Hannover Rueck SE
Bahrain Branch

FINANCIAL STATEMENTS

31 DECEMBER 2015

Office	:	Al Zamil Tower, 17th floor P.O. Box 75180 Manama Kingdom of Bahrain
Head office	:	Hannover Rück SE Hannover Germany
General Manager	:	Mahomed Akoob

Hannover Rueck SE, Bahrain Branch

FINANCIAL STATEMENTS
for the year ended 31 December 2015

CONTENTS Page

KPMG Fakhro
Audit
12th Floor, Fakhro Tower
PO Box 710, Manama
Kingdom of Bahrain

Telephone +973 17 224807
Fax +973 17 227443
Website: www.kpmg.com/bh
CR No. 6220

INDEPENDENT AUDITORS' REPORT TO MANAGEMENT
Hannover Rueck SE, Bahrain Branch
Manama, Kingdom of Bahrain

Report on the financial statements

We have audited the accompanying financial statements of Hannover Rueck SE ("HR"), Bahrain branch (the "Branch"), which comprise the statement of financial position as at 31 December 2015, the statements of comprehensive income, changes in head office funds, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

Auditors' responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Branch as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other regulatory requirements

As required by the Central Bank of Bahrain (CBB) Rule Book (Volume 3), we report that: the Branch has maintained proper accounting records and the financial statements are in agreement therewith; we are not aware of any violations of the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 3) and CBB directives having occurred during the year that might have had a material adverse effect on the business of the Branch or on its financial position; and satisfactory explanations and information have been provided to us by management in response to all our requests.

KPMG

KPMG Fakhro
Partnership Registration no. 83
2 March 2016

STATEMENT OF FINANCIAL POSITION
as at 31 December 2015 Bahraini Dinars

	Note	2015	2014
ASSETS			
Cash and cash equivalents	4	4,980,393	13,684,313
Statutory deposit		150,000	150,000
Available-for-sale investments	5	61,260,004	47,019,125
Insurance receivables	6 a)	17,816,027	19,928,071
Accrued premium	7	22,297,042	16,528,768
Deferred acquisition costs	8	5,795,419	5,364,174
Retrocessionaires' share of claims reserve	9,11 d)	10,290,055	7,700,304
Retrocessionaires' share of unearned premium reserve	10	358,918	28
Related party receivables	11 c)	-	19,551
Prepayments and other assets		-	6,000
Total assets		**122,947,858**	110,400,334
HEAD OFFICE FUNDS AND LIABILITIES			
Head office funds			
Head office account		12,166,950	12,166,950
Available-for-sale investments fair value reserve		(172,817)	299,982
Retained earnings		(6,899,370)	(5,763,202)
Total head office funds (page 4)		**5,094,763**	6,703,730
Liabilities			
Loss reserves	9	87,658,067	75,241,755
Unearned premium reserve	10	28,938,965	25,844,789
Commission reserve		715	2,088
Insurance payables	6 c)	1,245,344	2,594,077
Other payables		10,004	13,895
Total liabilities		**117,853,095**	103,696,604
Total head office funds and liabilities		**122,947,858**	110,400,334

Management approved the financial statements consisting of pages 2 to 28 on 2 March 2016.

Mahomed Akoob
General Manager

The accompanying notes from 1 to 16 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
for the year ended December 2015 Bahraini Dinars

	Note	2015	2014
INCOME			
Gross premiums written		61,277,163	52,945,408
Ceded premium		(3,989,416)	(1,615,244)
Change in gross unearned premium	10	(3,249,004)	(3,995,683)
Change in ceded unearned premium	10	377,609	(1,272,456)
Net premium earned		**54,416,352**	46,062,025
Foreign exchange loss		(272,373)	(501,517)
Investment and other income	12	1,272,770	1,060,860
Total income		**55,416,749**	46,621,368
EXPENSES			
Claims settled – net		(32,000,408)	(25,501,216)
Movement in loss reserves-net	9	(9,760,210)	(14,161,450)
Policy acquisition costs		(13,740,320)	(12,543,317)
Movement in deferred acquisition costs	8	465,780	353,126
Movement in commission reserve		-	7,461
General and administrative expenses	13	(1,426,412)	(1,482,100)
Other expenses		(91,347)	(257,584)
Total expenses		**(56,552,917)**	(53,585,080)
Loss for the year		**(1,136,168)**	(6,963,712)
Other comprehensive income			
Items that will be reclassified to profit or loss:			
Changes on re-measurement of available-for-sale investments		(443,332)	119,011
Transfers for recognition of losses on disposal of available-for-sale investments		(29,467)	(27,333)
Total other comprehensive income for the year		**(472,799)**	91,678
Total comprehensive income for the year		**(1,608,967)**	(6,872,034)

Management approved the financial statements consisting of pages 2 to 28 on 2 March 2016.

Mahomed Akoob
General Manager

The accompanying notes from 1 to 16 form an integral part of these financial statements.

STATEMENT OF CHANGES IN HEAD OFFICE FUNDS
for the year ended 31 December 2015 Bahraini Dinars

2015	**Head office account**	**Available-for -sale investments fair value reserve**	**Retained earnings**	**Total**
Balance as at 1 January 2015	12,166,950	299,982	(5,763,202)	6,703,730
Loss for the year (page 3)	-	-	(1,136,168)	(1,136,168)
Changes on re-measurement of available-for-sale investments	-	(443,332)	-	(442,332)
Transfers for recognition of losses on disposal of available-for-sale investments	-	(29,467)	-	(29,467)
Total comprehensive income for the year	**-**	**(472,799)**	**(1,136,168)**	**(1,608,967)**
Balance at 31 December 2015	**12,166,950**	**(172,817)**	**(6,899,370)**	**5,094,763**

2014	Head office account	Available-for -sale investments fair value reserve	Retained earnings	Total
Balance as at 1 January 2014	2,166,950	208,304	1,200,510	3,575,764
Receipt of funds	10,000,000	-	-	10,000,000
Loss for the year (page 3)	-	-	(6,963,712)	(6,963,712)
Changes on re-measurement of available-for-sale investments	-	119,011	-	119,011
Transfers for recognition of losses on disposal of available-for-sale investments	-	(27,333)	-	(27,333)
Total comprehensive income for the year	-	91,678	(6,963,712)	(6,872,034)
Balance at 31 December 2014	12,166,950	299,982	(5,763,202)	6,703,730

The financial statements consist of pages 2 to 28.

STATEMENT OF CASH FLOWS
for the year ended 31 December 2015 Bahraini Dinars

	Note	2015	2014
OPERATING ACTIVITIES			
Loss for the year		(1,136,168)	(6,963,712)
Adjustments			
Interest income		(1,234,355)	(1,034,724)
Gain on disposal of bonds - net		(27,442)	(16,618)
Amortisation of bonds		31,269	51,832
		(2,366,696)	(7,963,222)
Changes in operating assets and liabilities			
Decrease / (increase) in insurance receivables		2,112,044	(3,065,229)
(Decrease) / increase in insurance payables		(1,348,733)	933,705
Increase in unearned premium reserves		3,094,176	3,783,641
Decrease / (increase) in retroceded unearned premium		(358,890)	1,278,297
(Increase) / decrease in accrued premium		(5,768,274)	335,642
Increase in deferred acquisition costs		(431,245)	(306,884)
(Increase) in retrocessionaires' share of loss reserve		(2,589,751)	(7,608,262)
(Decrease) in commission reserve		(1,373)	(7,559)
Increase in loss reserves		12,416,312	21,788,254
Decrease / (increase) in receivables from related party and other assets		25,551	(9,102)
(Decrease) in related party and other payables		(3,891)	(2,448,658)
Net cash generated from operating activities		**4,779,230**	6,710,623
INVESTING ACTIVITIES			
Purchase of available-for-sale investments		(36,411,014)	(12,414,022)
Proceeds from disposal of available-for-sale investments		21,715,508	5,246,367
Interest received		1,212,356	1,036,758
Net cash used in investing activities		**(13,483,150)**	(6,130,897)
INVESTING ACTIVITIES			
Receipt of funds from head office		-	10,000,000
Net cash generated from financing activities		-	10,000,000
Net (decrease) / increase in cash and cash equivalents		(8,703,920)	10,579,726
Cash and cash equivalents at the beginning of the year		13,684,313	3,104,587
Cash and cash equivalents at the end of the year	4	**4,980,393**	13,684,313

The financial statements consist of pages 2 to 28.

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 is registered with commercial registration number 65990 in the Kingdom of Bahrain as Foreign Branch on 22 July 2007 with the Ministry of Industry & Commerce and is regulated by the Central Bank of Bahrain, the regulator. The name of the Branch was changed in 2013 according to the change of the legal form of Hannover Rückversicherung AG to Hannover Rück SE (Societas Europaea) from Hannover Rückversicherung AG, Bahrain Branch, to Hannover Rueck SE, Bahrain Branch.

The Branch commenced its operations on 1 January 2008.

2 BASIS OF PREPARATION

a) Statement of compliance

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

b) Basis of measurement

The financial statements of the Branch have been prepared on the historical cost basis except for the revaluation of available-for-sale investment 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

2 *BASIS OF PREPARATION (continued)*

d) New standards, amendments and interpretations effective from 1 January 2015

The following standards, amendments and interpretations, which became effective as of 1 January 2015, are relevant to the Branch:

(i) *Amendments to IAS 19 Defined Benefit Plans: Employee Contributions*
The amendments to IAS 19 clarify how an entity should account for contributions made by employees or third parties to define benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognize the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees periods of service using the project unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees periods of service.

The Branch is not expecting a significant impact from the adoption of these amendments.

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2015, and have not been applied in preparing these financial statements. Those which are relevant to the Branch are set out below.

(i) IFRS 9 – Financial Instruments
IFRS 9 published in July 2014, replaces the existing IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Branch is not expecting a significant impact from the adoption of these amendments.

2 *BASIS OF PREPARATION (continued)*

(ii) Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 prohibits entities from using a revenue based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted if the intangible asset is expressed as a measure of revenue or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated. The amendments apply prospectively for annual periods beginning on or after 1 January 2016.

The above amendments do not have any material impact on the financial statements of the Branch.

(iii) Annual Improvements to IFRSs 2012–2014 Cycle – various standards.

The annual improvements to IFRSs to 2012-2014 cycles include a number of amendments to various IFRSs. Most amendments will apply prospectively for annual periods beginning on or after 1 January 2016. Earlier application is permitted (along with the special transitional requirement in each case), in which case the related consequential amendments to other IFRSs would also apply.

The following are the key amendments in brief:

- *IFRS 5* – when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution' or vice versa, this does not constitute a change to a plan of sale or distribution and does not have to be accounted for as such

- *IFRS 7* – specific guidance for transferred financial assets to help management determine whether the terms of a servicing arrangement constitute 'continuing involvement' and, therefore, whether the asset qualifies for derecognition

- *IFRS 7* – that the additional disclosures relating to the offsetting of financial assets and financial liabilities only need to be included in interim reports if required by IAS 34

- *IAS 19* – that when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important and not the country where they arise

- *IAS 34* – what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report' and adds a requirement to cross-reference from the interim financial statements to the location of that information.

2 BASIS OF PREPARATION (continued)

(iv) Disclosure Initiative (Amendments to IAS 1).

The amendments to IAS 1 *Presentation of Financial Statements* are made in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments provide clarifications on a number of issues, including:

- Materiality – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.
- Disaggregation and subtotals – line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals.
- Notes – confirmation that the notes do not need to be presented in a particular order.
- OCI arising from investments accounted for under the equity method – the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.

According to the transitional provisions, the disclosures in IAS 8 regarding the adoption of new standards/accounting policies are not required for these amendments.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Early adoption is permitted.

f) Early adoption of standards

The Branch did not early adopt new or amended standards issued in 2015.

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 2015.

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 reporting and presentation currency.

(ii) Transactions and balances

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

3 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

b) Insurance

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

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

(ii) Gross premiums
Gross premiums written 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. Gross premiums are recognised in profit or loss from the date of attachment of risk over the policy period. The unexpired portion of such premiums relating to the period of risk extending to beyond the financial period is included under "Unearned premiums" in the statement of financial position.

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

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

Retrocessionairs' 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.

3 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(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

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

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

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

3 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

b) 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.

c) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balance 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.

d) 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.

e) Impairment

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

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

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

3 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

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

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

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

(ii) Other 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.

f) Employees' end of service benefits

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

4 CASH AND CASH EQUIVALENTS

	2015	2014
Cash and bank balances	4,980,393	13,684,313
	4,980,393	13,684,313

5 AVAILABLE-FOR-SALE INVESTMENTS

	2015	2014
Investment in quoted bonds	61,260,004	47,019,125
	61,260,004	47,019,125

6. INSURANCE RECEIVABLES AND PAYABLES

6 a) INSURANCE RECEIVABLES

	2015	2014
- *Neither past due nor impaired*		
Due from cedants	3,720,684	5,649,645
Deposits held by cedants	13,300,185	12,259,729
	17,020,869	17,909,374
- *Past due but not impaired*	1,067,154	2,018,697
- *Past due and impaired*	76,935	257,584
- Provision for impairment	(348,931)	(257,584)
	271,996	-
Neither past due nor impaired	**17,816,027**	19,928,071

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

6 b) MOVEMENT IN IMPAIRMENT OF INSURANCE RECEIVABLE

	2015	2014
At 1st January	257,584	-
Charge for the year	91,347	257,584
At 31st December	**348,931**	257,584

6 c) INSURANCE PAYABLES

	2015	2014
Non-life reinsurance	768,678	2,283,899
Life reinsurance	476,666	310,178
	1,245,344	2,594,077

7 ACCRUED PREMIUM

	2015	2014
Accrued premium	22,297,042	16,528,768
	22,297,042	16,528,768

8 DEFERRED ACQUISITION COSTS

	2015			2014		
	Gross	Retro-ceded	Net	Gross	Retro-ceded	Net
At 1 January	5,364,174	-	5,364,174	5,057,289	-	5,057,289
Increase during the year	465,780	-	465,780	353,126	-	353,126
Foreign exchange losses	(34,535)	-	(34,535)	(46,241)	-	(46,241)
At 31 December	**5,795,419**	**-**	**5,795,419**	5,364,174	-	5,364,174

9 LOSS RESERVES

	2015			2014		
	Gross	Retro-ceded	Net	Gross	Retro-ceded	Net
Claims reported	43,172,231	(7,700,304)	35,471,927	28,081,494	(92,042)	27,989,452
IBNR reserves	32,069,524	-	32,069,524	25,372,007	-	25,372,007
At 1 January	75,241,755	(7,700,304)	67,541,451	53,453,501	(92,042)	53,361,459
Increase during the year (net)	12,616,997	(2,856,787)	9,760,210	22,094,966	(7,933,516)	14,161,450
Foreign exchange losses / (gains)	(200,685)	267,036	66,351	(306,712)	325,254	18,542
At 31 December	**87,658,067**	**(10,290,055)**	**77,368,012**	75,241,755	(7,700,304)	67,541,451
Claims reported	39,320,432	(10,290,055)	29,030,377	43,172,231	(7,700,304)	35,471,927
IBNR reserves	48,337,635	-	48,337,635	32,069,524	-	32,069,524
At 31 December	**87,658,067**	**(10,290,055)**	**77,368,012**	75,241,755	(7,700,304)	67,541,451

10 UNEARNED PREMIUM RESERVE

	2015			2014		
	Gross	Retro-ceded	Net	Gross	Retro-ceded	Net
At 1 January	25,844,789	(28)	25,844,761	22,061,149	(1,278,326)	20,782,823
Increase / (decrease) during the year (net)	3,249,004	(377,609)	2,871,395	3,995,683	1,272,456	5,268,139
Foreign exchange (losses) / gains	(154,828)	18,719	(136,109)	(212,043)	5,842	(206,201)
At 31 December	**28,938,965**	**(358,918)**	**28,580,047**	25,844,789	(28)	25,844,761

11 RELATED PARTY TRANSACTIONS

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

a) Transactions with related parties

		2015	2014
- Reimbursement of administrative expenses paid by Hannover ReTakaful BSC (c), on behalf of the Branch	*Entity within the Hannover Re Group*	1,228,826	1,218,604
- Reimbursement of administrative expenses paid by Hannover Rück SE, on behalf of the Branch	*Global Parent Company*	131,672	222,316
- Retrocession to Hannover Re Bermuda Ltd., Bermuda	*Entity within the Hannover Re Group*	3,977,965	1,614,228
- Retrocession to Hannover Rück SE	*Global Parent Company*	11,373	889
- Retrocession to E + S Rückversicherung AG, Germany	*Entity within the Hannover Re Group*	13,709	127

11 RELATED PARTY TRANSACTIONS (continued)

b) Amounts payable at 31 December

		2015	2014
Hannover Rück SE	*Global Parent Company*	-	802
Hannover ReTakaful BSC (c), Bahrain	*Entity within the Hannover Re Group*	-	-
Total		-	802

c) Amounts receivable at 31 December

		2015	2014
E+S Rückversicherung AG, Germany	*Entity within the Hannover Re Group*	-	19,551
Total		-	19,551

d) Retrocessonaires' share of loss reserves

		2015	2014
E+S Rückversicherung AG, Germany	*Entity within the Hannover Re Group*	273	303
Hannover Re Bermuda Ltd., Bermuda	*Entity within the Hannover Re Group*	10,289,782	7,700,001
Total		**10,290,055**	7,700,304

12 INVESTMENT AND OTHER INCOME

	2015	2014
Investment income:		
Interest income from bonds	1,015,627	839,024
Gain on disposal of bonds	27,442	16,618
	1,043,069	855,642
Other income:		
Interest from deposits held by cedants	218,728	195,700
Sundry income	10,973	9,518
	229,701	205,218
	1,272,770	1,060,860

13 GENERAL AND ADMINISTRATIVE EXPENSES

	2015	2014
Salary and related expenses	965,012	945,254
Computer maintenance expenses	171,065	240,405
Travel and related expenses	67,983	81,466
Rent expenses	52,653	52,167
Other operating expenses	169,699	162,808
	1,426,412	1,482,100

Salary and related expenses are allocated by Hannover ReTakaful BSC (c), a related party of the Branch (refer note 11). As branch does not have any employees.

f

14 INSURANCE RISK MANAGEMENT

a) Background

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

b) Underwriting strategy

The Branch's underwriting strategy is driven by the general underwriting guidelines of the Hannover Re Group. The objective of this strategy is to build balanced portfolios based on a large number of similar risks, thereby reducing the variability of the portfolios outcome. The underwriting strategy is set out in an annual business plan that is approved by the Hannover Re Group. This strategy is cascaded by the business units through detailed underwriting authorities that set out the limits that any one underwriter can write by line size, class of business, territory and industry in order to ensure appropriate risk selection within the portfolio. The underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal. The Branch's management meets monthly to review certain management information including premium income and other key ratios. There have been no significant changes in the underwriting strategy since the previous period.

c) Reinsurance strategy

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

14 *INSURANCE RISK MANAGEMENT (continued)*

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 non-life reinsurance by main geographical location of risk insured

2015	**Life**	**Non-life**	**Total**
Gross premiums			
Middle East	13,697,022	47,041,958	60,738,980
North Africa	-	536,519	536,519
Other	-	1,664	1,664
	13,697,022	**47,580,141**	**61,277,163**

2014	Life	Non-life	Total
Gross premiums			
Middle East	9,975,711	42,323,247	52,298,958
North Africa	-	339,970	339,970
Other	-	306,480	306,480
	9,975,711	42,969,697	52,945,408

(ii) Analysis of assets and liabilities

2015	**Life reinsurance**	**Non-life reinsurance**	**Others**	**Total**
Assets	21,618,878	40,068,976	61,260,004	122,947,858
Liabilities	21,100,660	96,752,435	-	117,853,095

2014	Life reinsurance	Non-life reinsurance	Others	Total
Assets	11,062,643	42,184,950	57,152,741	110,400,334
Liabilities	11,301,570	92,381,940	13,094	103,696,604

14 INSURANCE RISK MANAGEMENT (continued)

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.

31 December 2015	**Profit and loss**		**Total head office funds**	
	Gross of reinsurance	**Net**	**Gross of reinsurance**	**Net**
Expense rate				
1 % increase	(612,772)	(572,877)	(612,772)	(572,877)
1 % decrease	612,772	572,877	612,772	572,877
Expected loss ratio				
1 % increase	(580,282)	(544,164)	(580,282)	(544,164)
1 % decrease	580,282	544,164	580,282	544,164

31 December 2014	Profit and loss		Total head office funds	
	Gross of reinsurance	Net	Gross of reinsurance	Net
Expense rate				
1 % increase	(529,454)	(513,302)	(529,454)	(513,302)
1 % decrease	529,454	513,302	529,454	513,302
Expected loss ratio				
1 % increase	(489,497)	(460,620)	(489,497)	(460,620)
1 % decrease	489,497	460,620	489,497	460,620

14 INSURANCE RISK MANAGEMENT (continued)

f) Claim development

The following tables show the estimate of cumulative non-life loss reserves for each underwriting year from years 2011 to 2015 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.

	Underwriting year					
	2011	2012	2013	2014	2015	Total
Non-life gross:						
Estimate of incurred claims costs:						
- At the end of underwriting year	12,878,929	12,724,660	11,228,259	15,074,860	20,376,310	20,376,310
- One year later	23,845,741	22,083,368	29,556,699	32,645,646		32,645,646
- Two years later	27,503,453	26,400,336	28,281,487			28,281,487
- Three years later	29,928,113	24,301,582				24,301,582
- Four years later	30,411,361					30,411,361
Current estimate of incurred claims	30,411,361	24,301,582	28,281,487	32,645,646	20,376,310	136,016,386
Cumulative payments to date	(23,215,187)	(17,334,675)	(15,222,603)	(13,721,374)	(95,998)	(69,589,837)
Liability recognised	7,196,174	6,966,907	13,058,884	18,924,272	20,280,312	66,426,549
Liability in respect of prior years						8,007,797
Total liability included in the statement of financial position						**74,434,346**

	Underwriting year					
	2011	2012	2013	2014	2015	Total
Non-life net:						
Estimate of incurred claims costs:						
- At the end of underwriting year	12,878,929	12,724,660	11,228,259	15,074,860	20,376,310	20,376,310
- One year later	23,845,741	22,083,367	26,900,966	32,645,646		32,645,646
- Two years later	27,503,453	26,471,764	25,679,474			25,679,474
- Three years later	24,904,141	24,043,895				24,043,895
- Four years later	23,076,782					23,076,782
Current estimate of incurred claims	23,076,782	24,043,895	25,679,474	32,645,646	20,376,310	125,822,107
Cumulative payments to date	(23,215,187)	(17,334,675)	(15,222,603)	(13,721,374)	(95,998)	(69,589,837)
Liability recognised	(138,405)	6,709,220	10,456,871	18,924,272	20,280,312	56,232,270
Liability in respect of prior years						7,912,022
Total liability included in the statement of financial position						**64,144,292**

15 FINANCIAL RISK MANAGEMENT

a) Overview

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

- credit risk
- liquidity risk
- market risk.

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

b) Credit risk

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

(i) Management of credit risk

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

(ii) Overall exposure to credit risk

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

	2015	2014
Cash and cash equivalents	4,980,393	13,684,313
Statutory deposits	150,000	150,000
Insurance receivables	17,816,027	19,928,071
Available-for-sale investments	61,260,004	47,019,125
Retrocessionairs' share of loss reserves	10,290,055	7,700,304
Related party receivable	-	19,551
	94,496,479	88,501,364

15 *FINANCIAL RISK MANAGEMENT (continued)*

(iii) *Assets that are past due*

Following is the ageing of insurance receivables at the end of the reporting period that were not impaired:

	2015	2014
Neither past due nor impaired	17,020,869	17,909,373
Past due 91 – 180 days	790,632	1,035,435
Past due 181 – 365 days	4,526	432,264
Above 365 days	-	550,999
	17,816,027	19,928,071

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

The credit quality of insurance receivables is assessed based on a credit policy established by the risk management committee of the Group. The Group has monitored customer credit risk by analysing the credit quality of insurance receivables.

c) **Liquidity risk**

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

I. *Management of liquidity risk*

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

II. *Exposure to liquidity risk*

An analysis of the contractual maturities of the Branch's financial liabilities is presented below.

2015	**Carrying amount**	**Contractual cash flows**	**1 year or less**
Outstanding claims	39,320,432	39,320,432	39,320,432
Insurance payable	1,245,344	1,245,344	1,245,344
Other payables	10,004	10,004	10,004
Total	**40,575,780**	**40,575,780**	**40,575,78 0**

15 *FINANCIAL RISK MANAGEMENT (continued)*

2014	Carrying amount	Contractual cash flows	1 year or less
Outstanding claims	43,172,231	43,172,231	43,172,231
Insurance payable	2,594,077	2,594,077	2,594,077
Other payables	13,895	13,895	13,895
Total	45,780,203	45,780,203	45,780,203

III. *Disclosures of non-financial assets and liabilities*

Disclosures relating to financial assets and liabilities - current and non-current are provided throughout these financial statements. Disclosures relating to non-financial assets and liabilities representing best estimates are as stated below.

Non-financial assets – current	**2015**	2014
Deferred acquisition costs	5,795,419	5,364,174
Retrocessionaires' share of unearned premium reserve	358,918	28
Prepayment and other assets	-	6,000
Total	**6,154,337**	5,370,202
Non-financial liabilities – current		
Loss reserves – IBNR	48,337,635	32,069,524
Unearned premium reserve	28,938,965	25,844,789
Commission reserve	715	2,088
Total	**77,277,315**	57,916,401

IV. **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 maximize 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.

15 FINANCIAL RISK MANAGEMENT (continued)

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.

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

e) Classification of financial instruments

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

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

2015	**Available-for-sale**	**Loans and receivables**	**Others at amortised cost**	**Total carrying value**	**Total fair value**
Assets					
Insurance receivables	-	17,816,027	-	17,816,027	17,816,027
Cash and cash equivalents	-	4,980,393	-	4,980,393	4,980,393
Statutory deposit	-	150,000	-	150,000	150,000
Available-for -sale investments	61,260,004	-	-	61,260,004	61,260,004
Retrocessionairs' share of loss reserves	-	10,290,055	-	10,290,055	10,290,055
Total financial assets	**61,260,004**	**33,236,475**	**-**	**94,496,479**	**94,496,479**

Liabilities					
Claims reported	-	-	39,320,432	39,320,432	39,320,432
Insurance payables	-	-	1,245,344	1,245,344	1,245,344
Other payables	-	-	10,004	10,004	10,004
Total financial liabilities	-	-	**40,575,780**	**40,575,780**	**40,575,780**

2014	Available-for-sale	Loans and receivables	Others at amortised cost	Total carrying value	Total fair value
Assets					
Insurance receivables	-	19,928,071	-	19,928,071	19,928,071
Cash and cash equivalents	-	13,684,313	-	13,684,313	13,684,313
Statutory deposit	-	150,000	-	150,000	150,000
Available-for -sale investments	47,019,125	-	-	47,019,125	47,019,125
Retrocessionairs' share of loss reserves	-	7,700,304	-	7,700,304	7,700,304
Related party receivable	-	19,551	-	19,551	19,551
Total financial assets	47,019,125	41,482,239	-	88,501,364	88,501,364
Liabilities					
Claims reported	-	-	43,172,231	43,172,231	43,172,231
Insurance payable	-	-	2,594,077	2,594,077	2,594,077
Other payables	-	-	13,895	13,895	13,895
Total financial liabilities	-	-	45,780,203	45,780,203	45,780,203

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.

15 *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.

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

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

	Level 1	Level 2	Level 3	Total
2015				
Available-for-sale investments	**-**	**61,260,004**	**-**	**61,260,004**
2014				
Available-for-sale investments	-	47,019,125	-	47,019,125

There were no transfer from level 1 or level 3 to level 2 or in the opposite direction in 2015 (2014: Nil).

g) **Market risks**

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

(i) *Management of market risks*

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

(ii) *Foreign exchange risk*

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Branch's assets and liabilities are denominated in foreign currencies such as the Euro and Kuwaiti Dinar and the currencies of the Gulf Cooperation Council (GCC) countries. The currencies of the countries of the Gulf Cooperation Council (GCC), other than the Kuwaiti Dinar are effectively pegged to the US Dollar and hence the Branch's exposure to foreign currencies is limited. The Bahraini Dinar is also effectively

15 *FINANCIAL RISK MANAGEMENT (continued)*

pegged to the United States Dollar, thus currency rate risks occur only in respect of the Euro and the Kuwaiti Dinar. The Branch does not hedge against such currency risks since it is not considered significant.

31 December 2015	**Euro**	**Kuwaiti Dinars**	**Total**
Total assets	3,498,699	707,191	**4,205,890**
Total liabilities	(189,505)	(3,168,251)	**(3,357,756)**
Net assets	**3,309,194**	**(2,461,060)**	**848,134**
31 December 2014			
Total assets	2,670,792	3,125,552	5,796,344
Total liabilities	(217,162)	(2,730,468)	(2,947,630)
Net assets	2,453,630	395,084	2,848,714

The above assets and liabilities were translated at exchange rates as at the reporting date. A 10 % strengthening of the Bahraini Dinar against the Euro and the Kuwaiti Dinar as at the reporting date would have increased profit for the year and head office funds of the Branch by BD 330,919 (2014: decrease of BD 245,363) and BD 246,106 (2014: increase of BD 39,508) respectively. A 10 % weakening of the Bahraini Dinar against the Euro and the Kuwaiti Dinar would have had an equal but an opposite effect. This analysis assumes that all other variables remain constant.

(ii) *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 1.79% (2014: 1.5 %). A 1% increase in the interest rate will decrease the total comprehensive income for the period by BD 1,459,000 (2014: BD 1,115,000) and 1% decrease in the interest rate will increase the total comprehensive income for the period by BD 1,507,000 (2014: BD 1,159,000).

16 CAPITAL MANAGEMENT

Hannover Rueck SE, Bahrain Branch is a branch of Hannover Rück SE (Hannover Re), incorporated in Hannover, Germany. Hannover Re policy is to maintain a capital base on a group basis so as to maintain cedant and market confidence and to sustain future development of the group. The Hannover Re Group's objectives 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 in Capital Adequacy Module in 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.