

**HANNOVER LIFE REASSURANCE COMPANY OF  
AMERICA (BERMUDA) LTD.**

**Consolidated Financial Statements**  
(With Report of Independent Auditors Thereon)

December 31, 2020 and 2019

**HANNOVER LIFE REASSURANCE COMPANY OF AMERICA (BERMUDA) LTD.**  
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## Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of Hannover Life Reassurance Company of America (Bermuda) Ltd. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in shareholder's equity, and cash flows for the years then ended.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hannover Life Reassurance Company of America (Bermuda) Ltd. and its subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

*PricewaterhouseCoopers LLP*

May 3, 2021

# HANNOVER LIFE REASSURANCE COMPANY OF AMERICA (BERMUDA) LTD.

## Consolidated Balance Sheets

As of December 31, 2020 and 2019

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

	Note	2020	2019
<b>Assets</b>			
Cash and cash equivalents	7	\$ 93,848	\$ 62,372
Fixed-income securities - available for sale	6,7	3,986,473	4,146,636
Other invested assets - available for sale	6,7	79,506	71,102
Loan Receivable	5.5,6	356,579	501
Equity Securities	7	48,563	54,728
Short-term investments	7	613	-
Participating interest other companies	8	15,000	15,000
Total investments and cash under own management		<u>4,580,582</u>	<u>4,350,339</u>
Funds withheld	9	2,977,404	3,064,533
Contract deposit assets	10	293,865	289,621
Reinsurance recoverables	15	182,205	191,023
Claim recoverables	15	65,964	91,201
Derivative asset—at fair value through profit and loss	7, 11	54,877	71,884
Accounts receivable	12	777,447	775,647
Deferred acquisition costs	13	440,555	430,375
Current Tax Receivable	21	33,778	-
Other assets	14	11,176	14,434
Total assets		<u>\$ 9,417,853</u>	<u>\$ 9,279,057</u>
<b>Liabilities</b>			
Claims reserves	15	\$ 1,252,310	\$ 1,209,096
Benefit reserves	15	1,979,851	2,137,582
Contract deposit liabilities	15	2,549,501	2,545,041
Funds withheld	9	227,477	230,510
Derivative liability —no hedge accounting	7,11	29,117	19,166
Accounts payable	12	147,284	157,238
Deferred tax liability	21	266,559	163,139
Other liabilities	14	144,246	199,834
Loans and borrowings	16	450,500	450,500
Total liabilities		<u>7,046,845</u>	<u>7,112,106</u>
<b>Shareholder's equity</b>			
Authorized, issued and fully paid, 2,500,000 shares of \$1 par value each	17	2,500	2,500
Additional paid-in capital		1,483,905	1,483,905
Retained earnings		534,567	492,533
Accumulated other comprehensive income	17	350,036	188,013
Total shareholder's equity		<u>2,371,008</u>	<u>2,166,951</u>
Total liabilities and shareholder's equity		<u>\$ 9,417,853</u>	<u>\$ 9,279,057</u>

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

# HANNOVER LIFE REASSURANCE COMPANY OF AMERICA (BERMUDA) LTD.

## Consolidated Statements of Income

For the years ended December 31, 2020 and 2019

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

	<u>Note</u>	<u>2020</u>	<u>2019</u>
Gross written premium	18	\$ 1,889,888	\$ 2,084,337
Ceded written premium	22	(137,160)	(231,316)
Change unearned premium reserve - net	4.1	<u>(3,410)</u>	<u>(500)</u>
Net premium earned		<u>1,749,318</u>	<u>1,852,521</u>
Ordinary investment income	19	151,557	157,813
Realised gains on investments - net	19	82,670	20,753
Unrealised gains and (losses) on derivatives - net	19	(6,839)	8,896
Insurance derivative income	19	24,930	15,011
Other investment expenses	19	(8,780)	(6,823)
Interest income on funds withheld and contract deposits	19	179,079	147,958
Interest expense on funds withheld and contract deposits	19	<u>(128,304)</u>	<u>(81,530)</u>
Net investment income		<u>294,313</u>	<u>262,078</u>
Total revenues		<u>2,043,631</u>	<u>2,114,599</u>
Claims and claims expenses	4.13	(2,069,990)	(1,936,809)
Change in benefit reserves	15	152,318	140,755
Commission and brokerage, change in deferred acquisition costs-Assumed	4.11	(215,054)	(250,602)
Commission and brokerage, change in deferred acquisition costs-Ceded	4.11	14,795	14,481
Administrative expenses		<u>(87,593)</u>	<u>(86,242)</u>
Total expenses		<u>(2,205,524)</u>	<u>(2,118,417)</u>
Other income and expenses	20	299,753	260,689
Finance costs	16	<u>(20,102)</u>	<u>(19,768)</u>
Income before taxes		117,758	237,103
Income tax expense	21	<u>(16,624)</u>	<u>(50,150)</u>
Net income		<u>\$ 101,134</u>	<u>\$ 186,953</u>

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

# HANNOVER LIFE REASSURANCE COMPANY OF AMERICA (BERMUDA) LTD.

## Consolidated Statements of Comprehensive Income

For the years ended December 31, 2020 and 2019

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

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	<u>2020</u>	<u>2019</u>
Net income	\$ 101,134	\$ 186,953
<b>Other comprehensive gain</b>		
Items that may be subsequently classified to net income		
Change in fair value of fixed income securities -available-for-sale	205,092	296,210
Tax expense	<u>(43,069)</u>	<u>(62,204)</u>
Net change in fair value of fixed income securities—available—for—sale	<u>162,023</u>	<u>234,006</u>
Other comprehensive gain for the year	<u>162,023</u>	<u>234,006</u>
Total comprehensive income for the year	263,157	420,959
<b>Total comprehensive income attributable to:</b>		
Equity holder of the Company	<u>\$ 263,157</u>	<u>\$ 420,959</u>

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

# HANNOVER LIFE REASSURANCE COMPANY OF AMERICA (BERMUDA) LTD.

## Consolidated Statements of Changes in Shareholder's Equity

For the years ended December 31, 2020 and 2019

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

	Note	Share capital	Additional paid in capital	Retained earnings	Accumulated other comprehensive income/(loss)	Total equity
<b>At January 1, 2019</b>		\$ 2,500	\$ 1,483,905	\$ 367,533	\$ (45,993)	\$ 1,807,945
Net income for the year	17			186,953	-	186,953
Net change in fair value of fixed income securities available-for-sale	17	-	-	-	234,006	234,006
Dividends declared and paid during the year	17	-	-	(63,300)	-	(63,300)
IFRS 16 Adjustment (net)	4	-	-	1,347	-	1,347
<b>At December 31, 2019</b>		<u>\$ 2,500</u>	<u>\$ 1,483,905</u>	<u>\$ 492,533</u>	<u>\$ 188,013</u>	<u>\$ 2,166,951</u>
<b>At January 1, 2020</b>		\$ 2,500	\$ 1,483,905	\$ 492,533	\$ 188,013	\$ 2,166,951
Net income for the year	17	-	-	101,134	-	101,134
Net change in fair value of fixed income securities available-for-sale	17	-	-	-	162,023	162,023
Dividends declared and paid during the year	17	-	-	(59,100)	-	(59,100)
<b>At December 31, 2020</b>		<u>\$ 2,500</u>	<u>\$ 1,483,905</u>	<u>\$ 534,567</u>	<u>\$ 350,036</u>	<u>\$ 2,371,008</u>

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

# HANNOVER LIFE REASSURANCE COMPANY OF AMERICA (BERMUDA) LTD.

## Consolidated Statements of Cash Flows

For the years ended December 31, 2020 and 2019

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

	<u>2020</u>	<u>2019</u>
<b>Cashflows from operating activities</b>		
Net income	\$ 101,134	\$ 186,952
Adjustments for non-cash items in net income		
Net realised losses on investments	(82,670)	(20,752)
Net unrealised gains on investments	45,047	44,262
Net unrealised losses on derivatives	(18,091)	(23,907)
Amortisation of investments	1,501	46
Amortisation of non related to investments	5,004	5,799
Amortisation of deferred acquisition costs	6,118	7,518
Accrued interests	6,576	(632)
<b>Changes in</b>		
Deferred acquisition costs	(15,036)	3,051
Funds withheld	84,095	161,930
Contract deposits	217	(161,028)
Accounts receivable and payables	13,034	(16,920)
Other assets and liabilities (net)	(51,516)	1,581
Benefit and claim reserve (net)	(80,458)	(214,385)
Tax assets and provisions for taxes	40,540	12,506
Interest payable	20,256	18,583
<b>Cashflows from operating activities</b>	<u>75,751</u>	<u>4,604</u>
<b>Cashflows from (used in) investing activities</b>		
Maturities, sales of fixed income securities—available for sale	1,478,267	1,214,714
Purchases of fixed income securities—available for sale	(1,041,441)	(1,203,916)
Changes in loans receivable	(356,579)	(501)
Changes in other invested assets	(997)	(14,999)
<b>Cashflows from (used in) investing activities</b>	<u>79,250</u>	<u>(4,702)</u>
<b>Cashflows used in financing activities</b>		
Dividends paid	(86,100)	(21,600)
Repayment of loan interest	(37,425)	(6,270)
<b>Cashflows used in financing activities</b>	<u>(123,525)</u>	<u>(27,870)</u>
Cash and cash equivalents at the beginning of the period	62,372	90,340
Change in cash and cash equivalents	31,476	(27,968)
Cash and cash equivalents at the end of the period	<u>\$ 93,848</u>	<u>\$ 62,372</u>
<b>Supplementary information on the cash flow statement</b>		
Income taxes paid (on balance)	\$ -	\$ (19,000)
Income taxes reimbursed	5,924	30,454
Interest received	476,417	310,031
Interest paid	(317,993)	(123,168)
Non-Cash activities during the year not included in the Statement of Cash flows:		
Dividends Payable	-	41,700

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



# HANNOVER LIFE REASSURANCE COMPANY OF AMERICA (BERMUDA) LTD.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

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## 1. Corporate information

Hannover Life Reassurance Company of America (Bermuda) Ltd. (the “Company” and/or “HLRA Ber”) was incorporated on March 3<sup>rd</sup>, 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.

### **Merger**

On November 13, 2020, the Company received from Hannover Finance, Inc. a 100% investment in Hannover Life Reassurance Company of America (HLRUS) and Sand Lake Re (SLRe) as an equity contribution. The value of the investment and corresponding increase in contributed capital totaled \$364 million.

As a result of the combination of companies, the 2019 financial statements have been restated to reflect the combined results of Hannover Life Reassurance Company of America, Sand Lake Re and Hannover Life Reassurance Company of America (Bermuda) (the Group companies). The transaction was accounted for as an acquisition under common control using the predecessor value method, in accordance with the requirements IFRS 10 “Consolidated Financial Statements” The consolidated results are reported using the same valuation basis as the Parent Company. There were no shares of stock issued in the transaction.

The Company’s beginning surplus at January 1, 2019 has been restated to reflect the acquisition. As a result, equity has increased by \$791 thousand from the previously reported total of \$1.376 billion. Listed below are the pre-acquired separate company financial statements and adjustments for the full year ended December 31, 2019 (in thousands):

# HANNOVER LIFE REASSURANCE COMPANY OF AMERICA (BERMUDA) LTD.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

	HLRA Ber Unconsolidated 2019	HLRUS & SLRe Combined	Elimination Entries	HLRA Ber Consolidated 2019
<b>Balance Sheets</b>				
Total investments and cash under own management	\$ 1,082,791	\$ 3,330,548	\$ (63,000)	\$ 4,350,339
Funds withheld	3,341,764	3,524,569	(3,801,800)	3,064,533
Contract deposit assets	652,873	2,147,220	(2,510,472)	289,621
Deferred acquisition costs	-	159,821	270,554	430,375
Total other assets	825,596	2,949,600	(2,631,007)	1,144,189
<b>Total assets</b>	<b>5,903,024</b>	<b>12,111,758</b>	<b>(8,735,725)</b>	<b>9,279,057</b>
Claims reserves	857,354	1,006,820	(655,078)	1,209,096
Benefit reserves	1,361,119	2,343,503	(1,567,040)	2,137,582
Contract deposit liabilities	1,826,814	2,659,297	(1,941,070)	2,545,041
Total other liabilities	482,171	5,146,544	(4,408,328)	1,220,387
<b>Total liabilities</b>	<b>\$ 4,527,458</b>	<b>\$ 11,156,164</b>	<b>\$ (8,571,516)</b>	<b>\$ 7,112,106</b>
<b>Total shareholder's equity</b>	<b>\$ 1,375,566</b>	<b>\$ 955,594</b>	<b>\$ (164,209)</b>	<b>\$ 2,166,951</b>
<b>Total liabilities and shareholder's equity</b>	<b>\$ 5,903,024</b>	<b>\$ 12,111,758</b>	<b>\$ (8,735,725)</b>	<b>\$ 9,279,057</b>
<b>Income Statements</b>				
Net premiums earned	\$ 1,484,501	\$ 382,121	\$ (14,101)	\$ 1,852,521
Net investment income	268,125	92,529	(98,576)	262,078
<b>Total revenue</b>	<b>1,752,626</b>	<b>474,650</b>	<b>(112,677)</b>	<b>2,114,599</b>
Claims and claims expenses	(1,538,805)	(398,004)	-	(1,936,809)
Total other expenses	(12,932)	(15,904)	(152,771)	(181,608)
Total other income and expenses	36,688	26,626	177,607	240,921
<b>Income before taxes</b>	<b>237,577</b>	<b>87,368</b>	<b>(87,841)</b>	<b>237,103</b>
<b>Net income</b>	<b>\$ 187,664</b>	<b>\$ 68,684</b>	<b>\$ (69,395)</b>	<b>\$ 186,953</b>

### Covid-19

The protracted Covid-19 pandemic continues to adversely affect the profitability of the company in the early months of 2021. We anticipate negative impacts on the result for the first quarter. Overall, the volume of losses caused by Covid-19 is difficult to forecast owing to the uncertainties surrounding the further course of the pandemic.

## 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.

# HANNOVER LIFE REASSURANCE COMPANY OF AMERICA (BERMUDA) LTD.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

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### 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 4.5 to 4.10 of these financial statements.

## 3. Consolidation

### 3.1 Consolidation principles

The consolidation is carried out according to the requirements of IFRS 10 "Consolidated Financial Statements" on the basis of a consistent consolidation model for all entities that identifies control as the single basis for verifying the consolidation requirement, irrespective of whether control is substantiated in company law, contractually or economically. The accompanying consolidated financial statements include the accounts of the Company, HLRUS and SLRe.

### 3.2 Consolidation of business transactions within the Group

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Parent.

## 4. 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**

As a consequence of the reform of interest rate benchmarks – primarily Interbank Offered Rates (IBOR) – initiated by the G-20 countries, under which the existing reference rates are to be either redefined or replace with alternative reference rates by the end of 2021, the IASB launched a two phase project.

# HANNOVER LIFE REASSURANCE COMPANY OF AMERICA (BERMUDA) LTD.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

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The “Amendments to IFRS 9, IAS 39, and IFRS 17: Interest Rate Benchmark Reform” were published in September 2019 as a product of Phase 1. The amendments to these standards were adopted in January 2020 and are effective for financial years beginning on or after January 1, 2020. The changes relate to the period until the actual interest rate benchmark transition and are intended to ensure that existing hedging relationships can continue and new ones be designate despite the anticipated replacement of various reference rates. In addition, relief is provided for testing effectiveness. Initial application of these changes had no implications for the Company in the financial year.

In 2019 the IFRS 16 Leases standard was effective for the first time and had an impact on equity of \$1.3 million. In May 2020 the IASB issued “Amendment to IFRS 16 ‘Leases’: Covid-19-Related Rent Concessions” in order to facilitate for lessees the accounting of concessions, e.g. deferral of rent payments and rent reductions, granted in connection with the outbreak of the coronavirus pandemic. The amendment is applicable to financial years beginning on or after June 1, 2020 and was adopted in October 2020. Earlier application is permitted. The Company did not apply the amendment in the financial year.

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

- Amendments to IFRS 3 “Business Combinations”
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to References to the Conceptual Framework in IFRS standards

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

With the publication of IFRS 17 “Insurance Contracts” in May 2017, the IASB issued a standard that replaces the existing transitional arrangements of IFRS 4 and for the first time establishes a single common framework for the recognition, measurement and disclosure of insurance contracts, reinsurance contracts and investment contracts with discretionary participation features. In addition, IFRS 17 requires extensive new disclosures in the notes.

The measurement model of IFRS 17 requires entities to measure groups of insurance contracts based on estimates of discounted future cash flows with an explicit risk adjustment for non-financial risks (“fulfilment cash flows”) as well as a contractual service margin, representing the expected (i.e. unearned) profit for the provision of insurance coverage in the future.

Furthermore, the standard fundamentally changes the presentation in the consolidated statement of income and introduces the new concept of insurance revenue instead of the disclosure of gross written premium. Insurance revenue is reported when it is earned by recognizing in each period the changes in the liability for providing coverage for which the insurance entity receives compensation as well as the part of the premiums that covers acquisition costs. Receipts and payments relating to savings components are not recognized as revenue or as profit or loss in the statement of income. Insurance finance income and expenses result from discounting effects and financial risks. In accordance with the transition choices offered by IFRS 17, for each portfolio of insurance contracts they may be recognized either in profit or loss in the statement of income or directly in equity.

Changes in assumptions that do not relate to interest rates or financial risks are not recognized directly in the statement of income but are booked against the contractual service margin and hence spread across the remaining coverage period. Recognition in profit or loss is only immediate in the case of those groups of insurance contracts that are expected to be loss-making. Initial application of the

# HANNOVER LIFE REASSURANCE COMPANY OF AMERICA (BERMUDA) LTD.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

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standard was originally mandatory on a retrospective basis for annual reporting periods beginning on or after January 1, 2021.

In view of the considerable complexity of the rules and the associated implementation effort, the IASB published an exposure draft of proposed amendments to IFRS 17 in June 2019, including deferral of the date of the standard's initial application to annual reporting periods beginning on or after January 1, 2022 and other content-related changes. Based on this draft and having regard to additional content-related changes, the IASB issued "Amendments to IFRS 17" in June 2020, thereby deferring the date of initial application of the standard including the changes for another year, i.e. to financial years beginning on or after January 1, 2023.

The exemption from initial application of IFRS 9 "Financial Instruments" granted to insurance and reinsurance entities has similarly been extended until January 1, 2023, thereby continuing to facilitate first-time application of both standards at the same time. In this connection, we would also refer to our remarks on IFRS 9 in this section.

Given that the standard affects the Company's core business activity, major implications are expected for the consolidated financial statement. In view of the special significance of the new accounting rules, a multi-year implementation project was launched back in 2017 to explore the implications of the standard for the consolidated financial statement – including the interdependency with IFRS 9 – and the necessary implementation steps were defined and initiated. Based on the elaboration of the accounting foundations, the implementation of extensive adjustments to processes and systems that began in 2019 continued in the year under review. Further development and testing activities, including an analysis of the implications of the standard for Group financials, are planned for 2021. The effects on the consolidated financial statement cannot yet be quantified at the current time.

In July 2014 the IASB published the first version of IFRS 9 "Financial Instruments" (last amended in October 2017), which supersedes all previous versions of this standard and replaces the existing IAS 39 "Financial Instruments: Recognition and Measurement". The standard contains requirements governing classification and measurement, impairment based on the new expected credit loss impairment approach and general hedge accounting. The new classification requirements result in more financial instruments being measured at fair value through profit or loss. Initial mandatory application of the standard is set for annual periods beginning on or after January 1, 2018. In September 2016, however, the IASB published "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)" and in June 2020 "Amendments to IFRS 4: Extension of the Temporary Exemption from Applying IFRS 9". Under the deferral approach provided for in the amendments, entities whose predominant activity is issuing insurance and reinsurance contracts within the scope of IFRS 4 are granted an optional temporary exemption from recognizing their financial instruments in accordance with IFRS 9 until probable entry into force of IFRS 17 on January 1, 2023. The Company reviewed the application requirements based on the financial statement as December 31, 2015 with a positive outcome and decided to make use of the deferral approach. Since the review of the application requirements, there has been no change in business activity that would have necessitated a re-evaluation of the predominant activity.

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.

The IFRS 9 implementation project is running parallel to and in close coordination with the IFRS 17 implementation project. Disclosures regarding the fair values of financial instruments currently in the portfolio split according to the cash flow criterion as well as disclosures about the credit risks of

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securities that solely generate payments of principal and interest are provided in section 7 of the notes to the consolidated financial statement “Investments under own management”. This information is intended to facilitate some comparability with entities that are already applying IFRS 9.

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

### Further IFRS Amendments and Interpretations:

<b>Published:</b>	<b>Title</b>	<b>Initial Application to annual periods beginning on or after the following date:</b>
January/July 2020	Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current – Deferral of Effective Date	January 1, 2023
May 2020	Amendments to IFRS 3 Business Combinations: Reference to the Conceptual Framework	January 1, 2022
May 2020	Amendments to IAS 16 Property, Plant and Equipment: PP&E: Proceeds before Intended Use	January 1, 2022
May 2020	Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts Costs of Fulfilling a Contract	January 1, 2022
May 2020	Annual Improvements 2018 – 2020: IFRS 1, IFRS 9, IFRS 16, IAS 41	January 1, 2022

### 4.1 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 classified as investment contracts and recognized using the “deposit accounting” method. Income and expenses on the underlying contract are recognized

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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 20). The gross balances are shown as contract deposits assets or liabilities in the Balance Sheets (Note 10 and 15).

### *(a). Premium written*

Insurance contracts are classified as either "short-duration" contracts or "long-duration" contracts. The determinative criteria are, among other things, 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.

## **4.2 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.

## **4.3 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.

## **4.4 Finance costs**

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

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## 4.5 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'



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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.

## **4.6 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 not 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.

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### **4.7 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.

### **4.8 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.

### **4.9 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 Statements of Cash Flows under operating activities.

### **4.10 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.

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

### 4.11 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.

### 4.12 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. Reserves are based on the cedent reported data, which typically is 3 to 6 months lag, projected forward to the valuation date.

Projected claims and premium are based on best estimate assumptions with a provision for adverse deviation.

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. The determination of premium deficiency is undertaken at a unit of account level. One unit of account spans across all traditional mortality solutions business while other business are tested on a more granular basis.

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.

### 4.13 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

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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.

### 4.14 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.

### 4.15 Loans and borrowings

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

### 4.16 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.

### 4.17 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.

### 4.18 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.

## 5. 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.

### 5.1 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:

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- 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.

### 5.2 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.

### 5.3 Insurance risk

#### 5.3.1 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

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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 16.

## **5.3.2 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, 2020 under a range of insurance stresses.

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USD'000s	Best estimate (asset)/liability	Increase/(decrease) in best estimate (asset)/liability	% Change
Best Estimate	\$ 2,882,754		
Risk-free yield - 50 bps	3,120,202	237,448	8.24%
Risk-free yield + 50 bps	2,688,225	(194,529)	-6.75%
Risk-free yield -100 bps	3,344,814	462,060	16.03%
Risk-free yield +100 bps	2,528,080	(354,674)	-12.30%
Mortality business: Mortality -5%	1,163,588	(1,719,166)	-59.64%
Mortality business: Mortality +5%	4,075,417	1,192,663	41.37%
Mortality business: Mortality +10%	4,852,361	1,969,607	68.32%
Mortality business: Mortality +15%	5,437,123	2,554,369	88.61%
Pandemic: Mortality +50% in the first year	3,718,077	835,323	28.98%
Pandemic: mortality +100% in the first year	4,554,156	1,671,402	57.98%
Pandemic: Mortality +400% in the first year	9,600,076	6,717,322	233.02%
Pandemic: mortality + 1.5‰ in the first year	3,833,110	950,356	32.97%
LapseMass 40% / 70% for group life business	2,849,110	(33,644)	-1.17%
Lapse -10%	2,767,118	(115,636)	-4.01%
Lapse +10%	2,943,729	60,975	2.12%
Lapse -50%	1,432,886	(1,449,868)	-50.29%
Lapse +50%	3,148,422	265,668	9.22%

### 5.3.3 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.

### 5.4 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 and derivatives securities investment portfolio:

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	2020		2019	
	P&L	Equity	P&L	Equity
<b>Fixed-income securities</b>				
+100 basis point shift in yield curves	\$ -	\$ (505,786)	\$ -	\$ (473,462)
-100 basis point shift in yield curves	-	144,452	-	222,776
<b>Derivative Securities</b>				
+100 basis point shift in yield curves	\$ -	\$ 2,848	\$ -	\$ 3,076
-100 basis point shift in yield curves	-	(1,501)	-	(2,199)

## 5.5 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:



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	December 31, 2020								
	AAA	AA	A	BBB	BB	B	CCC	NR	Total
Fixed-income securities-available-for-sale	\$ 1,318,148	\$ 516,823	\$ 775,344	\$ 1,275,596	\$ 68,182	\$ 28,598	\$ 2,478	\$ 1,304	\$ 3,986,473
Other invested assets - available-for-sale	-	-	-	-	-	-	-	79,506	79,506
Loan Receivable	-	-	-	-	-	-	-	356,579	356,579
Funds withheld	-	10,150	285,112	(72)	54,405	303	-	2,627,506	2,977,404
Reinsurance recoverables	-	12,193	346	168,270	-	-	-	1,396	182,205
Claims Recoverables	-	37,510	5,391	19,511	-	-	-	3,552	65,964
Derivative receivable, net – at fair value through P&L (2)	-	-	-	-	-	-	-	54,877	54,877
Accounts receivable	-	178,155	271,982	35,036	6,554	2,976	-	282,743	777,447

	December 31, 2019								
	AAA	AA	A	BBB	BB	B	CCC	NR	Total
Fixed-income securities-available-for-sale	\$ 1,182,332	\$ 531,502	\$ 918,831	\$ 1,443,763	\$ 39,315	\$ 25,890	\$ 3,084	\$ 1,919	\$ 4,146,636
Other invested assets - available-for-sale	-	-	-	-	-	-	-	71,102	71,102
Loan Receivable	-	-	-	-	-	-	-	501	501
Funds withheld	-	29,530	311,667	(80)	56,231	303	-	2,666,883	3,064,534
Reinsurance recoverables	-	13,890	1,475	175,651	-	-	-	7	191,023
Claims Recoverables	-	59,452	10,084	20,856	-	-	-	809	91,201
Derivative receivable, net – at fair value through P&L	-	-	-	-	-	-	-	71,884	71,884
Accounts receivable	-	276,626	255,658	56,772	8,895	5,413	-	172,282	775,646

\* Included in the Derivative receivable, net –at fair value through P&L as December 31, 2020 is USD \$18.4 million (2019: \$25.2 million) of B36 – Derivative instruments (unbundled from insurance contracts).

## 5.6 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.

## 6. 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	2020		2019	
	Amortised cost	Fair Value 1	Amortised cost	Fair Value 1
Due in one year	\$ 67,117	\$ 68,382	\$ 110,813	\$ 112,228
Due after one through two years	137,009	143,200	135,090	139,056
Due after two through three years	220,833	236,457	182,939	189,246
Due after three through four years	208,160	228,516	241,757	252,863
Due after four through five years	236,612	261,988	238,152	251,452
Due after five years through ten years	1,182,593	1,328,733	1,507,456	1,603,341
Due after more than ten years	1,461,806	1,719,197	1,455,249	1,598,450
Total	\$ 3,514,130	\$ 3,986,473	\$ 3,871,456	\$ 4,146,636

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Other invested assets -Available for sale	2020		2019	
	Amortised cost	Fair Value 1	Amortised cost	Fair Value 1
Due in one year	\$ -	\$ -	\$ 250	\$ 250
Due after one through two years	-	-	-	-
Due after two through three years	20,666	21,189	14,900	15,297
Due after three through four years	-	-	-	-
Due after four through five years	-	-	-	-
Due after five years through ten years	23,277	24,593	31,999	33,236
Due after more than ten years	30,570	33,724	21,125	22,319
Total	\$ 74,513	\$ 79,506	\$ 68,274	\$ 71,102

## 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.

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

	2020				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
<b>Available for Sale</b>					
Fixed income securities					
US treasury notes	\$ 1,090,916	\$ 167,135	\$ (2,495)	\$ 5,116	\$ 1,260,672
Debt securities issued by semi-governmental entities	366,628	42,095	(835)	4,544	412,432
Corporate securities	2,056,586	237,029	(1,390)	21,144	2,313,369
Total	\$ 3,514,130	\$ 446,259	\$ (4,720)	\$ 30,804	\$ 3,986,473
Other invested assets	\$ 74,512	\$ 4,157	\$ -	\$ 837	\$ 79,506
Total	\$ 74,512	\$ 4,157	\$ -	\$ 837	\$ 79,506
	2019				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
<b>Available for Sale</b>					
Fixed income securities					
US treasury notes	\$ 1,012,805	\$ 59,138	\$ (3,309)	\$ 5,322	\$ 1,073,956
Debt securities issued by semi-governmental entities	390,281	24,132	(1,026)	4,895	418,282
Corporate securities	2,468,370	161,968	(3,101)	27,161	2,654,398
Total	\$ 3,871,456	\$ 245,238	\$ (7,436)	\$ 37,378	\$ 4,146,636
Other invested assets	\$ 68,274	\$ 1,845	\$ -	\$ 983	\$ 71,102
Total	\$ 68,274	\$ 1,845	\$ -	\$ 983	\$ 71,102

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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.

Effective July 1st, 2021, the company entered into agreements to transfers invested assets to a third party in return for a scheduled quarterly repayment of principal and fixed interest at 2.35%. The instrument is classified as a loan receivable and collateral supporting the loan is held in trust for the benefit of the Company.

### Rating structure of fixed income securities

	2020								Total
	AAA	AA	A	BBB	BB	B	CCC	Other	
Fixed-income securities-available-for-sale	1,318,148	516,823	775,344	1,275,596	68,182	28,598	2,478	1,304	3,986,473
Other invested assets - available-for-sale	-	-	-	-	-	-	-	79,506	79,506
	2019								Total
	AAA	AA	A	BBB	BB	B	CCC	Other	
Fixed-income securities-available-for-sale	1,182,332	531,502	918,831	1,443,763	39,315	25,890	3,084	1,919	4,146,636
Other invested assets - available-for-sale	-	-	-	-	-	-	-	71,102	71,102

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

## 7. 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.
- 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.

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	2020			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 93,848	\$ -	\$ -	\$ 93,848
Fixed income securities—available for sale	-	3,986,473	-	3,986,473
Other invested assets - available for sale	-	-	79,506	79,506
Equity Securities	-	-	48,563	48,563
Short-term investments	613	-	-	613
Investment in associated companies (not cons.)	-	-	15,000	15,000
Derivative asset – at fair value through profit and loss	-	18,350	36,527	54,877
Total assets carried at fair value	<u>\$ 94,461</u>	<u>\$ 4,004,823</u>	<u>\$ 179,596</u>	<u>\$ 4,278,880</u>
Derivative liabilities – at fair value through profit and loss	<u>\$ -</u>	<u>\$ (29,117)</u>	<u>\$ -</u>	<u>\$ (29,117)</u>
Total liabilities carried at fair value	<u>\$ -</u>	<u>\$ (29,117)</u>	<u>\$ -</u>	<u>\$ (29,117)</u>

  

	2019			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 62,372	\$ -	\$ -	\$ 62,372
Fixed income securities—available for sale	-	4,146,636	-	4,146,636
Other invested assets - available for sale	-	250	70,852	71,102
Equity Securities	-	-	54,728	54,728
Investment in associated companies (not cons.)	-	-	15,000	15,000
Derivative asset – at fair value through profit and loss	-	25,190	46,694	71,884
Total assets carried at fair value	<u>\$ 62,372</u>	<u>\$ 4,172,076</u>	<u>\$ 187,274</u>	<u>\$ 4,421,722</u>
Derivative liabilities – at fair value through profit and loss	<u>\$ -</u>	<u>\$ (19,166)</u>	<u>\$ -</u>	<u>\$ (19,166)</u>
Total liabilities carried at fair value	<u>\$ -</u>	<u>\$ (19,166)</u>	<u>\$ -</u>	<u>\$ (19,166)</u>

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.

	2020			
	Other invested assets - available for sale	Equity securities	Investment in associated companies (not cons.)	Derivative asset - at fair value through profit and loss
<b>Balance as at January 1</b>	\$ 70,852	\$ 54,728	\$ 15,000	\$ 46,694
Additions	4,497	3,550	-	-
Disposals	-	(8,759)	-	(45,048)
Unrealised gains with effect on profit and loss	-	-	-	34,882
Unrealized gains OCI /Realisation OCI	4,157	171	-	-
Unrealized losses OCI / Realisation OCI	-	(1,128)	-	-
<b>Balance as at December 31</b>	<u>\$ 79,506</u>	<u>\$ 48,563</u>	<u>\$ 15,000</u>	<u>\$ 36,527</u>

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	2019			
	Other invested assets - available for sale	Equity securities	Investment in associated companies (not cons.)	Derivative asset - at fair value through profit and loss
<b>Balance as at January 1</b>	\$ 56,767	\$ 45,789	\$ 14,751	\$ 56,778
Additions	12,490	12,194	2,374	-
Disposals	(250)	(2,414)	(2,125)	(44,261)
Unrealised gains with effect on profit and loss	-	-	-	34,178
Unrealized gains OCI /Realisation OCI	1,845	112	-	-
Unrealized losses OCI / Realisation OCI	-	(952)	-	-
<b>Balance as at December 31</b>	<b>\$ 70,852</b>	<b>\$ 54,728</b>	<b>\$ 15,000</b>	<b>\$ 46,694</b>

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 IFRS 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.

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	2020			
	Financial assets that give rise solely to payments of principal and interest		All other financial assets	
	Fair value	Fair value	Fair value	Fair value
	Fair value as of December 31st	change in the financial year	Fair value as of December 31st	change in the financial year
Fixed income securities -available for sale	\$ 3,964,976	\$ 226,493	\$ 21,497	\$ -
Other invested assets -available for sale	79,506	4,157	-	-
Derivative linked to insurance risk	-	-	54,877	-
Equity Securities	-	-	48,563	-
Short-term investments	-	-	613	-
Total Financial Assets	<u>\$ 4,044,482</u>	<u>\$ 230,650</u>	<u>\$ 125,550</u>	<u>\$ -</u>

	2019			
	Financial assets that give rise solely to payments of principal and interest		All other financial assets	
	Fair value	Fair value	Fair value	Fair value
	Fair value as of December 31st	change in the financial year	Fair value as of December 31st	change in the financial year
Fixed income securities -available for sale	\$ 4,123,898	\$ 275,687	\$ 22,738	\$ -
Other invested assets -available for sale	70,852	1,845	250	-
Derivative linked to insurance risk	-	-	71,884	-
Equity Securities	-	-	54,728	-
Total Financial Assets	<u>\$ 4,194,750</u>	<u>\$ 277,532</u>	<u>\$ 149,600</u>	<u>\$ -</u>

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	2020	2019
	Gross Value	Gross Value
AAA	1,317,015	1,181,112
AA	516,078	530,516
A	770,453	914,049
BBB	1,264,474	1,432,771
BB or lower	96,953	65,449
No Rating	79,509	70,853
Total	<u>\$ 4,044,482</u>	<u>\$ 4,194,750</u>

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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.

### 8. Participating interest other companies

The participating interest other companies is recognized and measure based on the respective applicable IFRS for this type of asset. The carrying amount of the participating interest other companies is as follows for 2020 and 2019:

#### **Investments in associated companies**

	<u>2020</u>	<u>2019</u>
Net book value at 31 December of the previous year	15,000	14,751
Additions	-	249
Disposals	-	-
Profit or loss on investments in associated companies	-	-
Dividend payments	-	-
Net book value at 31 December of the year under review	<u>15,000</u>	<u>15,000</u>

### 9. Funds withheld

The funds withheld assets totaling \$3.0 billion (2019: \$3.0 billion) represent the cash and securities deposits furnished to the Company by cedants (or by the Company to affiliated cedants 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. Funds held liabilities totaling \$227.5 million and \$230.5 million for 2020 and 2019 respectively. In the event of default on such a deposit the Company's reinsurance commitment is reduced to the same extent.

### 10. Contract deposits assets

Contract deposits assets totaling \$293.9 million (2019: \$289.6 million) include consideration paid for acquiring the reinsurance contracts. Insurance contracts are accounted for under the "deposit accounting" method.

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

	<u>2020</u>		<u>2019</u>	
	<u>Derivative Assets</u>	<u>Derivative Liabilities</u>	<u>Derivative Assets</u>	<u>Derivative Liabilities</u>
Derivative instruments	\$ 36,527	\$ (29,117)	\$ 46,694	\$ (19,166)
Embedded derivatives	18,350	-	25,190	-
Total derivatives	<u>\$ 54,877</u>	<u>\$ (29,117)</u>	<u>\$ 71,884</u>	<u>\$ (19,166)</u>

#### **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

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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 included in the consolidated balance sheet. The net fair value of these instruments as of December 31, 2020 was \$36.5 million (2019: \$46.7 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.

Details of the structured transactions at December 31, 2020 and 2019 are the following (amounts in \$ millions):

Transaction No.	Effective Date	Initial Term (years)	2020				
			Notional Value	Peak Notional Value	Fair Value Asset	Fair Value Liability	Fair Value Net
1	7/31/2014	15	\$ 1,290	\$ 1,512	\$ 9	\$ 9	\$ -
2	9/30/2014	25	899	1,110	57	32	25
3	12/12/2014	20	72	107	2	2	-
4	2/18/2015	20	225	1,000	28	28	-
5	12/31/2016	15	208	208	2	2	-
6	3/29/2017	20	733	1,000	5	5	-
7	6/29/2017	20	371	500	4	4	-
8	7/1/2017	15	927	1,020	25	13	12
9	7/27/2018	20	677	900	5	5	-
10	9/30/2019	15	333	411	3	3	-
Total			\$ 5,735	\$ 7,768	\$ 140	\$ 103	\$ 37

Transaction No.	Effective Date	Initial Term (years)	2019				
			Notional Value	Peak Notional Value	Fair Value Asset	Fair Value Liability	Fair Value Net
1	07/31/14	15	\$ 1,137	\$ 1,512	\$ 14	\$ 14	\$ -
2	09/30/14	25	872	1,110	59	32	27
3	12/12/14	20	71	107	2	2	-
4	02/18/15	20	25	1,000	27	27	-
5	01/15/16	18	738	738	8	8	-
6	12/31/16	15	242	242	2	2	-
7	03/29/17	20	733	1,000	7	7	-
8	06/29/17	20	394	500	5	5	-
9	07/01/17	15	971	1,020	38	18	20
10	07/27/18	20	738	900	7	7	-
11	09/30/19	15	202	411	3	3	-
Total			\$ 6,123	\$ 8,540	\$ 172	\$ 125	\$ 47

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 \$24.9 million (2019: \$15.0 million) and reflected in Ordinary investment income on the Statements of Income.



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Transaction	Maturity	2020	2019
		Total Return Swap	Total Return Swap
1	July 15, 2028	\$ 3,437	\$ 3,958
2	February 15, 2042	25,680	15,208
		<u>\$ 29,117</u>	<u>\$ 19,166</u>

In February 2019, the Company entered into two derivative transactions with an affiliate, Hannover Ruck 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 \$120.0 million par value of TIPS having a contractual maturity date of July 15, 2028 and \$100.0 million par value of TIPS having a contractual maturity date of February 15, 2042. During 2020, the Company received settlement payments of \$4.6 million under the total return swap agreement for the TIPS maturing in 2028 and the Company made net settlement payments of \$1.4 million under the total return swap agreement for the TIPS maturing in 2042. At December 31, 2020, the Company recognized a liability of \$3.4 million and \$25.7 million from the fair values of the total return swap agreement for the TIPS maturing in 2028 and 2042, respectively.

During 2019, the Company made a settlement payment of \$657 thousand under the total return swap agreement for the TIPS maturing in 2028 and the Company received \$1.3 million from settlement payments under the total return swap agreement for the TIPS maturing in 2042. At December 31, 2019, the Company recognized a liability of \$4.0 million and \$15.2 million 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

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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 loss for the year totaled \$6.8 million (2019: \$8.9 million unrealized gain).

### 12. Accounts receivable & accounts payable

For further explanatory remarks please see section 4.1 'Summary of major accounting policies'. All amounts presented in the balance sheet at amortized cost approximate to fair value.

### 13. Deferred acquisition costs (DAC)

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

The following table shows the DAC development for 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Net book Value at January 1	\$ 430,375	\$ 440,523
Additions	55,556	58,933
Amortisations	<u>(45,376)</u>	<u>(69,082)</u>
Net book Value at December 31	<u>\$ 440,555</u>	<u>\$ 430,375</u>

### 14. Other assets and liabilities

Other assets totaling \$11.2 million (2019: \$14.4 million) and other liabilities totaling \$144.2 million (2019: \$199.8 million) consists of the following at December 31, 2020 and 2019:

	<u>Other assets</u>	
	<u>2020</u>	<u>2019</u>
Prepaid reinsurance premiums	\$ -	\$ 4
Advances paid	386	1,117
Office equipment	556	1,545
Real estate used for own purposes	6,882	9,453
Prepaid expenses	546	-
Accrued interest and rent	891	1,103
Other receivables	<u>1,915</u>	<u>1,212</u>
Total	<u>\$ 11,176</u>	<u>\$ 14,434</u>

# HANNOVER LIFE REASSURANCE COMPANY OF AMERICA (BERMUDA) LTD.

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	<b>Other liabilities</b>	
	<b>2020</b>	<b>2019</b>
Provision share awards	\$ 6,324	\$ 8,296
Holiday, bonuses and overtime	9,107	8,316
Accrued interest	11,563	11,458
Other accrued and deferred items	97,972	102,189
Contract liabilities - IFRS 15	8,889	9,444
Lease liabilities	7,275	9,755
Income tax payable	-	4,083
Other liabilities	3,116	46,293
Total	<b>\$ 144,246</b>	<b>\$ 199,834</b>

### 15. 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 sheet.

	<b>2020</b>			<b>2019</b>		
	<b>Gross</b>	<b>Retro</b>	<b>Net</b>	<b>Gross</b>	<b>Retro</b>	<b>Net</b>
Benefit reserves	\$ 1,979,851	\$ 182,205	\$ 1,797,646	\$ 2,137,582	\$ 191,023	\$ 1,946,559
Contract Deposit Liabilities	2,549,501	-	2,549,501	2,545,040	-	2,545,040
Total	<b>\$ 4,529,352</b>	<b>\$ 182,205</b>	<b>\$ 4,347,147</b>	<b>\$ 4,682,622</b>	<b>\$ 191,023</b>	<b>\$ 4,491,599</b>

### 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 4 "Summary of significant accounting policies."

	<b>2020</b>			<b>2019</b>		
	<b>Gross</b>	<b>Retro</b>	<b>Net</b>	<b>Gross</b>	<b>Retro</b>	<b>Net</b>
Due in one year	\$ 358,368	\$ 11,616	\$ 346,752	\$ 321,603	\$ 10,657	\$ 310,946
Due one through five years	1,016,287	39,610	976,677	1,063,313	28,237	1,035,076
Due five through ten years	745,020	39,398	705,622	823,224	12,979	810,245
Due ten through twenty years	944,457	53,805	890,652	862,157	57,589	804,568
Due after twenty years	1,465,220	37,776	1,427,444	1,612,325	81,561	1,530,764
Total	<b>\$ 4,529,352</b>	<b>\$ 182,205</b>	<b>\$ 4,347,147</b>	<b>\$ 4,682,622</b>	<b>\$ 191,023</b>	<b>\$ 4,491,599</b>

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 13. Benefit reserves; profit commission reserves and DAC are calculated using a net premium valuation methodology, as required under provisions of US GAAP.

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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 for FAS60 business 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 2020.

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

### Development of benefit reserves

A rollforward of reinsurance reserves is as follows:

	2020			2019		
	Gross	Retro	Net	Gross	Retro	Net
Balance as at January 1	\$ 4,682,622	\$ 191,023	\$ 4,491,599	\$ 4,873,482	\$ 131,812	\$ 4,741,670
Current year development	(153,270)	(8,818)	(144,452)	32,808	59,211	(26,403)
Portfolio entries/withdrawals	-	-	-	(223,668)	-	(223,668)
Balance as at December 31	\$ 4,529,352	\$ 182,205	\$ 4,347,147	\$ 4,682,622	\$ 191,023	\$ 4,491,599

### 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:

	2020			2019		
	Gross	Retro	Net	Gross	Retro	Net
Balance as at January 1	\$ 1,209,096	\$ 91,201	\$ 1,117,895	\$ 1,122,687	\$ 74,588	\$ 1,048,099
Current year development	43,214	(25,237)	68,451	86,112	13,418	72,694
Portfolio entries/withdrawals	-	-	-	297	3,195	(2,898)
Balance as at December 31	\$ 1,252,310	\$ 65,964	\$ 1,186,346	\$ 1,209,096	\$ 91,201	\$ 1,117,895

Claims with a Covid-19 cause of death increased the losses on the year-end December 31, 2020 by \$166.2 million.

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### 16. Loans and borrowings

The following table provides a listing of the subordinated loans held by the Company as of December 31, 2020.

Lender	Principal ('000s)	Interest Rate	Inception	Maturity	Interest accrued ('000)	Interest paid current year ('000s)
Hannover Finance, Inc.	\$ 2,500	6.67%	March 17, 2014	March 17, 2054	\$ 85	\$ 170
Hannover Ruck	238,000	4.60%	March 27, 2018	April 15, 2038	5,596	5,535
Hannover Finance, Inc.	75,000	4.20%	September 30, 2020	September 30, 2040	1,438	2,859
Hannover Ruck	50,000	3.58%	September 22, 2016	September 22, 2046	915	1,820
Hannover Ruck	75,000	4.60%	December 23, 2016	December 23, 2046	1,763	3,508
Hannover RE (Ireland)	5,000	3.32%	January 20, 2016	March 15, 2065	85	169
Hannover RE (Ireland)	5,000	3.48%	July 1, 2016	March 15, 2065	89	177
	<u>\$ 450,500</u>				<u>\$ 9,970</u>	<u>\$ 14,237</u>

The carrying amounts of the loans are close approximation of their fair value, which is estimated at December 31, 2020 and 2019 to be \$450.5 million. All principal payments are only due upon maturity.

### 17. 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 \$350.0 million (2019: \$188.0 million).

On September 30, 2019 the Company declared an ordinary stockholder dividend to its parent in the amount of \$27.0 million payable on May 2020.

On December 30, 2019 the Company paid an ordinary stockholder dividend to its parent in the amount of \$14.7 million.

On December 30, 2019 the Company issued a short-term note payable to its parent in the amount of \$14.7 million. The note was paid on April 3, 2020.

On February 18, 2020 the Company paid an ordinary stockholder dividend to its parent in the amount of \$40.3 million.

On February 18, 2020 the Company issued a short-term note payable to its parent in the amount of \$40.3 million. The note was paid on April 3, 2020.

On September 15, 2020 the Company paid an ordinary stockholder dividend to its parent in the amount of \$11.8 million.

On November 12, 2020 the Company paid an ordinary stockholder dividend to its parent in the amount of \$7.0 million.

### 18. Gross written premium

Gross written premium was \$1.9 billion (2019: \$2.1 billion) for the period ended December 31, 2020 and originates from cedants based in the United States of America.

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### 19. Investment income

Net investment income was \$294.3 million (2019: \$262.1 million) for the period ended December 31, 2020 and consists of the following components:

	<u>2020</u>	<u>2019</u>
Interest Income <sup>2</sup>	\$ 151,557	\$ 157,813
Ordinary investment income	151,557	157,813
Realised gains on investments	89,913	25,788
Realised losses on investments	(7,243)	(5,035)
Unrealized (losses) and gains on investments	(6,839)	8,896
Insurance derivative income	24,930	15,011
Other investment expenses	(8,780)	(6,823)
Net income from assets under own management	243,538	195,650
Interest income on funds withheld and contract deposits	179,079	147,958
Interest expense on funds withheld and contract deposits	(128,304)	(81,530)
Net investment income	<u>\$ 294,313</u>	<u>\$ 262,078</u>

<sup>2</sup> Interest Income from Fixed - income securities - available for sale

An impairment loss was recognized of \$1.7 million on fixed income securities in the year under review.

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

	<u>2020</u>					
	<u>Ordinary investment income</u>	<u>Realised gains and losses</u>	<u>Unrealised gains and losses</u>	<u>Investment expenses</u>	<u>Insurance derivative income</u>	<u>Net income from assets under own management</u>
Available for sale- Fixed income securities	\$ 151,557	\$ 82,670	\$ -	\$ (8,780)	\$ -	\$ 225,447
At fair value through profit and loss						
Derivative assets	-	-	(6,839)	-	24,930	18,091
Total	<u>\$ 151,557</u>	<u>\$ 82,670</u>	<u>\$ (6,839)</u>	<u>\$ (8,780)</u>	<u>\$ 24,930</u>	<u>\$ 243,538</u>

	<u>2019</u>					
	<u>Ordinary investment income</u>	<u>Realised gains and losses</u>	<u>Unrealised gains and losses</u>	<u>Investment expenses</u>	<u>Insurance derivative income</u>	<u>Net income from assets under own management</u>
Available for sale- Fixed income securities	\$ 157,813	\$ 20,753	\$ -	\$ (6,823)	\$ -	\$ 171,743
At fair value through profit and loss						
Derivative assets	-	-	8,896	-	15,011	23,907
Total	<u>\$ 157,813</u>	<u>\$ 20,753</u>	<u>\$ 8,896</u>	<u>\$ (6,823)</u>	<u>\$ 15,011</u>	<u>\$ 195,650</u>

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### 20. Other income and expenses

Other income and expenses totaled \$299.8 million (2019: \$260.7 million) and consists of the following:

	<u>2020</u>	<u>2019</u>
<b>Other income</b>		
Income from contracts recognised in accordance with the deposit accounting method	\$ 272,256	\$ 272,275
Other interest income relating to financial guarantees	37,844	9,473
Other income	<u>16,168</u>	<u>21,694</u>
Total other income	<u>326,268</u>	<u>303,442</u>
<b>Other expenses</b>		
Expenses from contracts recognised in accordance with the deposit accounting method	(16,073)	(33,316)
Sundry expenses	<u>(10,442)</u>	<u>(9,437)</u>
Total expenses	<u>(26,515)</u>	<u>(42,753)</u>
Total other income and expenses	<u>\$ 299,753</u>	<u>\$ 260,689</u>

### 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, 2020 and 2019 are as follows (amounts in \$ millions):

<u>Transaction No.</u>	<u>Effective Date</u>	<u>Initial Term (years)</u>	<u>Notional Value at December 2020</u>	<u>Notional Value at December 2019</u>
1	4/1/2014	20	\$ -	\$ 798.2
2	3/14/2016	13	<u>21.6</u>	<u>26.4</u>
		Total	<u>\$ 21.6</u>	<u>\$ 824.6</u>

The client terminated effective April 1, 2020 Transaction #1 and the Company received termination fee on the amount of \$32.8 million.

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

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considered probable. This was not the case as at the balance sheet date. The fee income of \$37.8 million (2019: \$9.5 million) is included in Other income and expenses on the Statements of Income.

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.

## 21. Taxes

Corporation tax is provided based on the profit or loss for the year. The Company is subject to USA corporation tax on qualifying trading operations at a rate of 21%. Corporation tax is recognized in the Statements 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:

	<u>2020</u>	<u>2019</u>
Actual tax for the year under review	\$ (43,727)	\$ 23,338
Deferred taxes due to temporary differences	<u>60,351</u>	<u>26,812</u>
Total	<u>\$ 16,624</u>	<u>\$ 50,150</u>

Current income taxes receivable at December 31, 2020 \$33.8 million (2019: income tax payable \$4.1 million). The following table presents a breakdown of the deferred tax assets and liabilities into the balance sheet items from which they are derived.



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	<u>2020</u>	<u>2019</u>
<b>Deferred tax assets</b>		
Derivative assets	\$ 41,152	\$ 6,744
Net operating losses	252,182	322,430
Investments	-	37,371
General expenses	3,449	3,518
Compensation	3,084	3,398
Sundry items	345	349
Total deferred tax assets	<u>300,213</u>	<u>373,810</u>
<b>Deferred tax liabilities</b>		
Investments	(80,842)	-
Deferred acquisition costs	(62,048)	(52,442)
Liabilities from reinsurance business	(422,339)	(482,312)
Depreciable fixed assets	<u>(1,543)</u>	<u>(2,196)</u>
Total deferred tax liabilities	<u>(566,772)</u>	<u>(536,949)</u>
Net deferred tax liability	<u>\$ (266,559)</u>	<u>\$ (163,139)</u>

HLRA Ber files a separate federal income tax return and HLRUS files a consolidated federal income tax return with Sand Lake Re, Inc. The net deferred tax liabilities of \$266.6 million include deferred tax assets in an amount of \$252.2 million that relates to carried forward tax losses, of which \$94.3 million belongs to HLRUS/SLRe tax return filing group and \$157.8 million belongs to HLRA Ber. During 2018, both tax return filing groups 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, management believes that sufficient taxable temporary differences and future taxable profits will continue to be available to offset the carried forward tax losses for both tax return filing groups. As such, the Company concluded that it is more likely than not that the deferred tax assets will be fully recoverable in the future.

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

The amount of tax cumulatively charged to other comprehensive income includes \$93.0 million for unrealized gains on available-for-sale securities. (2019: \$50.0 million).

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

	<u>2020</u>	<u>2019</u>
Profit before taxes on income	\$ 24,729	\$ 49,792
CARES Act carryback rate benefit	(8,214)	-
Nondeductible expenses	179	210
Other	<u>(69)</u>	<u>150</u>
Actual expense for income taxes	<u>\$ 16,624</u>	<u>\$ 50,152</u>

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### 22. 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.

Income statement	2020			2019		
	Hannover Finance, Inc. (Parent)	Companies related through common control	Total	Hannover Finance, Inc. (Parent)	Companies related through common control	Total
Net Premium Earned	\$ -	\$ (32,331)	\$ (32,331)	\$ -	\$ 64,698	\$ 64,698
Net Investment Income	-	(11,557)	(11,557)	-	(23,050)	(23,050)
Total Revenues	-	(43,888)	(43,888)	-	41,648	41,648
Total Expenses	368	4,830	5,198	350	7,701	8,051
Other income (expenses)	1,249	(34)	1,215	1,575	(907)	668
Finance Costs	(3,115)	(16,987)	(20,102)	(3,008)	(16,759)	(19,767)
Net income/(loss)	\$ (1,498)	\$ (56,079)	\$ (57,577)	\$ (1,083)	\$ 31,683	\$ 30,600

Balance sheet	2020			2019		
	Hannover Finance, Inc. (Parent)	Companies related through common control	Total	Hannover Finance, Inc. (Parent)	Companies related through common control	Total
Reinsurance Assets	\$ 242	\$ (21,897)	\$ (21,655)	\$ 295	\$ (24,060)	\$ (23,765)
Reinsurance liabilities	-	(9,166)	(9,166)	-	(9,208)	(9,208)
Loans and borrowings	(80,615)	(381,448)	(462,063)	(80,508)	(381,450)	(461,958)

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

### 23. 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 \$8.8 million (2019: \$6.8 million).

### 24. 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.

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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, 2020 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:

	<u>2020</u>
Total statutory capital and surplus	\$ 2,686,508
Non admitted assets	<u>-</u>
Statutory capital and surplus	2,686,508
Surplus Note	<u>(315,500)</u>
Total IFRS Shareholder's equity	<u>\$ 2,371,008</u>

## 25. 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.

## 26. Other Notes

### 26.1 Expenditures on personnel

The expenditures on insurance business, claims expenses (claims settlement) and expenditures on the administration of investments include the following personnel expenditures:

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<u>in USD thousands</u>	<u>2020</u>	<u>2019</u>
Wages and salaries	\$ 45,667	\$ 45,601
Social security contributions and expenditure on provision and assistance		
Social security contributions	\$ 2,745	\$ 2,506
Expenditure for pension provision	4,563	4,132
Expenditure for assistance	4,723	4,275
	<u>12,031</u>	<u>10,913</u>
Total personnel expenditures	<u>\$ 57,698</u>	<u>\$ 56,514</u>

### 26.2 Defined contribution plan

The Company have a defined contribution plan based on length of service and the employee's income or level of contributions. The expense recognized for these obligations in the financial year in accordance with IAS 19 "Employee Benefits" was \$4.6 million (2019: \$4.1 million).

### 26.3 Leases

The Company leases various office premises, technical facilities and office equipment. The following items were recognized in the consolidated balance sheets as of December 31, 2020 in other assets and other liabilities in connection with the leases:

<u>Leases in the Balance Sheets</u>	<u>2020</u>	<u>2019</u>
Own-use real estate	\$ 12,047	\$ 12,056
Fixtures, fitting and equipment	\$ 86	\$ 86
Lease liabilities	\$ 7,275	\$ 9,755

The following amounts were recognized in the consolidated statement of income in administrative expenses in connection with the leases:

<u>Amortization of right-of-use assets in connection with leases</u>	<u>2020</u>	<u>2019</u>
Own-use real estate	\$ 2,563	\$ 2,603
Fixtures, fitting and equipment	37	49
Total	<u>\$ 2,600</u>	<u>\$ 2,652</u>

The interest expenses for lease liabilities for 2020 totaled \$258 thousand and \$332 thousand for 2019. The total amounts payable for leases in 2020 came to \$7.3 million (2019: \$9.8 million).

# HANNOVER LIFE REASSURANCE COMPANY OF AMERICA (BERMUDA) LTD.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

The Company holds four leases at the end of December 31, 2020, the last one is set to expire by August 2024.

<u>Future minimum lease payments</u>	<u>Amounts</u>
2021	\$ 2,709
2022	2,177
2023	2,230
2024	541
2025	-
Subsequent years	-
	<u>\$ 7,657</u>

### 26.4 Assets on Deposit or Pledge as Collateral

As security for technical liabilities, the Company has established trust accounts, the securities held in the trust accounts are shown as available-for-sale investments and participating interest in other companies in the balance sheet. At December 31, 2020 and 2019, the amounts were as follows:

#### Assets on Deposit or Pledge as Collateral

	<u>December 31, 2020</u>		
	<u>Gross Restricted</u>		
	<u>Total General Account</u>	<u>Total from</u>	<u>Increase</u>
	<u>Current Year</u>	<u>Prior Year</u>	<u>(Decrease)</u>
<b>Asset Category</b>			
On deposit with states	\$ 2,720	\$ 2,487	\$ 233
FHLB Capital Stock	15,000	15,000	-
Pledged as reinsurance collateral - bonds	232,972	301,136	(68,164)
Total restricted assets	<u>\$ 250,692</u>	<u>\$ 318,623</u>	<u>\$ (67,931)</u>

	<u>December 31, 2019</u>		
	<u>Gross Restricted</u>		
	<u>Total General Account</u>	<u>Total from</u>	<u>Increase</u>
	<u>Current Year</u>	<u>Prior Year</u>	<u>(Decrease)</u>
<b>Asset Category</b>			
On deposit with states	\$ 2,487	\$ 2,293	\$ 194
FHLB Capital Stock	15,000	14,751	249
Pledged as reinsurance collateral - bonds	301,136	346,989	(45,852)
Total restricted assets	<u>\$ 318,624</u>	<u>\$ 364,032</u>	<u>\$ (45,409)</u>

### 27. Subsequent events

Management has evaluated subsequent events through the date of the issuance of these financial statements, May 3, 2021, and other than as discussed below, determined that there were no events or transactions during this period that were required to be recorded or disclosed in the financial statements.

In January 2021, a cedant of the company disposed of parts of its life insurance portfolio. In this context it was possible to partially dissolve or reorganize the collateralization structures that had been put in

# **HANNOVER LIFE REASSURANCE COMPANY OF AMERICA (BERMUDA) LTD.**

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place by the Parent Company in connection with the reinsurance of this portfolio. This restructuring resulted in a profit contribution in the order of \$156.1 million before tax in the first quarter of 2021.

The financial statements have been approved by the Management on May 3, 2021.