Hannover Life Reassurance Company of America (Bermuda) Ltd.

Consolidated Financial Statements

(With Report of Independent Auditors Thereon)

December 31, 2021 and 2020

Hannover Life Reassurance Company of America (Bermuda) Ltd.

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Report of Independent Auditors

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

Opinion

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, 2021 and 2020, and the related consolidated statements of income, of comprehensive income, of changes in stockholders' equity and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern for at least, but not limited to, twelve months from the end of the reporting period, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

PricewaterhouseCoopers LLP

April 26, 2022

Hannover Life Reassurance Company of America (Bermuda) Ltd.

Consolidated Balance Sheets

As of December 31, 2021 and 2020

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

	Note	2021	2020
Assets			
Cash and cash equivalents	7	$ 84,629	$ 93,848
Fixed–income securities - available for sale	6,7	4,246,909	3,986,473
Other invested assets - available for sale	6,7	59,609	79,506
Loan receivable	6	336,080	356,579
Equity securities	7	57,198	48,563
Short-term investments	7	-	613
Participating interest other companies	8	9,113	15,000
Total investments and cash under own management		**4,793,538**	**4,580,582**
Funds withheld	9	2,477,489	2,977,404
Contract deposit assets	10	476,191	293,865
Reinsurance recoverables	15	178,080	182,205
Claim recoverables	15	66,708	65,964
Derivative asset–at fair value through profit and loss	7,11	26,972	54,877
Accounts receivable	12	784,446	777,447
Deferred acquisition costs	13	439,831	440,555
Current income tax receivable	21	39,572	33,778
Other assets	14	33,732	11,176
Total assets		**$ 9,316,559**	**$ 9,417,853**
Liabilities			
Claims reserves	15	$ 1,374,578	$ 1,252,310
Benefit reserves	15	1,785,420	1,979,851
Contract deposit liabilities	15	2,646,670	2,549,501
Funds held	9	223,402	227,477
Derivative liability –no hedge accounting	7,11	29,185	29,117
Accounts payable	12	118,937	147,284
Deferred tax liability	21	226,815	266,559
Other liabilities	14	363,579	144,246
Loans and borrowings	16	450,500	450,500
Total liabilities		**7,219,086**	**7,046,845**
Shareholder's equity			
Authorized, issued and fully paid, 2,500,000 shares of $1 par value each	17	2,500	2,500
Additional paid-in capital		1,483,905	1,483,905
Retained earnings		407,243	534,567
Accumulated other comprehensive income	17	203,825	350,036
Total shareholder's equity		**2,097,473**	**2,371,008**
Total liabilities and shareholder's equity		**$ 9,316,559**	**$ 9,417,853**

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, 2021 and 2020
(Expressed in thousands of US Dollars, unless noted in millions)

	Note	2021	2020
Gross written premium	18	$ 2,039,521	$ 1,889,888
Ceded written premium		(122,510)	(137,160)
Change unearned premium reserve - net	4.1	462	(3,410)
Net premium earned		**1,917,473**	**1,749,318**
Ordinary investment income	19	157,054	151,557
Realised gains and (losses) on derivatives - net	19	16,521	82,670
Unrealised gains and (losses) on derivatives - net	19	(17,724)	(6,839)
Insurance derivative income	19	32,150	24,930
Other investment expenses	19	(39,604)	(8,780)
Interest income on funds withheld and contract deposits	19	353,529	179,079
Interest expense on funds withheld and contract deposits	19	(228,621)	(128,304)
Net investment income		**273,305**	**294,313**
Total revenues		**2,190,778**	**2,043,631**
Claims and claims expenses	4.13	(2,360,283)	(2,069,990)
Change in benefit reserves	15	189,845	152,318
Commission and brokerage, change in deferred acquisition costs-Assumed	4.11	(195,823)	(215,054)
Commission and brokerage, change in deferred acquisition costs-Ceded	4.11	(7,806)	14,795
Administrative expenses		(95,982)	(87,593)
Total expenses		**(2,470,049)**	**(2,205,524)**
Other income and expenses	20	365,627	299,753
Finance costs	16	(19,516)	(20,102)
Income before taxes		**66,840**	**117,758**
Income tax expense	**21**	**(14,164)**	**(16,624)**
Net income		**$ 52,676**	**$ 101,134**

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, 2021 and 2020
(Expressed in thousands of US Dollars, unless noted in millions)

	2021	2020
Net income	$ 52,676	$ 101,134
Other comprehensive gain		
Items that may be subsequently classified to net income		
Change in fair value of fixed income securities -available-for-sale	(185,078)	205,092
Tax expense	38,867	(43,069)
Net change in fair value of fixed income securities–available–for–sale	(146,211)	162,023
Other comprehensive (loss) gain for the year	(146,211)	162,023
Total comprehensive (loss) income for the year	(93,535)	263,157
Total comprehensive (loss) income attributable to:		
Equity holder of the Company	**$ (93,535)**	**$ 263,157**

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, 2021 and 2020
(Expressed in thousands of US Dollars, unless noted in millions)

	Note	Share capital	Retained	Additional paid in capital	Accumulated other comprehensive income/(loss)	Total equity
At January 1, 2020		$ 2,500	$ 492,533	$ 1,483,905	$ 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 paid during the year	17	-	(59,100)	-	-	(59,100)
At December 31, 2020		**2,500**	**534,567**	**1,483,905**	**350,036**	**2,371,008**
At January 1, 2021		$ 2,500	$ 534,567	$ 1,483,905	$ 350,036	$ 2,371,008
Net income for the year	17	-	52,676	-	-	52,676
Net change in fair value of fixed income securities–available–for–sale	17	-	-	-	(146,211)	(146,211)
Dividends paid during the year	17	-	(180,000)	-	-	(180,000)
At December 31, 2021		**$ 2,500**	**$ 407,243**	**$ 1,483,905**	**$ 203,825**	**$ 2,097,473**

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, 2021 and 2020
(Expressed in thousands of US Dollars, unless noted in millions

	2021	2020
Cashflows from operating activities		
Net income	$ 52,676	$ 101,134
Adjustments for non-cash items in net income		
Net realised losses on investments	(16,521)	(82,670)
Net unrealised gains on derivatives	32,217	45,047
Net unrealised losses on derivatives	(4,244)	(18,091)
Amortisation of investments	363	1,501
Amortisation of non related to investments	2,825	5,004
Amortisation of deferred acquisition costs	2,567	6,118
Accrued interests	(2,825)	6,576
Changes in:		
Deferred acquisition costs	(1,772)	(15,036)
Funds withheld	495,841	84,095
Contract deposits	(85,157)	217
Accounts receivable and payables	(35,346)	13,034
Other assets and liabilities (net)	6,478	(51,516)
Benefit and claim reserve (net)	(68,782)	(80,458)
Tax assets, provision for taxes, and other provisions	3,212	40,540
Interest payable	16,908	20,256
Cashflows provided in operating activities	**398,440**	**75,751**
Cashflows from investing activities		
Maturities, sales of fixed income securities–available for sale	1,921,368	1,478,267
Purchases of fixed income securities–available for sale	(2,346,869)	(1,041,441)
Changes in loan receivable	20,498	(356,579)
Changes in other invested assets	16,732	(997)
Cashflows (used in) provided in investing activities	**(388,271)**	**79,250**
Cashflows from financing activities		
Dividends paid	-	(86,100)
Repayment of loan interest	(19,388)	(37,425)
Cashflows provided in (used in) financing activities	**(19,388)**	**(123,525)**
Cash and cash equivalents at the beginning of the period	93,848	62,372
Change in cash and cash equivalents	(9,219)	31,476
Cash and cash equivalents at the end of the period	**$ 84,629**	**$ 93,848**
Supplementary disclosures on the cashflow information		
Income taxes paid (on balance)	$ (20,800)	$ -
Income taxes reimbursed	-	5,294
Interest received	554,104	476,417
Interest paid	(338,960)	(317,993)
Non-Cash activities during the year not included in the Statement of Cash Flows:		
Dividends	$ 180,000	$ -
Notes payable	(180,000)	-

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

1. Corporate information

Hannover Life Reassurance Company of America (Bermuda) Ltd. (the "Company" and/or "HLRA Ber") was incorporated on March 3rd, 2014 under the laws of Bermuda and is licensed as a long-term insurer (Class E), under the Insurance Act 1978 of Bermuda and related regulations, to carry on business as an insurance company. The Company is a wholly owned subsidiary of Hannover Finance, Inc. which is a wholly owned subsidiary of Hannover Re Holdings (UK) Limited, a company incorporated in the United Kingdom, which is wholly owned subsidiary of Hannover Ruck Beteiligung Verwaltungs-GbmH, a company incorporated in Germany, which is wholly owned subsidiary of Hannover Rückversicherung SE (the "Parent Company" or "Hannover Re SE"), a company incorporated in Germany. Hannover Re SE trades 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.

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.

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.

On December 20, 2021 the Company acquired a 100% ownership of Annuity Reinsurance Cell A1 ("ARCA1"), a segregated account established under Kubera Insurance (SAC), a Bermuda licensed long-term insurer. The Company paid $10 million for 10,000,000 Segregated Account Shares with a par value of $1 each issued and fully paid on the transaction effective date. ARCA1 contributed $11.3 million in assets to the consolidated results, $1.3 million in contract deposits and $10 million on other receivables.

Covid-19
The Covid-19 pandemic is ongoing and continues to affect the insurance sector, although the associated uncertainties appear more manageable as a greater proportion of the population is vaccinated or has immunity from prior infection. The available vaccines and advances in the development of additional vaccines and medications continues to improve. Uncertainty remains due to the ongoing potential for the development of adverse variants.

2. Basis of preparation

2.1 Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the International Financial Reporting Interpretations Committee applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following noted items in the balance sheet: Fixed–income securities–available for sale, Derivative receivable–at fair value through profit and loss. The balance sheet has been presented in order of decreasing liquidity.

2.3 Functional and presentation currency

The financial statements are presented in United States Dollars (USD or $), which is also the Company's functional currency.

2.4 Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses shown in the Financial Statements. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Reinsurance assets and liabilities are areas involving a higher degree of judgment and where estimates are significant to the financial statements. This is disclosed further in note 4 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, SLRe and ARCA1.

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

In the context of Phase 2 of the Interest Rate Benchmark Reform project the IASB published "Amendments to IFRS9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform" in August 2020. The amendments to these standards were adopted in January 2021 and are effective for financial years beginning on or after January 1, 2021. The changes address specific issues that may arise in connection with replacement of an existing interest rate benchmark with an alternative reference interest rate.

The transition to the new interest rate benchmarks has been implemented progressively since 2021. Measurement effects above a previously defined de minimis/materiality limit are offset through the exchange of compensatory payments with the respective counterparties.

It should be pointed out that measurement effects may also arise with respect to certain assets in our portfolio whose contractual terms do not make explicit reference to the reformed interest rate benchmarks – if the determination of their fair value draws on such reference interest rates.

In March 2021 the IASB issued "Amendment to IFRS 16 'Leases': Covid-19-Related Rent Concessions beyond June 30, 2021" 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 April 1, 2021 and was adopted on August 2021. Earlier application is permitted; the Company did not apply the amendment in the financial year.

Apart from the above, there were no other amendments to existing standards that would have had to have been applied in the 2021 financial year.

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 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.

In December 2021 the IASB issued "Amendment to IFRS 17 Insurance Contracts; Initial Application of IFRS 17 and IFRS 9 – Comparative Information". The amendment is a transition option relating to comparative information about financial assets presented on initial application of IFRS 17. The amendment is aimed at helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and therefore improve the usefulness of comparative information for users of financial statements. The amendment is similarly effective for annual reporting periods beginning on or after 1 January 2023.

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. Analyses of the implications of the standard for the Company financials were carried out in the year under review. The implementation of the financial reporting standard is expected to have effects that reduce total shareholders' equity, especially in life and health reinsurance. At this point in time, however, it is not yet possible to determine in detail the specific quantitative effects on the consolidated financial statement.

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 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:

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

Further IFRS Amendments and Interpretations:

Published:	Title	Initial Application to annual periods beginning on or after the following date:
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
February 2021	Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclo sure of Accounting Policies	January 1, 2023
February 2021	Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates	January 1, 2023
May 2021	Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	January 1, 2023

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 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 contacts 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 realised gains from available-for-sale assets, gains on derivatives, net realised and unrealised 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, realised losses on available-for-sale assets, losses on and costs of derivatives, realised and unrealised 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.

4.5 Non–derivative financial assets

Investments are measured in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'. Purchases and sales of equity 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. Unrealised 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, realised gains and losses, unrealised gains and losses, other investment expenses and income/expenses on funds withheld and contract deposits

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

(d). Impairment loss and reversals

At each balance sheet date, the Company performs a review of its financial assets for impairments. Impairments on all invested assets are recognized directly in the statements of income. IAS 39 “Financial Instruments: Recognition and Measurement” contains a list of objective, substantial indications for impairments of financial assets. In the case of fixed-income securities, reference is made, in particular, to the rating of the instrument, the rating of the issuer / borrower as well as the individual market assessment in order to establish whether they are impaired. IAS 39 “Financial Instruments: Recognition and Measurement” states that a significant or prolonged decrease in fair value below acquisition cost constitutes objective evidence of impairment. The cumulative loss – measured as the difference between the carrying amount and the current fair value, less any impairment loss on that financial asset previously recognized in profit and loss is removed from accumulated other comprehensive income/loss and recognized as a loss in the Statements of Income. If in a subsequent period the fair value of a fixed-income security that is 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.

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, canceled 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

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

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.

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 primarily comprised 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 cedants less the present value of future premium due from cedants and taking into consideration any initial consideration received. Reserves are based on the cedant reported data, which is typically reported on a 3 to 6 months lag, projected forward to the valuation date.

Projected claims and premiums 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 businesses 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 constitutes payment obligations from life and accident and health policies, incurred in the statement period, but have not yet been settled. They are subdivided into reserves for reinsurance losses reported by the balance sheet date and reserves for reinsurance losses that have already been incurred but not yet reported (IBNR) by the balance sheet date. The claims reserves expense is based on estimates that may diverge from the actual amounts payable. In reinsurance business, a considerable period of time may elapse between the occurrence of an insurance loss, notification by the insurer and pro-rata payment of the loss by the reinsurer. For this reason, the best estimate of the future settlement amount is carried. With the aid of actuarial methods, the estimates make 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. 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 recognised 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 / expense. The payment flows resulting from these contracts are shown in the cash flow statement under operating activities.

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 adjustment 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 dates, 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:

- 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
- Longevity risk
- Disability risk

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

Mortality risk

Mortality risk is currently the primary insurance risk and is defined as an adverse deviation in mortality rates from expected. The Company is exposed to mortality and longevity risk through the reinsurance of life and annuity insurance business from its cedants. The reinsurance structures may include traditional structures such as risk premium reinsurance and stop loss reinsurance, alongside less traditional structures such as mortality swaps. The Company's risk management system mandates maximum retention limits and has retrocession arrangements in place to accept risk in excess of the retention limit.

Morbidity risk

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

Catastrophe risk

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

Lapse risk

The Company's exposure to lapse risk including mass lapse risk is primarily due to its engagement in financial reinsurance and stop-loss transactions which typically relies on the persistence 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 in the fair value of the fixed-income securities while rising interest rates lead to decreases in the fair value.

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 note 16.

Longevity risk

Longevity entails the risk that the mortality contained in the actuarial assumptions does not correspond to the actual mortality and that payments have to be rendered and funded for a longer duration than had been assumed.

Disability risk

Disablement entails the risk that benefit payments for disability do not correspond to the actual experience and for this reason, increased benefit obligations have to be met.

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 the 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, 2021 under a range of insurance stresses.

USD'000s	Best estimate (asset)/liability	Increase/(decrease) in best estimate (asset)/liability	% Change
Best Estimate	$ 2,183,623	$ -	
Risk-free yield-50bps	2,314,412	130,789	5.99 %
Risk-free yield+50bps	2,085,213	(98,410)	(4.51)%
Risk-free yield-100bps	2,494,448	310,825	14.23 %
Risk-free yield+100bps	2,012,852	(170,771)	(7.82)%
Mortality Business: Mortality-5%	803,009	(1,380,614)	(63.23)%
Mortality Business: Mortality+5%	2,991,564	807,941	37.00 %
Mortality Business: Mortality+10%	3,456,633	1,273,010	58.30 %
Mortality Business: Mortality+15%	3,789,950	1,606,327	73.56 %
Pandemic: Mortality +50% 1st year	2,729,161	545,538	24.98 %
Pandemic: Mortality +100% 1st year	3,081,394	897,771	41.11 %
Pandemic: Mortality +400% 1st year	9,152,562	6,968,939	319.15 %
Pandemic: Mortality+1.5‰	2,765,691	582,068	26.66 %
LapseMass40%/70%	2,723,780	540,157	24.74 %
Lapse-10%	2,035,034	(148,589)	(6.80)%
Lapse+10%	2,321,014	137,391	6.29 %
Lapse-50%	517,268	(1,666,355)	(76.31)%
Lapse+50%	2,631,204	447,581	20.50 %
Longevity business: Mortality +5%	2,129,448	(54,175)	(2.48)%
Longevity business: Mortality -5%	2,243,218	59,595	2.73 %
Longevity business: Mortality -15%	2,381,404	197,781	9.06 %
Longevity business: Mortality -20%	2,462,074	278,451	12.75 %
Longevity business: Mortality -25%	2,551,662	368,039	16.85 %
Disability/Morbidity+35%/+25%	2,626,593	442,970	20.29 %
Disability/Morbidity+5%	2,261,462	77,839	3.56 %
Disability/Morbidity+15%	2,423,250	239,627	10.97 %
Disability/Morbidity+25%	2,598,499	414,876	19.00 %

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.

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

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

	2021		2020	
	P&L	Equity	P&L	Equity
Fixed-income securities				
+100 basis point shift in yield curves	$ -	$ (604,714)	$ -	$ (505,786)
–100 basis point shift in yield curves	-	145,128	-	144,452
Derivative Securities				
+100 basis point shift in yield curves	$ -	$ 4,172	$ -	$ 2,848
–100 basis point shift in yield curves	-	(2,541)	-	(1,501)

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:

	December 31, 2021								
	AAA	AA	A	BBB	BB	B	CCC	NR	Total
Fixed–income securities–available–for–sale	$ 1,274,390	$ 541,593	$ 937,905	$ 1,373,757	$ 98,142	$ 17,558	$ -	$ 3,564	$ 4,246,909
Other invested assets - available-for-sale	-	-	-	-	-	-	-	59,609	59,609
Loan receivable	-	-	-	-	-	-	-	336,080	336,080
Funds withheld	-	7,350	45,839	-	54,180	302	-	2,369,818	2,477,489
Reinsurance recoverables	-	17,067	(1,621)	158,045	-	-	-	4,589	178,080
Claim recoverables	-	42,767	2,244	12,549	-	-	-	9,148	66,708
Derivative receivable, net – at fair value through P&L	-	-	-	-	-	-		26,972	26,972
Accounts receivable	2,300	194,805	348,887	29,809	3,532	8,176	-	196,937	784,446

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

	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
Claim recoverables	-	37,510	5,391	19,511	-	-	-	3,552	65,964
Derivative receivable, net – at fair value through P&L	-	-	-	-	-	-		54,877	54,877
Accounts receivable	-	178,155	271,982	35,036	6,554	2,976	-	282,743	777,446

* Included in the Derivative receivable, net –at fair value through P&L as December 31, 2021 is USD $627 thousands (2020: $18.4 million) of B36 – Derivative instruments (unbundled from insurance contracts).

5.6 Liquidity risk

Liquidity risk is the 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.

	2021		2020	
Fixed income securities - Available for sale	**Amortised cost**	**Fair value [1]**	**Amortised cost**	**Fair value [1]**
Due in one year	$ 31,748	$ 32,133	$ 67,117	$ 68,382
Due after one through two years	108,357	113,005	137,009	143,200
Due after two through three years	164,034	171,293	220,833	236,457
Due after three through four years	192,595	202,544	208,160	228,516
Due after four through five years	271,614	283,999	236,612	261,988
Due after five years through ten years	1,261,569	1,328,824	1,182,593	1,328,733
Due after more than ten years	1,925,866	2,115,111	1,461,806	1,719,197
Total	**$ 3,955,783**	**$ 4,246,909**	**$ 3,514,130**	**$ 3,986,473**

	2021		2020	
Other invested assets - Available for sale	**Amortised cost**	**Fair value [1]**	**Amortised cost**	**Fair value [1]**
Due in one year	$ 763	$ 788	$ -	$ -
Due after one through two years	-	-	-	-
Due after two through three years	28,368	28,887	20,666	21,189
Due after three through four years	-	-	-	-
Due after four through five years	-	-	-	-
Due after five years through ten years	-	-	23,277	24,593
Due after more than ten years	26,804	29,934	30,570	33,724
Total	**$ 55,935**	**$ 59,609**	**$ 74,513**	**$ 79,506**

[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.

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

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

	2021				
Available for sale	**Amortised cost**	**Unrealised gains**	**Unrealised losses**	**Accrued interest**	**Fair value**
Fixed income securities					
US treasury notes	$ 1,080,106	$ 120,644	$ (729)	$ 5,856	$ 1,205,877
Debt securities issued by semi–governmental entities	423,575	28,634	(2,957)	5,132	454,384
Corporate securities	2,452,102	138,427	(26,522)	22,641	2,586,648
Total	**$ 3,955,783**	**$ 287,705**	**$ (30,208)**	**$ 33,629**	**$ 4,246,909**
Other invested assets	$ 55,935	$ 2,950	$ (41)	$ 764	$ 59,609
Total	**$ 55,935**	**$ 2,950**	**$ (41)**	**$ 764**	**$ 59,609**

	2020				
Available for sale	**Amortised cost**	**Unrealised gains**	**Unrealised losses**	**Accrued interest**	**Fair value**
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

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, 2020, the company entered into agreements to transfer 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 note receivable, and collateral supporting the note is held in trust for the benefit of the Company.

Rating structure of fixed income securities

Rating structure of fixed income securities

	2021							
	AAA	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**Other**	**Total**
Fixed–income securities–available–for–sale	$ 1,274,390	$ 541,593	$ 937,905	$ 1,373,757	$ 98,142	$ 17,558	$ -	$ 3,564	$ 4,246,909
Other invested assets - available-for-sale	-	-	-	-	-	-	-	59,609	59,609

	2020								
	AAA	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**Other**	**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

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:

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

- 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.

	2021			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 84,629	$ -	$ -	$ 84,629
Fixed income securities–available for sale	-	4,246,909	-	4,246,909
Other invested assets - available for sale	-	-	59,609	59,609
Equity Securities	-	-	57,198	57,198
Short-term investments	-	-	-	-
Investment in associated companies (not cons.)	-	-	9,113	9,113
Derivative asset – at fair value through profit and loss	-	627	26,345	26,972
Total assets carried at fair value	**$ 84,629**	**$ 4,247,536**	**$ 152,265**	**$ 4,484,430**
Derivative liabilities – no Hedge Accounting	$ -	$ (29,185)	$ -	$ (29,185)
Total liabilities carried at fair value	**$ -**	**$ (29,185)**	**$ -**	**$ (29,185)**

	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	-	18,351	36,527	54,877
Total assets carried at fair value	**$ 94,461**	**$ 4,004,823**	**$ 179,596**	**$ 4,278,880**
Derivative liabilities – no Hedge Accounting	$ -	$ (29,117)	$ -	$ (29,117)
Total liabilities carried at fair value	**$ -**	**$ (29,117)**	**$ -**	**$ (29,117)**

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.

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

	2021			
	Other invested assets - available for sale	Equity securities	Investment in associated companies (not cons.)	Derivative asset - at fair value through profit and loss
Balance as at January 1	$ 79,506	$ 48,563	$ 15,000	$ 36,527
Additions	763	34,729	-	-
Disposals	(22,324)	(26,305)	(5,887)	(42,398)
Unrealized gains with effect on profit and loss	2,911	-	-	32,217
Unrealized gains OCI/Realisation OCI	-	1,312	-	-
Unrealized losses OCI/Realisation OCI	(1,247)	(1,101)	-	-
Balance as at December 31	**$ 59,609**	**$ 57,198**	**$ 9,113**	**$ 26,346**

	2020			
	Other invested assets - available for sale	Equity securities	Investment in associated companies (not cons.)	Derivative asset - at fair value through profit and loss
Balance as at January 1	$ 70,852	$ 54,728	$ 15,000	$ 46,694
Additions	4,497	3,550	-	-
Disposals	-	(8,759)	-	(45,048)
Unrealized gains with effect on profit and loss	-	-	-	34,882
Unrealized gains OCI/Realisation OCI	4,157	171	-	-
Unrealized losses OCI/Realisation OCI	-	(1,128)	-	-
Balance as at December 31	**$ 79,506**	**$ 48,562**	**$ 15,000**	**$ 36,528**

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 present 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 is evaluated on a fair value basis.

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

	2021			
	Financial assets that give rise solely to payments of principal and interest		All other financial assets	
	Fair value as of December 31st	Fair value change in the financial year	Fair value as of December 31st	Fair value change in the financial year
Fixed income securities -available for sale	$ 4,228,345	$ (108,913)	$ 18,564	$ -
Other invested assets -available for sale	59,609	2,911	-	-
Derivative linked to insurance risk	-	-	26,972	-
Equity Securities	-	-	57,198	-
Total financial assets	**$ 4,287,954**	**$ (106,002)**	**$ 102,734**	**$ -**

	2020			
	Financial assets that give rise solely to payments of principal and interest		All other financial assets	
	Fair value as of December 31st	Fair value change in the financial year	Fair value as of December 31st	Fair value change in the financial year
Fixed income securities -available for sale	$ 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	**$ 4,044,482**	**$ 230,650**	**$ 125,550**	**$ -**

The above table shows the financial assets that are to be recognized in the 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 fulfill 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.

	2021	2020
in USD thousands	Gross value	
AAA	$ 1,273,436	$ 1,317,015
AA	541,209	516,078
A	933,103	770,453
BBB	1,363,045	1,264,474
BB or lower	114,486	96,953
No Rating	62,675	79,509
Total	**$ 4,287,953**	**$ 4,044,482**

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.

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

8. Participating interest other companies

The participating interest in other companies is recognized and measured based on the respective applicable IFRS for this type of asset. The carrying amount of the participating interest in other companies is as follows for 2021 and 2020:

Investments in associated companies

	2021	2020
Net book value at 31 December of the previous year	$ 15,000	$ 15,000
Additions	-	-
Disposals	(5,887)	-
Profit or loss on investments in associated companies	-	-
Dividend payments	-	-
Net book value at 31 December of the year under review	**$ 9,113**	**$ 15,000**

9. Funds withheld

The funds withheld assets totaling $2.5 billion (2020: $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 $223.4 million and $227.5 million for 2021 and 2020, 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 $476.2 million (2020: $293.9 million) include consideration paid for acquiring the reinsurance contracts. These are reinsurance contracts accounted for under the "deposit accounting" method.

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

	2021		2020	
	Derivative assets	**Derivative liabilities**	**Derivative assets**	**Derivative liabilities**
Derivative instruments	$ 26,345	$ (29,185)	$ 36,527	$ (29,117)
Embedded derivatives	627	-	18,350	-
Total derivatives	**$ 26,972**	**$ (29,185)**	**$ 54,877**	**$ (29,117)**

Derivative instruments

Transactions where the Company offers their contracting parties coverage for risks from possible future payment obligations arising out of hedging instruments are also to be classified as derivative financial instruments. The payment obligations result from contractually defined events and relate to the development of an underlying group of primary insurance contracts with statutory reserving requirements. The contracts are to be categorized 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, 2021 was $26.3 million (2020: $36.5 million).

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

The Company's derivatives transfer insurance risks and consist 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, 2021 and 2020 are the following (amounts in $ millions):

			2021				
Transaction	Effective date	Initial term	Notional value	Peak notional value	Fair value asset	Fair value liability	Fair value net
1	07/31/14	15	$ 1,383	$ 1,512	$ 23	$ 23	$ -
2	09/30/14	25	920	1,110	62	39	23
3	12/12/14	20	73	107	3	3	-
4	02/18/15	20	25	1,000	28	28	-
5	01/15/16	18	-	-	-	-	-
6	12/31/16	15	176	176	3	3	-
7	03/29/17	20	733	1,000	16	16	-
8	06/29/17	20	359	500	7	7	-
9	07/01/17	15	875	1,020	17	13	4
10	12/31/13	20	619	900	11	11	-
11	09/30/14	15	268	411	8	8	-
		Total	$ 5,431	$ 7,736	$ 178	$ 151	$ 27

			2020				
Transaction	Effective date	Initial term	Notional value	Peak notional value	Fair value asset	Fair value liability	Fair value net
1	07/31/14	15	$ 1,290	$ 1,512	$ 9	$ 9	$ -
2	09/30/14	25	899	1,110	57	32	25
3	12/12/14	20	72	107	2	2	-
4	02/18/15	20	225	1,000	28	28	-
5	01/15/16	18	-	-	-	-	-
6	12/31/16	15	208	208	2	2	-
7	03/29/17	20	733	1,000	5	5	-
8	06/29/17	20	371	500	4	4	-
9	07/01/17	15	927	1,020	25	13	12
10	12/31/13	20	677	900	5	5	-
11	09/30/14	15	333	411	3	3	-
		Total	$ 5,735	$ 7,768	$ 140	$ 103	$ 37

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 $32.1 million (2020: $24.9 million) and reflected in Ordinary investment income on the Statements of Income.

Total Return Swap

Transaction	Maturity	2021 Total return	2020 Total return
1	July 15, 2028	$ 7,740	$ 3,437
2	February 15, 2042	21,445	25,680
		$ 29,185	$ 29,117

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 million par value of TIPS having a contractual maturity date of July 15, 2028 and $100 million par value of TIPS having a contractual maturity date of February 15, 2042. During 2021, the Company made settlement payments of $14.0 million under the total return swap agreement for the TIPS maturing in 2028, and the Company made settlement payments of $19.6 million under the total return swap agreement for the TIPS maturing in 2042. At December 31, 2021, the Company recognized a liability of $7.7 million and $21.4 million from the fair values of the total return swap agreement for the TIPS maturing in 2028 and 2042, respectively.

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.

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 isk elements are clearly and closely related to the underlying reinsurance agreements. Embedded derivatives consequently result solely from the credit risk of the underlying securities portfolio.

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

The cumulative value of the derivative is shown in the Balance Sheets under derivative liabilities with the movement reported in the Statement of Income as an unrealised gain/(loss) on derivatives. The unrealised loss for the year totaled $17.7 million (2020: $6.8 million unrealised loss).

12. Accounts receivable & accounts payable

Accounts receivable was $784 million (2020: $777 million) for the period ended December 31, 2021. Accounts payable was $119 million (2020: $147 million) for the period ended December 31,

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

2021. 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 2021 and 2020:

	2021	2020
Net book value at January 1	$ 440,555	$ 430,375
Additions	65,948	55,556
Amortisations	(66,672)	(45,376)
Portfolio entries/exits	-	-
Net book value at December 31	**$ 439,831**	**$ 440,555**

14. Other assets and liabilities

Other assets totaling $33.7 million (2020: $11.2 million) and other liabilities totaling $363.6 million (2020: $144.2 million) consist of the following at December 31, 2021 and 2020:

	Other assets	
	2021	2020
Advances paid	$ 288	$ 386
Office equipment	307	556
Real estate used for own purposes	4,395	6,882
Prepaid expenses	571	546
Accrued interest and rent	818	891
Other receivables	27,353	1,915
Total	**$ 33,732**	**$ 11,176**

	Other liabilities	
	2021	2020
Provision share awards	$ 5,277	$ 6,324
Holiday, bonuses and overtime	7,930	9,107
Accrued interest	14,358	11,563
Other accrued and deferred items	141,340	97,972
Contract liabilities - IFRS 15	8,333	8,889
Lease liabilities	4,884	7,275
Loans	180,000	-
Other liabilities	1,457	3,116
Total	**$ 363,579**	**$ 144,246**

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

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.

	2021			2020		
	Gross	Retro	Net	Gross	Retro	Net
Benefit reserves	$ 1,785,420	$ 178,080	$ 1,607,340	$ 1,979,851	$ 182,205	$ 1,797,646
Contract deposit liabilities	2,646,670	-	2,646,670	2,549,501	-	2,549,501
Total	**$ 4,432,090**	**$ 178,080**	**$ 4,254,010**	**$ 4,529,352**	**$ 182,205**	**$ 4,347,147**

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."

	2021			2020		
	Gross	Retro	Net	Gross	Retro	Net
Due in one year	$ 244,840	$ 13,840	$ 231,000	$ 358,368	$ 11,616	$ 346,752
Due after one through five years	673,188	43,440	629,748	1,016,287	39,610	976,677
Due after five years through ten years	731,968	40,569	691,399	745,020	39,398	705,622
Due after ten years through twenty years	1,110,760	44,949	1,065,811	944,457	53,805	890,652
Due after twenty years	1,671,334	35,282	1,636,052	1,465,220	37,776	1,427,444
	$ 4,432,090	**$ 178,080**	**$ 4,254,010**	**$ 4,529,352**	**$ 182,205**	**$ 4,347,147**

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.

The reserving basis is based on prospective actuarial assumptions relating to mortality, morbidity, persistency, expenses and future interest rate development. Bases are determined using the 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 2021.

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

Development of benefit reserves

A rollforward of reinsurance reserves is as follows:

	2021			2020		
	Gross	Retro	Net	Gross	Retro	Net
Balance as at January 1	$ 4,529,352	$ 182,205	$ 4,347,147	$ 4,682,622	$ 191,023	$ 4,491,599
Current year development	(97,262)	(4,125)	(93,137)	(153,270)	(8,818)	(144,452)
Portfolio entries/exits	-	-	-	-	-	-
Balance as at December 31	**$ 4,432,090**	**$ 178,080**	**$ 4,254,010**	**$ 4,529,352**	**$ 182,205**	**$ 4,347,147**

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:

	2021			2020		
	Gross	Retro	Net	Gross	Retro	Net
Balance as at January 1	$ 1,252,310	$ 65,964	$ 1,186,346	$ 1,209,096	$ 91,201	$ 1,117,895
Current year development	122,268	744	121,524	43,214	(25,237)	68,451
Portfolio entries/exits	-	-	-	-	-	-
Balance as at December 31	**$ 1,374,578**	**$ 66,708**	**$ 1,307,870**	**$ 1,252,310**	**$ 65,964**	**$ 1,186,346**

Claims with a Covid-19 cause of death increased the losses on the year-end December 31, 2021 by $314.9 million.

16. Loans and borrowings

The following table provides a listing of the subordinated loans held by the Company as of December 31, 2021.

Lender	Principal ('000s)	Interest rate	Inception	Maturity	Interest accrued ('000s)	Interest paid current year ('000s)
Hannover Finance, Inc	$ 2,500	6.67 %	March 17, 2014	March 17, 2054	$ 85	$ 169
Hannover Ruck	238,000	4.60 %	March 27, 2018	April 15, 2038	5,596	5,504
Hannover Finance, Inc.	75,000	4.20 %	September 30, 2020	September 30, 2040	1,330	2,744
Hannover Ruck	50,000	3.58 %	September 22, 2016	September 22, 2046	813	1,713
Hannover Ruck	75,000	4.60 %	December 23, 2016	December 23, 2046	1,334	3,069
Hannover RE (Ireland)	5,000	3.32 %	January 20, 2016	March 15, 2065	64	127
Hannover RE (Ireland)	5,000	3.48 %	July 1, 2016	March 15, 2065	73	145
	$ 450,500				**$ 9,295**	**$ 13,471**

The carrying amounts of the loans are close approximation of their fair value, which is estimated at December 31, 2021 and 2020 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. Unrealised gains and losses from the fair value measurement of financial instruments held as available-for-sale are carried in accumulated other comprehensive income of $203.8 million (2020: $350.0 million).

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

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

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.

On December 31, 2021, the Company paid a dividend of $180.0 million and simultaneously issued a short term note payable to an affiliate, Hannover Re Holdings (UK) in the amount of $180.0 million in order to facilitate the payment of the dividend in a cashless manner. The loan is due to be repaid on May 9, 2022.

18. Gross written premium

Gross written premium was $2.0 billion (2020: $1.9 billion) for the period ended December 31, 2021 and originates from cedants based in the United States of America.

19. Investment income

Net investment income was $273.3 million (2021: $294.3 million) for the period ended December 31, 2021 and consists of the following components:

	2021	2020
Interest Income 2	$ 157,054	$ 151,557
Ordinary investment income	**157,054**	**151,557**
Realised gains on investments	49,300	89,913
Realised losses on investments	(32,779)	(7,243)
Unrealised gains on derivatives	36,721	36,426
Unrealised loss on derivatives	(22,295)	(18,336)
Other investment expenses	(39,604)	(8,779)
Net income from assets under own management	**148,397**	**243,538**
Interest income on funds withheld and contract deposits	353,529	179,079
Interest expense on funds withheld and contract deposits	(228,621)	(128,304)
Net investment income	**$ 273,305**	**$ 294,313**

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

For the year under review, no impairment loss was recognized on fixed income securities (2020: $1.7 million).

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

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

	2021					
	Ordinary investment income	Realised gains and losses	Unrealised gains and losses	Investment expenses	Insurance derivative income	Net income from assets under own management
Available for sale - Fixed income securities	$ 157,054	$ 16,521	$ -	$ (39,604)	$ -	$ 133,971
At fair value through profit and loss						
Derivative assets	-	-	(17,724)	-	32,150	14,426
Total	**$ 157,054**	**$ 16,521**	**$ (17,724)**	**$ (39,604)**	**$ 32,150**	**$ 148,397**

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

20. Other income and expenses

Other income and expenses totaled $365.6 million (2020: $299.8 million) and consist of the following:

	2021	2020
Other income		
Income from contracts recognised in accordance with the deposit accounting method	$ 295,327	$ 272,256
Other interest income relating to financial guarantees	1,052	37,844
Other income	88,498	16,168
Total other income	**384,877**	**326,268**
Other expenses		
Expenses from contracts recognised in accordance with the deposit accounting method	(14,352)	(16,073)
Sundry expenses	(4,898)	(10,442)
Total expenses	**(19,250)**	**(26,515)**
Total other income and expenses	**$ 365,627**	**$ 299,753**

Financial guarantees

The Company has entered into one swap agreement with an affiliate in support of secured note obligations collateralized by underlying insurance commission streams and this transaction was recaptured during 2021. This transaction is accounted for as a Financial Guarantee under IAS39. The fee income of $1.2 million (2020: $37.8 million) is included in Other income and expenses on the Statements of Income.

Details of structured transaction that is accounted as financial guarantees at December 31, 2021 and 2020 are as follows (amounts in $ millions):

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

December 31, 2021				
Transaction No.	**Effective date**	**Initial term (years)**	**Notional value at December 2021**	**Notional value at December 2020**
1	3/14/2016	13	$ -	$ 22
Total			**$ -**	**$ 22**

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:

	2021	**2020**
Actual tax for the year under review	$ 15,043	$ (43,727)
Deferred taxes due to temporary differences	(879)	60,351
Total	**$ 14,164**	**$ 16,624**

Current income taxes receivable at December 31, 2021 is $39.6 million (2020: income tax receivable $33.8 million). The following table presents a breakdown of the deferred tax assets and liabilities into the balance sheet items from which they are derived.

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

	2021	2020
Deferred tax assets		
Derivative assets	$ 447	$ 41,152
Net operating losses	246,350	252,182
General expenses	6,233	3,449
Compensation	2,672	3,084
Sundry items	260	345
Total deferred tax assets	**255,962**	**300,212**
Deferred tax liabilities		
Investments	(51,954)	(80,842)
Deferred acquisition costs	(55,839)	(62,048)
Liabilities from reinsurance business	(374,024)	(422,339)
Depreciable fixed assets	(960)	(1,543)
Total deferred tax liabilities	**(482,777)**	**(566,772)**
Net deferred tax liability	**$ (226,815)**	**$ (266,560)**

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 $226.8 million include deferred tax assets in an amount of $246.4 million that relates to carried forward tax losses, of which $35.2 million belongs to HLRUS/SLRe tax return filing group and $211.2 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. HLRA Ber increased its tax loss carry forward position by $54.9 million during 2021 as a result of adverse claims experience in certain market categories. 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 $54.2 million for unrealised gains on available-for-sale securities (2020: $93.0 million).

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

	2021	2020
Profit before taxes on income	$ 14,037	$ 24,729
CARES Act carryback rate benefit	-	(8,214)
Nondeductible expenses	161	179
Other	(34)	(69)
Actual expense for income taxes	**$ 14,164**	**$ 16,624**

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

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.

	2021			2020		
Income statement	**Hannover Finance, Inc. (Parent)**	**Companies related through common control**	**Total**	**Hannover Finance, Inc. (Parent)**	**Companies related through common control**	**Total**
Net premium earned	$ -	$ (20,962)	$ (20,962)	$ -	$ (32,331)	$ (32,331)
Net investment income	-	(38,694)	(38,694)	-	(11,557)	(11,557)
Total revenues	-	(59,656)	(59,656)	-	(43,888)	(43,888)
Total expenses	265	2,943	3,208	368	4,830	5,198
Other income/(expenses)	269	6,408	6,677	1,249	(34)	1,215
Finance costs	(3,363)	(16,154)	(19,517)	(3,115)	(16,987)	(20,102)
Net income/(loss)	**$ (2,829)**	**$ (66,459)**	**$ (69,288)**	**$ (1,498)**	**$ (56,079)**	**$ (57,577)**

	2021			2020		
Balance sheet	**Hannover Finance, Inc. (Parent)**	**Companies related through common control**	**Total**	**Hannover Finance, Inc. (Parent)**	**Companies related through common control**	**Total**
Reinsurance assets	$ -	$ (19,829)	$ (19,829)	$ 242	$ (21,897)	$ (21,655)
Reinsurance liabilities	-	(2,776)	(2,776)	-	(9,166)	(9,166)
Loans and borrowings	(83,978)	(560,880)	(644,858)	(80,615)	(381,448)	(462,063)

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 $39.6 million (2020: $8.8 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 in The Insurance Accounts Rules 2016.

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

Insurer's 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, 2021, 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:

	2021
Total statutory capital and surplus	$ 2,412,973
Non admitted assets	-
Statutory capital and surplus	2,412,973
Surplus note	(315,500)
Total IFRS Shareholder's equity	**$ 2,097,473**

25. Capital management

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.

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

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:

in USD thousands	2021	2020
Wages and salaries	$ 45,904	$ 45,667
Social security contributions and expenditure on provision and assistance		
Social security contributions	2,884	2,745
Expenditure for pension provision	4,941	4,563
Expenditure for assistance	5,086	4,723
	58,815	57,698
Total personnel expenditures	**$ 58,815**	**$ 57,698**

26.2 Defined contribution plan

The Company has 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 $5.0 million (2020: $4.6 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, 2021 in other assets and other liabilities in connection with the leases:

Leases in the balance sheet	2021	2020
Own-use real estate	$ 11,858	$ 12,047
Fixtures, fitting and equipment	88	86
Lease liabilities	4,884	7,275

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

Amortization of right-of-use assets in connection with leases	2021	2020
Own-use real estate	$ 2,488	$ 2,563
Fixtures, fitting and equipment	18	37
Total	**$ 2,506**	**$ 2,600**

The interest expenses for lease liabilities for 2021 totaled $187 thousand and $258 thousand for 2020. The total amounts payable for leases in 2021 came to $4.9 million (2020: $7.3 million).

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

The Company holds four leases at the end of December 31, 2021. The last one is set to expire by August 2024.

Future minimum lease payments	**Amounts**
2022	$ 2,177
2023	2,230
2024	541
2025	-
Subsequent years	-
	$ 4,948

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, 2021 and 2020, the amounts were as follows:

	December 31, 2021		
	Gross restricted		
	Total general account current year	Total from prior year	Increase (decrease)
Asset category			
On deposit with states	$ 1,276	$ 2,720	$ (1,444)
FHLB Capital Stock	9,113	15,000	(5,887)
Pledged as reinsurace collateral - bonds	203,111	232,972	(29,861)
Total restricted assets	**$ 213,500**	**$ 250,692**	**$ (37,192)**

	December 31, 2020		
	Gross restricted		
	Total general account current year	Total from prior year	Increase (decrease)
Asset category			
On deposit with states	$ 2,720	$ 2,487	$ 233
FHLB Capital Stock	15,000	15,000	-
Pledged as reinsurace collateral - bonds	232,972	301,136	(68,164)
Total restricted assets	**$ 250,692**	**$ 318,623**	**$ (67,931)**

27. Subsequent events

Management has evaluated subsequent events through the date of the issuance of these financial statements, April 26, 2022, 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.

The financial statements have been approved by the Management on April 26, 2022.