HANNOVER LIFE REASSURANCE BERMUDA LTD.

Financial Statements
(With Independent Auditor's Report Thereon)

Year ended 31 December 2018

Independent auditor's report

To the Board of Directors and Shareholder of Hannover Life Reassurance Bermuda Ltd.

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Hannover Life Reassurance Bermuda Ltd. (the Company) as at December 31, 2018, 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 Company's financial statements comprise:

- the balance sheet as at December 31, 2018;
- the statement of income for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in shareholder's equity for the year then ended;
- the statement of cashflows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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 Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Chartered Professional Accountants of Bermuda Rules of Professional Conduct (CPA Bermuda Rules) that are relevant to our audit of the financial statements in Bermuda. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the CPA Bermuda Rules.

Responsibilities of management for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Company'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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of 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 Company's 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 Company 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.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants
Hamilton, Bermuda
April 1, 2019

Balance Sheet as at 31 December 2018

Assets

in USD thousand	Notes	2018	2017
Cash and cash equivalents	8	16,430	25,554
Fixed-income securities-available for sale	4,5,8	183,312	166,123
Derivative assets-at fair value through profit and loss	5,8	98,036	59,582
Other financial assets-at fair value through profit and loss	6,8	3,899	4,158
Loan receivable	7	16,009	7,227
Total investments and cash under own management		**317,686**	**262,644**
Funds withheld	4,9	222,559	259,617
Contract deposits	4,10	6,725	4,962
Reinsurance recoverables	4,14	159	133
Derivative receivable-at fair value through profit and loss	4,5,8,12	–	47,411
Other assets	13	33,019	35,828
Deferred acquisition costs	4,11	244,238	306,646
Total assets		**824,386**	**917,241**

Liabilities

in USD thousand	Notes	2018	2017
Loss and loss adjustment expense reserve	14	8,832	10,437
Benefit reserves	14	238,678	282,441
Unearned premium reserve	14	3,858	5,922
Contract deposits	15	9,047	5,860
Derivative liabilities-at fair value through profit or loss	4,5,8,16	38,597	90,420
Other liabilities	17	15,994	14,038
Loans and borrowings	18	57,000	64,000
Total liabilities		**372,006**	**473,118**
Shareholder's equity			
Authorized issued and fully paid, 1,376,580 shares of $1 par value each	19	1,377	1,377
Contributed surplus	19	267,057	267,057
Retained earnings		184,481	176,493
Accumulated other comprehensive loss	19	(535)	(804)
Total shareholder's equity		**452,380**	**444,123**
Total liabilities and shareholder's equity		**824,386**	**917,241**

The accompanying notes form an integral part of these financial statements

On behalf of the board

Dr. Klaus Miller
Chairman

Mrs. Chantal Cardinez
Director

Statement of Income for the year ended 31 December 2018

in USD thousand	Notes	2018	2017
Gross written premium	20,22	213,248	232,645
Ceded written premium	22	(6,035)	(5,556)
Change in the gross unearned premium	22	1,863	(4,566)
Net premium earned		**209,076**	**222,523**
Other technical income	**22**	**125**	**–**
Ordinary investment income	21	3,592	4,114
Realised gains and (losses) on investments (net)	21	130	(5,633)
Changes in fair value of financial instruments	21	11,773	6,551
Other investment expenses	21,27	(1,996)	(2,577)
Income/expense on funds withheld and contract deposits	21	7,916	7,798
Net investment income		**21,415**	**10,253**
Claims and claims expenses (net)	14,22	(209,720)	(203,818)
Change in benefit reserves (net)	22	19,015	7,250
Commission and brokerage, change in deferred acquisition costs	22	(7,314)	(3,009)
Administrative expenses	22	(7,762)	(7,511)
Net technical expenses		**(205,781)**	**(207,088)**
Other income and expenses	23	32,932	28,500
Finance costs	18	(1,779)	(1,795)
Net income		**55,988**	**52,393**
Net income for the year attributable to:			
Equity holders of the Company		**55,988**	**52,393**

The accompanying notes form an integral part of these financial statements

On behalf of the board

Dr. Klaus Miller
Chairman

Mrs. Chantal Cardinez
Director

Statement of Comprehensive Income 2018

in USD thousand	2018	2017
Net Income	**55,988**	**52,393**
Items that may be subsequently classified to net income:		
Net change in fair value of fixed income securities-available-for-sale	269	(150)
Total comprehensive income for the year	**56,257**	**52,243**
Total comprehensive income attributable to:		
Equity holders of the Company	**56,257**	**52,243**

The accompanying notes form an integral part of these financial statements

Statement of Changes in Shareholder's Equity 2018

in USD thousand	Share Capital	Contributed surplus	Retained Earnings	Accumulated other comprehensive income/(loss)	Total Equity
At 1 January 2018	**1,377**	**267,057**	**176,493**	**(804)**	**444,123**
Net income for the year	–	–	55,988	–	55,988
Net change in fair value of fixed income securities-available-for-sale	–	–	–	269	269
Dividends paid/payable during the year	–	–	(48,000)	–	(48,000)
At 31 December 2018	**1,377**	**267,057**	**184,481**	**(535)**	**452,380**
At 1 January 2017	**1,377**	**267,057**	**124,100**	**(654)**	**391,880**
Net income for the year	–	–	52,393	–	52,393
Net change in fair value of fixed income securities-available-for-sale	–	–	–	(150)	(150)
Dividends paid/payable during the year	–	–	–	–	–
At 31 December 2017	**1,377**	**267,057**	**176,493**	**(804)**	**444,123**

The accompanying notes form an integral part of these financial statements

Statement of Cashflows 2018

in USD thousand	2018	2017
I. Cash flow from operating activities		
Net income	55,988	52,393
Adjustments for non-cash items in net income		
Depreciation	185	199
Net realised gains and losses on investments	(10,049)	(57,575)
Change in fair value of financial instruments	(11,773)	(6,551)
Amortisation of investments	(528)	(72)
Changes in:		
Funds withheld	21,352	27,204
Contract deposits	1,277	(7,902)
Other assets and liabilities (net)	10,910	23,390
Benefit reserve (net)	(27,260)	(6,691)
Claims reserves (net)	(633)	(1,978)
Deferred acquisition costs	38,432	52,334
Other reinsurance provisions	(620)	5,832
Cashflows provided by operating activities	**77,281**	**80,583**
II. Cash flow from investing activities		
Maturities, sales of fixed income securities-available for sale	116,673	106,191
Purchases of fixed income securities-available for sale	(137,635)	(130,096)
Changes in other invested assets	(8,016)	(2,738)
Other changes (net)	(198)	(14)
Cashflows used in investing activities	**(29,176)**	**(26,657)**
III. Cash flow from financing activities *		
Repayments of loans and borrowings	(7,000)	(7,000)
Repayment of loan interest	(1,779)	(1,581)
Dividends paid	(48,000)	(35,000)
Cashflows used in financing activities	**(56,779)**	**(43,581)**
Cash and cash equivalents at the beginning of the period	25,554	14,925
Change in cash and cash equivalents (I. + II. + III.)	(8,674)	10,345
IV. Exchange rate differences on cash	(450)	284
Cash and cash equivalents at the end of the period	**16,430**	**25,554**
Supplementary information on the cash flow statement		
Interest received	43,560	39,821
Interest paid	5,868	5,756
Time deposits **	7,479	1,620

* There are no non-cash items related to the financing activites of the Company. Please refer to Note 18 for further details.

** Time deposits and overnight time deposits are included as Cash and cash equivalents in the financial statements.

Notes to the Financial Statements

1. Corporate information

Hannover Life Reassurance Bermuda Ltd. (the "Company") (HLRBer) is a wholly owned subsidiary of Hannover Life Re AG (HLR) (the "Parent Company"), a company incorporated in Germany. The Parent Company is a wholly owned subsidiary of Hannover Rückversicherung SE, a company incorporated in Germany and trading internationally under the brand name Hannover Re. Hannover Rückversicherung SE is a publicly traded company, which is majority owned (50.2%) by Talanx AG, which in turn is majority owned (with a stake of 79.0%) by HDI Haftpflichtverband der Deutschen Industrie V.a.G., a German mutual insurance company. The Company is a limited company incorporated and domiciled in Bermuda. The registered office is located at Canon Court, 22 Victoria Street, Hamilton, HM12, Bermuda.

The Company reinsures life assurance business written by its client companies (cedants). The risks assumed generally reflect the risks inherent in the underlying life assurance policies and include mortality risk, morbidity risk, investment risk, lapse risk and surrender risk. The Company may also assume credit risk in respect of its client companies.

2. Basis of preparation

2.1. Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the International Financial Reporting Interpretations Committee. The financial statements were authorized for issue by the board of directors on April 1, 2019.

2.2. Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following noted items in the balance sheet; Fixed–income securities–available for sale, Derivative assets–at fair value through profit and loss, Other financial assets–at fair value through profit and loss, Loan Receivable at amortised cost, Derivative receivable–at fair value through profit and loss, Benefit reserves at present value of future payments to cedants less the present value of premium still payable by cedants and Derivative liabilities–at fair value through profit and loss. The balance sheet has been presented in order of decreasing liquidity.

2.3. Functional and presentation currency

The financial statements are presented in United States Dollars, which is also the Company's functional currency. Refer to Note 31 for a table of key exchange rates.

2.4. Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The areas involving a higher degree of judgment and where estimates are significant to the financial statements are the reinsurance assets and liabilities. This is disclosed further in Notes 3.9 to 3.14 of these financial statements.

3. Summary of significant accounting policies

The financial statements reflect all IFRSs in force as at December 31, 2018, as well as all interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), application of which was mandatory for the year under review. IFRS 4.38 et seq. "Insurance Contracts" requires disclosures on the nature and extent of risks stemming from reinsurance contracts, while IFRS 7.31-42 "Financial Instruments: Disclosures" requires similar information on risks from financial instruments. The disclosures resulting from these requirements are included in note 4. With regard to the disclosures required by IFRS 4 and IFRS 7, we would refer in particular to notes 4.3 Insurance Risk and 4.4 Market Risk respectively.

In accordance with the exemptions accorded per IFRS 4 Insurance Contracts, are recognised according to the pertinent provisions of United States Generally Accepted Accounting Principles (US GAAP).

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

3.1. New accounting standards or accounting standards applied for the first time

The IASB published amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" which give certain insurance entities the option to defer mandatory application of IFRS 9 "Financial Instruments" to 2021. At its meeting on 14 November 2018 the IASB also tentatively decided to defer the date of initial application of IFRS 17 "Insurance Contracts" by one year to annual reporting periods beginning on or after 1 January 2022. In this connection it was further decided to correspondingly extend the period for exercise of the optional temporary exemption from applying IFRS 9 that is available to companies whose activities are predominantly connected with insurance. The Company is exercising the deferral option, inter alia due to the interdependency between the recognition of financial instruments and insurance contracts. The new disclosures required as part of the deferral approach, which are intended to facilitate some comparability with entities already applying IFRS 9, are provided for the first time in note 8 of the notes to the financial statement "Fair value hierarchy".

The Company is applying IFRS 15 "Revenue from Contracts with Customers" for the first time with effect from 1 January 2018. The standard specifies when and in what amount revenue is to be recognised and which disclosures are required for this purpose. Financial instruments and other contractual rights and obligations which are to be recognised under separate standards as well as (re)insurance contracts within the scope of IFRS 4 "Insurance Contracts" are expressly exempted from the standard's scope of application. The predominant activity of the Company falls within the scope of application of IFRS 4. As expected, therefore, the services falling within the scope of application of IFRS 15 did not have any significant implications overall for the Company's net assets, financial position or results of operations. The modified retrospective approach was chosen for initial application. In addition, the practical transition relief provided in the standard with respect to completed contracts and contract modifications was utilised. Disclosure of the amount restated for each item of the financial statement affected by application of IFRS 15 in the year of initial application, which arises due to the adjustment of prior-year comparatives recognised according to the requirements of IAS 18 and associated interpretations applicable prior to the change, is similarly omitted in accordance with the materiality concept. Disclosures regarding revenue as defined by IFRS 15 are provided in note 23 of the notes to the financial statement "Other income and expenses".

In addition, the amendments to existing standards listed below were applicable for the first time in the year under review and had no significant implications overall for the net assets, financial position or result of operations of the Company.

- Classification and Measurement of Share-based
- Transfers of Investment Property: Amendments to IAS 40 "Investment Property"
- Amendments as part of the "Annual Improvements to IFRS Standards 2014 – 2016 Cycle" with respect to IAS 28 "Investments in Associates and Joint Ventures" and IFRS 1 "First-time Adoption of International Financial Reporting Standards"
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration"

3.2. Standards or changes in standards that have not yet entered into force or are not yet applicable

In May 2017 the IASB published the final version of IFRS 17 "Insurance Contracts". IFRS 17 replaces IFRS 4 and thereby establishes for the first time consistent principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with discretionary participation features. The measurement model of IFRS 17 requires entities to measure groups of insurance contracts based on estimates of discounted future cash flows with an explicit risk adjustment for non-financial risks ("fulfilment cashflows") as well as a contractual service margin, representing the expected (i.e. unearned) profit for the provision of insurance coverage in the future. Instead of reporting premium income when it is received, insurance revenue is reported when it is earned by recognizing in each period the changes in the liability for providing coverage for which the insurance entity receives compensation as well as the part of the premiums that cover acquisition costs. Receipts and payments relating to savings components are not recognised as revenue or as profit or loss in the statement of income. Insurance finance income and expenses result from discounting effects and financial risks. For each portfolio of insurance contracts they may either be recognised in profit or loss in the statement of income or in other comprehensive income. Changes in assumptions that do not relate to interest rates or financial risks are not recognised directly in the statement of income but are booked against the contractual service margin and hence spread across the remaining coverage period. Changes in estimates are only recognised immediately in profit or loss in the case of those groups of insurance contracts that are expected to be loss-making. IFRS 17 is expected to be mandatory for annual reporting periods beginning on or after 1 January 2022.

Given that the standard affects the Company's core business activity, significant implications are expected for the financial statement. In view of the special significance of the new accounting rules, a multi-year implementation project was launched back in 2017 to explore the implications of the standard for the financial statements – including the interdependency with IFRS 9 – and the necessary implementation steps were defined and initiated. The accounting principles are currently being elaborated in order to subsequently begin implementing the extensive requirements in the processes and systems. At this moment, therefore, it is not yet possible to quantify the implications for the financial statements.

In January 2016 the IASB issued IFRS 16 "Leases" setting out new principles governing the recognition, measurement, presentation and disclosure of leases. The most significant new requirements relate principally to accounting by lessees. In future, the lessee shall as a general principle recognise a lease liability for all leases. At the same time it shall recognize a right to use the underlying asset. Accounting by lessors remains comparable with current practice, according to which the lessor classifies each lease as an operating lease or a finance lease. The standard is to be applied to annual periods beginning on or after 1 January 2019. the Company intends to apply the standard using a modified retrospective approach and will recognise the cumulative effect of application of the standard in retained earnings as at 1 January 2019. At the end of 2017 a detailed analysis was carried out of the implications for the Company's financial statements, which was adjusted at the end of 2018 to reflect current exchange rates. The analysis determined that the balance sheet will probably be increased by around USD 1.3 million at the time of initial application through the recognition of rights of use asset and USD 1.3 million lease liabilities. The expense from leases will in future be recognised in the form of depreciation and impairment losses taken on rights of use and interest on lease liabilities.

In July 2014 the IASB published the final version of IFRS 9 "Financial Instruments", which supersedes all previous versions of this standard and replaces the existing IAS 39 "Financial Instruments: Recognition and Measurement. The standard contains requirements governing classification and measurement, impairment based on the new expected credit loss impairment approach and general hedge accounting.The new classification requirements result in more financial instruments being measured at fair value through profit or loss. Initial mandatory application of the standard is set for annual periods beginning on or after 1 January 2018. In September 2016, however, the IASB published "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)". Under the deferral approach provided for in the amendments, entities whose predominant activity is issuing insurance and reinsurance contracts within the scope of IFRS 4 are granted an optional temporary exemption from recognizing their financial instruments in accordance with IFRS 9 until probable entry into force of IFRS 17 on 1 January 2022. The Company reviewed the application requirements based on the financial statements as at 31 December 2015 and decided to apply the deferral approach. The Company primarily anticipates implications for the classification of financial instruments. The IFRS 9 implementation project is running parallel to and in close coordination with the IFRS 17 implementation project. Disclosures regarding the fair values of financial instruments currently in the portfolio split according to the cash flow criterion as well as disclosures about the credit risks of securities that solely generate payments of principal and interest are provided in note 8 of the notes to the financial statement "Fair value hierarchy".

In addition to the accounting principles described above, the IASB has issued the following standards, interpretations and amendments to existing standards with possible implications for the financial statements of the Company, application of which was not yet mandatory for the year under review and which are not being applied early by the Company. Initial application of these new standards is not expected to have any significant implications for the Company's net assets, financial position or result of operations:

Published:	Title	Initial application to annual periods beginning on or after the following date:
October 2018	Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020
October 2018	Definition of a Business (Amendment to IFRS 3)	1 January 2020
March 2018	Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
February 2018	Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1 January 2019
December 2017	Annual Improvements to IFRS Standards 2015-2017 Cycle	1 January 2019
October 2017	Prepayment Features with Negative Compensation (Amendments to IFRS 9)	1 January 2019

3.3. Reinsurance contracts

IFRS 4 "Insurance Contracts" represents the outcome of Phase I of the IASB project "Insurance Contracts" and constitutes a transitional arrangement. IFRS 17 establishes binding principles for the measurement of insurance contracts effective for annual reporting periods beginning on or after 1 January 2022. IFRS 4 sets out basic principles for the accounting of insurance contracts. Underwriting business is to be subdivided into insurance and investment contracts. Contracts with a significant insurance risk are considered to be insurance contracts, while contracts without significant insurance risk are to be classified as investment contracts. The standard is also applicable to reinsurance contracts. lFRS 4 contains fundamental rules governing specific circumstances, such as the separation of embedded derivatives and unbundling of deposit components, but it does not set out any more extensive provisions relating to the measurement of insurance and reinsurance contracts. In conformity with the exemption accorded by IFRS 4, reinsurance-specific transactions are recognised in accordance with the pertinent provisions of US GAAP (United States Generally Accepted Accounting Principles).

The Company has certain contracts which would be classified as insurance under IFRS 4 but which do not satisfy the risk transfer requirements of FASB ASC 944–20–15 “Financial Services – Insurance”. The Company also writes long–duration insurance contracts that are categorised by FASB ASC 944–20–15–26 to –30 “Financial Services – Insurance” as universal life–type insurance contracts. Both these types of contracts are recognised using the “deposit accounting” method. Income and expenses on the underlying contract are recognised on an accruals basis and reported net in the Statement of Income as ‘other income and expenses’ (see Note 23). The gross balances are shown as contract deposits assets or liabilities in the balance sheet (notes 10 and 15).

(a) Premium written

Insurance contacts are classified as either “short–duration” contracts or “long–duration” contracts. The determinative criteria are, inter alia, the termination opportunities available to the insurer, the period of risk protection and the scope of the services provided to the insurer in connection with the contract. Premiums from short–duration contracts are accounted for over the period of provision of insurance cover under the underlying contract. Premiums from long–duration contracts are accounted for as these become due from the policy holder. Premiums written include adjustments to premiums written in prior accounting periods. Outward reinsurance premiums are recognised as an expense in accordance with the pattern of risks retroceded.

(b) Unearned premium

Unearned premium is premium that has already been written but is allocated to future risk periods. Unearned premium is usually earned pro–rata over the length of the contract.

3.4. Non–derivative financial assets

The Company recognizes the purchase and sale of directly held financial assets including derivative financial instruments as at the settlement date. The recognition of fixed–income securities includes apportionable accrued interest.

(a) Financial assets classified as available for sale

Financial assets classified as available for sale are carried at fair value; accrued interest is recognized in this number. We allocate to this category those financial instruments that do not satisfy the criteria for classification as held to maturity, loans and receivables, at fair value through profit or loss, or trading. Unrealised gains and losses arising out of changes in the fair value of fixed–income securities held as available for sale are recognized – with the exception of currency valuation differences on monetary items – within accumulated other comprehensive income/(loss), a component of shareholder’s equity. The fair value of fixed-income securities is determined through use of valuation sources which can include quoted market prices, third party commercial pricing services, third party brokers or vendor sourced prices whereby market observable inputs are utilized.

(b) Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss includes derivative financial instruments and other financial assets as described under Notes 3.5 and 3.6, respectively.

(c) Investment income, Realised gains and losses, Unrealised gains and losses, other investment expenses and Income/expenses on funds withheld and contract deposits

Ordinary Investment income comprises income from financial assets, including, available for sale assets, and assets/liabilities at fair value through profit and loss and time deposits. Realised gains and losses comprises of gains and losses from available for sale assets and assets/liabilities at fair value through profit and loss. Unrealised gains and losses comprises of unrealised gains and losses from available for sale assets and assets/liabilities at fair value through profit and loss. Interest income on funds withheld represents the Company's share of investment income on funds withheld assets reported by the cedant. Interest income is recognised as it accrues using either the effective interest rate method or the effective yield method depending on the underlying investment terms. Investment expenses comprise of losses on and costs of derivatives and investment management expenses. The retrocessionaires' share of interest on funds withheld assets is recognised as it accrues using either the effective interest rate method or the effective yield method depending on the underlying investment terms.

(d) Netting of financial instruments

Financial assets and liabilities are netted and recognized in the appropriate net amount if a corresponding legal claim (reciprocity; similarity and maturity) exists or is expressly agreed by contract, in other words if the intention is to offset such items on a net basis or to effect this offsetting simultaneously.

(e) Impairment loss and reversals

At each balance sheet date we review our financial assets for impairments. Permanent impairments on all invested assets are recognised directly in the statement of income. In this context we take as a basis the same indicators as those subsequently discussed for fixed –income securities and securities with the character of equity. Qualitative case-by-case analysis is also carried out. IAS 39 "Financial Instruments: Recognition and Measurement" contains a list of objective, substantial indications for impairments of financial assets. In the case of fixed-income securities and loans reference is made, in particular, to the rating of the instrument, the rating of the issuer / borrower as well as the individual market assessment in order to establish whether they are impaired. With respect to loans and receivables recognized at amortised cost, the level of impairment is arrived at from the difference between book value of the asset and the present value of the expected future cash flows. The book value is reduced directly by this amount which is then recognized as an expense. With the exception of value adjustments taken on accounts receivable, we recognize impairments directly on the asset side- without using an adjustment account –separately from the relevant items. If the reasons for the write-down no longer apply, a write-up is made in income up to a maximum of the original amortised cost for fixed-income securities.

3.5. Derivative financial instruments

Derivatives are financial instruments, the fair value of which is derived from an underlying instrument such as equities, bonds, indices, or currencies. Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit and loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are recognized immediately in income.

The fair values of the derivative financial instruments were determined on the basis of the market information available at the balance sheet date and using the effective interest rate method. If there is a lack of deep and liquid market information, a mark to model valuation approach is used. For insurance swap type derivatives a discounted cashflows approach using current best estimate assumptions is utilized.

3.6. Other financial assets at fair value through profit and loss

Other financial assets consist of investments in life settlement contracts. These contracts are valued on a policy–by–policy basis using a discounted cashflows methodology. The fair value at the point of purchase is assumed to be equal to the purchase price. The fair value at future dates is calculated as the present value of expected future cashflows discounted at the risk–free term structure of spot rates plus a policy–specific risk margin. Net changes in fair value are reflected in the Statement of Income in unrealised gains and losses on investments.

3.7. Cash and cash equivalents

Cash and cash equivalents are carried at face value. For purposes of the statements of cashflows, the Company considers all time deposits with an original maturity of ninety days or less and money market funds which can be redeemed without penalty as equivalent to cash.

3.8. Loan receivable

Loan receivable is a non-derivative financial instrument that includes fixed or determinable payments on a defined schedule, are not listed on an active market and are not sold at short notice. It is carried at amorised cost. Impairment is taken only to the extent that repayment of a loan is unlikely or no longer expected in the full amount. Please refer to note 3.2 (e) above for further comment in relation to impairment policy around loan receivable.

3.9. Funds withheld

Funds withheld are receivables due to reinsurers from their clients in the amount of their contractually withheld cash deposits; they are recognized at acquisition cost (nominal amount). Appropriate allowance is made for credit risks.

3.10. Reinsurance recoverables

The Company uses reinsurance in the normal course of business to manage its risk exposure. Insurance ceded to a reinsurer does not relieve the Company from its obligations to policyholders. The Company remains liable to its cedants for the portion reinsured to the extent that any reinsurer does not meet its obligations for reinsurance ceded to it under the reinsurance agreements.

Reinsurance assets represent the benefit derived from reinsurance agreements in force at the reporting date, taking into account the financial condition of the reinsurer. Amounts recoverable from reinsurers are estimated in accordance with the terms of the relevant reinsurance contract.

Reinsurance recoverables are calculated according to the contractual conditions on the basis of the gross technical reserves. Appropriate allowance is made for credit risks.

3.11. Deferred acquisition costs

Deferred acquisition costs principally consist of commissions in the form of financing to cedants, brokerage, other variable costs directly related with the acquisition or renewal of existing reinsurance contracts. These acquisition costs are capitalized and amortized over the expected period of the underlying reinsurance contracts. The Company performs loss recognition of deferred acquisition costs, on an annual basis. Loss recognition testing applies to all in–force business. If loss recognition testing indicates that the present value of future net cashflows from the business currently on the books would be insufficient to recover the deferred acquisition costs and meet the cost of insurance liabilities, the difference, if any, is charged to income as accelerated amortization of deferred acquisition costs. The Company also performs recoverability testing to ensure that expenses deferred during the current year are recoverable against future profits.

3.12. Loss and loss adjustment expenses

Loss and loss adjustment expense reserves are constituted for payment obligations from reinsurance losses that have occurred but have not yet been settled. They are subdivided into reserves for reinsurance losses reported by the balance sheet date and reserves for reinsurance losses that have already been incurred but not yet reported (IBNR) by the balance sheet date. The loss and loss adjustment expense reserves are based on estimates that may diverge from the actual amounts payable. In reinsurance business a considerable period of time may elapse between the occurrence of an insured loss, notification by the insurer and pro–rata payment of the loss by the reinsurer. For this reason the best estimate of the future settlement amount is carried. With the aid of actuarial methods, the estimate makes allowance for past experience and assumptions relating to the future development. With the exception of a few reserves, future payment obligations are not discounted.

3.13. Benefit reserves

Benefit reserves are comprised of the underwriting reserves for guaranteed claims of ceding companies in life and health reinsurance. Benefit reserves are determined using actuarial methods on the basis of the present value of future payments to cedants less the present value of premium still payable by cedants. The calculation includes assumptions relating to mortality, disability, lapse rates and the future interest rate development. The actuarial bases used in this context allow an adequate safety margin for the risks of change, error and random fluctuation. They correspond to those used in the premium calculation and are adjusted if the original safety margins no longer appear to be sufficient.

3.14. Unearned premium reserves

The unearned premium reserve derives from the deferral of reinsurance premium. The unearned premium is determined by the period during which the risk is carried and established in accordance with the information supplied by ceding companies. In cases where no information was received, the unearned premium was estimated using suitable methods. Premium paid for periods subsequent to the date of the balance sheet was deferred from recognition within the statement of income.

3.15. Related party transactions

IAS 24 defines related parties, among others, as parent companies and subsidiaries, subsidiaries of a common parent company, associated companies, legal entities under the influence of management and the management of the company itself. All related party transactions have been recorded in accordance with IAS 24 and includes business both assumed and ceded under usual market conditions and are shown under note 26.

3.16. Loans and borrowings

Liability loans and borrowings are from affiliated companies which are measured at amortised cost at the balance sheet dates.

3.17. Foreign currencies

Transactions in foreign currencies are converted into the functional currency USD at the transaction rate. In accordance with IAS 21 “The Effects of Changes in Foreign Exchange Rates” the recognition of exchange differences on translation is guided by the nature of the underlying balance sheet item. Exchange differences from the translation of monetary assets and liabilities are recognised directly in the statement of income. Currency translation differences from the translation of non-monetary assets measured at fair value via the statement of income are recognised with the latter as profit or loss from fair value measurement changes. Exchange differences from non-monetary items - classified as available for sale are initially recognised outside income in a separate item of shareholders' equity and only booked to income when such non-monetary items are settled.

3.18. Employee benefits

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. For defined contribution plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. Refer to note 25 for further details.

3.19. Consolidation of special purpose entities

IFRS 10 “Consolidated Financial Statements” introduced a single control model to be used when assessing control over another entity. Under IFRS 10, control results from an investor having: power over the investee, exposure or rights to variable returns from its investment with the investee; and the ability to use its power over the investee to affect the amounts of its returns from the investee.

Some transactions are effected with the involvement of ceding special purpose entities as contracting parties that are established by parties outside the Company and from which the Company assume certain underwriting and/or financial risks. The transactions serve the purpose, for example, of transferring extreme mortality risks above a contractually defined retention or transferring longevity risks. Since the Company does not bear the majority of the economic risks or benefits arising out of its business relations with these special purpose entities and cannot exercise a controlling influence over them, there is no consolidation requirement for the Company.

Depending upon the classification of the contracts pursuant to IFRS 4 or IAS 39, the transactions are recognised either as insurance contracts or as derivative financial instruments or as financial guarantees. Refer to notes 5, 8, 12, 16, 21 and 23.

4. Management of technical and financial risks

The Company's risk management system is designed to be commensurate to the nature, scale and complexity of the risks inherent in the business. The Company's risk management system has been approved by the Company's Board of Directors and forms part of the annual submissions to the local regulator the Bermuda Monetary Authority (BMA).

4.1. Risk governance

The system of governance around the Company's risk management system is comprised of a local governance framework which sits within the broader Hannover Re Group Risk Management framework. The local governance framework is underpinned by the following committees:

- HLRBer Board of Directors
- HLRBer Risk Committee
- HLRBer Operational Council
- HLRBer Investment Advisory Council
- HLRBer Claims Committee
- HLRBer Audit Committee
- HLRBer Life Underwriting Committee
- HLRBer Life Compensation Committee

The Hannover Re Group Risk Management function provides an additional level of governance that is independent of the local Company's operations. The Company's Chief Risk Officer reports biannually to the Board of Directors and has a direct and regular reporting line to the Hannover Re Group Chief Risk Officer.

4.2. Risk management system

The Company's approach to risk management is summarized by the following key operations, which are performed cyclically:

- Risk identification
- Risk controlling
- Risk measurement
- Risk monitoring

All stages of the risk management cycle are steered by the Company's Risk Committee.

4.3. Insurance Risk

Key risks and mitigation measures

The Company's main insurance risks are:

- Mortality risk
- Catastrophe risk
- Longevity risk
- Lapse risk
- Morbidity and disability risk

The Company's exposure to insurance risk is mitigated through the existence of Underwriting Guidelines which specify limits and thresholds to ensure that risk is accepted on a basis that is in line with the Company's risk appetite.

Mortality risk

The Company is exposed to mortality risk through the reinsurance of life insurance business from its cedants. The reinsurance structures include traditional structures such as risk premium reinsurance and stop loss reinsurance, alongside less traditional structures such as mortality swaps. The Company's risk management system mandates maximum retention of USD 5 million per life, and has retrocession arrangements in place to accept risk in excess of the retention limit.

Catastrophe risk

Due to the mortality exposure described in the previous section, the Company is also exposed to mortality catastrophe risk, namely pandemic risk.

Longevity risk

The Company is directly exposed to longevity risk via longevity swaps and through its run off investment in US life settlement policies and indirectly exposed to longevity risk through a financing treaty on enhanced annuities. Exposure via longevity swaps is mitigated considerably as the swap terms are truncated to 10 years, thereby reducing exposure to increasing mortality improvements.

Exposure via the life settlement policies is mitigated by the ongoing review of purchased policies based on updated underwriting information and expert analysis. Changes in fair value of a policy maybe followed by the lapse or sale of the policy in order to limit future downside risk.

Lapse risk

The Company's exposure to lapse risk including mass lapse risk is primarily due to its engagement in financial reinsurance and stop-loss transactions which typically relies on the persistency of the underlying business. The Company is party to a range of cash and non-cash financing structures with cedants across the globe. Treaties are structured to mitigate the extent of the Company's exposure to lapse risk.

Morbidity and Disability risk

The Company's exposure to morbidity and disability risk is primarily through a non-proportional transaction in China. The Company provides short term cover against excess claims in a diversified book of critical illness products. The Company is in addition moderately exposed to morbidity and disability risk through risk through the inclusion of disability and critical illness products in the blocks underlying some of the Company's financing treaties.

Sensitivity to insurance risks

The Company assesses its exposure to insurance risk through Solvency II best estimate liability analysis, which is subsequently used as a key input for the economic balance sheet and to determine an economic capital allocation to each risk. The Company calculates its Solvency II numbers quarterly for Group reporting purposes. The methodology and assumptions used are in line with EIOPA Principles.

The table below shows the sensitivity of the Company's best estimate liability as at December 31, 2018 under a range of insurance stresses:

in USD thousand		2018	
	Best estimate (asset)/liability	**Increase/(decrease) in best estimate (asset)/liability**	**% Change**
Base	(496,438)		
Mortality business: Mortality +5%	(489,279)	(7,159)	(1.44%)
Mortality business: Mortality -5%	(504,098)	7,660	1.54%
Mortality business: Mortality +15%	(473,753)	(22,685)	(4.57%)
Longevity business: Mortality -15%	(490,701)	(5,737)	(1.16%)
Lapse +10%	(493,513)	(2,925)	(0.59%)
Lapse -10%	(498,085)	1,647	0.33%
Maintenance expenses +10%	(494,451)	(1,986)	(0.40%)
Maintenance expenses -10%	(498,424)	1,986	0.40%
Risk-free yield +100 bps	(486,947)	(9,490)	(1.91%)
Risk-free yield -100 bps	(504,873)	8,435	1.70%
Pandemic: mortality + 1.5‰ in the first year, best estimate afterwards	(463,036)	(33,402)	(6.73%)
Disability/morbidity +35%(1st year) / +25% (from second year)	(319,317)	(177,121)	(35.68%)

All stresses are applied for the duration of the projections unless otherwise stated.

Concentrations of insurance risk

Exposure to concentration risk on individual lives is mitigated through the Company's retention limit of USD 5 million per life. The Company has some exposure to concentration risk through the reinsurance of group life policies, although this is not a material risk.

The Company is geographically well diversified with insurance risk written in the following geographical jurisdictions:

- Australia
- Canada
- China
- Great Britain
- Hong Kong
- Japan
- United States
- South Africa
- Europe

Concentration risk is monitored through regular reporting of business exposures by currency, line of business, and cedant.

4.4. Market Risk

The Company does not write any business that contains financial options or guarantees, or embedded derivatives. The Company is exposed to changes in interest rates due to the impact on liability valuations. The table below shows the effective interest rates associated with the Company's Fixed Income investments:

	Coupon Rate		Yield to Maturity	
Figures in %	2018	2017	2018	2017
Government	1.6%	1.4%	2.3%	1.9%
Semi Governments	1.4%	1.4%	2.6%	2.2%
Corporates	2.8%	2.6%	3.4%	2.6%
Fixed–income	**1.9%**	**1.8%**	**2.6%**	**2.1%**
Time deposits	0.9%	1.5%	0.9%	1.5%
Fixed–income including cash	**1.8%**	**1.7%**	**2.4%**	**2.0%**

in USD thousand	2018	2017	2018	2017
	P&L	P&L	Equity	Equity
Interest Rate Risk				
+100 basis point shift in yield curves	–	–	(4,680)	(4,788)
–100 basis point shift in yield curves	–	–	4,860	4,974

Due to the Company's geographic diversification of business, the Company does have a material exposure to currency risk. The risk arises from large cash financing treaties which are denominated in foreign currencies, e.g. AUD, GBP and ZAR. However this risk is largely mitigated by the Company's currency hedging strategy which employs the use of currency forwards and swaps to reduce the impact of currency movements on the Company's balance sheet and income statement. Exposure to market risk is also controlled through the existence of limits and thresholds in the Company's Underwriting and Investment Guidelines.

4.5. Liquidity Risk

Liquidity risk is controlled through the Company's Investment Guidelines which stipulates minimum liquidity requirements as a proportion of the total invested portfolio. Liquidity risk arising from insurance contracts is managed through the use of financial projections and forecasts to ensure the Company is able to meet its expected liquidity requirements.

4.6. Credit Risk

The Company's primary exposure to credit risk is through the risk of cedant default in cash financing transactions. This risk is controlled through the Company's Underwriting Guidelines by the existence of maximum exposure limits per cedant. An internal assessment of the credit risk of non-rated entities are performed as part of the Underwriting process.

in USD thousand		2018	
	Currency	**Rating of Company**	**IFRS Gross Balance Sheet Exposure**
Treaty 1	ZAR	Not Rated	14,107
Treaty 2	AUD	AA	122,665
Treaty 3	USD	AA	–
Treaty 4	ZAR	Not Rated	39,083
Treaty 5	CNY	AA	–
Treaty 6	GBP	Not Rated	4,909
Treaty 7	USD	Not Rated	52,358
Treaty 8	GBP	Not Rated	90,650

in USD thousand		2017	
	Currency	Rating of Company	IFRS Gross Balance Sheet Exposure
Treaty 1	ZAR	Not Rated	18,247
Treaty 2	AUD	AA	153,058
Treaty 3	USD	AA	–
Treaty 4	ZAR	Not Rated	45,941
Treaty 5	CNY	AA	–
Treaty 6	GBP	Not Rated	8,597
Treaty 7	USD	Not Rated	60,762
Treaty 8	GBP	Not Rated	58,818

The Company is also exposed to credit risk through its run off investment in US life settlement policies, whereby carrier default can occur. This risk is mitigated through the existence of minimum rating requirements and maximum exposure limits to individual carriers. The Company has a material funds withheld asset position of USD 216.3 million at December 31, 2018 (2017 - USD 251.6 million) such that it is only exposed to minimal credit risk.

The following table analyses the rating structure of amounts due from ceding companies, reinsurers' share of technical contract provisions and cash and cash equivalents using Standard & Poor's, A.M. Best Moody's or Fitch ratings:

in USD thousand	2018					
	AAA	AA	A	BBB	NR	Total
Derivative assets–at fair value through profit and loss	–	3,272	1,919	–	92,845	98,036
Funds withheld	–	–	2,053	–	220,507	222,559
Contract deposits	–	–	2,297	–	4,428	6,725
Reinsurance recoverables	–	77	–	–	82	159
Deferred acquisition costs (net)	–	129,373	2,447	52,358	60,060	244,238
Derivative receivable–at fair value through profit and loss	–	–	–	–	–	–
Other receivable & reinsurance receivables	–	17,620	8,468	2,647	3,848	32,582

in USD thousand	2017					
	AAA	AA	A	BBB	NR	Total
Derivative assets–at fair value through profit and loss	–	764	–	–	58,818	59,582
Funds withheld	–	–	2,388	–	257,229	259,617
Contract deposits	–	–	4,962	–	–	4,962
Reinsurance recoverables	–	50	–	–	83	133
Deferred acquisition costs (net)	–	170,689	2,531	60,762	72,664	306,646
Derivative receivable–at fair value through profit and loss	–	–	47,411	–	–	47,411
Other receivable & reinsurance receivables	–	11,277	11,009	5,201	7,799	35,286

The Company's Fixed Income securities are held by two custodians, which have credit ratings of A+ and AA-.

5. Investments under own management

Investments are classified and measured in accordance with IAS 39 “Financial Instruments: Recognition and Measurement”. The Company classifies investments according to the following categories: financial assets classified as available for sale and financial assets at fair value through profit and loss. The allocation and measurement of investments are determined by the investment intent. The fair values of the derivative financial instruments were determined on the basis of the market information available at the balance sheet date. Please see note 3.5 “Derivative financial instruments” with regard to the measurement models used.

The Company’s portfolio contained derivative financial instruments as at the balance sheet date in the form of forward exchange transactions taken out to hedge currency risks. These transactions gave rise to recognition of derivative liabilities–at fair value through profit and loss of USD 5.6 million (2017: USD 14.8 million) see note 16 and derivative assets at fair value through profit and loss in an amount of USD 3.3 million (2017: USD 0.8 million) see note 8 under Level 2. The maturity of the forward exchange transactions are between 1 month and 4 years.

The Company writes certain contracts where the payment obligations result from contractually defined events and relate to the development of an underlying group of primary insurance contracts with statutory reserving requirements. The contracts are to be categorised and recognised as stand–alone credit derivatives pursuant to IAS 39. These derivative financial instruments were carried in derivative liabilities at fair value through profit and loss on initial recognition. In 2017, a related receivable was recognised on the balance sheet line Derivative receivable at fair value through profit and loss; see note 12 “Derivative receivable at fair value through profit and loss” for further details. In 2018, the Company presented these offsetting balances net within Derivative receivable at fair value through profit and loss to reflect the fair value of the single derivative instrument. The fair value of these instruments on the balance sheet date was USD 0.0 million (2017: USD 47.4 million).

The Company entered into a Yield Collar Stop Loss derivative contract on December 1, 2012 with an affiliate Hannover Re (Ireland) Designated Activity Company to provide longevity risk cover for a Life Settlement portfolio. The derivative is recognised at fair value through the profit and loss and included in derivative liabilities at fair value through profit and loss. At December 31, 2018, the derivative was valued at USD 4.9 million (2017: USD 3.8 million) see note 16 with net unrealised losses of USD 1.05 million (2017: USD 0.04 million), realised gains of USD 0.4 million (2017: USD 0.7 million) and realised losses of USD 0.0 million (2017: USD 2.6 million) recognised on the statement of income.

The Company entered into a UK financing treaty which exposes the Company to lapse risk effective January 1, 2016 of which the Company retrocedes 25% (2017: 50%). Based on the Company’s evaluation there was insufficient insurance risk under the criteria of IFRS 4. The Company has elected to account for assets and liabilities associated with these treaties at fair value through the profit and loss. The inward treaty is included in derivative assets at fair value through profit and loss and the outward treaty is recognized as derivative liabilities at fair value through profit and loss. At December 31, 2018, the derivative asset was valued at USD 94.8 million (2017: USD 58.8 million) see note 8 and the liability at USD 28.1 million (2017: USD 24.4 million) see note 16 with unrealized gains of USD 3.1 million (2017: USD 3.7 million) with unrealised losses of USD 0.9 million (2017: USD 1.6 million), recognised on the statement of income.

Securities of USD 41.5 million (2017: USD 24.4 million) and cash of USD 0.4 million (2017: USD 0.1 million) are pledged in respect to one Canadian retrocession agreement. In addition securities of USD 1.0 million (2017: USD 0.0 million) were posted in favor of Hannover Rückversicherung SE as a result of EMIR requirements related to our currency hedges.

Maturities of the fixed–income securities

in USD thousand	2018 Amortised cost 1	2018 Fair value	2017 Amortised cost 1	2017 Fair value
Available for sale				
due in one year	34,175	34,116	22,540	22,518
due after one through two years	24,705	24,661	44,538	44,390
due after two through three years	26,443	26,495	14,353	14,271
due after three through four years	77,396	77,346	16,157	15,985
due after four through five years	7,864	7,746	51,020	50,874
due after five through ten years	13,264	12,948	16,902	16,662
due after more than ten years	–	–	1,417	1,423
Total	**183,847**	**183,312**	**166,927**	**166,123**

1 Including accrued interest

The stated maturities may in individual cases diverge from the contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty.

Amortised cost, unrealised gains and losses, accrued interest and fair value on the portfolio of investments classified as available for sale.

in USD thousand	2018 Amortised cost including accrued interest	2018 thereof accrued interest	2018 Unrealised gains	2018 Unrealised losses	2018 Fair value
Available for sale					
Fixed-income securities					
US Treasury notes	82,384	367	358	(124)	82,618
Other foreign government debt securities	41,544	116	20	(57)	41,507
Debt securities issued by semi-governmental entities	10,761	77	–	(70)	10,691
Corporate securities	49,158	401	18	(680)	48,496
Total	**183,847**	**961**	**396**	**(931)**	**183,312**

Amortised cost, unrealised gains and losses, accrued interest and fair value on the portfolio of investments classified as available for sale (Cont'd)

	2017				
in USD thousand	Amortised cost including accrued interest	thereof accrued interest	Unrealised gains	Unrealised losses	Fair value
Available for sale					
Fixed-income securities					
US Treasury notes	84,889	445	–	(510)	84,379
Other foreign government debt securities	24,620	56	–	(227)	24,393
Debt securities issued by semi-governmental entities	9,766	74	9	(59)	9,716
Corporate securities	47,652	344	160	(177)	47,635
Total	**166,927**	**919**	**169**	**(973)**	**166,123**

The carrying amounts of the fixed–income securities classified as available for sale as well as the short-term investments allocated to this category correspond to their fair values, in the case of interest–bearing assets including accrued interest.

Rating structure of fixed income securities

	2018				
in USD thousand	AAA	AA	A	BBB	Total
Fixed-income securities - available-for-sale	128,788	21,453	20,446	12,625	183,312

	2017				
in USD thousand	AAA	AA	A	BBB	Total
Fixed-income securities - available-for-sale	113,440	18,060	22,265	12,358	166,123

The maximum credit risk of the items shown here corresponds to their carrying amounts.

6. Other financial assets – at fair value through profit and loss

Other financial assets-at fair value through profit and loss pertain to life settlements. The life settlements decreased by USD 0.3 million to USD 3.9 million from USD 4.2 million.

A fair value methodology is applied to assess the balance sheet value of the life settlements. Due to the lack of a deep and liquid market for Life Settlements, a mark to model valuation approach is used. The valuation methodology is based on a discounted cashflows approach using current best estimate assumptions. Non–economic assumptions utilized in the model are reviewed periodically.

7. Loan receivable

On December 30, 2016, the Company entered into a Mezzanine Financing Agreement with an unrated third party Holding Company based in Jersey, in which the Company committed to provide, up to GBP 13.0m. The Mezzanine Financing Agreement terminates in 2025.

As of December 31, 2018, USD 13.5 million (2017: USD 6.5 million) was extended in financing. interest of USD 1.8 million (2017: USD 0.7 million) was capitalized into the loan receivable balance as at December 31, 2018 resulting in USD 16.0 million loan receivable balance at December 31, 2018 (2017: USD 7.2 million). No repayments were made in 2018 (2017: USD 0.0 million).

The carrying amounts of the loan are a close approximation of their fair value.

8. Fair value hierarchy

For the purposes of the disclosure requirements pursuant to IFRS 13 “Fair Value Measurement”, financial assets and liabilities are to be assigned to a three–level fair value hierarchy. This hierarchy, which reflects characteristics of the price data and inputs used for measurement purposes, is structured as follows:

- Level 1: Assets or liabilities measured at (unadjusted) prices quoted directly in active and liquid markets.
- Level 2: Assets or liabilities which are measured using observable market data and are not allocable to level 1. Measurement is based, in particular, on prices for comparable assets and liabilities that are traded on active markets, prices on markets that are not considered active as well as inputs derived from such prices or market data.
- Level 3: Assets or liabilities that cannot be measured or can only be partially measured using observable market inputs. The measurement of such instruments draws principally on valuation models and methods.

The following table shows the breakdown of the financial instruments recognised at fair value into the three–level fair value hierarchy.

	2018			
in USD thousand	Level 1	Level 2	Level 3	Total
Fixed-income securities	–	183,312	–	183,312
Derivatives assets at fair value through profit and loss	–	3,272	94,764	98,036
Cash and cash equivalents	16,430	–	–	16,430
Other financial assets at fair value through profit and loss	–	–	3,899	3,899
Derivative receivable-at fair value through profit and loss	–	–	–	–
Total assets carried at fair value	**16,430**	**186,584**	**98,663**	**301,677**
Derivative liabilities at fair value through profit and loss	–	5,623	32,974	38,597
Total liabilities carried at fair value	**–**	**5,623**	**32,974**	**38,597**

Financial instruments recognised at fair value into the three–level fair value hierarchy (Cont'd)

in USD thousand	2017 Level 1	Level 2	Level 3	Total
Fixed-income securities	–	166,123	–	166,123
Derivatives assets at fair value through profit and loss	–	764	58,818	59,582
Cash and cash equivalents	25,554	–	–	25,554
Other financial assets at fair value through profit and loss	–	–	4,158	4,158
Derivative receivable-at fair value through profit and loss	–	–	47,411	47,411
Total assets carried at fair value	**25,554**	**166,887**	**110,387**	**302,828**
Derivative liabilities at fair value through profit and loss	–	14,755	75,665	90,420
Total liabilities carried at fair value	**–**	**14,755**	**75,665**	**90,420**

The following table provides a reconciliation of the fair values of financial instruments included in level 3 at the beginning of the financial year with the fair values as at the end of the financial year.

in USD thousand	2018 Other financial assets	Derivative asset at fair value	Derivative receivable	Derivative liabilities
Net book value at 31 December of the previous year	4,158	58,818	47,411	(75,665)
Recognised in the Statement of Income	605	3,080	–	5,773
Additions	–	59,718	–	(17,121)
Disposals	(864)	(20,803)	–	4,665
Netting of derivative instruments	–	–	(47,411)	47,411
Currency translation at 31 December	–	(6,049)	–	1,963
Net book value at 31.12. for the year under review	**3,899**	**94,764**	**–**	**(32,974)**

in USD thousand	2017 Other financial assets	Derivative asset at fair value	Derivative receivable	Derivative liabilities
Net book value at 31 December of the previous year	8,395	26,539	49,883	(61,698)
Recognised in the Statement of Income	1,574	2,288	–	8,322
Additions	–	48,446	(2,472)	(22,289)
Disposals	(5,811)	(20,611)	–	–
Netting of derivative instruments	–	–	–	–
Currency translation at 31 December	–	2,156	–	–
Net book value at 31.12. for the year under review	**4,158**	**58,818**	**47,411**	**(75,665)**

If models are used to measure financial instruments included in level 3 under which the adoption of reasonable alternative inputs leads to a material change in fair value, IFRS 7 "Financial Instruments: Disclosures" requires disclosure of the effects of these alternative assumptions. The effects of alternative inputs and assumptions are immaterial in respect to the disclosed financial instruments included in level 3.

Disclosures relating to deferred adoption of IFRS 9

Fair value disclosures for financial assets

	2018			
	FI fulfilling the SPPI-criteria - excluding held for trading - excluding assets managed and evaluated on a fair value basis*		All other financial assets	
in USD thousand	Fair Value as of 31.12.18	Change in FV during the reporting period	Fair Value as of 31.12.18	Change in FV during the reporting period
Fixed-income securities-available for sale	183,312	(2,752)	–	–
Derivative assets-at fair value through profit and loss	–	–	98,036	3,715
Other financial assets-at fair value through profit and loss	–	–	3,899	62
Loan receivable	16,009	–	–	–
Short term investments	7,479	2	–	–
Total	**206,800**	**(2,750)**	**101,935**	**3,777**

* Passing SPPI Criteria excluding fair value and held for trading accounts.

The above table shows the financial assets that are to be recognized in future in accordance with IFRS 9 and splits them into a group that satisfies the cash flow criterion for financial assets as well as all other financial assets. The latter encompass the financial assets currently measured at fair value through profit or loss that by their very nature cannot fulfil the cash flow criterion enshrined in IFRS 9. The cash flow criterion is met if the contractual conditions of the financial instrument give rise to cash flows at set times that are solely payments of principal and interest (SPPI).

Rating structure of financial assets that give rise to solely payments of principal and interest.

	2018
in USD thousand	Gross Value
AAA	128,788
AA	21,453
A	27,925
BBB	12,625
more than a low credit risk	16,009
Total	**206,800**

The fair value for financial assets that meet the cash flow criterion and have more than a low credit risk corresponds to the carrying amount before impairment shown in the table.

9. Funds withheld

The funds withheld totaling USD 222.6 million (2017: USD 259.6 million) represent the cash and securities deposits furnished to the Company by cedants that do not trigger any cashflows and cannot be realised by cedants without the Company's consent. The maturities of these deposits are matched to the corresponding reinsurance reserves with the exception of one treaty USD 1.8 million (2017: USD 1.9 million) which is deposited back to the cedant for capital requirements. In the event of default on such a deposit the Company's reinsurance commitment is reduced to the same extent.

10. Contract deposits (assets)

The contract deposits on the assets side increased by USD 1.7 million to USD 6.7 million from USD 5.0 million.

11. Deferred acquisition costs

For further explanatory remarks please see note 3.11 'Deferred acquisition costs'. Included in the balance below as at 31 December 2018 is USD 0.1 million (2017: USD 0.1 million) of ceded deferred acquisition costs.

In life and health reinsurance the deferred acquisition costs associated with life and annuity policies with regular premium payments are determined in light of the period of the contracts, the expected surrenders, the lapse expectancies and the anticipated interest income.

Development of net deferred acquisition costs

in USD thousand	2018	2017
Net book value at 31 December of the previous year	306,646	319,129
Additions	3,622	293
Amortisations	(42,054)	(28,007)
Portfolio entries/(exits)	–	(5,634)
Currency translation at 31 December	(23,976)	20,865
Net book value at 31 December of the year under review	**244,238**	**306,646**

12. Derivative receivable – at fair value through profit and loss

in USD thousand	2018	2017
Derivative receivable	–	47,411

The derivative receivable related to structured transactions which were entered into in order to finance statutory reserves (so–called Triple–X or AXXX reserves) of US ceding companies and are accounted for as Derivatives under IAS39. It is calculated using a discounted cashflow method, representing the present value of expected future cashflows from fee revenue over a reasonable estimated period discounted at the risk free term structure of USD forward rates (based on swaps) prevailing at the time of the valuation. The expected future cashflows are determined gross of contractual expenses payable to other Hannover Re entities. Any day 1 gains or losses on these derivative instruments are deferred in accordance with IAS 39. Until 2018, the Company presented the day 1 gains or losses as a separate derivative receivable or payable respectively in the balance sheet. In 2018, the presentation was adjusted to present the net fair value for the instrument as a single unit of account.

13. Other assets

in USD thousand	2018	2017
Fixtures, fittings and equipment	437	424
Other receivables-derivatives at fair value through profit and loss	–	16,260
Other receivables	7,465	118
Reinsurance receivables	25,117	19,026
Total	**33,019**	**35,828**

Reinsurance receivables are the amounts due from clients for treaties written.

14. Reinsurance reserves

In order to show the net reinsurance reserves retained the following table compares the gross provisions with the corresponding retrocessionaires' shares, which are shown as assets in the balance sheet.

in USD thousand	2018			2017		
	gross	retro	net	gross	retro	net
Loss and loss adjustment expense reserve	8,832	63	8,769	10,437	57	10,380
Benefit reserve	238,678	96	238,582	282,441	76	282,365
Unearned premium reserve	3,858	–	3,858	5,922	–	5,922
Total	**251,368**	**159**	**251,209**	**298,800**	**133**	**298,667**

Loss and loss adjustment expense reserves include both claim reserves and Incurred but not reported ("IBNR") reserves. Claims reserves are established to meet the expected liability to cedants arising from claims in payment (such as income claims), and claims that have been reported but not yet paid. Claims reserves in respect of claims in payment are discounted using a best estimate of future interest rates. Claims reserves relating to claims that have been reported but not paid are undiscounted. IBNR reserves are established to meet the expected liability to cedants arising from claims that have been incurred but not reported. IBNR reserves are determined using a best estimate assumption of expected claims and the assumed lag between the incurred date and reported date, based on past experience.

Loss and loss adjustment expense reserves roll forward

in USD thousand	2018			2017		
	gross	retro	net	gross	retro	net
Net book value at 31 December of the previous year	10,437	57	10,380	11,755	29	11,726
Incurred claims and claims expenses (net)						
Year under review	193	–	193	80	–	80
Previous years	209,877	350	209,527	203,758	19	203,739
Less:						
Claims and claims expenses paid (net)						
Year under review	–	–	–	(14)	–	(14)
Previous years	(210,692)	(340)	(210,352)	(205,778)	6	(205,784)
Currency translation at 31 December	(983)	(4)	(979)	636	3	633
Net book value at 31 December of the year under review	**8,832**	**63**	**8,769**	**10,437**	**57**	**10,380**

Included within incurred and paid losses are amounts which relate to certain longevity swaps the Company is party to. Based on actuarial analysis, the Company does not hold any reserves for these longevity swap contracts.

Maturities of reinsurance reserves

IFRS 4 "Insurance Contracts" requires information which helps to clarify the amount and timing of cash flows expected from reinsurance contracts. In the following tables we have shown the future maturities of the technical provisions broken down by the expected remaining times to maturity. As part of our maturity analysis we have directly deducted the deposits put up as collateral for these reserves, since the cash inflows and outflows from these deposits are to be allocated directly to the ceding companies. For further explanation of the recognition and measurement of the reserves please see note 3 "Summary of major accounting policies."

in USD thousand	2018					
	Loss and loss adjustment expense reserves			Benefit reserve		
	gross	retro	net	gross	retro	net
Due in one year	7,958	63	7,895	14,857	(14)	14,871
Due after one through five years	459	–	459	210,197	(39)	210,236
Due after five through ten years	314	–	314	5,763	(90)	5,853
Due after ten through twenty years	101	–	101	5,284	110	5,174
Due after twenty years	–	–	–	2,577	129	2,448
Total	**8,832**	**63**	**8,769**	**238,678**	**96**	**238,582**

in USD thousand	2017					
	Loss and loss adjustment expense reserves			Benefit reserve		
	gross	retro	net	gross	retro	net
Due in one year	9,286	57	9,229	16,512	18	16,494
Due after one through five years	633	–	633	240,845	8	240,837
Due after five through ten years	367	–	367	9,530	34	9,496
Due after ten through twenty years	151	–	151	10,063	16	10,047
Due after twenty years	–	–	–	5,491	–	5,491
Total	**10,437**	**57**	**10,380**	**282,441**	**76**	**282,365**

Benefit reserves are established to meet the expected liability to cedants arising from future claims. Profit commission reserves are established to meet the expected liability to cedants arising from future profit commission payments. Deferred acquisition costs are described in note 11. Benefit reserves; profit commission reserves and DAC are calculated using a net premium valuation methodology, as required under provisions of US GAAP. The reserving basis is based on prospective actuarial assumptions relating to mortality, morbidity, persistency, expenses and future interest rate development. Bases are determined using current pricing bases with a provision for adverse deviation in future experience.

In accordance with US GAAP, valuation assumptions are locked in at outset and are not unlocked unless a loss recognition event occurs. Loss recognition is assessed annually at treaty level by determining the expected future profits from a treaty on the current best estimate assumption bases. In accordance with this assessment, no treaties incurred a loss recognition event during 2018 or 2017.

Development of benefit reserves

in USD thousand	2018			2017		
	gross	retro	net	gross	retro	net
Net book value at 31 December of the previous year	282,441	76	282,365	264,967	41	264,926
Changes	(18,990)	25	(19,015)	(7,218)	31	(7,249)
Portfolio entries / exits	(8,245)	–	(8,245)	559	–	559
Currency translation at 31 December	(16,528)	(5)	(16,523)	24,133	4	24,129
Net book value at 31 December of the year under review	**238,678**	**96**	**238,582**	**282,441**	**76**	**282,365**

The unearned premium is determined by the period during which the risk is carried and established in accordance with the information supplied by ceding companies. In cases where no information was received, the unearned premium was estimated using suitable methods. Premium paid for periods subsequent to the date of the balance sheet was deferred from recognition within the statement of income.

Development of unearned premium reserves

in USD thousand	2018			2017		
	gross	retro	net	gross	retro	net
Net book value at 31 December of the previous year	5,922	–	5,922	1,114	–	1,114
Changes	(1,863)	–	(1,863)	4,567	–	4,567
Currency translation at 31 December	(201)	–	(201)	241	–	241
Net book value at 31 December of the year under review	**3,858**	**–**	**3,858**	**5,922**	**–**	**5,922**

The adequacy of the reinsurance liabilities arising out of our reinsurance treaties is reviewed as at each balance sheet date. In the context of the adequacy testing of reinsurance liabilities (liability adequacy test pursuant to IFRS 4 in conjunction with loss recognition test as per US GAAP) the anticipated future contractual payment obligations are compared with the anticipated future income. Should the result of the test indicate that the anticipated future income will not be sufficient to fund future payments; the entire shortfall is recognised in income by first writing off capitalised acquisition costs corresponding to the shortfall. Any remaining difference is constituted as an additional provision.

15. Contract deposits (liabilities)

The contract deposits on the liabilities side increased by USD 3.1 million to USD 9.0 million from USD 5.9 million.

16. Derivative liabilities – at fair value through profit and loss

in USD thousand	2018	2017
Derivative instruments linked to insurance	32,974	75,665
Liability from derivative instruments-no hedge accounting	5,623	14,755
Total	**38,597**	**90,420**

The derivative instruments linked to insurance consists of: derivatives relating to statutory reserve relief for US cedants USD 0.0 million (2017: USD 47.4 million), retroceded UK financing treaty accounted for as FVTPL under IAS 39 USD 28.1 million (2017: USD 24.4 million) and Yield Collar Stop Loss derivatives USD 4.9 million (2017: USD 3.8 million). For further details in respect to the above derivative refer to notes 3.5, 5 and 12.

17. Other liabilites

in USD thousand	2018	2017
Reinsurance payables	3,885	2,614
Provisions for profit commission gross	8,127	8,104
Sundry non-reinsurance provisions	3,982	3,320
Total	**15,994**	**14,038**

All of the sundry non–reinsurance provisions are due within one year except for share rewards of USD 0.4 million (2017: USD 0.3 million) which fall due within 5 years.

18. Loans and borrowings

On December 28, 2012 the Company obtained a loan facility from a related company, Hannover Rückversicherung SE. The facility allows the Company to borrow up to USD 80 million. It has a fixed interest rate of 2.55% and expires on December 28, 2027. No collateral has been pledged. As of December 31, 2018, the amount borrowed was USD 50.0 million (2017: USD 50.0 million), interest of USD 1.3 million (2017: USD 1.3 million) was included in finance costs in the statement of income of which interest of USD 0.3 million (2017: USD 0.3 million) was accrued and included in other liabilities on the balance sheet. No repayments were made in 2017 (2016: USD 0.0 million).

On February 26, 2014 the Company obtained a loan from a related company; Hannover Re (Bermuda) Ltd., for USD 35.0 million, for a term of 5 years at fixed interest rate of 2.50%. No collateral has been pledged. As of December 31, 2018 the amount borrowed was USD 7.0 million (2017: USD 14.0 million), interest of USD 0.2 million (2017: USD 0.4 million) was included in finance costs in the statement of income of which interest of USD 0.04 million (2017: USD 0.1 million) was accrued and included in other liabilities on the balance sheet. A USD 7.0 million (2017: USD 7.0 million) repayment of the loan was made on February 23, 2018.

The carrying amounts of the loans are a close approximation of their fair value.

On January 1 2018 the Company declared a dividend of USD 48.0 million (2017 35.0 million) which was paid on May 7 2018 with an Interest rate of 1.8%. Interest of USD 0.3 million (2017 USD 0.1 million) is included in finance costs in the statement of income.

in USD thousand	2018	2017
Balance as at 1 January	64,000	71,000
Repayments during the year	(7,000)	(7,000)
Total	**57,000**	**64,000**

19. Shareholders equity

The Authorized issued and fully paid of the Company amount to 1,376,580 shares of $1 par value each and the contributed surplus remains unchanged at USD 267.1 million and represent the amounts paid in by the parent. Unrealised gains and losses from the fair value measurement of financial instruments held as available for sale are carried in accumulated other comprehensive loss of USD 0.5 million (2017: USD 0.8 million). The Company distributed a dividend of USD 48.0m on May 7, 2018 it was declared by the Board of Directors on January 1, 2018.

20. Gross written premium

in USD thousand	2018	2017
Regional origin		
United Kingdom	109,322	106,444
Other	1,088	449
Europe	**110,410**	**106,893**
USA	–	7,394
Canada	1,911	707
North America	**1,911**	**8,101**
Asia	39,299	48,197
Australia	36,442	45,415
Africa	25,186	24,039
Rest of the World	**100,927**	**117,651**
Total	**213,248**	**232,645**

21. Investment Income

in USD thousand	2018	2017
Interest income	3,592	2,685
Other investment income	–	1,429
Ordinary investment income	**3,592**	**4,114**
Realised gains on investments	3,186	2,047
Realised losses on investments	(3,056)	(7,680)
Change in fair value of financial instruments	11,773	6,551
Other investment expenses	(1,996)	(2,577)
Net income from assets under own management	**13,499**	**2,455**
Interest income on funds withheld and contract deposits	7,916	7,798
Net Investment income	**21,415**	**10,253**

No impairments (2017: USD nil) were recognised in the investment portfolio in the year under review.

Interest Income on Investments

in USD thousand	2018	2017
Fixed-income securities - available for sale	3,456	2,423
Other	136	262
Total	**3,592**	**2,685**

The net gains and losses on financial assets/liabilities are shown in the following table.

in USD thousand	2018				
	Ordinary investment income	Realised gains and losses	Investment expenses	Changes in fair value	Net income from assets under own management
Available for sale– Fixed income securities	3,456	(1,450)	(214)	–	1,792
At fair value through profit and loss					
Derivative assets/liabilities	–	1,029	(1,304)	11,168	10,893
Other financial assets	–	551	(458)	605	698
Other	136	–	(20)	–	116
Total	**3,592**	**130**	**(1,996)**	**11,773**	**13,499**

in USD thousand	2017				
	Ordinary investment income	Realised gains and losses	Investment expenses	Changes in fair value	Net income from assets under own management
Available for sale– Fixed income securities	2,423	(454)	(181)	–	1,788
At fair value through profit and loss					
Derivative assets/liabilities	1,429	(3,538)	(1,708)	4,977	1,160
Other financial assets	–	(1,641)	(662)	1,574	(729)
Other	262	–	(26)	–	236
Total	**4,114**	**(5,633)**	**(2,577)**	**6,551**	**2,455**

22. Reinsurance result

in USD thousand	2018	2017
Gross written premium	213,248	232,645
Ceded written premium	(6,035)	(5,556)
Change in gross unearned premium	1,863	(4,566)
Net premium earned	**209,076**	**222,523**
Other technical income	**125**	**–**
Claims and claims expenses paid	(210,353)	(205,796)
Change in loss and loss adjustment expense reserve	633	1,978
Claims and claims expenses	**(209,720)**	**(203,818)**
Change in benefit reserve (net)	**19,015**	**7,250**
Commissions	32,361	31,604
Change in deferred acquisition costs	(38,432)	(33,348)
Change in provision for contingent commissions	(1,243)	(1,265)
Commissions and brokerage, change in deferred acquisition costs	**(7,314)**	**(3,009)**
Administrative expenses	(7,762)	(7,511)
Net technical result	**3,420**	**15,435**

With regards to other technical income the Company gave a 3rd party a commitment to enter into a reinsurance financing agreement in 2019. A reservation fee of USD 1.0 million was paid by the cedant following execution of the commitment letter. A further USD 3.0 million will be paid on the earlier of the reinsurance transaction closing or October 24, 2019. The commitment itself is accounted for in accordance with IAS 37. Management have determined it is probable that a loan will originate and as such the commitment fees received are deferred and recognised as an adjustment to the loan's effective interest rate. An amount of USD 0.1 million is recognised under other technical income in the Statement of Income. If the commitment expires without making a loan, the commitment fees will be recognised as revenue on expiry in accordance with IAS 18.

With regard to the claims and claims expenses as well as the change in the benefit reserve the reader is referred to note 14 “Reinsurance reserves”. The administrative expenses amounted to 3.7% (2017: 3.4%) of net premium earned.

Commissions and brokerage, change in deferred acquisition costs

in USD thousand	2018	2017
Commissions paid (gross)	31,806	31,087
Reinsurance recoverables	555	517
Change in deferred acquisitons costs (gross)	(38,444)	(33,359)
Reinsurance recoverables	12	11
Change in provision for contingent commissons (gross)	(1,243)	(1,265)
Reinsurance recoverables	–	–
Commissions and brokerage, change in deferred acquisition costs (net)	**(7,314)**	**(3,009)**

23. Other income and expenses

in USD thousand	2018	2017
Other income		
Income from contracts recognised in accordance with the deposit accounting method	15,230	4,487
Other interest income relating to financial guarantees	22,606	21,743
Other interest income relating to loan receivable	1,930	735
Sundry income	138	121
Exchange gains/(losses)	(4,372)	4,001
Total other income	**35,532**	**31,087**
Other expenses		
Depreciation, amortisation, impairments	(185)	(199)
Sundry expenses	(2,415)	(2,388)
Total other expenses	**(2,600)**	**(2,587)**
Total	**32,932**	**28,500**

Sundry income includes revenues from contracts with customers set out below in accordance with IFRS 15. With regards to the fundamental approach for first-time application of IFRS 15 we would refer to the remarks in section 3 “Summary of significant accounting policies.

in USD thousand	2018
Other insurance-related services*	117

* Revenue largely realised over time

Financial guarantees

Five structured transactions were entered into in order to finance statutory reserves (so–called Triple–X or AXXX reserves) for US ceding companies of which four remain in force at the end of 2018. In each case such structures necessitated the involvement of a special purpose entity. Four of the special purpose entities carry extreme mortality risks. The fifth recaptured during 2018 and carried mass lapse risk securitised by the cedants above a contractually defined retention and transfers these risks by way of a fixed/floating swap to the Company. The total amount of the contractually agreed capacities of the transactions equivalent to USD 2,251 million (2017: USD 2,321 million) had been taken up as at the balance sheet date. The variable payments to the special purpose entities that are guaranteed by the Company cover their payment obligations. Under some of the transactions the payments resulting from the swaps in the event of a claim are reimbursed by the parent companies of the cedants by way of compensation agreements. In this case the reimbursement claims from the compensation agreements are to be capitalised separately from and up to the amount of the provision. Under IAS 39 these transactions are to be recognised at fair value as financial guarantees. To this end the Company uses the net method, according to which the present value of the agreed fixed swap premiums is netted with the present value of the guarantee commitment. The fair value on initial recognition therefore amounted to zero. The higher of the fair value and the amount carried as a provision on the liabilities side pursuant to IAS 37 is recognised at the point in time when utilisation is considered probable. This was not the case as at the balance sheet date.

24. Taxes

Under current Bermuda law the Company is not required to pay any taxes in Bermuda on profits or income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda that in the event of any such taxes being imposed the Company will be exempted from taxation until the year 2035.

25. Staff and expenditures on personnel

Staff

The average number of staff for the Company is 14 (2017 - 15).

Defined contribution plans

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered trust. The pension charge represents contributions payable by the Company to the scheme and amounted to USD 0.3 million (2017: USD 0.3 million). All contributions were fully paid at year end. Refer to note 3.18 for further details.

Key management compensation

in USD thousand	2018	2017
Salaries and other short-term employee benefits	2,019	1,888
Post-employment benefits	130	128
Total	**2,149**	**2,016**

26. Related party disclosures

Loans from related parties

All loans as disclosed in note 18 are with related party entities.

Transactions and balances with related parties arise from the normal course of business and are unsecured.

in USD thousand		2018	
Income Statement	**Hannover Ruck SE**	**Companies related through Common control**	**Total**
Net premium earned	39,521	(1,743)	37,778
Net investment income	2,318	(1,498)	820
Net technical expenses	(30,932)	(158)	(31,090)
Other income and expenses	12,102	(852)	11,250
Finance costs	(1,578)	(201)	(1,779)
Net income	**21,431**	**(4,452)**	**16,979**

in USD thousand		2018	
Balance Sheet	**Hannover Ruck SE**	**Companies related through Common control**	**Total**
Derivative assets-at fair value through profit and loss	3,272	–	3,272
Reinsurance Assets	140,285	7,569	147,854
Reinsurance Liabilities	(22,073)	(4,302)	(26,375)
Derivative liabilities–at fair value through profit and loss	(5,623)	(4,864)	(10,487)
Other liabilities	(690)	(816)	(1,506)
Loans and borrowings	(50,000)	(7,000)	(57,000)

Related party disclosures (Cont'd)

in USD thousand Income Statement	2017 Hannover Ruck SE	Companies related through Common control	Total
Net premium earned	47,040	3,559	50,559
Net investment income	(8,044)	(2,940)	(10,984)
Total Revenues	38,996	619	39,615
Net technical expenses	(29,306)	(6,391)	(35,697)
Other income and expenses	2,270	(828)	1,442
Finance costs	(1,419)	(376)	(1,795)
Net income	**10,541**	**(6,976)**	**3,565**

in USD thousand Balance Sheet	2017 Hannover Ruck SE	Companies related through Common control	Total
Derivative assets-at fair value through profit and loss	764	–	764
Reinsurance Assets	159,974	23,637	183,611
Reinsurance Liabilities	(22,675)	(13,927)	(36,602)
Derivative liabilities–at fair value through profit and loss	(14,755)	(3,814)	(18,569)
Other liabilities	(746)	(981)	(1,727)
Loans and borrowings	(50,000)	(14,000)	(64,000)

27. Other investment expenses

The Company has an investment management agreement in place with a related party to manage the Company's investment portfolio. Investment management fees incurred during the year amounted to USD 0.2 million (2017: USD 0.2 million) of which USD 0.05 million (2017: USD 0.05 million) was payable at year–end.

28. Statutory requirements

As a Class E insurer, the Company must at all times maintain a solvency margin and an enhanced capital requirement in accordance with the provisions of the Insurance Act. Each year the Company is required to file with the Bermuda Monetary Authority (the "Authority") a capital and solvency return within four months of its relevant financial year end (unless specifically extended).

The prescribed form of capital and solvency return, primarily comprises the Insurer's Statutory Financial Return, Bermuda Solvency Capital Requirement ("BSCR"), and associated schedules including Form 4 EBS and various other schedules as prescribed in the 1978 Act, The Insurance Accounts Rules 2016, The Insurance (Prudential Standards) (Class C, Class D and Class E Solvency Requirement) Rules 2011, Insurance (Eligible Capital) Rules 2012, and Insurance (Public Disclosure) Rules 2015. The BSCR includes a standardized model used to measure the risk associated with an insurer's assets, liabilities and premiums, and a formula to take account of insurance related risk exposure. The MMS is calculated on predetermined calculations as included The Insurance Accounts Rules 2016. Insurers Enhanced Capital Requirements ("ECR") is calculated as the higher of the capital requirements as measured by the BSCR and MMS. The Authority requires all Class E insurers to maintain their capital at a target level which is 120% of ECR.

As at December 31, 2018 the Company's statutory capital and reserves exceeded all calculated minimum regulatory requirements. The Company is prohibited from declaring or paying a dividend if its Class E statutory capital and surplus is less than its ECR, or if it is in breach of its solvency margin, or if the declaration or payment of such dividend would cause such breach. Further, the Company, as a Class E insurer, is prohibited from declaring or paying any dividend of more than 25% of its total statutory capital and surplus, (as shown on its statutory balance) unless it files (at least seven days before payment of such dividends) with the Authority an affidavit stating that it will continue to meet its relevant margins. The Company must obtain the Authority's prior approval for a reduction by 15% or more of the total statutory capital as set forth in its previous year's financial statements. These restrictions on declaring or paying dividends and distributions under the Insurance Act are in addition to those under the Companies Act 1981, which apply to all Bermuda companies.

29. Capital management

The preservation and consistent enhancement of its capital is a key strategic objective for the Company. The Company satisfies the capital expectations of the rating agencies that assess its financial strength. The Company met the applicable local minimum capital requirements in the year under review. The parent company ensures that the local minimum capital requirements applicable to subsidiaries are always satisfied in accordance with the official requirements defined by insurance regulators.

30. Letters of credit

The Company's bankers issued letters of credit in the amount of USD 2.9 million (2017: USD 11.6 million).

31. Other currency translation

Key exchange rates

1 USD corresponds to	2018 Spot rate of exchange on the reporting period date	2017	2018 Average rate of exchange	2017
AUD	1.41543	1.27959	1.36977	1.32135
BMD	1.00000	1.00000	1.00000	1.00000
CAD	1.36154	1.25458	1.33027	1.28864
CNY	6.87870	6.50750	6.94593	6.61511
EUR	0.87329	0.83375	0.87986	0.84424
GBP	0.78839	0.73997	0.78385	0.74278
JPY	110.35717	112.56462	113.53658	112.30055
ZAR	14.36748	12.35118	13.73710	13.60616

32. Subsequent events

On January 1, 2019, the Board of Directors declared a dividend of USD 55.0 million equivalent to USD 39.95 per share for distribution on May 7, 2019.