HANNOVER LIFE REASSURANCE COMPANY OF AMERICA (BERMUDA) LTD.

Financial Statements

(With Report of Independent Auditors Thereon)

December 31, 2019 and 2018

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Report of Independent Auditors

To the Board of Directors of Hannover Life Reassurance Company of America (Bermuda) Ltd.

We have audited the accompanying financial statements of Hannover Life Reassurance Company of America (Bermuda) Ltd. (the “Company”), which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of income, comprehensive income (loss), changes in shareholder’s equity, and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hannover Life Reassurance Company of America (Bermuda) Ltd. as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance International Financial Reporting Standards as issued by the International Accounting Standards Board.

PricewaterhouseCoopers LLP

May 18, 2020

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HANNOVER LIFE REASSURANCE COMPANY OF AMERICA (BERMUDA) LTD.

Balance Sheets

As of December 31, 2019 and 2018

(Expressed in thousands of US Dollars, unless noted in millions)

	Note	2019	2018
Assets			
Cash and cash equivalents	6	$ 12,705	$ 31,671
Fixed–income securities - available for sale	5,6	999,234	905,081
Other invested assets - available for sale	5,6	70,852	56,767
Total investments and cash under own management		1,082,791	993,519
Funds withheld	7	3,341,764	3,461,160
Contract deposit assets	8	652,873	714,988
Claim recoverables	-	12,613	2,914
Derivative asset	6,10	48,506	56,778
Accounts receivable	9	758,822	760,298
Loan receivable	-	501	-
Deferred Tax Assets	19	-	10,485
Current Tax Receivable	19	4,103	-
Other assets	11	1,051	1,334
Total assets		$ 5,903,024	$ 6,001,476
Liabilities			
Claims reserves	12	$ 857,354	$ 823,826
Benefit reserves	12	1,361,119	1,656,818
Contract deposit liabilities	12	1,826,814	1,950,159
Derivative liability -at fair value through profit and loss	6,10	19,166	25,822
Accounts payable	9	116,383	98,415
Deferred Tax Liabilities	19	46,190	-
Other liabilities	11	59,932	51,919
Loans and borrowings	13	240,500	240,500
Total liabilities		4,527,458	4,847,459
Shareholder’s equity			
Authorized, issued and fully paid, 2,500,000 shares of $1 par value each	14	2,500	2,500
Additional paid-in capital	14	1,185,000	1,185,000
Retained earnings (loss)	-	131,917	(28,747)
Accumulated other comprehensive income (loss)	14	56,149	(4,736)
Total shareholder’s equity		1,375,566	1,154,017
Total liabilities and shareholder’s equity		$ 5,903,024	$ 6,001,476

The accompanying notes form an integral part of these financial statements.

HANNOVER LIFE REASSURANCE COMPANY OF AMERICA (BERMUDA) LTD.

Statements of Income

For the years ended December 31, 2019 and 2018
(Expressed in thousands of US Dollars, unless noted in millions)

	Note	2019	2018
Gross written premium	15	$ 1,575,775	$ 992,982
Ceded written premium	19	(91,330)	(170,810)
Change gross unearned premium reserve	3.1	56	(1,008)
Net premium earned		1,484,501	821,164
Ordinary investment income	16	43,735	27,902
Realised gains and (losses) on investments - net	16	8,965	(1,804)
Unrealised gains and (losses) on investments - net	16	27,633	(24,417)
Insurance derivative income	16, 21	15,691	31,223
Other investment expenses	16	(2,376)	(1,520)
Interest income on funds withheld and contract deposits	16	226,792	245,286
Interest expense on funds withheld and contract deposits	16	(52,315)	(88,496)
Net investment income		268,125	188,174
Total revenues		1,752,626	1,009,338
Claims and claims expenses	3.13	(1,538,805)	(1,365,546)
Change in benefit reserves	12	167,017	77,914
Commission and brokerage, change in deferred acquisition costs-Assumed	3.11	(188,572)	230,961
Commission and brokerage, change in deferred acquisition costs-Ceded	3.11	12,151	6,013
Administrative expenses	-	(3,528)	(603)
Total expenses		(1,551,737)	(1,051,261)
Other income and expenses	17	47,944	8,733
Finance costs	13	(11,256)	(8,595)
Income (Loss) before taxes		237,577	(41,785)
Income tax benefit (expense)	18	(49,913)	8,774
Net income (loss)		$ 187,664	$ (33,011)

The accompanying notes form an integral part of these financial statements.

HANNOVER LIFE REASSURANCE COMPANY OF AMERICA (BERMUDA) LTD.

Statements of Comprehensive Income (Loss)

For the years ended December 31, 2019 and 2018
(Expressed in thousands of US Dollars, unless noted in millions)

	2019	2018
Net income (loss)	$ 187,664	$ (33,011)
Other comprehensive gain (loss)		
Items that may be subsequently classified to net income		
Change in fair value of fixed income securities -available-for-sale	73,672	(7,070)
Tax (expense) income	(12,787)	1,227
Net change in fair value of fixed income securities–available–for–sale	60,885	(5,843)
Other comprehensive gain (loss) for the year	60,885	(5,843)
Total comprehensive income (loss) for the year	248,549	(38,854)
Total comprehensive income (loss) attributable to:		
Equity holders of the Company	$ 248,549	$ (38,854)

The accompanying notes form an integral part of these financial statements.

HANNOVER LIFE REASSURANCE COMPANY OF AMERICA (BERMUDA) LTD.

Statements of Changes in Shareholder's Equity

For the years ended December 31, 2019 and 2018
(Expressed in thousands of US Dollars, unless noted in millions)

	Share Capital	Additional Paid in Capital	Retained Earnings (Loss)	Accumulated Other Comprehensive Income/(Loss)	Total Equity
At January 1, 2018	$ 2,500	$ -	$ 4,264	$ 1,107	$ 7,871
Net change in fair value of fixed income securities–available–for–sale	-	-	-	(5,843)	- (5,843)
Additional paid-in capital	-	1,185,000	-	-	1,185,000
Net (loss) income for the year	-	-	(33,011)	-	(33,011)
At December 31, 2018	$ 2,500	$ 1,185,000	$ (28,747)	$ (4,736)	$ 1,154,017
At January 1, 2019	$ 2,500	$ 1,185,000	$ (28,747)	$ (4,736)	1,154,017
Net change in fair value of fixed income securities–available–for–sale	-	-	-	60,885	- 60,885
Dividends declared during the year	-	-	(27,000)	-	(27,000)
Additional paid-in capital	-	-	-	-	-
Net (loss) income for the year	-	-	187,664	-	187,664
At December 31, 2019	$ 2,500	$ 1,185,000	$ 131,917	$ 56,149	$ 1,375,566

The accompanying notes form an integral part of these financial statements.

HANNOVER LIFE REASSURANCE COMPANY OF AMERICA (BERMUDA) LTD.

Statements of Cash Flows

For the years ended December 31, 2019 and 2018
(Expressed in thousands of US Dollars, unless noted in millions)

	2019	2018
Cash flows from (used in) operating activities		
Net income (loss)	$ 187,664	$ (33,011)
Adjustments for non-cash items in net income (loss)		
Net realised gains and losses on investments	(8,965)	1,804
Net unrealised gains and losses on investments	-	(24,150)
Net unrealised gains and losses on derivatives	(42,644)	(6,806)
Amortisation of investments	16,415	(2,979)
Amortisation of deferred acquisition costs	7,518	30,548
Accrued interests	(1,363)	(6,407)
Changes in:		
Deferred acquisition costs	(7,518)	(29,697)
Funds withheld	96,591	16,596
Contract deposits	(61,230)	(666,138)
Accounts receivable and payables	19,446	(662,207)
Other assets and liabilities (net)	25,555	(17,046)
Benefit and claim reserve (net)	(271,871)	849,098
Tax assets and provisions for taxes	36,387	(10,541)
Interest payable	11,155	2,999
Cash flows (used in) from operating activities	7,140	(557,937)
Cash flows from (used in) investing activities		
Maturities, sales of fixed income securities–available for sale	588,780	1,414,163
Purchases of fixed income securities–available for sale	(598,895)	(2,246,229)
Purchases of derivatives assets - at fair value through profit and loss	-	-
Changes in other invested assets	(4,835)	66,673
Other changes (net)	-	(65,004)
Cash flows (used in) investing activities	(14,950)	(830,397)
Cash flows from (used in) financing activities		
Increase due to contributed capital	-	1,185,000
Increase in surplus notes	-	238,000
Repayment of loan interest	(11,155)	(2,999)
Cash flows from (used in) financing activities	(11,155)	1,420,001
Cash and cash equivalents at the beginning of the period	31,671	2
Change in cash and cash equivalents	(18,966)	31,669
Cash and cash equivalents at the end of the period	$ 12,705	$ 31,671
Supplemental disclosures of cash flows information:		
Non-Cash activities during the year not included in the Statement of Cash flows:		
(See Note 1)		
Dividends Payable	$ 27,000	$ -
Funds withheld		3,523,887
Contract deposits liabilities		(1,628,560)
Benefit and claim reserve (net)		(1,895,327)

The accompanying notes form an integral part of these financial statements.

1. Corporate information

Hannover Life Reassurance Company of America (Bermuda) Ltd. (the "Company") was incorporated on March 3rd, 2014 under the laws of Bermuda and is licensed as a long-term insurer (Class E), under the Insurance Act 1978 of Bermuda and related regulations, to carry on business as an insurance company. The Company is a wholly owned subsidiary of Hannover Finance, Inc. which is a wholly owned subsidiary of Hannover Rückversicherung SE (the "Parent Company" or "Hannover Re 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%) by HDI Haftpflichtverband der Deutschen Industrie V.a.G., a German mutual insurance company. The registered office is located at Canon's Court, 22 Victoria Street, Hamilton, HM12, Bermuda.

The Company reinsures life, annuity, and health insurance business written by its client companies (cedants). The risks assumed generally reflect the risks inherent in the underlying insurance policies and include mortality risk, longevity risk, morbidity risk, investment risk and lapse and surrender risk. The Company is also assuming insurance risk in alternative forms, including swap contractual form, and then transforming the risk into traditional reinsurance contracts retroceded back to affiliates. The Company may also assume credit risk in respect of its client companies.

As a result of the U.S. Tax Cuts and Jobs Act of 2017 ("TCJA"), the Company and its affiliate, HLRUS, became subject to a new base erosion minimum tax (BEAT) in 2018. In response to this exposure, the Company restructured its reinsurance treaties during 2018, to recapture all retrocessions from foreign affiliates, and the Company assumed significant blocks of business from HLRUS that HLRUS recaptured from the foreign affiliates. The Company has Certified Reinsurer status from the Florida Office of Insurance Regulation, and a number of other states within the U.S.A.

The Company, with appropriate BMA approval, utilizes several capital-funding instruments to satisfy its Bermuda Solvency Capital Requirement (BSCR).

The Company received the following initial installments of contributed surplus and Tier 2 surplus note debt from its parent:

1. February 1, 2018 $250 million additional paid-in capital
2. February 8, 2018 $500 million additional paid-in capital
3. March 27, 2018 $435 million additional paid-in capital
4. March 27, 2018 $238 million in Tier 2 surplus note debt

The proceeds from these capital contributions were used in order to increase the capitalization of the Company to support the restructuring of its retrocessions and reinsurance transactions assumed from HLRUS in 2018, and to support ongoing growth in new business written.

Effective January 1, 2018 the Company entered into certain reinsurance agreements to both assume risk relating to certain insurance contracts as well as to recapture certain insurance contracts. This transaction involved multiple parties with the aggregate initial consideration for all of the reinsurance transactions being determined under the fair arms length principle. The reinsurance transactions all meet the requirements for insurance accounting pursuant to IFRS 4 "Insurance Contracts". See note 3.1 for the Company's accounting policy on reinsurance contracts.

The initial consideration was comprised of cash, accounts receivable and payable and funds withheld. The aggregate initial consideration for the reinsurance transactions funded the benefit reserves, deposit assets and deposit liabilities. The Company also recaptured certain treaties as part of this arrangement. The initial reserves and deposit liabilities established totaled $3,649 million. The initial consideration for the deposit assets totaled $715 million. The recapture of the reinsurance contracts generated a pre-tax loss of $114 million in 2018.

Effective July 1, 2019, several blocks of life and annuity business were recaptured by HLRUS and HLRUS retroceded the business to a third party reinsurer. The recapture of the business generated pre-tax income of $24.9 million in 2019. The recapture reduced reserves by $276.2 million in 2019.

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 applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

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 receivable–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 (USD or $), which is also the Company's functional currency.

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 shown in the Financial Statements. 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. Reinsurance assets and liabilities are areas involving a higher degree of judgment and where estimates are significant to the financial statements. This is disclosed further in Notes 3.6 to 3.10 of these financial statements.

2.5 Revision to financial statements

Subsequent to the issuance of the Company's financial statements as of and for the year ended December 31, 2018, the Company identified three errors related to the year ended December 31, 2018. Management assessed the materiality of these changes within the 2018 financial statements based upon International Auditing Standards 8, *Accounting policies, changes in accounting estimates and errors*, and determined the impact of the errors was not material to the 2018 financial statements. However, to more accurately reflect the financial results, the 2018 balances have been revised in the 2019 financial statements and corresponding footnotes to correct for these errors. The errors identified include the following: a correction to the embedded derivative on a funds withheld portfolio, the correction to premium related to the reinsurance agreements assumed on 1/1/2018 (as noted in note 1), and a correction to rate changes on a reinsurance agreement. The following tables present the line items for the 2018 financial statements that have been affected by the revision.

(Expressed in thousands of US Dollars, unless noted in millions)

For these lines, the tables detail the amounts as previously reported, the impact upon those line items due to the revision, and the amounts as currently revised within the financial statements.

	December 31, 2018		
	As Previously Reported	**Impact of Revisions**	**As Revised**
Balance Sheet			
Assets			
Accounts receivable	768,498	(8,200)	760,298
Deferred Tax Assets	4,794	5,691	10,485
Total assets	6,003,985	(2,509)	6,001,476
Liabilities			
Derivative liability -at fair value through profit and loss	12,822	13,000	25,822
Other liabilities	46,019	5,900	51,919
Total liabilities	4,828,559	18,900	4,847,459
Shareholder’s equity			
Retained earnings (loss)	(7,338)	(21,409)	(28,747)
Total shareholder’s equity	1,175,426	(21,409)	1,154,017
Total liabilities and shareholder’s equity	6,003,985	(2,509)	6,001,476

	Year Ended December 31, 2018		
	As Previously Reported	**Impact of Revisions**	**As Revised**
Statement of Income			
Gross written premium	1,007,082	(14,100)	992,982
Unrealised gains and (losses) on investments - net	(11,417)	(13,000)	(24,417)
Income tax benefit (expense)	3,083	5,691	8,774
Net income (loss)	(11,602)	(21,409)	(33,011)
Statement of Comprehensive Income			
Net income (loss)	(11,602)	(21,409)	(33,011)
Total comprehensive income (loss) for the year	(17,445)	(21,409)	(38,854)
Statement of Changes in Shareholder's Equity			
Net (loss) income for the year	(11,602)	(21,409)	(33,011)
Retained earnings (loss)	(7,338)	(21,409)	(28,747)
Total equity	1,175,426	(21,409)	1,154,017
Statement of Cash Flows			
Net (loss) income for the year	(11,602)	(21,409)	(33,011)
Net unrealised gains and losses on derivatives	(19,806)	13,000	(6,806)
Accounts receivable and payables	(670,407)	8,200	(662,207)
Other assets and liabilities (net)	(22,946)	5,900	(17,046)
Tax assets and provisions for taxes	(4,850)	(5,691)	(10,541)

3. Summary of significant accounting policies

Since 2002, the standards adopted by the International Accounting Standards Board (IASB) have been referred to as “International Financial Reporting Standards (IFRS)”; the standards dating from earlier years still bear the name “International Accounting Standards (IAS)”. Standards are cited in our Notes accordingly; in cases where the Notes do not make explicit reference to a particular standard, the term IFRS is used. In accordance with the exemption provided by IFRS 4, reinsurance contracts are recognized according to the pertinent provisions of United States Generally Accepted Accounting Principles (US GAAP) as applicable on the date of initial application of IFRS 4 on January 1, 2016. We cite individual insurance-specific standards of US GAAP using the designation “FASB Accounting Standards Codification (ASC)” that was valid at the time.

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.

New accounting standards or accounting standards applied for the first time

The amendments to existing standards listed below were applicable for the first time during 2018 and had no significant implications overall for the net assets, financial position or result of operations of the Company.

- IFRS 16 Leases – The impact from adopting the standard is not material.

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

IFRS 9 Financial Instruments
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 results 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 January 1, 2018. In September 2016, however, the IASB published “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)”.

These amendments address the implications of the different effective dates for initial application of IFRS 9 and the anticipated new standard governing the accounting for insurance and reinsurance contracts. Under the so-called 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. This exemption cannot be used for periods beginning after January 1, 2022 or, it is expected, until the mandatory implementation of IFRS 17 described below.

The Company reviewed the application requirements based on the financial statements as at December 31, 2017 and concluded to make use of the deferral approach. Irrespective of the deferral, the Company is currently reviewing the implications of IFRS 9 and expects that they will relate primarily to the classification of financial instruments.

(Expressed in thousands of US Dollars, unless noted in millions)

The Company primarily anticipates implications for the classification of financial instruments. The portfolio of financial instruments to be recognized at fair value through profit or loss will increase as a consequence of the new classification rules. In addition, The Company expects the new impairment model to have implications for debt instruments.

Although the temporary exemption has been applied, there are certain deferral disclosures, which are required in the financial statements for 2019. The required disclosures are set out in Note 6, which presents an analysis of the fair value of classes of financial assets as at the end of the reporting period as well as the change in fair value during the reporting period.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 “Insurance Contracts”. IFRS 17 will replace IFRS 4. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. As a consequence, it is difficult for investors to compare and contrast the financial performance of otherwise similar companies. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values, instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity’s financial position, financial performance and cash flows. IFRS 17 is expected to be mandatory for annual reporting periods beginning on or after January 1, 2023. The Company is currently assessing the impact of the new requirements.

In addition to the accounting principles describes above, the IASB has issued the following standards with possible implications for The Company financial statements, 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:

Further IFRS Amendments and Interpretations:

Published:	**Title**	**Initial Application to Annual Periods Beginning on or After the Following Date:**
September 2019	Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	1 January 2020
October 2018	Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020
October 2018	Definition of a Business (Amendments to IFRS 3)	1 January 2020
March 2018	Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020

3.1 Reinsurance contracts

IFRS 4 “Insurance Contracts” represents the outcome of Phase I of the IASB project “Insurance Contracts” and served as a transitional arrangement until the IASB issued IFRS 17. 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. IFRS 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 basic rules of IFRS 4 and the IFRS Framework, reinsurance-specific transactions therefore continue to be recognized 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 reinsures long–duration insurance contracts that are categorized by FASB ASC 944–20–15–26 to –30 “Financial Services – Insurance” as universal life–type insurance contracts. Both these types of contracts are recognized using the “deposit accounting” method. Income and expenses on the underlying contract are recognized on an accruals basis and reported net in the Statements of Income as ‘other income and expenses’ and ‘interest income on funds withheld and contract deposits’ (see Note 17). The gross balances are shown as contract deposits assets or liabilities in the Balance Sheets (Note 8 and 11).

(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 recognized 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.

3.2 Investment income and expense

Investment income comprises income from financial assets; including interest income on funds held and contract deposits, available-for-sale assets, assets at fair value through profit or loss, cash and bank deposits. Also included are net realized gains from available-for-sale assets, gains on derivatives, net realized and unrealized gains on assets at fair value through profit or loss and other investment income. Interest income on funds held represents the Company’s share of investment income on funds held assets reported by the cedant. Interest income is recognized as it accrues using either the effective interest rate method or the effective yield method depending on the underlying investment terms.

Investment expenses comprise the retrocessionaires' share of interest on funds held assets, realized losses on available-for-sale assets, losses on and costs of derivatives, realized and unrealized losses on assets at fair value through profit or loss, investment management expenses and other investment expenses. The retrocessionaires' share of interest on funds held assets is recognized as it accrues using either the effective interest rate method or the effective yield method depending on the underlying investment terms.

Changes in the fair value of derivatives are included as profits or losses in the Statements of Income in the period in which they arise.

3.3 Other income

Other income includes letter of credit fees received and income on deposit accounted treaties. Income on deposit accounted treaties represents the net income on treaties where the risk transfer between the ceding company and the reinsurer is of subordinate importance. The net profit is recognized on these contracts as other income over the period of the contract.

3.4 Finance costs

Finance costs comprise interest payable on borrowings using the effective interest rate method and are accounted on an accrued basis.

3.5 Non–derivative financial assets

Investments are measured in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'. Purchases and sales of equities and debt securities are recognized on the settlement date, which is when all the risk and rewards of ownership of the asset are transferred.

The Company classifies investments according to the following categories: held-to-maturity, financial assets at fair value through profit or loss, loans and receivables and available-for-sale. The allocation and measurement of investments are determined by the investment intent.

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 held to maturity

Financial assets held-to-maturity are comprised of non-derivative assets that entail fixed or determinable payments on a defined due date and are acquired with the intent and ability to be held until maturity. They are initially recognized at fair value and directly attributable costs. Subsequent to the initial measurement they are measured at amortized cost. The corresponding premiums or discounts are recognized in profit or forming part of the Financial Statements loss across the duration of the instruments using the effective interest rate method.

(b). 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 context. Unrealized gains and losses arising out of changes in the fair value of fixed–income securities held as available for sale are recognized within accumulated other comprehensive income/(loss), a component of shareholder's equity. All financial instruments that do not satisfy the criteria for classification as held to maturity, loans and receivables, at fair value through profit and loss, or trading are allocated to the category of available for sale. The fair value of fixed–income securities is determined primarily by means of prices fixed on publicly quoted markets or exchanges on the basis of "bid" prices. If such financial assets are not quoted on public markets, the fair value is calculated on the basis of the acknowledged effective interest rate method or estimated using other financial assets with similar credit rating, duration and return characteristics. Under the effective interest rate method, the current market interest rate levels in the relevant fixed–interest–rate periods are always taken as a basis.

(c). Investment income, Realized gains and losses, Unrealized 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. Realized gains and losses comprises of gains and losses from available for sale assets and assets/liabilities at fair value through profit and loss. Unrealized gains and losses comprises of unrealized 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 recognized as it accrues using either the effective interest rate method or the effective yield method depending on the underlying investment terms. Investment expenses comprise the retrocessionaires' share of interest on funds withheld assets, losses on and costs of derivatives and investment management expenses. The retrocessionaires' share of interest on funds withheld assets is recognized as it accrues using either the effective interest rate method or the effective yield method depending on the underlying investment terms.

(d). Impairment loss and reversals

At each balance sheet date, the Company performs a review of its financial assets for impairments. Impairments on all invested assets are recognized directly in the statements of income. 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, 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. IAS 39 "Financial Instruments: Recognition and Measurement" states, that a significant or prolonged decrease in fair value below acquisition cost constitutes objective evidence of impairment. The cumulative loss – measured as the difference between the carrying amount and the current fair value, less any impairment loss on that financial asset previously recognized in profit and loss is removed from accumulated other comprehensive income/loss and recognized as a loss in the Statements of Income. If in a subsequent period the fair value of a fixed-income security -available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit and loss, the impairment loss is reversed through profit and loss in the Statements of Income.

3.6 Derivative financial instruments

The Company's derivatives are financial instruments, the fair value of which is derived from underlying instruments such as expected cash flows related to underlying insurance contracts. The Company utilizes a discounted cash flows approach using current best estimate assumptions in order to determine fair value of its derivative assets.

In accordance with IFRS 4, certain derivatives embedded in reinsurance contracts are removed from the underlying insurance contract and accounted for at fair value pursuant to IAS 39.

Certain "modified coinsurance" and "coinsurance funds held" reinsurance treaties, the terms of which include the provision that securities are held as deposits by the ceding companies and payments rendered on the basis of the income from certain securities of the ceding company, have been identified as containing embedded derivatives. It has been determined that the interest-rate risk elements are clearly and closely related to the underlying reinsurance arrangements. Embedded derivatives consequently result solely from the credit risk of the underlying securities portfolio.

The Company calculates the fair value of the embedded derivatives using the market information available on the valuation date on the basis of a "credit spread" method. Under this method, the derivative is valued at zero on the date when the contract is concluded and its value then fluctuates over time according to changes in the credit spread of the securities.

In accordance with IAS 39, the Company classifies embedded derivatives and derivative instruments that are not accounted for as hedging instruments as held-for-trading and measures them at fair value. The fair value of derivative financial instruments is recognized within 'Derivative liability – at fair value through profit or loss' in the Balance Sheets. At inception, the fair value of these instruments is zero with fluctuations in the fair value recognized through profit or loss in the Statements of Income.

3.7 De-recognition of financial assets and liabilities

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all the risks and rewards of ownership and does not retain control of the financial asset. Any interest in such transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and consideration received (including any new asset obtained less any new liability assumed) is recognized in profit or loss. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

3.8 Cash and cash equivalents

Cash and cash equivalents are carried at face value. For purposes of the Statements of Cash Flows, 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.

3.9 Funds withheld and contract deposits

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.

Funds withheld primarily represent the collateral contractually withheld by our cedants to cover the technical liabilities the Company has reinsured. Balances are recognized in the Balance Sheets at amortized cost.

Under this item, we report receivables and liabilities under insurance contracts that satisfy the test of a significant risk transfer to the reinsurer as required by IFRS 4 'Insurance Contracts'. IFRS 4 requires insurance contracts that transfer a significant technical risk from the ceding company to the reinsurer to be differentiated from those under which the risk transfer is of merely subordinate importance. Since the risk transfer under the affected transactions is of subordinate importance, these contracts are recognized using the "deposit accounting" method and hence eliminated from the technical account. The compensation for risk assumption booked to income under these contracts is netted under other income and expenses and interest income on funds withheld and contract deposits. The payment flows resulting from these contracts are shown in the Statement of Cash Flows under operating activities.

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, brokerage, ceded allowance and 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 cash flows 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.

The net deferred acquisition costs net to a liability and are included in Other liabilities on the Balance Sheets at December 31, 2019 and 2018.

3.12 Benefit reserves

Benefit reserves relate to assumed liabilities. Assumed liabilities are comprised primarily of coinsurance of Universal Life and Term Life business as well as reinsurance of mortality risk on a YRT basis. Reported IFRS benefit reserves for coinsured Universal Life business represent policyholder account values. Reported IFRS benefit reserves for Term Life and YRT business are determined using actuarial methods and represent the present value of future claims payments to cedents less the present value of future premium due from cedents and taking into consideration any initial consideration received. Projected claims and premium are based on best estimate assumptions with a provision for adverse deviation and discounted using appropriate valuation rates.

The Company establishes premium deficiency reserves if actual and anticipated experience indicates that existing policy liabilities together with the present value of future gross premiums will not be sufficient to cover the present value of future benefits, settlement and maintenance costs and to recover unamortized acquisition costs. Premium deficiency reserves are established by a charge to income, as well as a reduction in unamortized acquisition costs and, to the extent there are no unamortized acquisition costs, an increase in future policy benefits.

Because of the many assumptions and estimates used in establishing reserves and the long-term nature of the reinsurance contracts, the reserving process, while based on actuarial science, is inherently uncertain.

3.13 Claims reserves

Claims reserves expense constitute payment obligations from life and accident and health policies, incurred in the statement period, but 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 claims reserves expense 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 insurance 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 estimates makes allowance for past experience and assumptions relating to the future development.

3.14 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.

3.15 Loans and borrowings

Loans and borrowings are from affiliated companies which are measured at amortized costs at the balance sheet dates.

3.16 Contract deposits

Contract deposits are receivables and liabilities under insurance contracts that satisfy the test of a significant risk transfer to the reinsurer as required by IFRS 4 “Insurance Contracts” but fail to meet the risk transfer required by US GAAP. These contracts are recognized using the “deposit accounting” method. The compensation for risk assumption booked to income under these contracts is netted under other income and expenses and interest income in funds withheld and contract deposits.

3.17 Accounts receivable

The accounts receivable under reinsurance contracts business and other receivables are carried at nominal value; value adjustments are made where necessary on the basis of a case-by-case analysis. We use adjustments accounts for value adjustments taken on reinsurance accounts receivable, while all other write-downs are booked directly against the underlying position.

3.18 Loans receivable

Loans receivable are non-derivative financial instruments that include fixed or determinable due date, are not listed on an active market and are not sold at short notice. They are carried at amortized cost. Premiums or discounts are deducted or added within the statement of income using the effective interest rate method until the amount repayable becomes due. An impairment loss is taken only to the extent that repayment of a loan is unlikely or no longer expected in full amount.

4. Nature and extent of risks

In the context of its business operations the Company enters into a variety of risks. These risks are deliberately accepted, steered and monitored in order to be able to act on the associated opportunities. In this context, crucial importance is attached to risk management in order to ensure that, among other things, risks to the reinsurance portfolio remain calculable and also exceptional significant losses do not have an unduly adverse impact on the results of the Company.

4.1 Risk management system

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 approach to risk management is summarized by the following key operations:

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

All stages of the risk management cycle are steered by the Company’s Board of Directors and officers of the Company including the Chief Risk Officer.

4.2 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:

- The Company Board of Directors
- Risk Committee
- Operational Council
- Audit Committee

The Hannover Re Group Risk Management function provides an additional level of governance that is independent of the local Company's operations.

4.3 Insurance risk

4.3.1 Key risks and mitigation measures

The Company's main insurance risks are:

- Mortality risk
- Morbidity Risk
- Catastrophe risk
- Lapse risk
- Interest Rate 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

Mortality risk is currently the primary insurance risk and is defined as an adverse deviation in mortality rates from expected. The Company is exposed to mortality and longevity risk through the reinsurance of life and annuity insurance business from its cedants. The reinsurance structures may 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 limits, and has retrocession arrangements in place to accept risk in excess of the retention limit.

Morbidity risk

Morbidity risk is the actuarial risk that the state of health of a person is adversely impacted by illness, disease, injury or frailty and that higher costs are triggered by medical treatment, long-term care or protracted periods of disability. The Company is exposed to morbidity risk through the reinsurance of health and long-term care business. The reinsurance structures may include traditional structures such as coinsurance, risk premium reinsurance and stop loss reinsurance, alongside less traditional structures such as morbidity cost swaps. The Company's risk management system mandates exposure limits and monitoring of morbidity risks.

Catastrophe risk

Due to the mortality exposure described in the previous section, the Company is also exposed to mortality catastrophe risk, namely pandemic 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. Treaties are structured to mitigate the extent of the Company's exposure to lapse risk.

Interest rate risk

Interest rate risk refers to an unfavorable change in the value of financial assets held in the portfolio due to changes in the general interest rate level. Interest rate risk arises primarily from the Company's investments in fixed-income securities. Declining interest rates lead to increases and rising interest rates lead to decreases in the fair value of the fixed-income securities.

The reinsurance contracts written by the Company define future cash flow obligations that may be assessed with a reasonable degree of actuarial certainty. It is therefore possible for the investment portfolio to be closely matched to these obligations by currency, maturity and type. The Company monitors its interest rate risk by reviewing these obligations regularly. The Company matches its interest rate risk on an economic basis. A maturity analysis of the Company's financial assets and liabilities is provided under liquidity risk in note 13.

4.3.2 Sensitivity to insurance risks

The Company assesses its exposure to insurance risk through an internal economic model 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 best estimate liability under a Solvency II basis quarterly for Group reporting purposes and Bermuda economic balance sheet basis at least annually. The methodology and assumptions used for Group Solvency II reporting are in line with European Insurance and Occupational Pensions Authority (EIOPA) Principles.

The table below shows the sensitivity of the Company's best estimate liability as at December 31, 2019 under a range of insurance stresses.

USD'000s	Best Estimate (Asset)/Liability	Increase/(Decrease) in Best Estimate Asset	% Change
Best Estimate	$ 2,099,905		
Risk-free yield - 50 bps	2,252,224	152,319	7.25%
Risk-free yield + 50 bps	1,974,754	(125,151)	-5.96%
Risk-free yield -100 bps	2,446,603	346,697	16.51%
Risk-free yield +100 bps	1,871,512	(228,393)	-10.88%
Mortality business: Mortality -5%	1,043,431	(1,056,475)	-50.31%
Mortality business: Mortality +5%	2,677,593	577,687	27.51%
Mortality business: Mortality +10%	3,076,773	976,867	46.52%
Mortality business: Mortality +15%	3,527,763	1,427,858	68.00%
LapseMass 40% / 70% for group life business	2,091,711	(8,194)	-0.39%
Pandemic: mortality + 0.35‰ for all ages in the first year only	2,232,722	132,816	6.32%
Pandemic: mortality + 1.5‰ in the first year only	2,633,194	533,288	25.40%
Pandemic: mortality + 5‰ in the first year only	4,053,391	1,953,486	93.03%
Pandemic: mortality +100% in the first year only	3,042,089	942,184	44.87%
Lapse -10%	2,060,198	(39,708)	-1.89%
Lapse +10%	2,091,510	(8,396)	-0.40%
Lapse -50%	1,455,784	(644,122)	-30.67%
Lapse +50%	2,182,018	82,113	3.91%

4.3.3 Concentrations of insurance risk

The Company defines concentration of insurance risk as the risk of exposure to increased losses associated with an inadequately diversified insurance portfolio. Exposure to concentration risk on individual lives is not material and mitigated through the Company's retention limit set forth in the underwriting guidelines.

The process for identifying and monitoring insurance risks (including concentrations) is initiated by Group Risk Management ("GRM") and conducted annually by the Company's Risk Management function. The results are codified in a central repository for systematic identification of material risks to the risk strategy including assessment of materiality, and serves as an important tool to identify and prioritize risks for monitoring and management efforts.

4.4 Market risk

The Company's investment portfolio currently consists in large part of fixed-income securities, and hence default and spread risks account for the bulk of the market risk. The Company is also exposed to changes in interest rates due to the impact on liability valuations. Since asset and liability cash flows are both impacted by changes in interest rates an integrated approach is used to assess interest rate risk on the entity's net economic value. The Company minimizes interest rate risk through the matching of durations of fixed-income securities and the related insurance contracts liabilities.

The table below shows the sensitivity to changes in interest rates on the Company's fixed-income securities investment portfolio:

	2019		2018	
	P&L	Equity	P&L	Equity
+100 basis point shift in yield curves	$ -	$ (78,019)	$ -	$ (35,041)
–100 basis point shift in yield curves	-	90,574	-	38,961

(Expressed in thousands of US Dollars, unless noted in millions)

4.5 Credit risk

In addition to credit risk within the investment portfolio, the Company is exposed to the counterparty risk of loss in value caused by the default or delay of outstanding obligations from other business partners including cedants and retrocessionaires. Counterparty exposure is assessed across the Company's asset portfolio and across reinsurance agreements and can result, for example, from a loss in future profit or recovery of initial ceding allowance on a cedant default. This risk is controlled through the Company's underwriting guidelines by the existence of maximum exposure limits per cedant.

Credit risk is minimized to retrocessionaires through the fact that assets for risk business are retained within the Company on a funds withheld basis.

Our investments entail credit risks that arise out of the risk of a failure to pay (interest and/or capital repayment) or a change in the credit status (rating downgrade) of issuers of securities. We attach equally vital importance to exceptionally broad diversification as we do credit assessment conducted on the basis of the quality criteria set out in the investment guidelines. We measure credit risks in the first place using the standard market risk components, especially the probability of default and the potential amounts of loss – making allowance for any collateral and the ranking of the individual instruments depending on their effect in each case.

We then assess the credit risk first on the level of individual securities (issues) and in subsequent steps on a combined basis on the insurer level. In order to limit the risk of counterparty default we set various limits on the insurer and issue level as well as the form of dedicated rating quotas. A comprehensive system of risk reporting ensures timely reporting to the functions entrusted with risk management.

The following table reflects the rating structure of amounts due from ceding companies, reinsurers' share of technical contract provisions, derivative receivables and fixed income securities using Standard & Poor's or A.M. Best Moody's ratings:

	December 31, 2019								
	AAA	AA	A	BBB	BB	B	CCC	NR	Total
Fixed–income securities–available–for–sale	$ 329,182	$ 3,422	$ 63,131	$ 544,458	$ 30,067	$ 25,890	$ 3,084	$ -	$ 999,234
Other invested assets - available-for-sale	-	-	-	-	-	-	-	70,852	70,852
Funds withheld	-	2,862,115	-	-	-	-	-	479,649	3,341,764
Claims Recoverables	-	1,780	468	10,365	-	-	-	-	12,613
Derivative receivable, net – at fair value through P&L *	-	-	-	-	-	-	-	48,506	48,506
Accounts receivable	-	626,478	263	4,049	-	-	-	128,032	758,822

	December 31, 2018								
	AAA	AA	A	BBB	BB	B	CCC	NR	Total
Fixed–income securities–available–for–sale	$ 322,171	$ 13,523	$ 96,129	$ 414,436	$ 23,970	$ 26,618	$ -	$ 8,234	$ 905,081
Other invested assets - available-for-sale	-	-	-	-	-	-	-	56,767	56,767
Funds withheld	-	2,990,591	-	-	-	-	-	470,569	3,461,160
Claims Recoverables	-	2,389	525	-	-	-	-	-	2,914
Derivative receivable, net – at fair value through P&L	-	-	-	-	-	-	-	56,778	56,778
Accounts receivable	-	615,742	60	592	-	-	-	152,104	768,498

** Included in the Derivative receivable, net –at fair value through P&L as December 31, 2019 is USD $1.8 million (2018: $12.3 million liability) of B36 – Derivative instruments (unbundled from insurance contracts).*

(Expressed in thousands of US Dollars, unless noted in millions)

4.6 Liquidity risk

Liquidity risk is risk of being unable to meet financial obligations when they become due. 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.

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.

Fixed income securities- Available for sale	2019 Amortised cost	2019 Fair Value [1]	2018 Amortised cost	2018 Fair Value [1]
Due in one year	$ 30,817	$ 30,953	$ 273,640	$ 273,779
Due after one through two years	54,468	55,941	30,321	30,233
Due after two through three years	46,514	48,581	70,111	70,087
Due after three through four years	66,430	70,263	58,177	57,878
Due after four through five years	77,611	81,907	83,404	83,412
Due after five years through ten years	370,288	401,267	296,225	297,187
Due after more than ten years	275,484	310,322	91,498	92,505
Total	$ 921,612	$ 999,234	$ 903,376	$ 905,081

Other invested assets -Available for sale	2019 Amortised cost	2019 Fair Value [1]	2018 Amortised cost	2018 Fair Value [1]
Due in one year	$ -	$ -	$ -	$ -
Due after one through two years	-	-	-	-
Due after two through three years	14,900	15,297	-	-
Due after three through four years	-	-	-	-
Due after four through five years	-	-	-	-
Due after five years through ten years	31,999	33,236	41,944	41,741
Due after more than ten years	21,125	22,319	15,495	15,026
Total	$ 68,024	$ 70,852	$ 57,439	$ 56,767

[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.

The Other invested assets –Available for Sale are with a non-related counterparty and provide cash financing to fund a portion of commissions relating to a block of annuity business. The fair value of these notes is calculated using an internal model based on changes in interest rates and credit spreads. The main risks associated with these instruments are counterparty, lapse and mortality risk.

(Expressed in thousands of US Dollars, unless noted in millions)

Amortized cost, unrealized gains and losses, accrued interest and fair value on the portfolio of investments classified as available for sale

	2019				
	Amortised cost	**Unrealised gains**	**Unrealised losses**	**Accrued interest**	**Fair value**
Available for Sale					
Fixed income securities					
US treasury notes	$ 302,843	$ 25,453	$ -	$ 885	$ 329,181
Debt securities issued by semi–governmental entities	43,054	5,051	-	694	48,799
Corporate securities	575,715	39,142	(414)	6,811	621,254
Total	$ 921,612	$ 69,646	$ (414)	$ 8,390	$ 999,234
Other invested assets	$ 68,024	$ 1,845	$ -	$ 983	$ 70,852
Total	$ 68,024	$ 1,845	$ -	$ 983	$ 70,852

	2018				
	Amortised cost	**Unrealised gains**	**Unrealised losses**	**Accrued interest**	**Fair value**
Available for Sale					
Fixed income securities					
US treasury notes	$ 316,482	$ 908	$ (53)	$ 133	$ 317,470
Debt securities issued by semi–governmental entities	51,325	751	(805)	809	52,080
Corporate securities	535,569	1,870	(7,994)	6,086	535,531
Total	$ 903,376	$ 3,529	$ (8,852)	$ 7,028	$ 905,081
Other invested assets	$ 56,686	$ -	$ (672)	$ 752	$ 56,766
Total	$ 56,686	$ -	$ (672)	$ 752	$ 56,766

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

	2019							
	AAA	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**Other**	**Total**
Fixed–income securities–available–for–sale	329,182	3,422	63,131	544,458	30,067	25,890	3,084	-	999,234
Other invested assets - available-for-sale	-	-	-	-	-	-	-	70,852	70,852

	2018								
	AAA	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**Other**	**Total**
Fixed–income securities–available–for–sale	322,171	13,523	96,129	414,436	23,970	26,618	-	8,234	905,081
Other invested assets - available-for-sale	-	-	-	-	-	-	-	56,767	56,767

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

6. Fair value hierarchy

For the purposes of the disclosure requirements pursuant to IFRS 7 “Financial Instruments: Disclosures”, the financial instruments recognized at fair value in the balance sheet 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.

(Expressed in thousands of US Dollars, unless noted in millions)

- 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 recognized at fair value into the three–level fair value hierarchy.

	2019			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 12,705	$ -	$ -	$ 12,705
Fixed income securities–available for sale	-	999,234	-	999,234
Derivative receivable – at fair value through profit and loss	-	-	48,506	48,506
Other invested assets - available for sale	-	-	70,852	70,852
Total assets carried at fair value	$ 12,705	$ 999,234	$ 119,358	$ 1,131,297
Derivative liabilities – at fair value through profit and loss	$ -	$ -	$ (19,166)	$ (19,166)
Total liabilities carried at fair value	$ -	$ -	$ (19,166)	$ (19,166)

	2018			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 31,671	$ -	$ -	$ 31,671
Fixed income securities–available for sale	8,234	896,847	-	905,081
Derivative receivable – at fair value through profit and loss			56,778	56,778
Other invested assets - available for sale	-	-	56,767	56,767
Total assets carried at fair value	$ 39,905	$ 896,847	$ 113,545	$ 1,050,297
Derivative liabilities – at fair value through profit and loss	$ -	$ -	$ (25,822)	$ (25,822)
Total liabilities carried at fair value	$ -	$ -	$ (25,822)	$ (25,822)

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.

	2019		2018	
	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Balance as at January 1	$ 56,778	$ (25,822)	$ 217,309	$ (150,636)
Recognised in the Statement of Income	35,989	7,336	31,223	(25,822)
Reclassification of derivative liability	-	-	(150,636)	150,636
Additions	-	-	-	-
Disposals	(44,261)	(680)	(41,118)	-
Balance as at December 31	$ 48,506	$ (19,166)	$ 56,778	$ (25,822)

(Expressed in thousands of US Dollars, unless noted in millions)

	Other Invested Assets - Available for Sale	
	2019	**2018**
Balance as at January 1	$ 56,767	$ -
Additions	12,240	57,439
Unrealized (loss)/gain	1,845	(672)
Balance as at December 31	$ 70,852	$ 56,767

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.

Application of the temporary exemption from IFRS 9

The Company met the eligibility criteria for temporary exemption under IRFS 4 from applying IFRS 9 and has accordingly deferred the adoption of IFRS 9. The tables below presents an analysis of the fair value of classes of financial assets as at the end of the reporting period as well as the change in fair value during the reporting period. The classes are defined as follows:

I. Solely payments of principal and interest ("SPPI"): assets of which cash flows represent solely payments of principal and interest on an outstanding principal amount, excluding any financial assets that meet the definition of held for trading in IFRS 9, or that are managed and whose performance is evaluated on a fair value basis; and

II. Other at fair value: all financial assets other than those specified in SPPI. Financial assets:

a. with contractual terms that do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amounts outstanding;

b. that meet the definition of held for trading in IFRS 9; or

c. that are managed and whose performance are evaluated on a fair value basis.

	2019			
	Financial Assets That Give Rise Solely to Payments of Principal and Interest		All Other Financial Assets	
	Fair Value as of December 31st	Fair Value Change in the Financial Year	Fair Value as of December 31st	Fair Value Change in the Financial Year
Fixed income securities -available for sale	$ 991,279	$ 79,854	$ 7,955	$ -
Other invested assets -available for sale	70,852	1,845	-	424
Derivative linked to insurance risk	-	-	48,506	-
Total Financial Assets	$ 1,062,131	$ 81,699	$ 56,461	$ 424

(Expressed in thousands of US Dollars, unless noted in millions)

	2018			
	Financial Assets That Give Rise Solely to Payments of Principal and Interest		All Other Financial Assets	
	Fair Value as of December 31st	Fair Value Change in the Financial Year	Fair Value as of December 31st	Fair Value Change in the Financial Year
Fixed income securities -available for sale	$ 890,921	$ (873)	$ 14,160	$ -
Other invested assets -available for sale	56,767	(672)	-	(215)
Derivative linked to insurance risk	-	-	56,778	-
Total Financial Assets	$ 947,688	$ (1,545)	$ 70,938	$ (215)

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).

The following table shows the rating structure of financial assets that give rise to solely payments of principal and interest.

in USD thousand	2019 Gross Value
AAA	$ 329,182
AA	3,422
A	63,131
BBB	538,156
BB or lower	57,388
No Rating	70,852
Total	$ 1,062,131

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.

7. Funds withheld

The funds withheld assets totaling $3.3 billion (2018: $3.5 million) represent the cash and securities deposits furnished to the Company by cedants (or by the Company to affiliated cendants with respect to funds held liabilities) that do not trigger any cash flows and cannot be realized by cedants or the Company without consent of the other counter-party. There were no funds held liabilities for 2019 and 2018. In the event of default on such a deposit the Company's reinsurance commitment is reduced to the same extent. The increase in funds withheld was attributable principally to new business.

(Expressed in thousands of US Dollars, unless noted in millions)

8. Contract deposits assets

Contract deposits assets totaling $653.0 million (2018: $715.0 million) include consideration paid for acquiring the reinsurance contracts. Insurance contracts are accounted for under the "deposit accounting" method.

9. Accounts receivable & accounts payable

For further explanatory remarks please see section 3.1 'Summary of major accounting policies'. All amounts presented in the balance sheet at amortized cost approximate to fair value.

10. Derivative receivable and derivative liabilities – at fair value through profit and loss

	2019		2018	
	Derivative Assets	**Derivative Liabilities**	**Derivative Assets**	**Derivative Liabilities**
Derivative instruments	$ 46,694	$ (19,166)	$ 56,778	$ (12,822)
Embedded derivatives	1,812	-	-	(25,822)
Total derivatives	$ 48,506	$ (19,166)	$ 56,778	$ (38,644)

Derivative instruments

Transactions where the Company offers their contracting parties coverage for risks from possible future payment obligations arising out of hedging instruments are also to be classified as derivative financial instruments. 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 recognized as stand–alone credit derivatives pursuant to IAS 39. These derivative financial instruments are carried in Derivative asset - at fair value through profit and loss. The net fair value of these instruments as of December 31, 2019 was $46.7 million (2018: $56.8 million).

The Company's derivatives transfer insurance risks and consists of structured transactions that finance statutory reserves (so-called Triple-X or AXXX reserves) of U.S. ceding companies and these transactions are accounted for as derivative financial instruments under IAS39.

(Expressed in thousands of US Dollars, unless noted in millions)

Details of the structured transactions at December 31, 2019 and 2018 are the following (amounts in $ millions):

			2019				
Transaction No.	Effective Date	Initial Term (years)	Notional Value	Peak Notional Value	Fair Value Asset	Fair Value Liability	Fair Value Net
1	7/31/2014	15	$ 1,137	$ 1,512	$ 14	$ 14	$ -
2	9/30/2014	25	872	1,110	59	32	27
3	12/12/2014	20	71	107	2	2	-
4	2/18/2015	20	25	1,000	27	27	-
5	1/15/2016	18	738	738	8	8	-
6	12/31/2016	15	242	242	2	2	-
7	3/29/2017	20	733	1,000	7	7	-
8	6/29/2017	20	394	500	5	5	-
9	7/1/2017	15	971	1,020	38	18	20
10	7/27/2018	20	738	900	7	7	-
11	9/30/2019	15	202	411	3	3	-
		Total	$ 6,123	$ 8,540	$ 172	$ 125	$ 47

			2018				
Transaction No.	Effective Date	Initial Term (years)	Notional Value	Peak Notional Value	Fair Value Asset	Fair Value Liability	Fair Value Net
1	7/31/2014	15	$ 970	$ 1,512	$ 16	$ 16	$ -
2	9/30/2014	25	842	1,110	62	33	29
3	12/12/2014	20	72	107	3	3	-
4	2/18/2015	20	1,000	1,000	28	28	-
5	1/15/2016	18	685	685	8	8	-
6	12/31/2016	15	276	276	3	3	-
7	3/29/2017	20	742	1,000	10	10	-
8	6/29/2017	20	379	500	6	6	-
9	7/1/2017	15	1,004	1,020	49	21	28
10	7/27/2018	20	800	900	18	18	-
		Total	$ 6,770	$ 8,110	$ 203	$ 146	$ 57

The fair value of the above derivatives are calculated using a discounted cash flow method, representing the present value of expected future cash flows from fee revenue over a reasonable estimated period discounted at the risk free term structure of U.S. dollar forward rates (based on swaps) prevailing at the time of the valuation. These fair value amounts are recognized as a derivative receivable at fair value through profit and loss and derivative liabilities at fair value through profit and loss on the balance sheet. The change in value in subsequent periods is dependent upon the risk experience. Income recognized under these contracts is $15.0 million (2018: $31.2 million) and reflected in Ordinary investment income on the Statements of Income.

Total Return Swaps

Transaction	Maturity	2019 Total Return Swap	2018 Total Return Swap
1	July 15, 2028	$ 3,958	$ -
2	February 15, 2042	15,208	-
		$ 19,166	$ -

In February, 2019, the Company entered into two derivative transactions with an affiliate, Hannover Re SE, which are total return swaps. Under the total return swap agreements, the performance of the Company's investments in U.S. Treasury Inflation Protected Securities ("TIPS") is exchanged for the performance of an equivalent notional amount of U.S. Treasury Bonds ("USTB") having similar maturity dates. Settlements between the parties are made semi-annually for differences in the investment performance of the TIPS and the USTB.

The Company holds $120M par value of TIPS having a contractual maturity date of July 15, 2028 and $100M par value of TIPS having a contractual maturity date of February 15, 2042. During the year, the Company made a settlement payment of $657,318 under the total return swap agreement for the TIPS maturing in 2028. The Company received $1,336,812 from settlement payments under the total return swap agreement for the TIPS maturing in 2042 during the year. At December 31, 2019, the Company recognized a liability of $3,957,954 and $15,208,471 from the fair values of the total return swap agreement for the TIPS maturing in 2028 and 2042, respectively.

Embedded derivative

A number of treaties meet criteria which require the application of the prescriptions in IFRS 4 'Insurance Contracts' governing embedded derivatives. These accounting regulations require that certain derivatives embedded in reinsurance contracts be separated from the underlying insurance contract ("host contract"), reported separately at fair value in accordance with IAS 39 'Financial Instruments: Recognition and Measurement' and recognized under investments. Fluctuations in the fair value of the derivative components are to be recognized in income in subsequent periods.

Within the scope of the accounting of "modified coinsurance" (ModCo) and "coinsurance funds held" (CoFWH) reinsurance treaties, under which securities deposits are held by the ceding companies and payments rendered on the basis of income from certain securities of the ceding company, the interest rate risk elements are clearly and closely related to the underlying reinsurance agreements. Embedded derivatives consequently result solely from the credit risk of the underlying securities portfolio.

The Company calculates a fair value for the embedded derivative in ModCo and CoFWH treaties using market information available for the underlying securities on the valuation date on the basis of a "credit spread" method. Under this method the derivative is valued at zero on the date the contract commences and its value then fluctuates over time according to changes in the credit spread of the underlying securities.

The cumulative value of the derivative is shown in the Balance Sheets under derivative liabilities with the movement reported in the Statement of Income as an unrealized gain/(loss) on investments. The unrealized gain for the year totaled $27.6 million (2018: $24.4 million unrealized loss).

(Expressed in thousands of US Dollars, unless noted in millions)

11. Other assets and liabilities

Other assets totaling $1.1 million (2018: $1.3) and other liabilities totaling $59.9 million (2018: $51.9 million) consists of the following at December 31, 2019 and 2018:

	Other Assets			
	2019		2018	
Advances paid	$	61	$	64
Accrued interest		990		764
Tax receivables		-		506
Total	$	1,051	$	1,334

	Other Liabilities			
	2019		2018	
Accrued interest on loans	$	5,753	$	5,651
Deferred ceding allowance*		6,334		19,551
Dividend Payable		27,000		-
Other accrued and deferred		20,845		26,717
Total	$	59,932	$	51,919

** Included in the other liabilities as December 31, 2019 is USD $6.3 million (2018: 19.6 liability) of ceded deferred acquisition costs. For further explanatory remarks please see note 3.11 'Deferred acquisition costs'.*

12. Contract deposit liabilities, benefit & claims reserves

In order to show the net reinsurance provisions remaining in the retention the following table compares the gross provisions with the corresponding retrocessionaires' shares, which are shown as assets in the Balance Sheets. Unearned premiums reserves is included within the benefit reserves balance.

	2019						2018					
	Gross		Retro		Net		Gross		Retro		Net	
Benefit reserves	$	1,361,119	$	-	$	1,361,119	$	1,656,818	$	-	$	1,656,818
Contract Deposit Liabilities		1,826,814		-		1,826,814		1,950,159		-		1,950,159
Total	$	3,187,933	$	-	$	3,187,933	$	3,606,977	$	-	$	3,606,977

(Expressed in thousands of US Dollars, unless noted in millions)

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 significant accounting policies.”

	2019			2018		
	Gross	**Retro**	**Net**	**Gross**	**Retro**	**Net**
Due in one year	$ 368,540	$ -	$ 368,540	$ 224,941	$ -	$ 224,941
Due one through five years	368,342	-	368,342	565,811	-	565,811
Due five through ten years	94,341	-	94,341	309,746	-	309,746
Due ten through twenty years	(96,528)	-	(96,528)	110,035	-	110,035
Due after twenty years	2,453,238	-	2,453,238	2,396,444	-	2,396,444
Total	$ 3,187,933	$ -	$ 3,187,933	$ 3,606,977	$ -	$ 3,606,977

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 10. 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 best estimate 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 by determining the expected future profits on the current best estimate assumption bases. In accordance with this assessment, there is no loss recognition event during 2019.

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 recognized in income by first writing off capitalize capitalized acquisition costs corresponding to the shortfall. Any remaining difference is constituted as an additional provision.

Development of benefit reserves

A rollforward of reinsurance reserves is as follows:

	2019			2018		
	Gross	Retro	Net	Gross	Retro	Net
Balance as at January 1	$ 3,606,977	$ -	$ 3,606,977	$ 60,785	$ 54,568	$ 6,217
Changes	(142,865)	-	(142,865)	77,914	-	77,914
Portfolio entries/withdrawals	(276,179)	-	(276,179)	3,468,278	(54,568)	3,522,846
Balance as at December 31	$ 3,187,933	$ -	$ 3,187,933	$ 3,606,977	$ -	$ 3,606,977

Development of claims reserves

The claims reserves are in principle calculated on the basis of the information supplied by ceding companies. The development of the claims reserves is shown in the following table:

	2019			2018		
	Gross	Retro	Net	Gross	Retro	Net
Balance as at January 1	$ 823,826	$ 2,914	$ 820,912	$ -	$ -	$ -
Changes	36,273	9,699	26,574	(96,691)	-	(96,691)
Portfolio entries/withdrawals	(2,745)	-	(2,745)	920,517	2,914	917,603
Balance as at December 31	$ 857,354	$ 12,613	$ 844,741	$ 823,826	$ 2,914	$ 820,912

13. Loans and borrowings

The following table provides a listing of the subordinated loans held by the Company as of December 31, 2019.

Lender	Type	Currency	Principal ('000s)	Interest Rate	Inception	Maturity
Hannover Finance, Inc.	Sub-Loan	USD	$ 2,500	4.33 %	March 17, 2014	March 15, 2054
Hannover Ruck	Sub-Loan	USD	238,000	4.60 %	March 27, 2018	April 15, 2038
	Total loans and borrowings		$ 240,500			

The carrying amounts of the loans are close approximation of their fair value which is estimated at December 31, 2018 to be $257 million. All principal payments are only due upon maturity.

14. Shareholders equity

The “common shares” of the Company amount to 2.5 million shares of $1 par value each. Unrealized gains and losses from the fair value measurement of financial instruments held as available for sale are carried in accumulated other comprehensive income of $56.1 million (2018: -$4.7).

There was an additional paid in capital of $1.185 million in 2018.

The Board of Directors declared a dividend of $27.0 million for 2019 payable in May 2020.

15. Gross written premium

Gross written premium was $1.6 billion (2018: $1.0 billion) for the period ended December 31, 2019 and originates from cedants based in the United States of America.

(Expressed in thousands of US Dollars, unless noted in millions)

16. Investment income

Net investment income was $268.1 million (2018: $188.2 million) for the period ended December 31, 2019 and consists of the following components:

	2019	2018
Interest Income [2]	$ 43,735	$ 27,902
Ordinary investment income	43,735	27,902
Realised gains on investments	11,204	2,309
Realised losses on investments	(2,239)	(4,113)
Unrealised gains and (losses) on investments	27,633	(24,417)
Insurance derivative income	15,691	31,223
Other investment expenses	(2,376)	(1,520)
Net income from assets under own management	93,648	31,384
Interest income on funds withheld and contract deposits	226,792	245,286
Interest expense on funds withheld and contract deposits	(52,315)	(88,496)
Net investment income	$ 268,125	$ 188,174

[2] *Interest Income from Fixed - income securities - available for sale*

No impairments were recognized in the investment portfolio in the year under review.

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

2019	Ordinary Investment Income	Realised Gains and Losses	Unrealised Gains and Losses	Investment Expenses	Insurance Derivative Income	Net Income From Assets Under Own Management
Available for sale– Fixed income securities	$ 43,735	$ 8,965	$ -	$ (2,376)	$ -	$ 50,324
At fair value through profit and loss Derivative assets	-	-	27,633	-	15,691	43,324
Total	$ 43,735	$ 8,965	$ 27,633	$ (2,376)	$ 15,691	$ 93,648

2018	Ordinary Investment Income	Realised Gains and Losses	Unrealised Gains and Losses	Investment Expenses	Insurance Derivative Income	Net Income From Assets Under Own Management
Available for sale– Fixed income securities	$ 27,902	$ (1,804)	$ -	$ (1,520)	$ -	$ 24,578
At fair value through profit and loss Derivative assets	-	-	(24,417)	-	31,223	6,806
Total	$ 27,902	$ (1,804)	$ (24,417)	$ (1,520)	$ 31,223	$ 31,384

(Expressed in thousands of US Dollars, unless noted in millions)

17. Other income and expenses

Other income and expenses totaled $47.9 million (2018: $8.7 million) and consists of the following:

	2019	2018
Other income		
Income from contracts recognised in accordance with the deposit accounting method	$ 43,304	$ 2,859
Other interest income relating to financial guarantees	9,474	10,994
Other income	71	-
Total other income	52,849	13,853
Other expenses		
Expenses from contracts recognised in accordance with the deposit accounting method		-
Sundry expenses	(4,905)	(5,120)
Total expenses	(4,905)	(5,120)
Total other income and expenses	$ 47,944	$ 8,733

Financial guarantees

The Company has entered into a structured transaction in order to finance statutory reserves (so-called Triple-X or AXXX reserves) of a U.S. ceding company and the Company has entered into two swap agreements with an affiliate in support of secured note obligations collateralized by underlying insurance commission streams. These transactions are accounted for as a Financial Guarantee under IAS39.

Details of structured transactions that are accounted as financial guarantees at December 31, 2019 and 2018 are as follows (amounts in $ millions):

Transaction No.	Effective Date	Initial Term (years)	Notional Value at December 2019	Notional Value at December 2018
1	4/1/2014	20	$ 798.2	$ 752.9
2	3/14/2016	13	26.4	31.3
3	7/8/2016	3	0.0	6.0
		Total	$ 824.6	$ 790.2

Under IAS 39 these transactions are recognized at fair value as a financial guarantee. 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 recognized at the point in time when utilization is considered probable. This was not the case as at the balance sheet date. The fee income of $9.5 million (2018: $11.0 million) is included in Other income and expenses on the Statements of Income.

(Expressed in thousands of US Dollars, unless noted in millions)

The probability of a loss to the Company on these transactions involving ceding special purpose entities as contracting parties from which the Company assumes certain underwriting and /or financial risks is categorised as low. The transactions largely serve the purpose of financing statutory reserves (so-called Triple-X or AXXX reserves) and transferring extreme mortality risks above a contractually defined retention. 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 IAS 39, the transactions are recognized either as derivative financial instruments or as financial guarantees. In addition, the Company cedes all of the risk of payment under the derivative contracts to affiliates.

18. Taxes

Corporation tax is provided based on the profit or loss for the year. The Company is subject to U.S.A. corporation tax on qualifying trading operations at a rate of 21%. Corporation tax is recognized in the Statement of Comprehensive Income as part of the profit or loss.

Under current Bermuda law the Company is not required to pay any taxes in Bermuda on either income or capital gains. The Company made an irrevocable election under Section 953(d) of the U.S. Internal Revenue Code of 1986, as amended, to treat the Company as a domestic insurance company for U.S. federal income tax purposes. As such, the Company will be subject to U.S. federal income tax on its income as if it is a U.S. corporation.

A deferred tax asset is recognized in respect of temporary differences between the carrying amount of assets and liabilities for condensed financial reporting purposes and the amounts used for taxation purposes. The deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, using tax rates enacted at the reporting date. Deferred tax assets are netted against deferred tax liabilities where there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The breakdown of actual and deferred income taxes was as follows:

	2019	2018
Actual tax for the year under review	$ 9,423	$ -
Deferred taxes due to temporary differences	40,490	(8,774)
Total	$ 49,913	$ (8,774)

(Expressed in thousands of US Dollars, unless noted in millions)

Current income taxes receivable at December 31, 2019 and 2018 was $4.1 and $0 million, respectively. The following table presents a breakdown of the deferred tax assets and liabilities into the balance sheet items from which they are derived.

	2019	2018
Deferred tax assets		
Investments	$ 6,451	$ 31,041
Deferred acquisition costs	19,160	15,428
Net operating losses	143,100	336,925
Total deferred tax assets	168,711	383,394
Deferred tax liabilities		
Contract deposits	(137,103)	(136,739)
Liabilities from reinsurance business	(77,798)	(236,170)
Total deferred tax liabilities	(214,901)	(372,909)
Net deferred tax (liability) asset	$ (46,190)	$ 10,485

The net deferred tax liabilities of $46.2 millions include deferred tax assets in an amount of $143.1 millions that relates to carried forward tax losses. During 2018, the Company incurred tax losses following the recapture of all retrocessions from foreign affiliates retroactive to January 1, 2018. The recapture transaction that gave rise to the loss is not recurring. In addition, the Company generated taxable income in 2019, and continues to expect pre-tax earnings to offset the carried forward tax losses. Therefore, the Company concluded that the deferred tax assets will be recoverable in the future. The losses can be carried forward indefinitely, subject to 80% limitation on future taxable income. Additionally, on March 27, 2020, the U.S. President signed into law the Coronavirus Aid, Relief, and Economic Security Act, H.R. 748 (“CARES Act”), which includes modifications to the Internal Revenue Code. One of the modifications includes the temporary suspension of the 80% limitation on NOL utilization, allowing corporate taxpayers to fully offset regular taxable income for taxable years starting after December 31, 2017, and before January 1, 2021.

Currently, there are no tax contingency accruals established pursuant to IAS 12.

The amount of tax cumulatively charged to other comprehensive income includes $14.9 million for unrealized gains on available-for-sale securities (2018: $1.3million).

The reconciliation of expected income tax expense with the actual expense is as follows:

	2019	2018
Profit before taxes on income	$ 49,891	$ (8,774)
Nondeductible expenses	2	-
Change in tax rates	20	-
Actual expense for income taxes	$ 49,913	$ (8,774)

(Expressed in thousands of US Dollars, unless noted in millions)

19. Related party disclosures

The Company reinsures life assurance business written by its client companies (cedants) and business assumed from affiliates. The risks assumed generally reflect the risks inherent in the underlying life assurance policies and include mortality risk, morbidity risk, investment risk and lapse and surrender risk. The Company also assumes life insurance risk in alternative forms, including capital market risks.

	2019			2018		
Income statement	**Hannover Finance, Inc. (Parent)**	**Companies Related Through Common Control**	**Total**	**Hannover Finance, Inc. (Parent)**	**Companies Related Through Common Control**	**Total**
Net Premium Earned	$ -	$ 1,174,952	$ 1,174,952	$ -	$ 1,031,351	$ 1,031,351
Net Investment Income	-	84,361	84,361	-	35,829	35,829
Total Revenues	-	1,259,313	1,259,313	-	1,067,180	1,067,180
Total Expenses	-	(1,354,908)	(1,354,908)	-	(1,198,097)	(1,198,097)
Other income (expenses)	1,575	222,522	224,097	2,420	186,134	188,554
Finance Costs	(157)	(11,100)	(11,257)	(110)	(8,485)	(8,595)
Net income/(loss)	$ 1,418	$ 115,827	$ 117,245	$ 2,310	$ 46,732	$ 49,042

	2019			2018		
Balance sheet	**Hannover Finance, Inc. (Parent)**	**Companies Related Through Common Control**	**Total**	**Hannover Finance, Inc. (Parent)**	**Companies Related Through Common Control**	**Total**
Reinsurance Assets	$ 295	$ 3,785,020	$ 3,785,315	$ 433	$ 3,917,753	$ 3,918,186
Reinsurance liabilities	-	(3,445,181)	(3,445,181)	-	(3,700,210)	(3,700,210)
Loans and borrowings	(2,657)	(243,596)	(246,253)	(2,555)	(243,596)	(246,151)

All transactions and balances arise from the normal course of business and are unsecured.

20. 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 $2.376 million (2018: $1.520 million).

21. 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 Minimum Margin of Solvency ("MMS") is calculated on predetermined calculations as included The Insurance Accounts Rules 2016.

(Expressed in thousands of US Dollars, unless noted in millions)

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, 2019 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 BMA an affidavit stating that it will continue to meet its relevant margins. The Company must obtain the BMA'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.

Actual statutory capital and surplus, as determined using statutory accounting principles, along with a reconciliation to IFRS equity is as follows:

	2019	2018
Total statutory capital and surplus	$ 1,616,068	$ 1,415,925
Non admitted assets	-	-
Statutory capital and surplus	1,616,068	1,415,925
Surplus Note	(240,500)	(240,500)
Revision to 2018 IFRS financial statements		(21,409)
Total IFRS Shareholder's equity	$ 1,375,568	$ 1,154,016

22. 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.

23. Subsequent events

In March 2020, the World Health Organization declared the COVID-19 strain of the coronavirus to be a pandemic, and national governments have implemented a range of policies and actions to combat it. As a result of the COVID-19 pandemic, economic uncertainties have arisen which are likely to negatively impact the Company's net income and surplus. The extent to which the COVID-19 pandemic impacts our business, net income, and surplus, as well as our capital and liquidity position, will depend on future developments, which are highly uncertain and cannot be estimated, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic. Management will continue to monitor developments and their impact on the Company's operations.

The financial statements have been approved by the Management on May 18, 2020.