HANNOVER RE (BERMUDA) LTD.

Financial Statements

(With Independent Auditor's Report Thereon)

Year ended 31 December 2020

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Independent auditor's report

To the Board of Directors and Shareholder of Hannover Re (Bermuda) Ltd.

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Hannover Re (Bermuda) Ltd. (the Company) as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Company's financial statements comprise:

- the balance sheet as at December 31, 2020;
- the statement of income for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in shareholder's equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

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

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Responsibilities of management and those charged with governance for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

Hamilton, Bermuda

April 21, 2021

Balance Sheet as at 31 December 2020

Assets

in USD thousand	Notes	2020	2019
Fixed-income securities – available for sale	6, 8	3,526,760	2,624,536
Fixed-income securities – held to maturity	6, 8	12,586	11,517
Other financial assets – at fair value through profit and loss	7, 8	153,663	1,133
Other invested assets	6, 8	33,995	26,642
Cash and cash equivalents	5	79,693	48,174
Total investments and cash under own management		**3,806,697**	**2,712,002**
Funds withheld	9	128,148	71,891
Contract deposits	9	3,071	–
Reinsurance recoverables	10	662,844	582,468
Prepaid reinsurance premium	10	55,183	43,209
Deferred acquisition costs	9	631,987	26,999
Accounts receivable		323,427	274,697
Other assets	11	10,663	3,560
Total assets		**5,622,020**	**3,714,826**

Liabilities

in USD thousand	Notes	2020	2019
Loss and loss adjustment expense reserve	10	1,968,193	1,599,112
Benefit reserve	10	17,102	–
Unearned premium reserve	10	234,364	186,227
Provision for profit commission	10	8,303	–
Ceded deferred acquisition costs	9	12,894	10,403
Ceded funds withheld	9	1,970	2,024
Contract deposits	9	12,834	–
Reinsurance payable	10	863,709	376,432
Other financial liabilities – at fair value through profit and loss	7, 8	47,169	352
Other liabilities	12	8,463	5,873
Dividends payable	16	380,000	–
Loans and borrowings	13	25,000	–
Total liabilities		**3,580,001**	**2,180,423**
Shareholder's equity			
Authorised, issued and fully paid, 104,522,359 shares of $1 par value each	2, 14	104,522	104,522
Contributed surplus	15	1,365,633	1,097,200
Accumulated other comprehensive income	17	130,586	56,092
Retained earnings		441,278	276,589
Total shareholder's equity		**2,042,019**	**1,534,403**
Total liabilities and shareholder's equity		**5,622,020**	**3,714,826**

The accompanying notes form an integral part of these financial statements

On behalf of the board

Mr. Clemens Jungsthöfel
Chairman

Mrs. Chantal Cardinez
Director

Statement of Income for the year ended 31 December 2020

in USD thousand	Notes	2020	2019
Income			
Gross written premium		996,610	854,207
Ceded written premium		(363,877)	(277,627)
Change in gross unearned premium	10	(34,789)	(33,501)
Change in ceded unearned premium	10	11,978	11,251
Net premium earned		**609,922**	**554,330**
Ordinary investment income		61,875	64,264
Net realised gains on investments		6,101	54
Changes in fair value of financial instruments		318	690
Other investment expenses	6	(3,773)	(2,968)
Net investment income	6	**64,521**	**62,040**
Total revenue		**674,443**	**616,370**
Expenses			
Loss and loss adjustment expenses incurred	10	365,050	405,917
Commission and brokerage (net), change in deferred acquisition costs		33,225	19,196
Other acquisition costs		6,660	5,690
Administrative expenses		18,555	17,802
Depreciation		702	718
Total expenses		**424,192**	**449,323**
Other income and (expenses)	18	10,782	(2,257)
Net income (all attributable to the shareholder)		**261,033**	**164,790**

The accompanying notes form an integral part of these financial statements

Statement of Comprehensive Income 2020

in USD thousand	2020	2019
Net Income	**261,033**	**164,790**
Other comprehensive income		
Reclassifiable to the statement of income		
Unrealised appreciation arising during the period	74,777	75,393
Reclassification adjustment for net realised (gains) losses included in net income	(5,019)	9,192
Amortisation of net unrealised appreciation related to securities transferred to held to maturity	(12)	(13)
Foreign exchange rate differences	137	171
Other comprehensive income for the year	**69,883**	**84,743**
Total comprehensive income for the year (all attributable to the shareholder)	**330,916**	**249,533**

The accompanying notes form an integral part of these financial statements

Statement of Changes in Shareholder's Equity 2020

in USD thousand	Share Capital	Contributed surplus	Accumulated other comprehensive income/(loss)	Retained earnings	Total shareholder's equity
At 1 January 2020	**104,522**	**1,097,200**	**56,092**	**276,589**	**1,534,403**
Issuance/transfer of ordinary shares	–	–	–	–	–
Net income	–	–	–	261,033	261,033
Change in unrealised appreciation (depreciation) of investments	–	–	69,883	–	69,883
Dividends declared	–	–	–	(380,000)	(380,000)
Merger with HLRBer [1]	–	268,433	4,611	283,656	556,700
At 31 December 2020	**104,522**	**1,365,633**	**130,586**	**441,278**	**2,042,019**
At 1 January 2019	**4,522**	**1,097,200**	**(28,651)**	**161,799**	**1,234,870**
Issuance/transfer of ordinary shares	100,000	–	–	–	100,000
Net income	–	–	–	164,790	164,790
Change in unrealised appreciation (depreciation) of investments	–	–	84,743	–	84,743
Dividends declared	–	–	–	(50,000)	(50,000)
At 31 December 2019	**104,522**	**1,097,200**	**56,092**	**276,589**	**1,534,403**

1 Refer to Note 2.3 for further details.

The accompanying notes form an integral part of these financial statements

Statement of Cash Flows 2020

in USD thousand	2020	2019
I. Cash flow from operating activities		
Net income	261,033	164,790
Adjustments for non-cash items in net income:		
Depreciation of capital assets	702	718
Net realised gains from derecognition of current assets	–	(53)
Net realised gains on disposal of investments	(6,101)	(54)
Net unrealised gains on investments	(318)	(690)
Amortisation of investments	10,272	3,055
Changes in accrued interest	(1,541)	(1,225)
Effect of changes in exchange rates	(10,782)	2,257
Other adjustments due to IAS 8	–	53
Net changes in non-cash balances relating to operations:		
Changes in funds withheld	(36,046)	30,385
Changes in receivables from reinsurance business	29,291	(93,319)
Changes in payables from reinsurance business	131,279	73,979
Changes in funds withheld under reinsurance business	(209)	69
Changes in unearned reinsurance premium (net)	22,811	22,250
Changes in loss and loss adjustment expense reserve (net)	205,576	205,936
Changes in deferred acquisitions costs (net)	(3,455)	(1,787)
Changes in other assets and liabilities (net)	6,599	8,129
Cash flows provided by operating activities	**609,111**	**414,493**
II. Cash flows from investing activities		
Fixed-income securities – available for sale including short-term investments		
Maturities and sales	1,171,892	1,207,917
Purchases	(1,765,423)	(1,601,016)
Fixed-income securities – loans and receivables		
Maturities	–	7,000
Fixed-income securities – held to maturity		
Maturities	–	5,454
Other invested assets – available for sale		
Redemptions	887	4,213
Capital calls	(3,297)	(2,597)
Purchase of fixed assets	(47)	(38)
Merger with HLRBer [1]	17,667	–
Cash flows used in investing activities	**(578,321)**	**(379,067)**
III. Cash flows from financing activities		
Proceeds from issuance of ordinary shares	–	100,000
Dividends paid	–	(150,000)
Interest paid	(81)	(1,518)
Change in lease liabilities	(627)	(605)
Cash flows used in financing activities	**(708)**	**(52,123)**

IV. Exchange rate differences on cash and cash equivalents	**1,437**	**(237)**
Cash and cash equivalents at beginning of year	**48,174**	**65,108**
Change in cash and cash equivalents (I.+ II.+ III.+ IV.)	**31,519**	**(16,934)**
Cash and cash equivalents at end of year	**79,693**	**48,174**

1 Refer to Note 2.3 for further details.

Notes to the Financial Statements

1. Corporate information

Hannover Re (Bermuda) Ltd. (“HRBer” or the “Company”) has had a change in shareholder during 2020 and is now a wholly owned subsidiary of Hannover Re Holdings (UK) Limited (the “Immediate Parent”), a company incorporated in the U.K. The Immediate Parent is a wholly owned subsidiary of Hannover Rückversicherung SE (“Hannover Rück SE” or “the Parent”), a company incorporated in Germany and trading internationally under the brand name Hannover Re. Hannover Rück SE is a publicly traded company, which is majority owned (50.2%) by Talanx AG, which in turn is majority owned (with a stake of 79.0%) by HDI Haftpflichtverband der Deutschen Industrie V.a.G. (“HDI”), a German mutual insurance company. The Company is a limited company incorporated and domiciled in Bermuda. The registered office is located at Victoria Place, 31 Victoria Street, Hamilton, HM10, Bermuda.

On 31 December 2020, the merger of the Company with Hannover Life Reassurance Bermuda Ltd, (“HLRBer”) a Class E reinsurer under common control of the same parent company, was effected with the Company being the surviving (“receiving”) entity. The Company is now a Dual License holder of both a Class 4 and a Class E license issued under the Insurance Act, 1978 of Bermuda and related regulations to write all classes of property, casualty and life business.

The Company writes primarily property catastrophe reinsurance contracts on an excess of loss basis. Property catastrophe reinsurance covers unpredictable events such as tropical cyclones, windstorms, hailstorms, earthquakes, freezes, riots and other man-made or natural disasters. Every property catastrophe excess of loss contract written by the Company provides for aggregate limits and attachment points. The Company also assumes cyber, workers’ compensation, marine, aviation, credit surety, motor, casualty, personal accident and terrorism contracts primarily on an excess of loss basis.

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

2. Basis of preparation

2.1. Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

These financial statements were authorised for issue by the Board of Directors on 21 April 2021 and hence released for publication.

2.2. Basis of measurement

The financial statements have been prepared on the historical cost basis. See Note 3 for the exceptions to this.

2.3. Merger accounting

In respect to the merger, the Company accounted for the merger prospectively (“the predecessor values method”) as both entities were under the common control of Hannover Re Holdings (UK) Limited. All of the assets and liabilities of HLRBer were transferred at book value with no goodwill arising and HLRBer’s shares were voided and reclassified into contributed surplus. To enhance these financial statements for the users, the Company has included a line showing the net impact of the merger marked as ‘Merger with HLRBer’ on any tables where a variation is presented. In addition on the Statement of Cash Flows the Company applied IAS 7.39 to show the aggregate cash flows from the merger arising from obtaining control of HLRBer separately under the line ‘Merger with HLRBer’ under cashflows from investing activities.

The financial statements for the comparative period 2019 have been reclassified and include pre-combination information only for the receiving entity. The current reporting period 2020 includes consolidated information to include the acquired assets, liabilities and results of operations from the date of the merger transaction 31 December 2020.

Shareholders' equity

in USD thousand	Pre-merger of HLRBer			Merger adjustment	Post-merger
	HRBer	HLRBer	HRBer + HLRBer		HRBer
Authorised, issued and fully paid	104,522	1,377	105,899	(1,377)	104,522
Contributed surplus	1,097,200	267,056	1,364,256	1,377	1,365,633
Accumulated other comprehensive income	125,975	4,611	130,586	–	130,586
Retained earnings	157,622	283,656	441,278	–	441,278
Total	**1,485,319**	**556,700**	**2,042,019**	**–**	**2,042,019**

2.4. Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The financial statements are presented in United States Dollars, which is also the Company’s functional currency.

2.5. Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The area involving a higher degree of judgment and where estimates are significant to the financial statements are the reinsurance assets and liabilities. This is disclosed further in Notes 3, 9 and 10 to these financial statements.

3. Summary of significant accounting policies

In the Company's efforts to meet international disclosure standards and to meet the requirements of the local regulators, the Company has prepared financial statements in accordance with IFRS.

The financial statements reflect all IFRS in force as at 31 December 2020, as well as all interpretations issued by IFRIC, the application of which was mandatory for the 2020 financial year.

IFRS 4.38 et seq. "Insurance Contracts" requires disclosures of the nature and extent of risks stemming from reinsurance contracts, while IFRS 7.31-42 "Financial Instruments: Disclosures" requires similar information on risks from financial instruments. The disclosures resulting from these requirements are included in Note 4. With regard to the disclosures required by IFRS 4 and IFRS 7, we would refer in particular to 4.2 Technical risks and 4.3 Market risks respectively.

Since 2002, the standards adopted by the International Accounting Standards Board ("IASB") have been referred to as 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.

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

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

As a consequence of the reform of interest rate benchmarks – primarily Interbank Offered Rates (IBOR) – initiated by the G-20 countries, under which the existing reference rates are to be either redefined or replaced with alternative reference rates by the end of 2021, the IASB launched a two-phase project. The "Amendments to IFRS 9, IAS 39 and IFRS 17: Interest Rate Benchmark Reform" were published in September 2019 as a product of Phase 1. The amendments to these standards are effective for financial years beginning on or after 1 January 2020. The changes relate to the period until the actual interest rate benchmark transition and are intended to ensure that existing hedging relationships can continue and new ones be designated despite the anticipated replacement of various reference rates. In addition, relief is provided for testing effectiveness. Initial application of these changes had no implications for the Company in the financial year.

In May 2020 the IASB issued "Amendment to IFRS 16 'Leases': Covid-19-Related Rent Concessions" in order to facilitate for lessees the accounting of concessions, e.g. deferral of rent payments and rent reductions, granted in connection with the outbreak of the coronavirus pandemic. The amendment is applicable to financial years beginning on or after 1 June 2020. Earlier application, including in interim financial statements, is permitted. The Company did not apply the amendment in the financial year.

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

- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to References to the Conceptual Framework in IFRS Standards

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

In the context of Phase 2 of the Interest Rate Benchmark Reform project the IASB published "Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform" in August 2020. The amendments to these standards are effective for financial years beginning on or after 1 January 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 at the time of replacement.

Since the transition to the new interest rate benchmarks is planned for the beginning of 2021, there are no measurement effects for the year under review. It should be pointed out that measurement effects may still arise in the case of certain assets in our portfolio even though the 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.

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 IASB issued "Amendments to IFRS 17" in June 2020, thereby deferring the date of initial application of the standard to financial years beginning on or after 1 January 2023.

The exemption from initial application of IFRS 9 “Financial Instruments” granted to insurance and reinsurance entities has similarly been extended until 1 January 2023, thereby continuing to facilitate first-time application of both standards at the same time. 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 recognising their financial instruments in accordance with IFRS 9 until probable entry into force of IFRS 17 on 1 January 2023.

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

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	1 January 2023
May 2020	Amendments to IFRS 3 Business Combinations: Reference to the Conceptual Framework	1 January 2022
May 2020	Amendments to IAS 16 Property, Plant and Equipment: PP&E: Proceeds before Intended Use	1 January 2022
May 2020	Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts Costs of Fulfilling a Contract	1 January 2022
May 2020	Annual Improvements 2018-2020: IFRS 1, IFRS 9, IFRS 16, IAS 41	1 January 2022

3.3. Reinsurance contracts

IFRS 4 “Insurance Contracts” represents the outcome of Phase I of the IASB project “Insurance Contracts” and constitutes a transitional arrangement. IFRS 17, which was issued by the IASB in May 2017, establishes binding principles for the measurement of insurance contracts effective for annual reporting periods beginning on or after 1 January 2021. With the publication of the Exposure Draft “Amendments to IFRS 17” in June 2019, the IASB proposed a deferral of the date of the standard’s initial application to 1 January 2022, as well as further amendments to 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 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 recognised in accordance with the pertinent provisions of US GAAP (United States Generally Accepted Accounting Principles) as applicable on the date of initial application of IFRS 4 on 1 January 2005.

a) Earned Premiums and unearned premium

Premiums assumed are estimated based on information received from ceding companies and reinsurance intermediaries and are included in income on a straight-line basis over the period of underlying coverage with the unearned portion deferred in the balance sheet. Reinsurance premiums ceded are similarly pro-rated over the terms of the treaties with the unearned portion being deferred in the balance sheet as prepaid reinsurance premium. Income and expenses in connection with reinsurance treaties are recognised on a basis consistent with the underlying risk of the reinsured business. Adjustments to premium estimates are recorded when updated information is reported by the ceding companies and reinsurance intermediaries. Such adjustments could result in significantly higher or lower premiums than originally estimated by the Company.

b) Reinstatement premiums and Retrospectively-rated premiums

Reinstatement premiums and retrospectively-rated premiums are recognised in accordance with provisions of the reinsurance contracts. Reinstatement premiums are premiums charged for the restoration of the reinsurance limit, generally coinciding with the payment of losses by the Company. Reinstatement premiums are earned immediately whilst the original contract premium continues to be earned over the full period of the contract. Retrospectively-rated premiums triggered by losses are earned immediately.

Premium deficiencies are recognised in the statement of income, to the extent that such deficiencies exist, in the period in which they arise.

3.4. Financial assets

As a basic principle we recognise 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 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 measured at amortised cost. The corresponding premiums or discounts are recognised in profit or loss across the duration of the instruments using the effective interest rate method. An impairment loss is taken in the event of permanent impairment.

b) Loans and receivables

Loans and receivables are non-derivative financial instruments that entail fixed or determinable payments on a defined due date and are not listed on an active market or sold at short notice. They are carried at amortised 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. Impairment is taken only to the extent that repayment of a loan is unlikely or no longer to be expected in the full amount.

c) Financial assets at fair value through profit or loss

Such assets consists of securities held for trading and those classified as measured at fair value through profit or loss since acquisition. This refers principally to unsecured debt instruments issued by corporate issuers and derivative financial instruments.

Within the scope of the fair value option provided under IAS 39 “Financial Instruments: Recognition and Measurement”, according to which financial assets may be carried at fair value on first-time recognition subject to certain conditions, all structured securities that would have needed to have been broken down had they been recognised as available for sale or under loans and receivables are also recognised here. The Company makes use of the fair value option solely for selected subportfolios of its financial assets. Securities held for trading and securities classified as measured at fair value through profit or loss since acquisition are carried at their fair value on the balance sheet date. If stock market prices are not available for use as fair values, the carrying amounts are determined using generally acknowledged measurement methods. All changes in fair values from this measurement are recognised in investment income. The classification of financial assets at fair value through profit or loss is compatible with the Company’s risk management strategy and investment strategy, which are oriented extensively towards economic fair value variables.

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

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

d) Financial assets classified as available for sale

Financial assets classified as available for sale are carried at fair value. Unrealised gains and losses arising out of changes in the fair value of securities held as available for sale are recognised in shareholder’s equity after deduction of deferred taxes. All financial instruments that do not satisfy the criteria for classification as held to maturity, loans and receivables, at fair value through profit or loss, or trading are allocated to the category of available for sale. Accrued interest is also recognised in this category.

3.5. Establishment of the fair value of financial instruments carried as assets or liabilities

The fair value of financial instruments carried as assets or liabilities is established using the methods and models described below. The fair value of a financial instrument corresponds to the amount that the Company would receive or pay if it were to sell or settle the said financial instrument on the balance sheet date. Insofar as market prices are listed on markets for financial assets, their bid price is used; financial liabilities are valued at ask price. In other cases the fair values are established on the basis of the market conditions prevailing on the balance sheet date for financial assets with similar credit rating, duration and return characteristics or using recognised models of mathematical finance. The Company uses a number of different valuation models for this purpose. The details are set out in the table below. Financial assets for which no publicly available prices or observable market data can be used as inputs (financial instruments belonging to fair value hierarchy Level 3) are for the most part measured on the basis of proven valuations drawn up by knowledgeable, independent experts, e.g. audited net asset value, the plausibility of which has previously been subjected to systematic review. For further information, see our explanatory remarks on the fair value hierarchy in Note 8.

a) Investment income

Investment income is recognised on the accrual basis and includes the amortisation of premium or discount on debt securities purchased at amounts different from their par value.

b) Netting of financial instruments

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

c) Impairment loss and reversals

Management records an impairment loss to fair value through net income for any impairment in the value of securities. Any subsequent recovery in the fair value of an impaired debt instrument classified as available for sale is reversed through net income, while a recovery in an impaired available for sale equity security is recognised in other comprehensive income.

Valuation models

Financial instrument		***Parameter***	***Pricing model***
Fixed-income securities	Unlisted plain vanilla bonds, interest rate swaps	Yield curve	Present value method
	Unlisted structured bonds	Yield curve, volatility surfaces	Hull-White, Black-Karasinski, LIBOR market model etc.
	Unlisted ABS / MBS, CDO / CLO	Risk premiums, default rates, prepayment speed and recovery rates	Present value method
Other invested assets	Unlisted equities, Life Settlement policies and equity investments	Acquisition cost, cash flows, EBIT multiples, as applicable book value	Capitalised earnings method, discounted cash flow method, multiple-based approaches
	Private equity funds, private equity real estate funds	Audited net asset values (NAV)	Net asset value method
	Unlisted bond, equity and real estate funds	Audited net asset values (NAV)	Net asset value method
Other financial assets – at fair value through profit or loss	Forward exchange transactions, foreign exchange swaps, non-deliverable forwards	Yield curves, spot and forward rates	Interest parity model
	OTC stock options, OTC stock index options	Listing of the underlying share, implicit volatilities, money-market interest rate, dividend yield	Black-Scholes
	Insurance derivatives	Fair values, actuarial parameters, yield curve	Present value method
	Cross-currency swaps	Yield curve, currency spot rates	Present value method
	Total return swaps	Listing of underlying, yield curve	Present value method

3.6. Other invested assets

Other invested assets includes invested funds, shares in limited partnerships, and investments in life settlement contracts. Invested funds and shares in limited partnerships are carried at fair value, life settlement contracts are valued on a policy-by-policy basis using a discounted cash flow methodology. The fair value at the point of purchase is assumed to be equal to the purchase price. The fair value at future dates is calculated as the present value of expected future cash flow discounted at the risk-free term structure of spot rates plus a policy-specific risk margin. Net changes in fair value are reflected in the statement of income in unrealised gains and losses on investments for life settlements. Invested funds and shares in limited partnerships are classified as available for sale.

3.7. Cash and cash equivalents

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

3.8. Short term investments

This item consists of investments with an original maturity of up to one year and is carried at fair value.

3.9. Funds withheld

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

3.10. Contract deposits

Contract deposits pertain to 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 in conjunction with SFAS 113 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 / expenses. The payment flows resulting from these contracts are shown in the cash flow statement under operating activities.

3.11. Accounts receivable

Accounts receivable 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. Accounts receivable predominantly represent amounts due from ceding companies including amounts due from related parties. See Note 21 for details of amounts due from related parties.

3.12. Deferred acquisition costs

Deferred acquisition costs principally consist of commissions in the form of financing to cedants, brokerage, and other variable costs directly related with the acquisition or renewal of existing reinsurance contracts. These acquisition costs are capitalised and amortised 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 amortisation of deferred acquisition costs. The Company also performs recoverability testing to ensure that expenses deferred during the current year are recoverable against future profits.

3.13. Reinsurance recoverables

Shares of our retrocessionaires in the loss and loss adjustment expense reserve are calculated according to the contractual conditions on the basis of the gross loss and loss adjustment expense reserve. Appropriate allowance is made for credit risks.

3.14. Other assets

Fixtures, fittings and equipment are recorded at cost less accumulated depreciation calculated on a straight-line basis, over the estimated useful lives of the assets, which are as follows:

Computer equipment	5 years
Fixtures and fittings	5 years
Leasehold improvements	5 years
Vehicles	7 years

The Company leases its premises and some office equipment and as such right-of-use assets, complementary right-of-use accumulated depreciation and lease liabilities have been recorded on the Company's balance sheet. Right-of-use assets are measured at amortised cost in the amount of the initial measurement of the lease liability, adjusted by probable restoration costs. These assets are amortised on a straight-line basis, over the term of the lease contract, which range from 2 to 5 years (see also Note 11).

Receivables from ISDA - financial guarantees pertains to the actual fee income outstanding from ISDA – financial guarantees. Refer to Note 7 for further details.

3.15. Loss and loss adjustment expenses

Reserves are established for payment obligations from reinsurance losses that have occurred but have not yet been settled. They are subdivided into reserves for reinsurance losses reported by the balance sheet date and reserves for reinsurance losses that have already been incurred but not yet reported (“IBNR”) by the balance sheet date. The loss and loss adjustment expense reserves are based on estimates that may diverge from the actual amounts payable. In reinsurance business a considerable period of time may elapse between the occurrence of an insured loss, notification by the insurer and pro-rata payment of the loss by the reinsurer. For this reason the realistically estimated future settlement amount based on long-standing established practice is carried out. Recognised actuarial methods are used for estimation purposes. In this regard we make allowance for past experience, currently known facts and circumstances, the expertise of the market units as well as other assumptions relating to the future development, in particular economic, social and technical influencing factors. Future payment obligations are not discounted for the time value of money. The Company involves an actuary in the annual reserving process.

Loss and loss adjustment expense reserves are shown gross in the balance sheet, i.e. before deduction of the share attributable to our reinsurers.

3.16. Benefit reserves

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

3.17. Shareholder's equity

The items "common shares" and "contributed surplus" are comprised of the amounts paid in by the Parent. In addition to the statutory reserves of the Company and the allocations from net income, the retained earnings consist of reinvested profits generated by the Company in previous periods. For retrospective change of accounting policies, the adjustment for previous periods is recognised in the opening balance sheet value of the retained earnings and comparable items of the earliest reported period. Unrealised gains and losses from the fair value measurement of financial instruments held as available for sale are carried in accumulated other comprehensive income under realised gains and losses on investments.

3.18. 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 and disclosed in accordance with IAS 24 and include business both assumed and ceded under usual market conditions.

See Note 21 for further details.

3.19. Loans and borrowings

Liability loans and borrowings are from affiliated companies which are measured at amortised cost at the balance sheet dates. See Note 13 for further details.

3.20. Currency translation

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from these transactions and balances are recognised in the statement of income for the year.

Foreign currency assets and liabilities are translated at exchange rates in effect at the balance sheet date. Exchange rate differences from the translation of assets and liabilities are recognised directly in the statement of income. Foreign currency gains and losses from components of equity are recognised in the statement of other comprehensive income.

3.21. Impairment of assets

As at each balance sheet date, we review our financial assets with an eye to the need to take impairments. Permanent impairments on all invested assets are recognised directly in the statement of income. In this context, we take as a basis the same indicators as those subsequently discussed for fixed-income securities and securities with the character of equity. Qualitative case-by-case analysis is also carried out. IAS 39 "Financial Instruments: Recognition and Measurement" contains a list of objective, substantial indications for impairments of financial assets. In the case of fixed-income securities and loans, reference is made in particular to the rating of the instrument, the rating of the issuer / borrower as well as the individual market assessment in order to establish whether they are impaired. With respect to held-to-maturity instruments as well as loans and receivables recognised at amortised cost, the level of impairment is arrived at from the difference between the book value of the asset and the present value of the expected future cash flows. The book value is reduced directly by this amount, which is then recognised as an expense. With the exception of value adjustments taken on accounts receivable, we recognise impairments directly on the assets side – without using an adjustment account –

separately from the relevant items. If the reasons for the write down no longer apply, a write-up is made in income up to at most the original amortised cost in the case of fixed-income securities.

3.22. Employee benefits

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

3.23. Lease liabilities

Lease liabilities are initially measured at the present value of essentially all lease payments that are not variable or dependent on an index or interest rate. (See Note 12).

4. Management of technical and financial risks

4.1. General risk management

Due to the nature of its business, the Company expects that its claims experience will generally be characterised by low frequency and high severity claims. The Company manages its exposure to catastrophic events by limiting the amount of its exposure in each geographic zone.

The Company assumes a worldwide-diversified book of business that covers exposures across various catastrophe zones and perils, certain of which are protected by retrocession programs. In 2020, the Company's geographical exposure comprised of approximately 32% U.S. based risks (2019 - 32%), 27% European based risks (2019 - 24%), 18% Asian based risks (2019 - 21%), 10% Australian based risks (2019 - 9%) and 13% other (2019 - 14%).

As part of a holistic approach to risk management, the Company takes into account numerous relevant scenarios. In addition, extreme scenarios are analysed, their effect on key balance sheet variables and performance indicators are determined, evaluated in relation to the planned figures and alternative courses of action are identified.

4.2. Technical risks

Property and Casualty (P&C)

The under reserving of claims constitutes a significant technical risk. Loss reserves are determined using actuarial methods, primarily based on information provided by cedants and supplemented as necessary by additional reserves established on the basis of the Company's own loss assessments. Reserves are set aside for claims that have occurred and been reported to the insurer, but in respect of which the amount is not yet known and which therefore cannot yet be paid. There are also claims that do not manifest themselves until a later stage and which are therefore only reported by the policyholder to the insurer and by the insurer to its reinsurer sometime after their occurrence. Reserves must be established for such IBNR (incurred but not reported) claims because years or even decades often elapse until the final settlement of such losses. This is especially true of liability claims. For certain catastrophic events, there is considerable uncertainty underlying the assumptions and associated estimated reserve for loss and loss adjustment expenses. These estimates are reviewed regularly and as experience develops and new information becomes known, the reserves are adjusted as necessary. Uncertainties in relation to reserving are therefore unavoidable. The IBNR reserve is calculated on a differentiated basis according to risk categories and regions.

Life and Health (L&H)

The Company's main insurance risks in its L&H segment are:

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

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

Mortality risk

The Company is exposed to mortality risk through the reinsurance of life insurance business from its cedants. The reinsurance structures include traditional structures such as risk premium reinsurance and stop loss reinsurance, alongside less traditional structures such as mortality swaps. The Company's risk management system mandates maximum retention of USD 5.0 million per life, and has retrocession arrangements in place to accept risk in excess of the retention limit.

Catastrophe risk

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

Longevity risk

The Company is primarily exposed to longevity risk via longevity swaps. Exposure via longevity swaps is mitigated considerably as the swap terms are truncated to 10 years, thereby reducing exposure to increasing mortality improvements.

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 rely on the persistency of the underlying business. The Company is party to a range of cash and non-cash financing structures with cedants across the globe. Treaties are structured to mitigate the extent of the Company's exposure to lapse risk.

Morbidity and Disability risk

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

4.3. Market risks

The overriding principle guiding the Company's investment strategy is capital preservation while giving adequate consideration to the security, liquidity, mix and spread of the assets. Risks in the investment sector consist primarily of market, credit, spread and liquidity risks. The most significant market price risks are interest rate and currency risks. Insurance contract liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest-bearing.

In order to monitor interest rate risks and share price risks, management uses stress tests that estimate the loss potential under extreme market conditions as well as sensitivity and duration analyses that complement the Company's range of risk management tools. Interest rate risks refer to an unfavourable change in the value of financial assets held in the portfolio due to changes in the market interest rate level. One of management's central objectives of this strategy is to match cash flows on the assets and liabilities sides as closely as possible. In addition, management uses defined duration ranges within which asset managers can position themselves opportunistically according to their market expectations. The parameters for these ranges are directly linked to the Company's risk-carrying capacity.

Management spreads these risks through systematic diversification across various sectors and regions.

Currency risks are of considerable importance to an internationally operating reinsurance enterprise that writes a significant proportion of its business in foreign currencies. The Company monitors and reduces its risks through extensive matching of currency distributions on the assets and liabilities side.

Further information on the risk concentrations of our investments can be obtained from the tables on the rating structure of fixed-income securities as well as on the currencies in which investments are held in Note 6.

4.4. Credit risks

Bad debt risks in reinsurance are of relevance to the Company because the business that the Company accepts is not always fully retained, but instead portions are retroceded as necessary. Retrocession partners are therefore carefully selected in light of credit considerations. This is also true of the Company's broker relationships, under which risks may occur inter alia through the loss of the premium paid by the cedant to the broker or through double payments of claims.

Credit risks may arise out of a failure to pay (interest and/or capital repayment) or change in the credit status (rating downgrade) of issuers of securities. The Company attaches vital importance to credit assessment conducted on the basis of the quality criteria set out in the investment guidelines. See Note 6.5 for the rating structure of fixed-income securities and Note 9.2 for additional credit risk disclosure.

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

4.5. Liquidity risks

The liquidity risk refers to the risk that it may not be possible to sell holdings or close open positions due to the illiquidity of the market – or to do so only with delays or price markdowns – as well as the risk that the traded volumes influence the markets in question. Regular liquidity planning and a liquid asset structure are used by the Company to make the necessary payments. The Company manages the liquidity risk inter alia by allocating a liquidity code to every security. Adherence to the limits defined in the investment guidelines for each liquidity class is subject to daily control. The spread of investments across the various liquidity classes is specified in the monthly investment reports and controlled by limits. See Note 6 for the maturities of fixed-income securities and Note 10 for expected maturities of the technical reserves.

5. Cash and cash equivalents

in USD thousand	2020	2019
Cash at bank	47,248	34,945
Money market funds	19,529	13,229
Time deposits	12,916	–
Total cash and cash equivalents	**79,693**	**48,174**

The average interest rate on time deposits at 31 December 2020 was 0.02% (2019 – 0.00%) and the maturity of time deposits was 5 days (2019 - 0 days).

6. Investments including income and expenses

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

The investments also encompass investments in other invested assets, short-term investments, cash and funds withheld/contract deposits. For further explanation, see Note 3 “Summary of significant accounting policies”.

6.1. Maturities of the fixed-income securities

	2020		2019	
in USD thousand	Amortised cost [1]	Fair value	Amortised cost [1]	Fair value
Held to maturity				
due in one year	12,586	12,815	–	–
due after one through two years	–	–	11,517	12,147
Total	**12,586**	**12,815**	**11,517**	**12,147**
Available for sale, including cash and cash equivalents				
due in one year	474,310	475,209	314,963	314,223
due after one through two years	486,855	497,853	363,134	364,851
due after two through three years	411,395	424,654	378,077	383,126
due after three through four years	514,723	539,664	256,880	262,905
due after four through five years	343,986	356,965	432,764	441,716
due after five through ten years	814,737	861,168	680,150	701,114
due after more than ten years	434,524	450,940	196,147	204,775
Total	**3,480,530**	**3,606,453**	**2,622,115**	**2,672,710**

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.

6.2. Amortised cost, unrealised gains and losses, accrued interest and fair value on the portfolio of investments

	2020				
in USD thousand	Cost or Amortised cost	Accrued interest	Unrealised gains	Unrealised losses	Fair value
Held to maturity					
Fixed-income securities					
Covered bonds	12,313	273	229	–	12,815
Total	**12,313**	**273**	**229**	**–**	**12,815**

	2019				
in USD thousand	Cost or Amortised cost	Accrued interest	Unrealised gains	Unrealised losses	Fair value
Held to maturity					
Fixed-income securities					
Covered bonds	11,269	248	630	–	12,147
Total	**11,269**	**248**	**630**	**–**	**12,147**

	2020				
in USD thousand	Cost or Amortised cost	Accrued interest	Unrealised gains	Unrealised losses	Fair value
Available for Sale					
Fixed-income securities					
Government debt securities of EU member states	167,264	806	5,659	–	173,729
US Treasury notes	1,080,582	4,447	37,233	6,249	1,116,013
Debt securities issued by semi-governmental entities	142,390	514	5,281	8	148,177
Debt securities issued by other foreign governments	557,608	2,181	2,582	1,057	561,314
Corporate securities	1,300,445	11,214	83,513	1,485	1,393,687
Covered bonds	46,783	404	1,480	–	48,667
Asset-backed securities	85,760	438	77	1,102	85,173
Total fixed-income securities	**3,380,832**	**20,004**	**135,825**	**9,901**	**3,526,760**
Other invested assets					
Invested funds	8,307	–	4,872	–	13,179
Shares in limited partnerships	16,457	–	239	457	16,239
Life Settlement contracts	4,577	–	–	–	4,577
Total other invested assets	**29,341**	**–**	**5,111**	**457**	**33,995**
Total	**3,410,173**	**20,004**	**140,936**	**10,358**	**3,560,755**

in USD thousand	2019 Cost or Amortised cost	Accrued interest	Unrealised gains	Unrealised losses	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	104,539	723	2,447	44	107,665
US Treasury notes	679,505	3,414	13,996	624	696,291
Debt securities issued by semi-governmental entities	120,261	601	1,993	81	122,774
Debt securities issued by other foreign governments	431,928	1,092	1,248	1,303	432,965
Corporate securities	1,101,440	10,853	36,973	1,223	1,148,043
Covered bonds	41,624	345	360	27	42,302
Asset-backed securities	75,811	616	5	1,936	74,496
Total fixed-income securities	**2,555,108**	**17,644**	**57,022**	**5,238**	**2,624,536**
Other invested assets					
Invested funds	8,307	–	4,258	–	12,565
Shares in limited partnerships	14,047	–	333	303	14,077
Life Settlement contracts	–	–	–	–	–
Total other invested assets	**22,354**	**–**	**4,591**	**303**	**26,642**
Total	**2,577,462**	**17,644**	**61,613**	**5,541**	**2,651,178**

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.

6.3. Investment income

in USD thousand	2020	2019
Fixed-income securities – held to maturity	–	626
Fixed-income securities – loans and receivables	–	26
Fixed-income securities – available for sale	71,921	65,880
Other invested assets	164	171
Interest on investments	**72,085**	**66,703**
Amortisation	(10,272)	(3,055)
Interest on cash balances, cash equivalents and short term investments	62	616
Ordinary investment income	**61,875**	**64,264**
Realised gains on investments	12,552	11,149
Realised losses on investments	(6,451)	(11,095)
Changes in fair value of financial instruments	318	690
Other investment expenses	(3,773)	(2,968)
Total investment income	**64,521**	**62,040**

Included in realised gains and losses on investments is losses of USD 0.3 million (2019: USD 4.0 million) which is the yield component of forward exchange transactions that were entered into by the Company in 2020. See Note 7.

6.4. Net gains and losses on investments

in USD thousand	2020				
	Ordinary invest-ment income	Realised gains and losses	Impairments/ap-preciation	Changes in fair value	Net income from assets un-der own man-agement
Held to maturity					
Fixed-income securities	418	–	–	–	418
Loans and receivables					
Fixed-income securities	–	–	–	–	–
Available for sale					
Fixed-income securities	60,348	6,375	–	–	66,723
Other invested assets	1,047	–	–	–	1,047
At Fair Value through profit and loss					
Derivative financial instruments	–	(274)	–	318	44
Cash	**62**	**–**	**–**	**–**	**62**
Total	**61,875**	**6,101**	**–**	**318**	**68,294**

in USD thousand	2019				
	Ordinary invest-ment income	Realised gains and losses	Impairments/ap-preciation	Changes in fair value	Net income from assets un-der own man-agement
Held to maturity					
Fixed-income securities	550	–	–	–	550
Loans and receivables					
Fixed-income securities	26	–	–	–	26
Available for sale					
Fixed-income securities	61,420	4,070	–	–	65,490
Other invested assets	1,652	–	–	–	1,652
At Fair Value through profit and loss					
Derivative financial instruments	–	(4,016)	–	690	(3,326)
Cash	**616**	**–**	**–**	**–**	**616**
Total	**64,264**	**54**	**–**	**690**	**65,008**

The net gains and losses on the investment portfolio of held to maturity investments, loans and receivables, available for sale investments, derivative financial instruments and other are comprised of interest income, amortisation, and realised gains and losses. In the case of derivative financial instruments recognised at fair value through profit and loss, an allowance is also made for changes in unrealised gains and losses.

6.5. Rating structure of fixed-income securities

	2020					
in USD thousand	AAA	AA	A	BBB	<BBB	Total
Fixed-income securities – held to maturity	12,586	–	–	–	–	12,586
Fixed-income securities – available for sale	1,421,586	543,439	888,478	611,484	61,773	3,526,760
Total	**1,434,172**	**543,439**	**888,478**	**611,484**	**61,773**	**3,539,346**

	2019					
in USD thousand	AAA	AA	A	BBB	<BBB	Total
Fixed-income securities – held to maturity	11,517	–	–	–	–	11,517
Fixed-income securities – available for sale	828,961	457,414	743,446	564,514	30,201	2,624,536
Total	**840,478**	**457,414**	**743,446**	**564,514**	**30,201**	**2,636,053**

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

6.6. Breakdown of investments by currency

	2020						
in USD thousand	AUD	EUR	GBP	JPY	USD	Other	Total
Fixed-income securities – held to maturity	–	12,586	–	–	–	–	12,586
Fixed-income securities – loans and receivables	–	–	–	–	–	–	–
Fixed-income securities – available for sale	164,196	–	260,132	323,300	2,643,829	135,303	3,526,760
Other financial assets – at fair value through profit and loss	–	–	151,283	–	2,356	24	153,663
Other invested assets – available for sale	–	–	–	–	33,995	–	33,995
Cash and cash equivalents	4,167	3,051	20,504	6,755	34,126	11,090	79,693
Total	**168,363**	**15,637**	**431,919**	**330,055**	**2,714,306**	**146,417**	**3,806,697**

in USD thousand	2019 AUD	EUR	GBP	JPY	USD	Other	Total
Fixed-income securities – held to maturity	–	11,517	–	–	–	–	11,517
Fixed-income securities – loans and receivables	–	–	–	–	–	–	–
Fixed-income securities – available for sale	51,364	–	191,858	318,919	1,925,884	136,511	2,624,536
Other financial assets – at fair value through profit and loss	–	–	–	–	1,133	–	1,133
Other invested assets – available for sale	–	–	–	–	26,642	–	26,642
Cash and cash equivalents	1,738	2,967	3,289	12,386	18,745	9,049	48,174
Total	**53,102**	**14,484**	**195,147**	**331,305**	**1,972,404**	**145,560**	**2,712,002**

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

The Company's portfolio contained derivative financial instruments as at the balance sheet date in the form of forward exchange transactions taken out to hedge currency risks. These transactions gave rise to recognition of other assets at fair value through profit and loss in an amount of USD 0.06 million (2019: USD 1.1 million) under Level 2 and other liabilities at fair value through profit and loss of USD 10.1 million (2019: USD 0.4 million) under Level 2. The maturity of the forward exchange transactions are between 1 month and 17 months. The derivative financial instruments are legally entered into by the Parent, which is rated AA- by Standard & Poor's, and passed on to the Company through a contractual intercompany arrangement.

The Company entered into a Yield-Collar Stop Loss derivative contract on 1 December 2012 with an affiliate Hannover Re (Ireland) Designated Activity Company to provide longevity risk cover for a life settlement portfolio. The derivative is recognised at fair value through profit and loss and included in other liabilities at fair value through profit and loss. At 31 December 2020, the derivative was valued at USD 4.5 million (2019: nil).

The Company entered into a UK financing treaty, which exposes the Company to lapse risk effective 1 January 2016, of which the Company retrocedes 10% (2019: 20%). Based on the Company's evaluation there was insufficient insurance risk under the criteria of IFRS 4. The Company has elected to account for assets and liabilities associated with these treaties at fair value through profit and loss. The inward treaty is included in other assets at fair value through profit and loss and the outward treaty is recognised as other liabilities at fair value through profit and loss. At 31 December 2020, the derivative asset was valued at USD 151.3 million (2019: nil) and the liability at USD 32.6 million (2019: nil).

The Company writes three contracts where the payment obligations result from contractually defined events that relate to the development of an underlying group of primary insurance contracts with statutory reserving requirements (so–called Triple–X or AXXX reserves) of US ceding companies. The contracts are to be categorised and recognised as stand–alone credit derivatives pursuant to IAS 39. It is 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 USD forward rates (based on swaps) prevailing at the time of the valuation. The expected future cash flows are determined gross of contractual expenses payable to other Hannover Re entities. Any day one gains or losses on these derivative instruments are deferred in accordance with IAS 39. There is a zero net fair value for these instruments on the balance sheet date The nominal value of these transactions at the balance sheet date is USD 1,556.5 million (2019: nil). Included under Other financial assets–at fair value through profit and loss is a related receivable balance of USD 2.3 million (2019: nil).

Three structured transactions were entered into in order to finance statutory reserves (so–called Triple–X or AXXX reserves) for US ceding companies. In each case, such structures necessitated the involvement of a special purpose entity. All of the special purpose entities carry extreme mortality risks. Since the Company does not bear the majority of the economic risks or benefits arising out of its business relations with these special purpose entities and cannot exercise a controlling influence over them, there is no consolidation requirement for the Company. The total amount of the contractually agreed capacities of the transactions, equivalent to USD 1,844.5 million (2019: nil), had been taken up as at the balance sheet date. The variable payments to the special purpose entities that are guaranteed by the Company cover their payment obligations. Under some of the transactions the payments resulting from the swaps in the event of a claim are reimbursed by the parent companies of the cedants by way of compensation agreements. In this case, the reimbursement claims from the compensation agreements are to be capitalised separately from and up to the amount of the provision. Under IAS 39 these transactions are to be recognised at fair value as financial guarantees. To this end, the Company uses the net method according to which the present value of the agreed fixed swap premiums is netted with the present value of the guarantee commitment. The fair value on initial recognition therefore amounted to zero. The higher of the fair value and the amount carried as a provision on the liabilities side pursuant to IAS 37 is recognised at the point in time when utilisation is considered probable. This was not the case as at the balance sheet date. Included in Note 11 Other assets is a related receivable balance of USD 6.5 million (2019: nil).

8. Fair value measurement

For the purposes of the disclosure requirements pursuant to IFRS 13 “Fair Value Measurement”, it is necessary to assign to a three-level fair value hierarchy not only the financial assets and liabilities recognised at fair value but also those assets and liabilities that are recognised at amortised cost but for which disclosure of fair value is required.

The fair value hierarchy, which reflects characteristics of the price data and inputs used for measurement purposes, is structured as follows:

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

If input factors from different levels are used to measure a financial instrument, the level of the lowest input factor material to measurement is determinative.

The operational units responsible for coordinating and documenting measurement are organisationally separate from the operational units that enter into investment risks. All relevant valuation processes and valuation methods are documented. Decisions on fundamental valuation issues are taken by a valuation committee that meets monthly.

8.1. Fair value hierarchy of financial assets and liabilities recognised at fair value

in USD thousand	2020			
	Level 1	Level 2	Level 3	Total
Fixed-income securities – available for sale	**–**	**3,526,760**	**–**	**3,526,760**
Other financial assets – at fair value through profit and loss				
Derivative instruments – FX Forwards	–	61	–	61
Derivative instruments linked to insurance risks	–	–	153,602	153,602
Other invested assets				
Investment funds	–	13,179	–	13,179
Shares in limited partnerships	–	–	16,239	16,239
Life Settlement contracts	–	–	4,577	4,577
Total financial assets	**–**	**3,540,000**	**174,418**	**3,714,418**
Other financial liabilities – at fair value through profit or loss				
Derivative instruments – FX Forwards	–	10,123	–	10,123
Derivative instruments linked to insurance risks	–	–	37,046	37,046
Total financial liabilities	**–**	**10,123**	**37,046**	**47,169**

in USD thousand	2019			
	Level 1	Level 2	Level 3	Total
Fixed-income securities – available for sale	**–**	**2,624,536**	**–**	**2,624,536**
Other financial assets – at fair value through profit and loss				
Derivative instruments – FX Forwards	–	1,133	–	1,133
Derivative instruments linked to insurance risks	–	–	–	–
Other invested assets				
Investment funds	–	12,565	–	12,565
Shares in limited partnerships	–	–	14,077	14,077
Life Settlement contracts	–	–	–	–
Total financial assets	**–**	**2,638,234**	**14,077**	**2,652,311**
Other financial liabilities – at fair value through profit or loss				
Derivative instruments – FX Forwards	–	352	–	352
Derivative instruments linked to insurance risks	–	–	–	–
Total financial liabilities	**–**	**352**	**–**	**352**

There were no transfers between levels during 2020 or 2019. During 2020, there were 14 (2019 – 1) Level 3 Investments held.

8.2. Fair value hierarchy of financial assets and liabilities measured at amortised cost

in USD thousand	2020			
	Level 1	Level 2	Level 3	Total
Fixed-income securities	–	12,815	–	12,815
Total financial assets	**–**	**12,815**	**–**	**12,815**

in USD thousand	2019			
	Level 1	Level 2	Level 3	Total
Fixed-income securities	–	12,147	–	12,147
Total financial assets	**–**	**12,147**	**–**	**12,147**

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

in USD thousand	2020		
	Other financial assets	Other invested assets	Other financial liabilities
Net book value at 1 January 2020	**–**	**14,077**	**–**
Recognised directly in shareholders' equity	–	(248)	–
Additions	–	3,297	–
Disposals	–	(887)	–
Merger with HLRBer	153,602	4,577	37,046
Currency translation at 31 December	–	–	–
Net book value at 31 December 2020	**153,602**	**20,816**	**37,046**

in USD thousand	2019		
	Other financial assets	Other invested assets-available for sale	Other financial liabilities
Net book value at 1 January 2019	**–**	**15,732**	**–**
Recognised directly in shareholders' equity	–	(39)	–
Additions	–	2,597	–
Disposals	–	(4,213)	–
Currency translation at 31 December	–	–	–
Net book value at 31 December 2019	**–**	**14,077**	**–**

The securities included in Level 3 consist of a limited partnership share, priced using the Mark to Model method as at the balance sheet date. As these investments have limited observable transactions at the reported net asset value date, they have been classified as Level 3.

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.

9. Technical assets

The retrocessionaires' portions of the technical reserves are based on the contractual agreements of the underlying reinsurance treaties. For further details refer to the remarks on the technical reserves (see Note 10).

In Property and Casualty business, acquisition costs directly connected with the acquisition or renewal of contracts are deferred for the unearned portion of the premium.

In Life and Health reinsurance, the deferred acquisition costs associated with life and health 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.

9.1. Deferred acquisition costs

	2020			2019		
in USD thousand	gross	retro	net	gross	retro	net
Net book value at 31 December of the previous year	26,999	10,403	16,596	22,667	7,716	14,951
Additions	20,419	12,842	7,577	20,587	10,368	10,219
Amortisations	(14,559)	(10,437)	(4,122)	(16,111)	(7,680)	(8,431)
Merger with HLRBer	598,389	86	598,303	–	–	–
Currency translation at 31 December	739	–	739	(144)	(1)	(143)
Net book value at 31 December for the year under review	**631,987**	**12,894**	**619,093**	**26,999**	**10,403**	**16,596**

For further explanatory remarks, see Note 3 "Summary of significant accounting policies".

9.2. Reinsurance

In 2020 and 2019, the Company, along with the Parent and other Group Companies entered into Whole Account excess of loss treaty reinsurance agreements with third party retrocessionaires. These agreements protect the Parent and its subsidiaries from specific named perils including earthquake, flood, storm and similar natural catastrophes, as well as aviation and marine events. The Parent pays premium on behalf of the Company to the respective retrocessionaires and collects and distributes recoveries to the Company according to its share of affected losses. Counterparty default risk from these group-wide retrocessions is borne by the Parent, which is rated AA- by Standard & Poor's and A+ by A.M. Best. (See also Note 21).

The Company also participates in the Parent's K Quota Share, which involves a quota share cession on geographically specific natural catastrophe risks as well as worldwide aviation and marine risks. The transaction has an indefinite term and can be cancelled annually by the investors. Each investor's participation is wholly collateralised by contractually defined investments in the form of cash and equivalent liquid assets, as well as letters of credit.

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to the Company; consequently, allowances are established for any amounts deemed uncollectible.

9.3. Funds withheld

The funds withheld totalling USD 128.1 million (2019: USD 71.9 million) represent the cash and security deposits furnished by the Company to cedants that do not trigger any cash flows and cannot be realised by cedants without the Company's consent. Refer to

Note 21 for related party exposures within funds withheld. Total interest earned on funds withheld reflected on the statement of income during 2020 amounted to USD 0.4 million (2019: USD 1.2 million).

9.4. Ceded funds withheld

Ceded funds withheld under reinsurance treaties totalling USD 2.0 million (2019: USD 2.0 million), represent cash deposits furnished to the Company by our retrocessionaires that do not trigger any cash flows and cannot be realised without the consent of our retrocessionaires.

9.5. Contract deposits asset and liability

The contract deposits asset increased by USD 3.1 million and contract deposits liability increased by USD 12.8 million due to the merger.

10. Technical reserves

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

10.1. Technical reserves

in USD thousand	2020			2019		
	gross	retro	net	gross	retro	net
Loss and loss adjustment expense reserve	1,968,193	662,780	1,305,413	1,599,112	582,468	1,016,644
Benefit reserve	17,102	64	17,038	–	–	–
Unearned premium reserve	234,364	55,183	179,181	186,227	43,209	143,018
Total	**2,219,659**	**718,027**	**1,501,632**	**1,785,339**	**625,677**	**1,159,662**

The loss and loss adjustment expense reserve are in principle recorded on the basis of information supplied by the ceding companies. Additional IBNR reserve are established for losses that have been incurred but not as yet reported. This estimate is based on past experience and estimations of the future development.

The development of the loss and loss adjustment expense reserve is shown in the following table. Commencing with the gross reserve, the change in the reserve after deduction of the reinsurers' portions is shown in the year under review and the previous year.

10.2. Loss and loss adjustment expense reserve roll forward

in USD thousand	2020			2019		
	gross	retro	net	gross	retro	net
Net book value at 31 December of the previous year	**1,599,112**	**582,468**	**1,016,644**	**1,361,194**	**557,275**	**803,919**
Loss and loss adjustment expenses incurred						
Year under review	747,763	305,745	442,018	572,848	194,800	378,048
Previous years	(86,648)	(9,680)	(76,968)	97,489	69,620	27,869
	661,115	**296,065**	**365,050**	**670,337**	**264,420**	**405,917**
Less:						
Loss and loss adjustment expenses paid						
Year under review	(67,088)	(38,800)	(28,288)	(20,722)	(9,043)	(11,679)
Previous years	(315,675)	(184,490)	(131,185)	(415,221)	(226,918)	(188,303)
	(382,763)	**(223,290)**	**(159,473)**	**(435,943)**	**(235,961)**	**(199,982)**
Merger with HLRBer	17,796	26	17,770	–	–	–
Currency translation at 31 December	72,933	7,511	65,422	3,524	(3,266)	6,790
Net book value at 31 December for the year under review	**1,968,193**	**662,780**	**1,305,413**	**1,599,112**	**582,468**	**1,016,644**

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

The loss and loss adjustment expense reserve is based upon estimations that entail an element of uncertainty. Owing to the fact that the period of some reinsurance treaties is not the calendar year or because they are concluded on an underwriting-year basis, it is frequently impossible in reinsurance business to make an exact allocation of claims expenditures to the current financial year and the previous year and as such management has to make estimates as part of the allocation process.

The run-off triangles show the run-off of the reserve established as at each balance sheet date, this reserve comprising the provisions constituted in each case for the current and preceding occurrence years. The run-off of the reserve for individual occurrence years is not shown in this regard, but rather the run-off of the reserve constituted annually in the balance sheet as at the balance sheet date.

The following tables show the gross and net loss reserve for the property and casualty reinsurance business in the years 2011 to 2020 as well as the run-off of the reserve (so-called run-off triangle). The run-off results shown reflect the changes in the ultimate loss arising in the 2020 financial year for the individual run-off years.

10.3. Net loss reserve and its run-off in the property and casualty reinsurance segment

in USD million	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Estimate of ultimate claims:											
- at end of year	373	139	218	189	226	242	418	339	378	442	
- one year later	311	133	203	201	235	225	476	433	448		
- two years later	322	71	175	171	154	187	442	352			
- three years later	376	66	146	150	120	185	421				
- four years later	384	61	132	137	94	156					
- five years later	369	55	125	131	90						
- six years later	365	53	120	128							
- seven years later	366	52	119								
- eight years later	366	52									
- nine years later	363										
Cumulative payments to date	(333)	(38)	(72)	(84)	(52)	(85)	(315)	(172)	(125)	(29)	
Cumulative effects of currency rate changes	12	(14)	(33)	(20)	(3)	8	(2)	17	20	19	
Total	**42**	**–**	**14**	**24**	**35**	**79**	**104**	**197**	**343**	**432**	**1,270**
Liability in respect of prior years											**18**
Liability recognised in the balance sheet											**1,288**

10.4. Maturities of reinsurance reserves

IFRS 4.38 in conjunction with 4.39(d) requires information that helps to clarify the amount and timing of cash flows expected from reinsurance contracts. In the following tables, the future maturities of the technical reserves are shown and these are broken down by the expected remaining payment profiles of the liability. The analysis below excludes funds withheld directly related to the reserves. For further explanation of the recognition and measurement of the reserves see Note 3 “Summary of significant accounting policies”.

in USD thousand	2020					
	Loss and loss adjustment expense reserve			Benefit reserve		
	Gross	Retro	Net	Gross	Retro	Net
Due in one year	321,545	69,350	252,195	1,363	3	1,360
Due after one through five years	1,235,321	445,702	789,619	6,331	28	6,303
Due after five through ten years	339,586	122,278	217,308	3,820	28	3,792
Due after ten through twenty years	71,741	25,450	46,291	5,546	5	5,541
Due after twenty years	–	–	–	42	–	42
Total	**1,968,193**	**662,780**	**1,305,413**	**17,102**	**64**	**17,038**

in USD thousand	2019					
	Loss and loss adjustment expense reserve			Benefit reserve		
	Gross	Retro	Net	Gross	Retro	Net
Due in one year	283,115	81,254	201,861	–	–	–
Due after one through five years	1,124,982	428,462	696,520	–	–	–
Due after five through ten years	167,157	63,664	103,493	–	–	–
Due after ten through twenty years	23,858	9,088	14,770	–	–	–
Due after twenty years	–	–	–	–	–	–
Total	**1,599,112**	**582,468**	**1,016,644**	**–**	**–**	**–**

The average duration of the gross loss and loss adjustment expense reserve was 2.85 years (2019 – 2.26 years) and is determined using projections of the expected future payments based on the historical payment pattern.

The payment patterns are determined with the aid of estimation methods and adjusted to reflect changes in payment behaviour and outside influences. The payment patterns used can be compared year for year by contrasting the projected payments with the actual amounts realised.

10.5. Development of benefit reserve

in USD thousand	2020			2019		
	gross	retro	net	gross	retro	net
Net book value at 31 December of the previous year	–	–	–	–	–	–
Changes	–	–	–	–	–	–
Merger with HLRBer	17,102	64	17,038	–	–	–
Currency translation at 31 December	–	–	–	–	–	–
Net book value at 31 December of the year under review	**17,102**	**64**	**17,038**	**–**	**–**	**–**

Benefit reserve is established to meet the expected liability to cedants arising from future claims. Profit commission reserve is established to meet the expected liability to cedants arising from future profit commission payments. Deferred acquisition costs are described in Note 9. Benefit reserve; profit commission reserve and deferred acquisition costs are calculated using a net premium valuation methodology, as required under provisions of US GAAP. The reserving basis is based on prospective actuarial assumptions relating to mortality, morbidity, persistency, expenses and future interest rate development. Bases are determined using current pricing bases with a provision for adverse deviation in future experience.

In accordance with US GAAP, valuation assumptions are locked in at outset and are not unlocked unless a loss recognition event occurs. Loss recognition is assessed annually at treaty level by determining the expected future profits from a treaty on the current best estimate assumption bases. In accordance with this assessment, no treaties incurred a loss recognition event during 2020 or 2019.

10.6. Development of unearned premium reserve

in USD thousand	2020			2019		
	gross	retro	net	gross	retro	net
Net book value at 31 December of the previous year	186,227	43,209	143,018	154,833	31,962	122,871
Additions	51,520	55,284	(3,764)	34,335	42,906	(8,571)
Amortisations	(16,731)	(43,306)	26,575	(834)	(31,655)	30,821
Merger with HLRBer	3,289	–	3,289	–	–	–
Currency translation at 31 December	10,059	(4)	10,063	(2,107)	(4)	(2,103)
Net book value at 31 December of the year under review	**234,364**	**55,183**	**179,181**	**186,227**	**43,209**	**143,018**

The unearned premium reserve derives from the deferral of gross written premium. The unearned premium is determined by the period during which the risk is carried and established in accordance with the information supplied by the ceding companies. Premium paid for periods subsequent to the date of the balance sheet was deferred from recognition within the statement of income.

10.7. Reinsurance payable

Balances payable to reinsurers include amounts due for retroceded premiums netted off against amounts recoverable from retrocessionaires for their share of claims recoverable, as calculated in accordance with individual retrocession arrangements. Refer to Note 21 for related party exposures within reinsurance payable.

The carrying value of these amounts approximates fair value due to the short-term nature of the payables.

10.8. Provision for profit commission

The provision for profit commission increased by USD 8.3 million due to the merger.

11. Other assets

in USD thousand	2020	2019
Fixtures, fittings and equipment	422	115
Right-of-use assets from lease contracts	2,897	2,731
Other receivables/prepaid expenses	805	714
Receivables from ISDA - financial guarantees	6,539	–
Total	**10,663**	**3,560**

Right-of-use assets from lease contracts are measured at amortised cost in the amount of the initial measurement of the lease liability adjusted by prepaid lease payments, lease incentives received, initial direct costs incurred and probable restoration costs. Right of use assets are amortised on a straight-line basis over the term of the lease contract.

12. Other liabilities

in USD thousand	2020	2019
Sundry non-reinsurance provisions	5,745	3,296
Lease Liabilities	2,718	2,577
Total	**8,463**	**5,873**

All of the sundry non–reinsurance provisions are due within one year except for share rewards of USD 1.3 million (2019: USD 1.2 million) which fall due within 5 years.

Lease liabilities are initially measured at the present value of essentially all lease payments that are not variable or dependent on an index or an (interest) rate. The discount factor used is the implicit interest rate of the lease contract or the lessee's incremental borrowing cost.

13. Loans and borrowings

On 28 December 2012, HLRBer obtained a loan facility from the Parent premerger. The facility allows additional financing up to USD 80.0 million. It has a fixed interest rate of 2.55% and expires on 28 December 2027. No collateral has been pledged. As of 31 December 2020, the amount borrowed was USD 25.0 million (2019: USD 0.0 million). A capital repayment of USD 25.0 million was made in 2020.

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

in USD thousand	2020	2019
Balance as at 1 January	–	–
Merger with HLRBer	25,000	–
Total	**25,000**	**–**

14. Shareholder‘s equity

Shareholder's equity is shown as a separate component of the financial statements in accordance with IAS 1 "Presentation of Financial Statements" and subject to IAS 32 "Financial Instruments: Disclosure and Presentation" in conjunction with IAS 39 "Financial Instruments: Recognition and Measurement". The change in shareholder's equity comprises of not only the net income deriving from the statement of income but also the issue of new shares and changes in the value of asset and liability items not recognised in the statement of income.

The 104,522,359 common shares (2019 – 104,522,359) of $1 par value represent the total authorised, issued and fully paid share capital of the Company. Each share carries an equal voting right and an equal dividend settlement.

15. Contributed surplus

Contributed surplus represents cash contributed by the shareholder in excess of the issued share capital. See Note 2.3 and Note 3 for further details.

16. Dividends

The dividends declared in 2020 were USD 380.0 million (2019: USD 50.0 million). This represents a dividend per share in United States Dollars of $ 3.64 (2019 – $0.92).

17. Other comprehensive income (loss)

Accumulated other comprehensive income (loss) amounted to USD 130.6 million (2019: USD 56.1 million). This arose primarily from the recognition of unrealised gains and losses on investments at year-end.

18. Other income and expenses

in USD thousand	2020	2019
Exchange gains/(losses)	10,782	(2,257)

19. Taxes

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

20. Staff and expenditures on personnel

Staff

The number of staff for the Company at 31 December 2020 is 44 (2019 - 29).

Defined contribution plans

The Company operates a defined contribution pension plan that is based on length of service, employees' income, and level of contributions. The expense recognised for these obligations in the year under review in accordance with IAS 19.46 amounted to USD 0.7 million (2019: USD 0.7 million).

Key management compensation

in USD thousand	2020	2019
Salaries and other short-term employee benefits	6,084	2,752
Post-employment benefits	254	167
Stock options	–	(2)
Total	**6,338**	**2,917**

21. Related party disclosures

Loans and Investments from related parties

All loans as disclosed in Note 13 are with related party entities. Refer to Note 7 for investments associated with related parties.

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

in USD thousand	2020		
Income statement	**Hannover Rück SE**	**Companies related through common control**	**Total**
Gross written premium	5,925	214,820	220,745
Ceded written premium	333	(1)	332
Commission and brokerage (net), change in deferred acquisition costs	98	11,484	11,582
Loss and loss adjustment expenses incurred	5,419	124,228	129,647
Interest expense	158	–	158
Other income and (expenses)	(57)	–	(57)

in USD thousand	2020		
Balance sheet	**Hannover Rück SE**	**Companies related through common control**	**Total**
Accounts receivable	50,182	30,532	80,714
Deferred acquisition costs	454,156	2,102	456,258
Funds withheld	–	97,293	97,293
Unearned premium reserve	3,046	26,707	29,753
Loss and loss adjustment expense reserve	3,358	227,864	231,222
Reinsurance payable	355,346	4,896	360,242
Benefit reserve	9,248	33	9,281
Contract deposit liability	12,834	–	12,834
Loans	25,000	–	25,000

in USD thousand	2019		
Income statement	**Hannover Rück SE**	**Companies related through common control**	**Total**
Gross written premium	322	194,934	195,256
Ceded written premium	–	3	3
Commission and brokerage (net), change in deferred acquisition costs	3	9,627	9,630
Loss and loss adjustment expenses incurred	–	45,793	45,793
Interest expense	1,415	–	1,415
Other income and (expenses)	–	45	45

in USD thousand	2019		
Balance sheet	**Hannover Rück SE**	**Companies related through common control**	**Total**
Accounts receivable	–	13,609	13,609
Deferred acquisition costs	–	269	269
Funds withheld	–	60,083	60,083
Unearned premium reserve	–	21,813	21,813
Loss and loss adjustment expense reserve	–	136,355	136,355
Reinsurance payable	33	1,299	1,332
Benefit reserve	–	–	–
Contract deposit liability	–	–	–
Loans	–	–	–

Whole Account transactions and balances

The Company's participation in group-wide Whole Account retrocession agreements controlled by the Parent also resulted in the following amounts that are included in the financial statements (See also Note 9 Reinsurance):

in USD thousand	2020	2019
Statement of Income		
Ceded written premium	87,420	46,646
Commission and brokerage (net)	464	464
Reinsurance recoverables	87,339	28,126
Balance Sheet		
Accounts receivable	–	64,488
Deferred acquisition costs	2	–
Prepaid reinsurance premium	1,333	163
Reinsurance recoverable on unpaid claims	205,761	169,487
Reinsurance payable	24,438	–

22. Statutory requirements

As a Class 4 and Class E insurer, the Company must at all times maintain a solvency margin and an enhanced capital requirement ("ECR") 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).

Under the Bermuda Insurance Act, 1978 and related regulations, the Company is subject to capital requirements calculated using the Bermuda Solvency Capital Requirement ("BSCR"), which is a standardised statutory risk–based capital model used to measure the risk associated with the Company's assets, liabilities, premiums and the risk associated with operations. The Authority requires all Class 4 and Class E insurers to maintain their capital at a target level which is 120% of the ECR calculated in accordance with the BSCR and to maintain the minimum margin of solvency. All statutory requirements were met as at 31 December 2020 and 31 December 2019.

Actual statutory capital and surplus, as determined using statutory accounting principles, is as follows:

in USD thousand	2020	2019
Total shareholder's equity	2,042,019	1,534,403
Non-admitted assets	-	(829)
Statutory capital and surplus	**2,042,019**	**1,533,574**

The Company is also required under its Class 4 license to maintain a minimum liquidity ratio, whereby the value of its relevant assets is not less than 75% of the amount of its relevant liabilities for general business. As of 31 December 2020 and 31 December 2019, the Company met the minimum liquidity ratio.

The Company is prohibited from declaring or paying dividends if its Class 4 or Class E statutory capital and surplus is less than its ECR, or if it is in breach of its solvency margin or minimum liquidity ratio, or if the declaration or payment of such dividends would cause such breach. Further, the Company, as a Class 4 and Class E insurer, is prohibited from paying in any year dividends of more than 25% of its total statutory capital and surplus (as shown on its previous year's statutory balance sheet) unless it files (at least seven days before payment of such dividends) with the Authority an affidavit stating that it will continue to meet its solvency margin and minimum liquidity ratio. The Company must obtain the Authority's prior approval for a reduction by 15% or more of the total statutory capital as set forth in its previous year's financial statements. These restrictions on declaring or paying dividends and distributions under the Insurance Act are in addition to those under the Companies Act 1981, which apply to all Bermuda companies.

23. Capital management

The preservation and consistent enhancement of its capital is a key strategic objective for the Company. The Company satisfies the capital expectations of the rating agencies that assess its financial strength. The Company comfortably met the applicable local regulatory minimum capital requirements in the year under review.

24. Letters of credit

Ceding companies domiciled in the United States and Australia are required, pursuant to their insurance laws, to obtain letters of credit issued on the Company's behalf from approved banks in order to further secure the Company's obligations under certain reinsurance contracts. At 31 December 2020, letters of credit totalling USD 281.1 million (2019: USD 203.6 million).