Hannover Rueck SE,
Bahrain Branch

FINANCIAL STATEMENTS

31 DECEMBER 2022

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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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 2022, 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 2022;
- 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.

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 2022 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

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

Hannover Rueck SE, Bahrain Branch
Statement of financial position
as at 31 December 2022

Bahraini Dinars

	Note	2022	2021
ASSETS			
Cash and bank balances	4	6,320,955	8,228,429
Available-for-sale investments	5	112,690,209	107,254,250
Insurance receivables	6 a)	22,220,870	19,553,416
Accrued premium receivables	7	16,642,293	8,531,784
Deferred acquisition costs	8	4,665,347	4,054,250
Retrocessionnaires' share of loss reserves	9	29,360,114	38,007,002
Retrocessionnaires' share of unearned premium reserves	10	74,810	270,111
Prepayments, equipment and other assets		161,650	121,705
Statutory deposit		169,753	166,546
Total assets		**192,306,001**	186,187,493
HEAD OFFICE FUNDS AND LIABILITIES			
LIABILITIES			
Loss reserves	9	157,091,467	152,815,665
Unearned premium reserves	10	19,731,551	16,982,788
Retrocessionnaires' share of deferred acquisition costs	8	16,709	25,079
Insurance payables	6 b)	6,389,591	8,937,330
Other payables		18,264	14,770
Total liabilities		**183,247,582**	178,775,632
HEAD OFFICE FUNDS	11	**9,058,419**	7,411,861
Total head office funds and liabilities		**192,306,001**	186,187,493

Management approved the financial statements consisting of pages 5 to 27 on 1 March 2023.

Adham El-Muezzin
Chief Executive Officer

Statement of profit or loss and comprehensive income
for the year ended 31 December 2022

Bahraini Dinars

	Note	2022	2021
INCOME			
Gross written premium		66,253,329	55,724,922
Ceded premium		(405,433)	(3,336,583)
Change in gross unearned premium reserves	10	(3,667,268)	1,404,645
Change in ceded unearned premium reserves	10	(195,300)	(672,212)
Net premium earned		**61,985,328**	53,120,772
Foreign exchange gain		975,414	14,812
Investment and other income	13	2,171,437	2,215,161
Total income		**65,132,179**	55,350,745
EXPENSES			
Gross claims paid		(29,462,581)	(26,607,030)
Claim recoveries		7,265,350	2,045,583
Change in loss reserves	9	(7,447,408)	(11,829,315)
Retrocessionnaires' share on change in loss reserve	9	(8,140,466)	3,959,581
Policy acquisition costs		(15,797,994)	(14,002,453)
Retrocessionnaires' share on policy acquisition cost		43,855	66,401
Change in deferred acquisition cost	8	792,523	(291,583)
Retrocessionnaires' share on change in deferred acquisition cost	8	8,370	(19,844)
Allowance for doubtful debts	6 a)	(122,886)	(305,188)
General and administrative expenses	14	(1,526,094)	(1,372,740)
Total expenses		**(54,387,331)**	(48,356,588)
Income for the year		**10,744,848**	6,994,157
Other comprehensive income			
Items that will be reclassified to profit or loss:			
Changes on remeasurement of available-for-sale investments		(9,136,990)	(3,234,785)
Transfers for recognition of losses / (gains) on disposal of available-for-sale investments	13	38,700	(187,910)
Total other comprehensive loss for the year	5	**(9,098,290)**	(3,422,695)
Total comprehensive income for the year		**1,646,558**	3,571,462

Management approved the financial statements consisting of pages 5 to 27 on 1 March 2023.

Adham El-Muezzin
Chief Executive Officer

Statement of cash flows

for the year ended 31 December 2022

Bahraini Dinars

	Note	2022	2021
OPERATING ACTIVITIES			
Income for the year		10,744,848	6,994,157
Adjustments for:			
Investment and other income	13	(2,171,437)	(2,215,161)
Allowance for doubtful debts	6 a)	122,886	305,188
		8,696,297	5,084,184
Changes in operating assets and liabilities:			
- in insurance receivables		(2,790,340)	443,065
- in insurance payables		(2,547,739)	(3,986,688)
- in unearned premium reserves		2,748,763	(1,422,375)
- in retrocessionnaires' share of unearned premium reserves		195,301	672,179
- in accrued premiums receivables		(8,110,509)	(130,290)
- in deferred acquisition costs		(619,467)	312,505
- in retrocessionaires’ share of loss reserve		8,646,888	(4,377,732)
- in loss reserves		4,275,802	12,031,588
- in prepayments and other assets		(29,957)	(42,741)
- in other payables		3,494	3,500
- in statutory deposit		(3,207)	(3,092)
Net cash generated from operating activities		**10,465,326**	8,584,103
INVESTING ACTIVITIES			
Purchase of equipment and other assets		(9,988)	(33,824)
Purchase of available-for-sale investments	5	(38,477,210)	(45,567,986)
Proceeds from disposal of available-for-sale investments		23,561,387	37,024,190
Placement of deposit with maturity over 3 months		-	(999,548)
Proceed from deposit with maturity over 3 months		1,000,928	755,661
Interest received		2,165,393	2,254,069
Foreign exchange movement in debt instruments		387,618	(7,463)
Net cash used in investing activities		**(11,371,872)**	(6,574,901)
Net (decrease) / increase in cash and cash equivalents		**(906,546)**	**2,009,202**
Cash and cash equivalents at 1 January		7,227,501	5,218,299
Cash and cash equivalents at 31 December	4	**6,320,955**	7,227,501

The notes on pages 8 to 27 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 f)	- Impairment on insurance receivables

d) Early adoption of standards

The Branch has not early adopted any new standards in 2022.

e) New standards, amendments and interpretations effective from 1 January 2022

- COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16).
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).
- Annual Improvements to IFRS Standards 2018 – 2020.
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Reference to the Conceptual Framework (Amendments to IFRS 3)

These standards did not have a material impact on the entity in the current reporting period.

f) New standards issued and not yet applicable or early adopted by the Branch for the periods starting on or after 1 January 2022:

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1) - 01 January 2024
- Definition of Accounting Estimate (Amendments to IAS 8) - 01 January 2023
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) - 01 January 2023
- IFRS 9 ‘Financial Instruments - 01 January 2023
- IFRS 17 Insurance Contracts and amendments amendments to IFRS 17 Insurance Contracts - 01 January 2023

There are no other new standards or interpretations published that should be adopted by the Branch for the annual periods starting on or after 1 January 2022 and which could have a material impact on the Branch’s financial statements.

2 BASIS OF PREPARATION (continued)

The management is still assessing the expected impact of these new standards and interpretations on the Branch's financial statements.

g) IFRS 9 Financial Instruments

IFRS 9 "Financial Instruments" will replace IAS 39 "Financial Instruments: Recognition and Measurement", which is currently used by the Branch. IFRS 9 contains new rules for classifying and measuring financial assets, for recognition of impairment based on a new, forward-looking model of the expected losses and for the accounting of general hedge relationships.

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

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

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

This option is intended to help entities avoid temporary accounting mismatches between financial assets and insurance contract liabilities in the 2022 comparative year, thereby improving the usefulness of comparative information for users of financial statements. It allows for an overlay in the classification of financial assets in the comparative period that is presented on initial application of IFRS 17 ("overlay approach"). This overlay makes it possible to classify all financial assets, including those not connected with contracts within the scope of IFRS 17, on a case-by-case basis in the comparative period in a way that corresponds to how the entity expects to classify these assets on initial application of IFRS 9. The Branch intends to apply this approach, including the provisions of IFRS 9 regarding impairment losses, consistently to all eligible financial assets.

The Branch anticipates implications primarily from the classification of financial assets. The classification is guided, on the one hand, by the cash flow characteristics of the financial assets and, on the other, by the business model used to manage the financial assets. It is anticipated that the portfolio of financial assets measured at fair value through profit or loss will increase as a consequence of the new classification rules. This may lead to greater volatility of results in future financial years. At the transition date of 1 January 2023 we expect the changeover in the measurement of certain financial assets at availble for sale to measurement at fair value to profit and loss. The Branch is currently assessing the impact of these standards, interpretations and amendments on the future financial statements and intends to adopt these, if applicable, when they become effective.

h) IFRS 17 Insurance contracts

The IASB published IFRS 17 "Insurance Contracts" in May 2017 and issued further amendments and additions to the standard in June 2020 and December 2021. Mandatory initial application of the standard, which was endorsed by the CBB in 2021, was deferred to financial years beginning on or after 1 January 2023.

IFRS 17 replaces the existing transitional arrangements of IFRS 4 and establishes a comprehensive accounting framework for the recognition, measurement and disclosure of insurance contracts, reinsurance contracts and investment contracts with discretionary participation features. In addition, IFRS 17 requires extensive new disclosures in the notes.

2 *BASIS OF PREPARATION (continued)*

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

The general measurement model measures assets and liabilities from reinsurance business by the fulfilment cash flows plus the contractual service margin. The fulfilment cash flows, for their part, constitute the risk-adjusted present value of the rights and obligations from a reinsurance treaty and are comprised of the estimates of expected future cash flows, their discounting and an explicit risk adjustment for non-financial risks. If the present value of the expected future cash inflows exceeds the present value of the expected future cash outflows plus the risk adjustment, an expected profit exists that is recognised in the contractual service margin. However, for groups of contracts where the sum of the present value of expected future cash outflows and the risk adjustment exceeds the present value of the expected future cash inflows, we recognise the loss expected at time of acquisition directly in profit or loss in the so-called "loss component". The contractual service margin represents the unearned profit from existing contracts that is to be recognised in the statement of income as the service is performed across the period of coverage. The Branch will discount all cash flows using currency-specific, risk-free yield curves that are adjusted to reflect the characteristics of the cash flows and the liquidity of the underlying insurance contracts ("bottom-up approach"). The illiquidity premium used in this context is based on risk-adjusted spreads of corporate and government bonds.

As a general principle, contracts are grouped together and measured on an aggregated level where the portfolios containing contracts with similar risks are managed together. These portfolios are to be split into groups of contracts according to profitability criteria and annual cohorts.

The standard must be applied retrospectively unless this is "impracticable" (IFRS 17.C3). In this case it is possible to apply either a modified retrospective approach or a fair value approach on the level of the group of contracts. Using adequately robust information that is available without unreasonable effort, the modified retrospective approach is intended to arrive at an overall result that approximates retrospective application. Under the fair value approach, the contractual service margin of a group of contracts at the transition date is established as the difference between the fair value of this group calculated according to IFRS 13 and the corresponding fulfilment cash flows calculated according to IFRS 17. The Branch will apply each of the aforementioned transition arrangements, differentiated according to certain groups of contracts.

The application of IFRS 17 will have a number of implications for the structure of the balance sheet. In addition to the changed technical items under the general measurement model, certain items that are currently reported separately will be eliminated and in future recognised under the reinsurance liabilities in accordance with the general model. This is the case, for example, with the deferred acquisition costs, the reinsurance recoverables and funds withheld.

Furthermore, the standard fundamentally changes the statement of income and differentiates between the underwriting result, which is composed of the insurance revenue and insurance expense, and the insurance finance income and expenses.

Gross written premium will no longer be disclosed, instead being replaced with insurance revenue that is defined in such a way as to facilitate comparison with the revenue disclosures of other sectors. Neither savings / investment components nor certain ceding commissions can be recognised in the insurance revenue in future. Insurance revenue is instead reported when it is earned by recognising in each period the change in the liabilities for providing coverage for which the insurance entity receives compensation as well as the part of the premiums that covers acquisition costs.

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

2 BASIS OF PREPARATION (continued)

Changes in assumptions that do not relate to interest rates or financial risks are not recognised directly in the statement of income but are instead booked against the contractual service margin and hence spread across the remaining coverage period. Recognition in profit or loss is only immediate in the case of those groups of insurance contracts that are expected to be loss-making. If this adjustment to the contractual service margin exceeds its carrying amount, a loss component is established analogously to the initial recognition of groups of contracts that are expected to be loss-making and recognised directly in profit or loss. Conversely, it may happen that a contractual service margin is established in the context of subsequent measurement of a group of contracts originally classified as probably loss-making.

At the transition date of 1 January 2023 the initial application of IFRS 17 gives rise to changes in the measurement of key items in the balance sheet:

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

In property and casualty reinsurance there is only a minimal change overall in the amount of the net technical liabilities. While the discounting of cash flows reduces the net liability, this effect is moderate owing to what is normally the short duration of the contracts. The effect of discounting is offset by recognition of the contractual service margin, the loss component, the risk adjustment and other measurement effects.

The technical liabilities in the life and health reinsurance segment are expected to be minimal as well. This is primarily due to short duration of contracts.

Management 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. Based on assessments undertaken to date, opening equity is expected to be majorly impacted due to the following:

- risk adjustments assumptions
- impact of onerous contracts if identified any
- impact of discounting
- expected non-performance risk of reinsurers

The assessment of the impacts on the Branch’s financial statements is in progress. Although the work is well advanced as of the date of the publication of these financial statements, it is not yet practicable to reliably quantify the transition impact.

In the statement of financial position, deferred acquisition costs and insurance related receivables will no longer be presented separately but will be part of the insurance liabilities. This change in presentation will lead to a reduction in total assets, offset by a reduction in total liabilities.

The amounts presented in the statement of profit or loss and comprehensive income need to be disaggregated into an insurance service result, consisting of the insurance revenue and the insurance service expenses, and insurance finance income and expenses. Income or expenses from reinsurance contracts held need to be presented separately from the expenses or income from insurance contracts issued.

IFRS 17 has introduced additional disclosures which would need to be provided. The Branch will be required to provide disaggregated qualitative and quantitative information about:

- Amounts recognised in its financial statements from insurance contracts issued and reinsurance contracts held within the scope of IFRS 17;
- Significant judgements, and changes in those judgements, when applying the standard; and
- The nature and extent of the risks from contracts within the scope of the standard.

The Branch is currently assessing the impact of these standards, interpretations and amendments on the future financial statements and intends to adopt these, if applicable, when they become effective.

2 *BASIS OF PREPARATION (continued)*

With the exception of IFRS 17, there are no other relevant applicable new standards and amendments to published standards or IFRIC interpretations that have been issued but are not effective for the first time for the Branch's financial year beginning on or after 1 January 2022 that would be expected to have a material impact on these 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 2022.

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 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(ix) Reinsurance contracts

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.

Call deposits with banks with maturities of over three months from the acquisition date are disclosed seperately in cash and bank balances.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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) Furniture and equipment

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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

	2022	2021
Cash and bank balances	6,320,955	6,505,798
Deposits with maturity within 3 months	-	721,703
Cash and cash equivalents	**6,320,955**	7,227,501
Deposits with maturity over 3 months	-	1,000,928
	6,320,955	8,228,429

During the year no new deposits were placed. The deposits carried an interest rate ranging from 6.9% to 7.05% per annum.

5 AVAILABLE-FOR-SALE INVESTMENTS

	2022	2021
Balances as at 1 January	107,254,250	102,165,974
Additions during the year	38,477,210	45,567,986
Disposals during the year	(23,600,087)	(36,836,280)
Change in fair value	(9,098,290)	(3,422,695)
Amortisation and others	(342,874)	(220,735)
	112,690,209	107,254,250
Investment in bonds		
Quoted securities	108,170,092	103,439,853
Unquoted securities	4,520,117	3,814,397
	112,690,209	107,254,250

6 INSURANCE RECEIVABLES AND PAYABLES

a) Insurance receivables

	2022	2021
Due from cedants	12,264,679	9,729,543
Deposits held by cedants	11,063,158	10,854,390
Gross insurance receivable	**23,327,837**	20,583,933
Provision for doubtful debts, as at 1 January	(1,030,517)	(725,329)
Allowance for doubtful debts	(122,886)	(305,188)
Written-off	46,436	-
Provision for doubtful debts, as at 31 December	(1,106,967)	(1,030,517)
Net insurance receivables	**22,220,870**	19,553,416

6 INSURANCE RECEIVABLES AND PAYABLES (continued)

b) Insurance payables	**2022**	2021
Property and casualty	2,794,866	4,998,341
Life and health	1,731,752	1,115,844
Balance payable to retrocessionaires	1,862,973	2,823,145
	6,389,591	8,937,330

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

7 ACCRUED PREMIUM RECEIVABLES

	2022	2021
Property and casualty	14,438,851	8,254,736
Life and health	2,203,442	277,048
	16,642,293	8,531,784

8 DEFERRED ACQUISITION COSTS

	2022			2021		
	Gross	**Retroceded**	**Net**	Gross	Retroceded	Net
At 1 January	4,054,250	(25,079)	4,029,171	4,346,912	(5,236)	4,341,676
Movement	792,523	8,370	800,893	(291,583)	(19,844)	(311,427)
Foreign exchange (losses) / gains	(181,426)	-	(181,426)	(1,079)	1	(1,078)
	4,665,347	**(16,709)**	**4,648,638**	4,054,250	(25,079)	4,029,171

9 LOSS RESERVES

	2022			2021		
	Gross	**Retroceded**	**Net**	Gross	Retroceded	Net
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 1 January	152,815,665	(38,007,002)	114,808,663	140,784,077	(33,629,270)	107,154,807
Movement	7,447,408	8,140,466	15,587,874	11,829,315	(3,959,581)	7,869,734
Foreign exchange (losses) / gains	(3,171,606)	506,422	(2,665,184)	202,273	(418,151)	(215,878)
At 31 December	**157,091,467**	**(29,360,114)**	**127,731,353**	152,815,665	(38,007,002)	114,808,663
Claim reserves	76,529,573	(29,360,114)	47,169,459	90,665,568	(37,544,371)	53,121,197
IBNR reserves	80,561,894	-	80,561,894	62,150,097	(462,631)	61,687,466
At 31 December	**157,091,467**	**(29,360,114)**	**127,731,353**	152,815,665	(38,007,002)	114,808,663
Property and casualty	154,090,046	(29,360,114)	124,729,932	151,245,611	(38,007,002)	113,238,609
Life and health	3,001,421	-	3,001,421	1,570,054	-	1,570,054
At 31 December	**157,091,467**	**(29,360,114)**	**127,731,353**	152,815,665	(38,007,002)	114,808,663

10 UNEARNED PREMIUM RESERVES

	2022			2021		
	Gross	**Retroceded**	**Net**	Gross	Retroceded	Net
At 1 January	16,982,788	(270,111)	16,712,677	18,405,163	(942,290)	17,462,873
Movement	3,667,268	195,300	3,862,568	(1,404,645)	672,212	(732,433)
Foreign exchange (losses) / gains	(918,505)	1	(918,504)	(17,730)	(33)	(17,763)
At 31 December	**19,731,551**	**(74,810)**	**19,656,741**	16,982,788	(270,111)	16,712,677

11 HEAD OFFICE FUNDS

	Head office account	Fair value reserve	Accumulated losses	Total
Balance as at 1 January 2022	20,166,950	333,771	(13,088,860)	7,411,861
Income for the year	-	-	10,744,848	10,744,848
Other comprehensive loss	-	(9,098,290)	-	(9,098,290)
Balance at 31 December 2022	**20,166,950**	**(8,764,519)**	**(2,344,012)**	**9,058,419**
Balance as at 1 January 2021	20,166,950	3,756,466	(20,083,017)	3,840,399
Income for the year	-	-	6,994,157	6,994,157
Other comprehensive loss	-	(3,422,695)	-	(3,422,695)
Balance at 31 December 2021	20,166,950	333,771	(13,088,860)	7,411,861

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**	**2022**	2021
Contribution ceded to:		
- Hannover Re (Bermuda) Ltd., Bermuda		
Entity within the Hannover Re Group	(77,272)	2,417,465
Expenses recharged by:		
- Hannover ReTakaful B.S.C. (c), Bahrain		
Entity within the Hannover Re Group	1,418,798	1,164,876
- Hannover Rück SE, Germany		
Parent company of the Hannover Re Group	121,876	229,479
- Ampega Asset Management GmbH, Germany		
Entity within the Talanx Group	119,259	116,045

b) **Balances as at 31 December**	**2022**	2021
Balance payable to retrocessionaires		
- Hannover Re (Bermuda) Ltd., Bermuda		
Entity within the Hannover Re Group	1,276,157	2,409,881

12 RELATED PARTY TRANSACTIONS (continued)

	2022	2021
Retrocessionaires' share of loss reserves		
- Hannover Re (Bermuda) Ltd., Bermuda		
Entity within the Hannover Re Group	29,075,736	37,516,800

13 INVESTMENT AND OTHER INCOME

	2022	2021
Investment income:		
Interest income from investments	2,168,373	2,000,528
Investment expenses	(199,141)	(168,590)
Net (losses) /gains on disposal of investments	(38,700)	187,910
	1,930,532	2,019,848
Other income:		
Interest from deposits held by cedants	171,260	195,313
Interest on cash and bank balances	69,645	-
	2,171,437	2,215,161

14 GENERAL AND ADMINISTRATIVE EXPENSES

	2022	2021
Management fee (Note 12 a)	1,418,798	1,164,876
IT maintenance and licencing expenses	63,014	180,785
Other operating expense	44,282	27,079
	1,526,094	1,372,740

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. Branch participate in number of reinsurance covers underwritten by the Group. Ceded reinsurance contains credit risk, as discussed in the financial risk management section. Management monitors developments in the reinsurance program and its ongoing adequacy.

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

	2022			2021		
	Life and Health	**Property and Casualty**	**Total**	Life and Health	Property and Casualty	Total
Middle East	2,215,918	41,441,559	43,657,477	2,271,295	30,513,817	32,785,112
North Africa	956,348	12,811,863	13,768,211	83,853	13,031,315	13,115,168
Other	3,696,706	5,130,935	8,827,641	405,662	9,418,980	9,824,642
	6,868,972	**59,384,357**	**66,253,329**	2,760,810	52,964,112	55,724,922

(ii) Analysis of assets and liabilities

	2022			2021		
	Life and Health	**Property and Casualty**	**Total**	Life and Health	Property and Casualty	Total
Assets	6,788,137	185,517,864	192,306,001	3,864,120	182,323,373	186,187,493
Liabilities	6,606,268	176,641,314	183,247,582	4,235,008	174,540,624	178,775,632

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.

	2022		2021	
	Profit and loss / Head office funds		Profit and loss / Head office funds	
	Gross	**Net**	Gross	Net
Expense rate				
1 % increase	(662,533)	(658,479)	(557,249)	(523,883)
1 % decrease	662,533	658,479	557,249	523,883
Expected loss ratio				
1 % increase	(625,861)	(619,853)	(571,296)	(531,208)
1 % decrease	625,861	619,853	571,296	531,208

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 2018 to 2022 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	2018	2019	2020	2021	2022	Total
Estimate of incurred claims costs:						
- End of underwriting year	18,909,850	24,324,048	40,511,499	22,588,814	24,135,079	
- One year later	36,291,695	52,677,015	56,802,489	36,280,212	-	
- Two years later	34,027,282	52,084,877	51,733,540	-	-	
- Three years later	33,628,325	52,226,277	-	-	-	
- Four years later	33,426,406	-	-			
Current estimate of incurred claims	33,426,406	52,226,277	51,733,540	36,280,212	24,135,079	197,801,514
Cumulative payments to date	(18,871,143)	(25,677,760)	(21,789,724)	(10,786,823)	(2,753,363)	(79,878,813)
Liability recognised	**14,555,263**	**26,548,517**	**29,943,816**	**25,493,389**	**21,381,716**	**117,922,701**
Liability in respect of prior years						36,167,345
Total liability included in the statement of financial position (note 9)						**154,090,046**

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

Underwriting year	2018	2019	2020	2021	2022	Total
Estimate of incurred claims costs:						
- End of underwriting year	16,997,644	22,098,912	14,114,957	22,444,278	24,135,079	
- One year later	28,322,515	50,595,781	29,910,094	36,129,941	-	
- Two years later	25,815,139	40,564,077	25,729,819	-	-	
- Three years later	25,678,696	40,703,455	-	-	-	
- Four years later	25,960,768	-	-	-	-	
Current estimate of incurred claims	25,960,768	40,703,455	25,729,819	36,129,941	24,135,079	152,659,062
Cumulative payments to date	(11,880,470)	(23,630,567)	(12,754,445)	(10,641,796)	(2,753,363)	(61,660,641)
Liability recognised	**14,080,298**	**17,072,888**	**12,975,374**	**25,488,145**	**21,381,716**	**90,998,421**
Liability in respect of prior years						33,731,511
Total liability included in the statement of financial position (note 9)						**124,729,932**

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:

	2022	2021
Cash and bank balances	6,320,955	8,228,429
Available-for-sale investments	112,690,209	107,254,250
Insurance receivables	22,220,870	19,553,416
Accrued premium receivables	16,642,293	8,531,784
Retrocessionaires’ share of loss reserves	29,360,114	38,007,002
Statutory deposit	169,753	166,546
	187,404,194	181,741,427

(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.

	2022	2021
Neither past due nor impaired	16,924,497	16,166,464
Past due but not impaired (3 months < 6 months)	1,696,542	1,206,264
Past due but not impaired (6 months ≤ 12 months)	1,055,619	936,048
Past due and impaired (> 12 months)	3,651,179	2,275,157
Provision for doubtful debts	(1,106,967)	(1,030,517)
	22,220,870	19,553,416

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.

2022	**Carrying amount**	**Contractual cash flows**	**1 year or less**
Claims reserves	76,529,573	76,529,573	76,529,573
Insurance payables	6,389,591	6,389,591	6,389,591
Other payables	18,264	18,264	18,264
	82,937,428	**82,937,428**	**82,937,428**

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

(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)

	2022	2021
Non-financial assets		
Deferred acquisition costs	4,665,347	4,054,250
Retrocessionaires’ share of unearned premium reserves	74,810	270,111
Prepayments and other assets	161,650	121,705
	4,901,807	**4,446,066**
Non-financial liabilities		
Loss reserves – IBNR	80,561,894	62,150,097
Unearned premium reserves	19,731,551	16,982,788
Retrocessionnaires' share of deferred acquisition costs	16,709	25,079
	100,310,154	**79,157,964**

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.

2022	**Available-for-sale**	**Loans and receivables**	**Amortised cost**	**Total carrying value**	**Total fair value**
Assets					
Cash and bank balances	-	6,320,955	-	6,320,955	6,320,955
Available-for -sale investments	112,690,209	-	-	112,690,209	112,690,209
Insurance receivables	-	22,220,870	-	22,220,870	22,220,870
Accrued premium receivables	-	16,642,293	-	16,642,293	16,642,293
Retrocessionaires' share of claim reserves	-	29,360,114	-	29,360,114	29,360,114
Statutory deposit	-	169,753	-	169,753	169,753
Total financial assets	**112,690,209**	**74,713,985**	**-**	**187,404,194**	**187,404,194**
Liabilities					
Outstanding claims	-	-	76,529,573	76,529,573	76,529,573
Insurance payables	-	-	6,389,591	6,389,591	6,389,591
Other payables	-	-	18,264	18,264	18,264
Total financial liabilities	**-**	**-**	**82,937,428**	**82,937,428**	**82,937,428**

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	-	38,007,002	38,007,002
Statutory deposit	-	166,546	-	166,546	166,546
Total financial assets	107,254,250	74,487,177	-	181,741,427	181,741,427
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

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 2022 (2021: 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 2022 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")

2022	**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	6,320,955	-	-	-
Accrued premium receivables	16,642,293	-	-	-
Insurance receivables	22,220,870	-	-	-
Available-for-sale investments	111,753,907	(9,067,034)	936,302	(31,256)
Retrocessionaires' share of loss reserves	29,360,114	-	-	-
Statutory deposit	169,753	-	-	-

Credit risk exposure for financial assets passing SPPI test:

	AAA	**AA**	**A**	**BBB**	**Other**
Fair value	58,993,639	45,241,683	21,871,391	13,470,498	46,890,682
Carrying amount	62,652,569	46,918,401	23,916,946	14,811,544	46,898,534

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 claim reserves	38,007,002	-	-	-
Statutory deposit	166,546	-	-	-

16 FINANCIAL RISK MANAGEMENT (continued)

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

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.

2022	**Egyptian Pound**	**Euro**	**Kuwaiti Dinars**	**Total**
Total assets	4,767,809	882,712	1,668,879	7,319,400
Total liabilities	(5,673,748)	(758,283)	(5,793,188)	(12,225,219)
Net assets	**(905,939)**	**124,429**	**(4,124,309)**	**(4,905,819)**
10% strengthening of BD increase / (decrease) in profit or loss and Head Office funds	90,594	(12,443)	412,431	
10% weakening of BD increase / (decrease) in profit or loss and Head Office funds	(90,594)	12,443	(412,431)	

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)
Strengthening of BD by 10% increase / (decrease) in profit or loss and Head Office funds	144,132	(77,601)	339,102	
Weakening of BD by 10% increase / (decrease) in profit or loss and Head Office funds	(144,132)	77,601	(339,102)	

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 4.59% (2021: 1.32%) per annum. A 1% increase in the interest rate will decrease the total comprehensive income for the year by BD 3,479,000 (2021: BD 3,559,000) and 1% decrease in the interest rate will increase the total comprehensive income for the period by BD 3,632,000 (2021: BD 3,716,000).

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.