	-	-	-

Credit risk exposure for financial assets passing SPPI test:

	AAA	**AA**	**A**	**BBB**	**Other**
Fair value	42,461,853	58,774,227	26,908,518	15,937,844	36,676,348
Carrying amount	42,290,138	58,909,195	26,866,240	15,685,736	36,670,380

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	-	-	-
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 claim reserves	33,629,270	-	-	-
Statutory deposit	163,454	-	-	-

16 FINANCIAL RISK MANAGEMENT (continued)

Credit risk exposure for financial assets passing SPPI test:

	AAA	AA	A	BBB	Other
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

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.

2021	**Egyptian Pound**	**Euro**	**Kuwaiti Dinars**	**Total**
Total assets	5,190,312	1,438,426	1,740,310	8,369,048
Total liabilities	(6,631,634)	(662,420)	(5,131,326)	(12,425,380)
Net assets	**(1,441,322)**	**776,006**	**(3,391,016)**	**(4,056,332)**
10% strengthening of BD				
increase / (decrease) in profit or loss and Head Office funds	144,132	(77,601)	339,102	
10% weakening of BD				
increase / (decrease) in profit or loss and Head Office funds	(144,132)	77,601	(339,102)	

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)
Strengthening of BD by 10%				
increase / (decrease) in profit or loss and Head Office funds	198,788	(30,402)	398,937	
Weakening of BD by 10%				
increase / (decrease) in profit or loss and Head Office funds	(198,788)	30,402	(398,937)	

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 1.32% (2020: 0.69%) per annum. A 1% increase in the interest rate will decrease the total comprehensive income for the year by BD 3,559,000 (2020: BD 3,212,000) and 1% decrease in the interest rate will increase the total comprehensive income for the period by BD 3,716,000 (2020: BD 3,368,000).

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 the 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 and 2021, 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.

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

	2021	2020
Increase in retrocessionaires' share of premium	(89,726)	-
Gross claims paid	(4,151)	-
Claim recoveries	29,881	-
Increase in loss reserves	74,228	(1,440,212)
Increase in retrocessionaires' share of loss reserves	494,108	-
Reduction in management fee	-	51,688

19 COMPARATIVES

The comparative figures for the previous year have been regrouped, where necessary, in order to conform to the current year's presentation. Such regrouping does not affect the previously reported results, comprehensive income or head office funds.