



ATHORA LIFE RE LTD.

CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2020

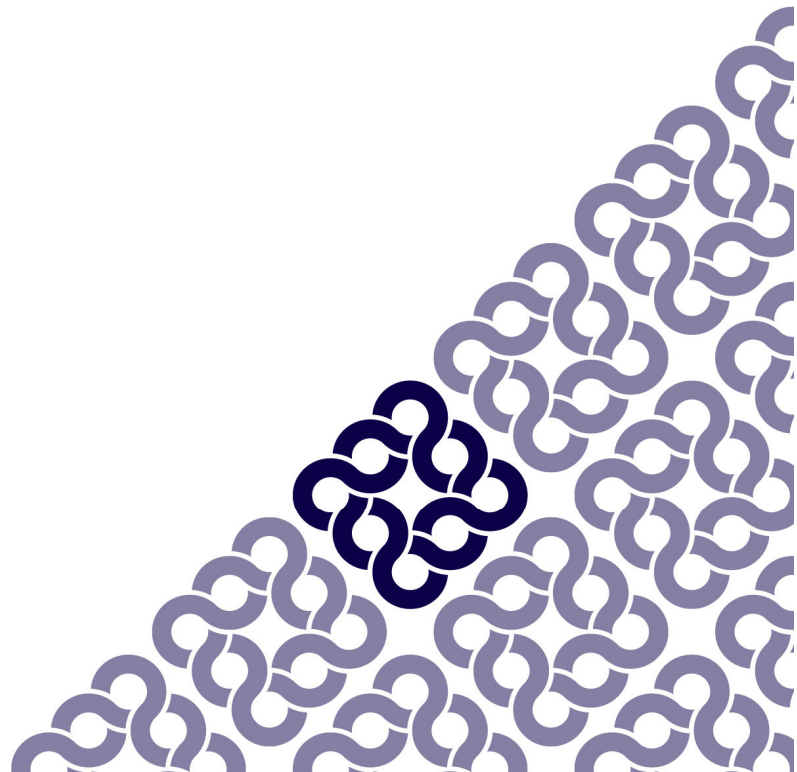


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Independent Auditor's Report

The Board of Directors and Shareholder
Athora Life Re Ltd.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Athora Life Re Ltd. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

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 Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on Other Auditors on the December 31, 2019, Consolidated Financial Statements

The consolidated financial statements of Athora Life Re Ltd. and its subsidiaries for the year ended December 31, 2019, were audited by other auditors who expressed an unmodified opinion on those statements on April 30, 2020.

Responsibilities of Management and the Board of Directors for the Consolidated Financial Statements

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

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

The Board of Directors are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors 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.

Ernst + Young Ltd.

April 29, 2021

ATHORA LIFE RE LTD.

CONSOLIDATED STATEMENTS OF INCOME

For the years ended 31 December 2020 and 2019

	Notes	2020 €000's	2019 €000's
Revenue			
Gross premiums		1,211,017	15,731
Premiums ceded to reinsurers		(23,413)	(26,717)
Net premiums		1,187,604	(10,986)
Fee and commission income	4	18,875	21,204
Net investment income	5	12,434	10,443
Net realised gains/(losses)	6	71,621	62,157
Net fair value gains/(losses)	7	(68,656)	87,468
Other operating income	8	5,201	3,150
Other income		39,475	184,422
Total revenue		1,227,079	173,436
Contract benefits and claims			
Net benefits and claims paid	9	(113,374)	(130,818)
Change in insurance contract liabilities	10	(1,121,046)	(3,338)
Change in insurance contract liabilities ceded to reinsurer		61,910	(1,597)
Net benefits and claims		(1,172,510)	(135,753)
Other operating and administration expenses	11	(53,618)	(58,475)
Total contract benefits and expenses		(1,226,128)	(194,228)
Share of profit of associate		-	1,287
Net income (loss) before income tax		951	(19,505)
Income tax (expense)/benefit	12	(5,660)	1,971
Net loss		(4,709)	(17,534)

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

ATHORA LIFE RE LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended 31 December 2020 and 2019

	2020 €000's	2019 €000's
Net loss for the year	(4,709)	(17,534)
Other comprehensive income ("OCI")		
Items that may be reclassified to net income (loss) in subsequent periods		
Foreign currency translation reserve	(570)	757
Unrealized gains on available for sale financial assets	28,455	1,543
Tax effects of items recognized through OCI	<u>(590)</u>	<u>168</u>
Other comprehensive income	<u>27,295</u>	<u>2,468</u>
Total comprehensive income/(loss)	<u>22,586</u>	<u>(15,066)</u>

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

ATHORA LIFE RE LTD.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at 31 December 2020 and 2019

	Notes	2020 €000's	2019 €000's
Assets			
Cash and cash equivalents	13	91,743	61,539
Insurance and other receivables		1,492	1,606
Other assets	14	12,634	6,976
Financial assets - own risk			
Loans and receivables	15	110,000	82,500
Available for sale financial assets	15	1,952,866	626,492
Financial assets at fair value through profit or loss	15	259,364	247,946
Derivative financial assets	15, 21	1,897	-
Financial assets - policyholders' risk	15	790,141	994,656
Reinsurance assets	16	1,161,063	1,276,872
Property and equipment	17	10,966	11,026
Deferred tax assets	18	6,730	12,980
Deferred expenses	19	24,429	950
Total Assets		<u>4,423,325</u>	<u>3,323,543</u>
Liabilities			
Insurance contract liabilities	20	2,506,659	1,605,764
Derivative financial liabilities	21	113,314	57,756
Borrowings and other financial liabilities	22	166,507	108,029
Insurance payables	23	1,101,470	1,285,765
Trade and other payables	24	169,791	48,943
Deferred revenue		125,712	-
Total Liabilities		<u>4,183,453</u>	<u>3,106,257</u>
Equity			
Share capital	27	250	250
Capital contribution	27	241,000	241,000
Accumulated other comprehensive income		29,893	2,598
Retained losses		(31,271)	(26,562)
Total Equity		<u>239,872</u>	<u>217,286</u>
Total Liabilities and Equity		<u>4,423,325</u>	<u>3,323,543</u>

Approved by the Board:

Amy Ponnampalam

Director

Date: April 21, 2021

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

ATHORA LIFE RE LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the years ended 31 December 2020 and 2019

	Share Capital €000's	Capital Contribution €000's	Retained Losses €000's	OCI €000's	Total €000's
Balance as at 1 January 2019	250	226,032	(9,028)	130	217,384
Other comprehensive income, net of tax	-	-	-	2,468	2,468
Increase in capital contributions	-	14,968	-	-	14,968
Net loss	-	-	(17,534)	-	(17,534)
Balance as at 31 December 2019	250	241,000	(26,562)	2,598	217,286
Other comprehensive income, net of tax	-	-	-	27,295	27,295
Increase in capital contributions	-	-	-	-	-
Net loss	-	-	(4,709)	-	(4,709)
Balance as at 31 December 2020	250	241,000	(31,271)	29,893	239,872

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

ATHORA LIFE RE LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended 31 December 2020 and 2019

	Notes	2020 €000's	2019 €000's
Net income / (loss) before income tax		951	(19,505)
Adjusted for:			
Depreciation	17	950	1,237
Unrealized losses / (gains) on FVTPL investments		68,656	(87,468)
Amortisation of discount on AFS investments		2,415	-
Unrealized losses on derivative financial liability		57,911	-
Realized gains on investments		(71,621)	(62,157)
Effect of exchange rate changes		(9,755)	(17,615)
Income tax paid		(204)	(24)
		<u>49,303</u>	<u>(185,532)</u>
Movements in working capital:			
Decrease in insurance and other receivables		318	326
(Increase) / decrease in deferred expenses		(23,479)	8,215
Increase in insurance contract liabilities		900,895	49,359
Decrease / (increase) in reinsurance assets		115,809	(41,437)
(Decrease) / increase in insurance, trade and other payables		(63,447)	68,317
Increase in deferred revenue		125,712	-
Decrease in deferred tax assets		-	998
Increase / (decrease) in other assets		(5,658)	35,105
Net cash provided / (used) in operating activities:		<u>1,099,453</u>	<u>(64,649)</u>
Cash flow from investing activities:			
Proceeds from sale of financial assets		1,140,111	259,576
Purchase of financial assets		(2,239,448)	(259,362)
Net purchase of loans and receivables		(27,500)	(65,981)
Principal element of lease payments	25	(1,014)	(542)
Net cash used in investing activities:		<u>(1,127,851)</u>	<u>(66,309)</u>
Cash flow from financing activities:			
Proceeds from funding agreements		75,000	15,818
Repayment of short-term borrowings		(16,398)	-
Capital contribution		-	14,968
Net cash provided by financing activities:		<u>58,602</u>	<u>30,786</u>
Net increase / (decrease) in cash and cash equivalents		30,204	(100,172)
Cash and cash equivalents at 1 January		61,539	161,711
Cash and cash equivalents at 31 December		<u><u>91,743</u></u>	<u><u>61,539</u></u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

Corporate and Company Information

This section provides corporate and group information about Athora Life Re Ltd. (the “Company” or “ARE”) and its subsidiaries.

a) Corporate Information

The consolidated financial statements of the Company for the year ended 31 December 2020 were approved by the Board of Directors of the Company (the “Board”) on 21 April 2020. The Company is an exempted company incorporated in Bermuda and is registered as a long-term Class E reinsurer under Bermuda’s Insurance Act of 1978, as amended (the “Insurance Act”). The Company’s registered office and principal place of business is Ideation House, First Floor, 94 Pitts Bay Road, Pembroke HM 08, Bermuda.

The Company is principally engaged in providing capital optimisation and risk management solutions to European life insurers. Information on the Company’s structure is provided in Note 1b. Information on other related party relationships of the Company is provided in Note 29.

b) Company Information

The consolidated financial statements of the Company include:

Name	Principal activity	Country of incorporation	% Equity interest	
			2020	2019
Athora Ireland plc (“AI”)	Life assurance business	Ireland	100	100
Athora Europe Investments DAC (“AEI DAC”)	Special Purpose Vehicle	Ireland	100	100

The next senior and the ultimate holding company of Athora Life Re Ltd. is Athora Holding Ltd. (“AHL”), which is based in Bermuda. The “Athora Group” refers to AHL when consolidated with its subsidiaries.

1. Basis of preparation and other significant accounting policies

This section provides additional information about the overall basis of preparation that the directors consider useful and relevant in understanding these financial statements, including:

- Summary of other significant accounting policies impacting the results and financial position of the Company, including changes in accounting policies and disclosures during the year
- Standards that have been issued but not yet adopted by the Company

a) Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and adopted by the European Union.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

2. Basis of preparation and other significant accounting policies (continued)

a) Basis of preparation (continued)

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties, financial assets and financial liabilities that have been measured at fair value. The consolidated financial statements are presented in euros and all values are rounded to the nearest thousand (€000), except when otherwise indicated.

The consolidated financial statements are prepared on a going concern basis.

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2020.

Subsidiaries are all entities (including structured entities) over which the Company has control. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

Only substantive rights (i.e. the holder must have the practicability to exercise them) and rights that are not protective shall be considered. The Company can have power with less than a majority of the voting rights of an investee, in particular through:

- the proportion of ownership with regards to the other investors;
- potential voting rights;
- a contractual arrangement between the investor and other vote holders;
- rights arising from other contractual arrangements;
- a combination of these indicators.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company for preparation of consolidated financial statements. The acquisition method of accounting is used to account for business combinations by the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

2. Basis of preparation and other significant accounting policies (continued)

c) Significant accounting judgments, estimates and assumptions

In preparing the consolidated financial statements, the Company makes estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As management judgment involves an estimate of the likelihood of future events, actual results could differ from those estimates, which could affect the future reported amounts of assets and liabilities.

Key sources of estimation, uncertainty and areas of significant judgments have been made are listed below and discussed throughout the notes to these consolidated financial statements including:

- i) In the determination of the fair value of financial instruments, the Company's management exercises judgment in the determination of fair value inputs, particularly those items categorised within level 3 of the fair value hierarchy (Note 26: Determination of fair value of financial instruments).
- ii) Management uses judgment to evaluate the classification of insurance and reinsurance contracts to determine whether these arrangements should be accounted for as insurance or investment. The actuarial assumptions, such as interest rates, inflation, policyholder behavior, mortality and morbidity of policyholders used in the valuation of insurance and reinsurance contract liabilities require significant judgment and estimation (Note 10: Change in insurance contract liabilities, Note 3: Financial risk management).
- iii) The Company operates within tax jurisdictions where significant management judgments and estimates are required when interpreting the relevant tax laws, regulations and legislation in the determination of the Company's tax provisions and the carrying amount of tax assets and liabilities (Note 12: Taxation)
- iv) Management applies judgment in assessing the recoverability of the deferred income tax asset carrying values based on future years' taxable income projections (Note 12: Taxation).

COVID-19

The COVID-19 outbreak has impacted global markets, including all of those in which the Company conducts businesses, at different times and to varying degrees as it has developed. The outbreak necessitated governments to respond at unprecedented levels to protect public health, local economies, and livelihoods.

The varying government support measures and restrictions in response have added challenges, given the rapid pace of change and significant operational demands. The speed at which countries will be able to return to pre-Covid-19 economic levels will vary based on the levels of infection, local governmental decisions, and access to and ability to roll out vaccines. The development of Covid-19 vaccines has raised hopes of widespread immunisation being achieved by the end of 2021 and government restrictions being eased. Notwithstanding the potential for recovery in 2021, economic levels are unlikely to return to pre-Covid-19 levels until later years in many markets. While the longer-term effects of the outbreak on businesses are uncertain, our financial position should allow us to continue to help support our customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

2. Basis of preparation and other significant accounting policies (continued)

c) Significant accounting judgments, estimates and assumptions (continued)

Notwithstanding our robust capital and liquidity position and the operational and financial actions that we are taking, a deterioration in the situation would have adverse implications for our businesses arising from the potential impacts on our insurance exposures and our operations. As the situation continues to rapidly evolve it is not practicable to quantify the potential financial impact of the outbreak on the Group/Company.

There remain uncertainties in assessing the duration of the Covid-19 outbreak and its impact. We continue to monitor the situation closely and given the novel or prolonged nature of the outbreak, additional mitigating actions may be required.

UK withdrawal from the European Union (Brexit)

The UK left the EU on 31 January 2020 and entered a transition period until 31 December 2020. A Trade and Cooperation Agreement between the EU and the UK was agreed on 24 December 2020 and ratified by the UK on 30 December 2020. It includes a joint declaration of cooperation, and in the coming months both parties are expected to enter discussions with the aim of agreeing a Memorandum of Understanding establishing the framework for this cooperation.

Whilst, we have had little impact on our business and operations, we continue to monitor the situation closely. Mitigating actions may be required, following the finalisation of the arrangements pertaining to financial services.

Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Company has the resources to continue in business for the foreseeable future.

In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows, capital requirements and capital resources. These considerations include stressed scenarios that reflect the increasing uncertainty that the global COVID-19 outbreak has had on the Company's operations, as well as considering potential impacts from other risks such as Brexit, and the related impact on profitability, capital, and liquidity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

2. Basis of preparation and other significant accounting policies (continued)

d) New and amended standards and interpretations

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The nature and the impact of each new standards and amendment is described below. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not effective.

Amendments to IAS 1: Presentation of Financial Statements and IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors

The amendments clarify the definition of material and provide guidance to improve consistency in its application in IFRS standards. Adoption of these amendments does not have a significant impact on the Company's Consolidated Financial Statement.

Amendments to IFRS 3: Business Combinations

Amendments to IFRS 3 were issued in October 2018 and are effective for business combinations occurring on or after January 1, 2020, with earlier application permitted. The amendments revise the definition of a business and provide a simplified assessment of whether an acquired set of activities and assets qualifies as a business. Application of the amendments are expected to result in fewer acquisitions qualifying as business combinations. Adoption of these amendments does not have a significant impact on the Company's Consolidated Financial Statements.

Amendments to IFRS 9: Financial Instruments, IAS 39: Financial Instruments: Recognition and Measurement, and IFRS 7: Financial Instruments: Disclosures

The amendments provide temporary but mandatory relief from specific hedge accounting requirements to address potential effects of the uncertainty in the lead up to IBOR reform (IBOR reform – Phase 1). Adoption of these amendments does not have a significant impact on the Company's Consolidated Financial Statements.

Amendments to IFRS 16: Leases, COVID-19-Related Rent Concessions

The amendments permit lessees not to assess whether eligible COVID-19 related rent concessions are lease modifications, and account for them as if they were not lease modifications. Adoption of these amendments does not have a significant impact on the Company's Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

2. Basis of preparation and other significant accounting policies (continued)

e) Standards and interpretations issued but not yet effective

The relevant standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective. The impact of these accounting changes is still being assessed by the Company and reliable estimates cannot be made at this stage.

IFRS 17: Insurance contracts

IFRS 17 replaces IFRS 4 'Insurance Contracts' and is effective for annual periods beginning on or after 1 January 2023.

IFRS 17 requires insurance contracts and participating investment contracts to be measured on the Statement of Financial Position as the total of the fulfilment cash flows and the contractual service margin. Changes to estimates of future cash flows from one reporting date to another are recognised either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it. The effects of some changes in discount rates can either be recognised in profit or loss or in other comprehensive income as an accounting policy choice. The risk adjustment is released to profit and loss as an insurer's risk reduces. Profits which are currently recognised through a Value in Force asset, will no longer be recognised at inception of an insurance contract. Instead, the expected profit for providing insurance coverage is recognised in profit or loss over time as the insurance coverage is provided.

The Company plans to adopt the new standard on the required effective date together with IFRS 9. Athora has started a project to implement IFRS 17 and has been performing a high-level impact assessment of IFRS 17. The Company expects that the new standards will result in an important change to the accounting policies for insurance contract liabilities of the Company and is likely to have a significant impact on profit and total equity together with presentation and disclosure.

IFRS 9: Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 to replace IAS 39 'Financial instruments: recognition and measurement'.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, however in September 2016, the IASB made amendments to IFRS 9 that provide a temporary exemption which permits an insurer to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2021. In December 2018, the IASB proposed to extend the exemption for one year. The temporary exemption is only available to entities with activities which are predominantly connected with insurance and which have not already adopted portions of IFRS 9. The Company has assessed its business activities as required and determined that more than 90% of its liabilities were connected with insurance at 31 December 2020 and 2019. The Company has applied the temporary exemption in order to align the effective date of IFRS 9 with the effective date of the new insurance contract standard, IFRS 17 and expects to continue to apply IAS 39 until the reporting period beginning on 1 January 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

2. Basis of preparation and other significant accounting policies (continued)

e) Standards and interpretations issued but not yet effective (continued)

IFRS 9 provides guidance on the classification and measurement of financial instruments, impairment of financial assets and hedge accounting. The classification and measurement of financial assets will depend on the financial asset's contractual cash flow characteristics and the entity's business model for managing the asset. For financial instruments not measured at FVTPL, IFRS 9 introduces an impairment model that requires recognition of expected loss from possible default events in the near term as well as recognition of lifetime expected loss if certain criteria are met. A new model for hedge accounting aligns hedge accounting more closely with the entity's risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assess hedging effectiveness.

The additional disclosures required under the temporary exemption are set out below:

Financial assets of which cash flows represent solely payments of principal and interest (SPPI) which are not managed on a fair value basis are classified as loans and receivables as set out in Note 15. The fair value of these assets approximates to the amortised cost. The fair value of all other financial assets is set out in Note 26.

Financial assets whose cash flows represent SPPI and are measured at amortised cost and the financial assets measured at fair value in accordance with IAS 39, are set out by credit risk rating grade in Note 3 to the financial statements.

f) Foreign currency translation

The functional and presentation currency of the Company is Euro (€).

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the Statement of Financial Position date. Non-monetary items (including all equity components) denominated in a foreign currency are not retranslated but hold the rate with which they were translated at the date of the transaction. Exchange differences arising on the settlement of monetary items during the year are dealt with in the statement of profit or loss in the period in which they arise.

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency').

g) Insurance and investment contracts - classification

Insurance contracts are those contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely impacts the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits payable after an insured event with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

2. Basis of preparation and other significant accounting policies (continued)

g) Insurance and investment contracts – classification (continued)

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Derivatives embedded in an insurance contract are separated and fair valued through the statement of profit or loss unless the embedded derivative is itself an insurance contract. The derivative is also not separated if the host insurance contract is measured at FVTPL.

Investment contracts are those contracts that transfer significant financial risk, but not significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable.

h) Reinsurance contacts

The Company assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account, the product classification of the reinsured business. The cost of reinsurance related to long-duration contracts is accounted for over the life of the underlying reinsured policies, using assumptions consistent with those used to account for these policies.

Premiums ceded and claims reimbursed are presented on a gross basis in the consolidated income statement and statement of financial position as appropriate.

Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying contract liabilities, outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

The Company also cedes insurance contracts under a modified coinsurance treaty where it retains the assets and reserves on the policies reinsured. This creates an obligation to render, at a later date, payments which include a proportional share of the gross premium plus a return on the assets. These assets and liabilities are presented gross on the statement of financial position.

If a reinsurance asset is impaired, the Company reduces the carrying amount accordingly and recognises that impairment loss in the income statement. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Company may not receive all amounts due to it under the terms of the contract, and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer..

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

2. Basis of preparation and other significant accounting policies (continued)

i) Insurance benefits and claims

Gross benefits and claims consist of benefits and claims paid to policyholders, as well as changes in the gross valuation of insurance contract provisions. The reinsurer's share (ceded reinsurance recoveries) are accounted for in the same period as the underlying claim.

Death claims and surrenders are recorded based on notifications received. Maturities and annuity payments are recorded when due.

j) Taxation

Current income tax

Corporation tax is payable on all taxable profits. Provisions for tax liabilities require management to make judgments and estimates in relation to tax issues and exposures. Amounts provided are based on management's interpretation of country specific tax laws and the likelihood of settlement. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax provisions in the period in which such determination is made.

Current income tax relating to items recognised directly in equity or OCI is recognised in equity or OCI and not in the statement of profit or loss.

Under current Bermuda law, the Company is not required to pay any taxes in Bermuda on either income or capital gains. The Company has received an assurance from the Minister of Finance of Bermuda under The Exempted Undertaking Tax Protection Act, 1966 of Bermuda that in the event of any such taxes being imposed the Company will be exempted from taxation until the year 2035.

The Company's wholly owned subsidiary, AI, is a tax resident in Ireland and subject to Irish taxes. The Company has received a Certificate of Tax Residency for each year since 2018. The special purpose vehicles AEI DAC is a qualifying company within the meaning of s110 of the Taxes Consolidation Act 1997 in Ireland. As such the profits are chargeable to corporation tax under Case III of Schedule D at a rate of 25%, but are computed in accordance with the provisions applicable to Case I of Schedule D.

Deferred tax

Deferred tax is recognised in respect of timing differences that have originated but not reversed at the statement of financial position date, where transactions or events have occurred at that date that will result in an obligation to pay more or a right to pay less tax. Deferred tax is measured on an undiscounted basis at tax rates that have been or are substantially enacted by the reporting date in which timing differences reverse.

The carrying value of deferred tax is reviewed at the end of each reporting period and the carrying value of deferred tax is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to utilise the deferred tax asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

2. Basis of preparation and other significant accounting policies (continued)

k) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest ("NCI") in the acquiree. For every business combination, the Company has an option to measure any NCIs in the acquiree at fair value or at the NCI's proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Company acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. No reclassification of insurance contracts is required as part of the accounting for the business combination. Thus, insurance contracts are classified on the basis of the contractual terms and other factors at the inception of the contract or modification date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses and is tested at least annually for impairment. If impairment is identified the carrying value of the goodwill is written down and recognised through the statement of profit or loss and is not subsequently reversed. At the date of disposal of a subsidiary the carrying value of attributable goodwill is included in the calculation of the profit or loss on disposal.

l) Present value of acquired in-force business (PVIF)

When a portfolio of long-term insurance contracts is acquired, whether directly from another insurance company, or as part of a business combination, the difference between the fair value of the insurance liability and the value of the insurance liabilities measured using the Company's existing accounting policies is recognised as a PVIF asset.

PVIF is amortised over the useful lifetime of the related contracts in the portfolio on a systematic basis. The rate of amortisation is chosen by considering the profile of the additional value of in-force business acquired and the expected depletion in its value.

m) Other intangible assets

Other intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

2. Basis of preparation and other significant accounting policies (continued)

n) Property and equipment

Property and equipment, including owner-occupied property, is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. A full month of depreciation is charged in the statement of profit or loss in the month of acquisition.

Depreciation is calculated to write off the cost less estimated residual value of property and equipment on a straight-line basis over their expected useful lives as follows:

Office fit out	7 years
Computer software	4 years
Office equipment	3 years
Computer hardware	3 years

The assets' residual values, and useful lives and method of depreciation are reviewed and adjusted, if appropriate, at each financial year end and adjusted prospectively.

An item of property and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss in the year the asset is derecognised.

o) Investment in an associate

An associate is an entity over which the Company has significant influence, and which is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but it is not control or joint control over those policies. The Company's investment in associate is accounted for using the equity method.

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the company's share of the post-acquisition profits or losses of the investee in profit or loss, and the company's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised in income from associates and in the statement of financial position as a reduction in the carrying amount of the investment.

Upon loss of significant influence over the associate, the Company measures and recognises any remaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

2. Basis of preparation and other significant accounting policies (continued)

p) Financial assets

Financial assets are classified, at initial recognition, as financial assets at FVTPL, loans and receivables, held-to-maturity investments or available-for-sale (“AFS”) financial assets. The classification is based on management’s intention relating to the purpose and nature of the instrument or characteristics of the investment. The Company determines the classification of its financial assets at initial recognition. Financial assets are recognised initially at fair value plus, in the case of investments not at FVTPL, directly attributable transaction costs that are attributable to the acquisition of the financial asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all risks and rewards of ownership.

The Company has not classified any financial assets as held-to-maturity.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss can either be held for trading (if acquired principally for the purpose of selling in the short-term) or designated at fair value through profit or loss at inception. The principal category of assets designated at fair value through profit or loss are those held as part of the life assurance business, which are managed on a fair value basis. These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are re-measured at fair value. Fair value adjustments and realised gain and loss are recognised in the statement of profit or loss. Financial assets at fair value through profit or loss include derivative financial instruments. The Company does not apply hedge accounting for these investments.

Loans and receivables

Loans and receivables are recorded at fair value plus transaction costs when cash is advanced to the borrowers. They are subsequently accounted for at amortised cost using the effective interest method, less allowance for impairment.

AFS financial assets

AFS financial assets are those intended to be held for an indefinite period, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Purchases and sales of AFS financial assets are recognised on trade date. They are initially recognised at fair value plus transaction costs. Fair value movements are recognised in other comprehensive income. Interest is calculated using the effective interest method and is recognised in the income statement. Gains and losses arising from changes in the fair value of investments classified as AFS are recognised directly in other comprehensive income, until the financial asset is either sold, becomes impaired or matures, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement.

Impairment of financial assets

The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred ‘loss event’) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

2. Basis of preparation and other significant accounting policies (continued)

q) Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value.

All derivatives financial instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Embedded derivatives are treated as separate derivatives and are recorded based on fair value if their economic characteristics and risks are not closely related to those of the related host contract and the host contract is not itself recorded at fair value through the statement of income. Embedded derivatives that are closely related to the definition of insurance contracts are treated and measured as insurance contracts.

r) Receivables

Receivables include insurance, reinsurance and other receivables. Premiums written in course of collection and receivables from brokers and intermediaries, coinsurers and reinsurers are reported as arising out of direct insurance or reinsurance operations respectively. Insurance receivables are stated at amortised cost (deemed fair value at acquisition date). The carrying value of receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income.

s) Discontinued operations

A discontinued operation is a cash generating unit or a group of cash generating units that has been disposed of or is classified as held for sale, and (a) represents a separate major line of business or geographical area of operations, (b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or (c) is a subsidiary acquired exclusively with a view to resale. The results after tax of discontinued operations are shown as a single line item on the face of the income statement, statement of comprehensive income and statement of cash flows.

t) Deferred expenses

Deferred cost of reinsurance

A deferred cost of reinsurance is established when the Company enters a reinsurance transaction. For reinsurance ceded, the Company is not relieved of its legal liabilities, so the reserves relating to the underlying reinsured contracts will continue to be reported in the consolidated statement of financial position during the contractual term of the underlying contracts. When losses on reinsurance transaction are deferred, the amortisation is based on the assumptions of the underlying insurance contracts and is recognised in the income statement.

u) Cash and cash equivalents

Cash and cash equivalents deposits on the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value. Money market investments that are held for investment purposes (backing insurance liabilities or equity based on asset liability management considerations) are not included in cash and cash equivalents but are presented as investments or investments for account of policyholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

2. Basis of preparation and other significant accounting policies (continued)

v) Equity

Capital contributions

Capital contributions represent the cumulative amount of capital contributed to the company from the ultimate parent AHL.

Accumulated other comprehensive income

AFS reserve

The AFS reserve represents the cumulative change in fair value of available-for-sale financial assets.

Foreign currency translation reserve

The foreign currency translation reserve represents the cumulative gains and losses on the translation of the Company's net investment in its foreign operations. Gains and losses accumulated in this reserve are reclassified to the income statement when the Company loses control, joint control or significant influence over the foreign operation or on disposal or partial disposal of the operation.

w) Insurance provisions

Life insurance contract liabilities

Life insurance liabilities are recognised when contracts are entered into and premiums are charged. Any guaranteed benefits under the contract terms are separated out and fair valued as financial instruments. The financial instruments liabilities are calculated as the face value of the units allocated to the contract, plus an additional reserve for guaranteed benefits. Liabilities for guaranteed benefits differ according to exposure maturity (short / long term), to generally used reporting methodology (net / gross level premium) and to the claim processing efficiency (claims reserves). These liabilities are measured using the net premium method. The liability is determined as the sum of the discounted value of the expected future benefits, claims handling and policy administration expenses, policyholder options and guarantees and investment income from assets backing such liabilities, which are directly related to the contract, less the discounted value of the expected premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is either based on current assumptions or calculated using the assumptions established at the time the contract was issued, in which case, a margin for risk and adverse deviation is generally included. Furthermore, the liability for life insurance contracts comprises the provision for unearned premiums and premium deficiency, as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported to the Company. Adjustments to the liabilities at each reporting date are recorded in the statement of profit or loss. The liability is derecognised when the contract expires, is discharged or cancelled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

2. Basis of preparation and other significant accounting policies (continued)

w) Insurance provisions (continued)

Life insurance contract liabilities (continued)

Reserves calculated are subject to estimates and assumptions, especially on life expectancy and health of an insured individual and on the development of interest rates and investment returns. At each reporting date, an assessment is made of whether the recognised life insurance liabilities, net of related PVIF and DAC are adequate by using an existing liability adequacy test. The liability value is adjusted to the extent that it is insufficient to meet expected future benefits and expenses. In performing the adequacy test, current best estimates of future contractual cash flows, including related cash flows such as claims handling and policy administration expenses, policyholder options and guarantees, as well as investment income from assets backing such liabilities, are used. A number of valuation methods are applied, including discounted cash flows, option pricing models and stochastic modelling. A consistent application of those assumption is achieved by integration all liability calculation into a centralised model and valuation process. To the extent that the test involves discounting of cash flows, the interest rate applied may be prescribed by regulations or may be based on management's prudent expectation of current market interest rates. Any inadequacy is recorded in the statement of profit or loss, initially by impairing PVIF and DAC and, subsequently, by establishing an additional insurance liability for the remaining loss. In subsequent periods, the liability for a block of business that has failed the adequacy test is based on the assumptions that are established at the time of the loss recognition. The assumptions do not include a margin for adverse deviation. Impairment losses resulting from liability adequacy testing are reversed in future years if the impairment no longer exists.

x) Financial liabilities

Investment contracts

Investment contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are initially recognised at fair value, this being the transaction price excluding any transaction costs directly attributable to the issue of the contract.

Deposits and withdrawals are recorded directly as an adjustment to the liability in the statement of financial position, known as deposit accounting. Fees charged and investment income received is recognised in the statement of profit or loss when earned. Fair value adjustments are performed at each reporting date and are recognised in the statement of income.

For unitised investment contracts, fair value is calculated as the number of units allocated to the policyholder in each unit-linked fund multiplied by the unit price of those funds at the statement of financial position date.

The liability is derecognised when the contract expires, is discharged or is cancelled. For a contract that can be cancelled by the policyholder, the fair value cannot be less than the surrender value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

2. Basis of preparation and other significant accounting policies (continued)

y) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

z) Employee benefit expense

The Company participates in a defined contribution plans for certain employees. The assets of the plan are held separately from those of the Company. The cost of providing these pension benefits is charged to the statement of profit or loss on the basis of a percentage of pensionable earnings when they are due, within operating expenses.

aa) Leases

The Company leases primarily office buildings. Rental contracts are typically made for fixed periods up to 20 years but may have extension options as described in below. Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Company's incremental borrowing rate. Lease payments are allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Payments associated with leases with a lease term of twelve months or less and leases of low-value assets are recognised as an expense in profit or loss on a straight-line basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

2. Basis of preparation and other significant accounting policies (continued)

aa) Leases (continued)

Variable lease payments

The Company may be exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Extension and termination options

Extension and termination options may be included in a property lease to maximise operational flexibility in terms of managing the assets used in the Company's operations. These are generally exercisable only by the Company and not by the respective lessor. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Residual value guarantees

The Company may on occasion provide residual value guarantees in relation to leases. On 31 December 2019 and 31 December 2020, there were no residual value guarantees in place. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2020 was 5.5% (2019: 6.25%). The rate was changed because of a change in estimate from prior year.

bb) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions, assuming that market participants would act in their economic best interests. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

In accordance with IFRS 13, all assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole.

- **Level 1:** quoted (unadjusted) market prices in active markets for identical assets or liabilities that the Company can access at the measurement date.
- **Level 2:** inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices of identical or similar assets and liabilities) using valuation techniques for which all significant inputs are based on observable market data.
- **Level 3:** unobservable inputs for the asset or liability including, as available and appropriate, internal data and other publicly available information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

2. Basis of preparation and other significant accounting policies (continued)

bb) Fair value measurement (continued)

For assets and liabilities that are measured at fair value in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

cc) Revenue recognition

Gross premiums

Gross earned premiums from life contracts are recognised as revenue when payable by the policyholder except for unit linked business where premiums are accounted for when liabilities are recognised.

Reinsurance premiums

Earned premiums ceded under reinsurance agreements are deducted from revenue to arrive at the net earned premium figure when reinsurance agreements are in effect and the relevant reinsurance assets are established.

Fees and commission income

Insurance and investment contract policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognised as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognised over those future periods.

Investment income

Interest income is recognised in the statement of income as it accrues and is calculated by using the effective interest rate ("EIR") method. Fees and commissions that are an integral part of the effective yield of the financial asset are recognised as an adjustment to the EIR of the instrument.

Investment income also includes dividends when the right to receive payment is established.

Net realised gains and losses

Net realised gains and losses recorded in the statement of profit or loss include gains and losses on financial assets. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

3. Financial risk management

This note sets out the major risks which the Company is exposed to and describes the Company’s approach to managing these risks. It also sets out sensitivity analysis on the major insurance and financial risks.

The ARE risk framework interfaces directly with the Athora Group’s Enterprise Risk Management (“ERM”) framework.

a) Risk management framework








ARE’s risk management framework is comprised of -

A System of Governance:

- ARE’s committee structure is embedded within the Athora Group Governance Framework.
- ARE adopts Athora Group policies and guidelines localised as required and develops its own specific policies, where necessary.

While the Board retains overall responsibility for approving the ARE risk framework, ARE’s Risk Committee (“ARC”) is charged with developing and overseeing compliance with the risk framework.

The ARE risk framework interfaces directly with the Athora Group’s ERM framework. As part of the Athora Group ERM framework, risk need to be identified, understood, and assessed (against levels defined as acceptable) before the right controls can be designed and implemented. Risks are managed from multiple perspectives, including economic, regulatory and accounting. The ERM Framework includes Risk Strategy and Appetite, Risk Governance, Risk Culture, Risk Assessment and Measurement, Risk Management and Monitoring, Risk Reporting and Insights and Data and Technology. The following graphic sets out these components.

 Risk Strategy and Appetite	 Risk Governance	 Risk Culture	 Risk Assessment and Measurement	 Risk Management and Monitoring	 Risk Reporting and Insights	 Data and Technology
Linkage to corporate strategy	Board Oversight and Committees	Risk Organisation	Risk Identification, Assessment and Prioritization	Risk Mitigation, Response and Action Plans	Risk Reporting	Data Quality and Governance
Risk Universe	Company Risk Operating Structure	Risk Competence	Quantitative Methods and Modeling	Testing, Validation and Assurance	Business/Operational Requirements	Risk Analytics
Risk Appetite Statements	Roles and Responsibilities	Risk Relationships	Risk Aggregation, Correlation and Concentration	Monitoring	Board and Senior Management Requirements	Technology Enablement
	Risk Policies	Risk Motivation	Scenario Analysis and Stress Testing	Projects and Initiatives	External Requirements	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

3. Financial risk management (continued)

a) Risk management framework (continued)

A Risk Strategy and Appetite

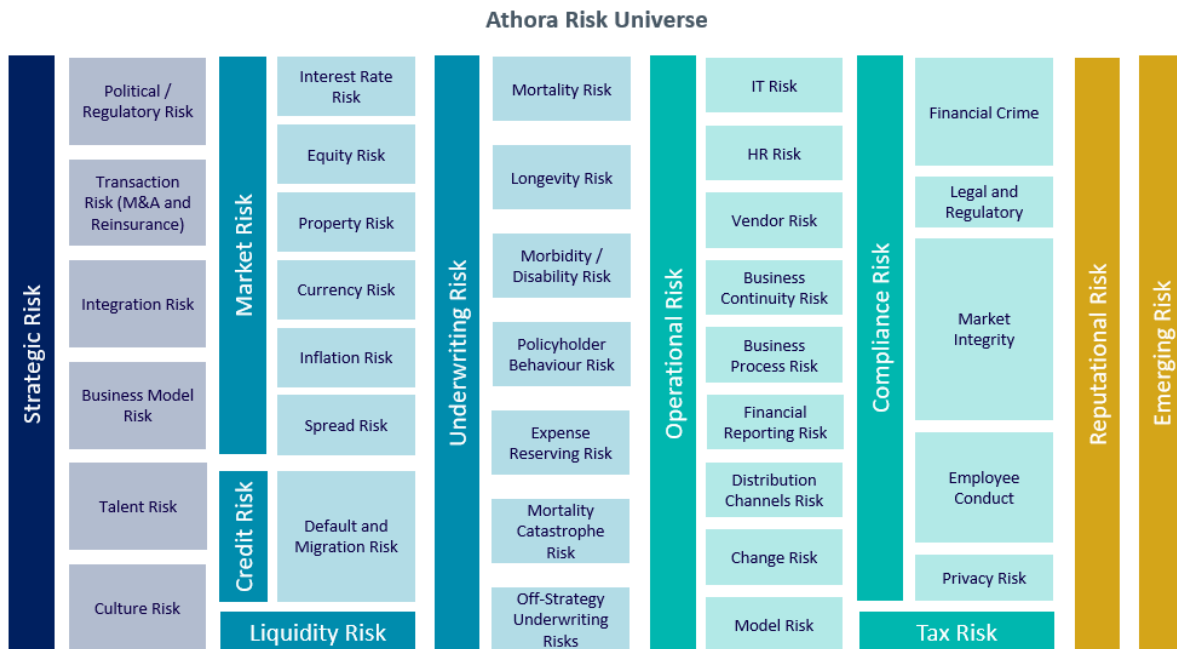
The Risk Strategy and Appetite is an integral part of the business strategy and determines how ARE selects risks it can control and extract value from in line with its strategy. ARE’s risk strategy encompasses the follow core pillars:

- **Risk Identification** – assessment of all material risks facing the business.
- **Risk Appetite** – a definition of appetite for risk taking and risk controlling for each material risk.
- **Risk Monitoring** – a system of stress and scenario testing to assess ARE’s resilience to risk, covering internally defined stress testing, regulatory stress testing, and reverse stress testing.

The risk strategy is reviewed annually but expected to remain stable over time. Risk Strategy and Appetite is translated into specific Risk Policies and Limits for the relevant risk types, which set out the policy objectives, requirements, the roles and responsibilities, as well as the required processes and controls for each risk.

Risk Identification

Risk identification requires a rigorous assessment of the business to determine the universe of risks to which the business is exposed. The risk universe is shown below:



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

3. Financial risk management (continued)

a) Risk management framework (continued)

Risk Appetite

Risk appetite defines ARE's appetite for risk taking/risk controlling by applying the risk strategy to the universe of risk to which Athora is exposed. A traffic light system is used to define ARE's risk appetite:

Risk Appetite Statement Indicator

None



- No acceptance of these risks
- Focus efforts on removing entirely and design our business model to actively avoid exposure, where deemed required, even at significant cost
- Any such risk fully mitigated/ hedged away.

Low



- Seek to remove exposure or accept very limited exposure
- Aggressively pursue risk mitigation/hedging options
- Closely monitor both inherent and residual risk levels

Medium



- Targeted pursuit of certain risks
- Acceptance of large risks where mitigation options unavailable or not economically viable.
- Will tactically engage in limited risk-specific mitigation/hedging

High



- Actively pursue risks and retain majority of exposure.
- These risks tend to drive our business performance and we believe we have a strategic advantage in retaining and managing

Risk Monitoring

Monitoring of risks comprises both ongoing monitoring activities in the normal course of management and separate evaluations. There is regular reporting of monitoring activities to the ARC and Board. Group Risk provides guidance on quarterly monitoring in line with the Risk Strategy and Appetite and Risk Tolerances and Limits set out in the Risk Policies. Consistent monitoring across the Group allows for aggregation and active monitoring of risks at Group level.

b) Credit risk

Credit risk is the risk of loss resulting from an obligator's potential inability or unwillingness to fully meet its contractual obligations to the Company. Credit risk can result from changes in the rating category of the obligor, fluctuation of spreads associated with each credit rating over time, and potentially default, being the lowest possible rating assigned to a fixed income investment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

3. Financial risk management (continued)

b) Credit risk (continued)

The Company assumes credit risks through its investment activities, via a targeted and well selected Strategy Asset Allocation (“SAA”) that is in line with the risk strategy. Where the Company assumes this risk, it ensures that it remains diversified, and that it is adequately compensated for the risks it assumes, and that the level of risk is consistent with the Company’s risk appetite and objectives. The Company avoids idiosyncratic concentrations and ensures that default risk exposure is sufficiently modest so as not to represent a solvency risk to the Company in even severe economic conditions.

Exposure to credit risk

The following table summarises the Company’s maximum exposure to credit risk related to financial instruments and insurance contracts. The maximum credit exposure is the carrying value of the financial assets and insurance assets net of any allowances for losses.

2020	Investment grade €000	Non-Investment grade €000	Unrated €000	Unit-linked €000	Total €000
Cash and cash equivalents	91,743	-	-	-	91,743
Insurance and other receivables	-	-	1,492	-	1,492
Other assets	4,636	-	7,998	-	12,634
Loans and receivables	-	-	110,000	-	110,000
Available for sale financial assets	1,150,100	-	802,766	-	1,952,866
FVTPL financial assets	-	-	259,364	-	259,364
Derivative financial assets	1,897	-	-	-	1,897
Reinsurance assets	110,791	-	-	1,050,272	1,161,063
Policyholder financial assets	-	-	-	790,141	790,141
Total Exposures to Credit Risk	1,359,167	-	1,181,620	1,840,413	4,381,200

2019	Investment grade €000	Non-Investment grade €000	Unrated €000	Unit-linked €000	Total €000
Cash and cash equivalents	61,539	-	-	-	61,539
Insurance and other receivables	-	-	1,606	-	1,606
Other assets	2,737	66	4,173	-	6,976
Loans and receivables	-	-	82,500	-	82,500
Available for sale financial assets	320,538	6,708	299,246	-	626,492
FVTPL financial assets	-	-	247,946	-	247,946
Derivative financial assets	-	-	-	-	-
Reinsurance assets	-	-	-	1,276,872	1,276,872
Policyholder financial assets	-	-	-	994,656	994,656
Total Exposures to Credit Risk	384,814	6,774	635,471	2,271,528	3,298,587

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

3. Financial risk management (continued)

b) Credit risk (continued)

Concentration risk

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics in that they operate in the same geographic region or in similar industries. The characteristics are similar in that the changes in economic or political environments may impact their ability to meet obligations as they come due.

The Company may accept limited and carefully selected concentration risk to maximise returns, while ensuring an overall diversified asset portfolio. This is managed closely through the criteria process and selection of the Strategy Asset Allocation.

The Company uses appropriate limit and early warning systems throughout the Company to manage and monitor our credit risk exposures.

Asset quality

The ratings employed by the Company consider the ratings from the three main rating agencies (Standard and Poor's, Fitch and Moody's). There are no financial assets that are past due or impaired.

2020	Cash and cash equivalents €000	Loans and receivables €000	AFS financial assets €000	FVTPL financial assets €000	Derivative financial assets €000	Reinsurance assets €000
Rating						
AAA	27,442	-	146,533	-	-	-
AA	-	-	466,096	-	-	1,161,063
A	63,815	-	298,820	-	-	-
BBB	486	-	238,651	-	-	-
BB	-	-	-	-	-	-
B or lower	-	-	-	-	-	-
Not rated	-	110,000	802,766	259,364	1,897	-
	91,743	110,000	1,952,866	259,364	1,897	1,161,063

2019	Cash and cash equivalents €000	Loans and receivables €000	AFS financial assets €000	FVTPL financial assets €000	Derivative financial assets €000	Reinsurance assets €000
Rating						
AAA	-	-	14,982	-	-	-
AA	47,606	-	140,999	-	-	1,276,872
A	13,933	-	81,440	-	-	-
BBB	-	-	83,117	-	-	-
BB	-	-	2,741	-	-	-
B or lower	-	-	-	-	-	-
Not rated	-	82,500	303,213	247,946	-	-
	61,539	82,500	626,492	247,946	-	1,276,872

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

3. Financial risk management (continued)

b) Credit risk (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. As a Company we ensure that a sufficient liquidity buffer is maintained to ensure liquidity demands are met, even in times of stress.

The table below summarised the maturity profile of the Company's contractual obligations:

2020	Less than 1 year	1 to 5 years	More than 5 years	Unit-linked	Total
Insurance contract liabilities	60,727	200,806	1,166,677	1,078,449	2,506,659
Derivative financial liabilities	2,523	110,791	-	-	113,314
Borrowings and other financial liabilities	671	158,084	7,752	-	166,507
Insurance and trade payables	208,894	16,481	-	1,045,886	1,271,261
	272,815	486,162	1,174,429	2,124,335	4,057,741

2019	Less than 1 year	1 to 5 years	More than 5 years	Unit-linked	Total
Insurance contract liabilities	20,399	80,689	240,183	1,264,493	1,605,764
Derivative financial liabilities	(12,288)	(38,187)	108,231	-	57,756
Borrowings and other financial liabilities	16,975	82,705	8,349	-	108,029
Insurance and trade payables	17,945	(16,894)	108,231	1,225,427	1,334,709
	43,031	108,313	464,994	2,489,920	3,106,258

Market risk

Market risk includes the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments. Market risk to the Company is managed as part of its investment strategy and ALM framework which involves closely matching assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

3. Financial risk management (continued)

b) Credit risk (continued)

Currency risk

Currency risk is the risk of losses when currency exchange rates change. Typically, this is the case when assets and liabilities have different sensitivities to changes in exchange rates.

For the assets backing insurance contracts liabilities that are not matched by currency, the change in foreign currency exchange rates can expose the Company to the risk of foreign exchange losses not offset by liability decreases. The Company's obligations are denominated in Euro, Sterling and U.S dollars. In accordance with IFRS, foreign currency translation gains and losses from net investments in foreign operations and tax effects, are recorded in accumulated other comprehensive income. Strengthening or weakening of the euro spot rate compared to Sterling and U.S dollar spot rates impacts the Company's total equity.

The table below summarises the key exposure to foreign currency of the statement of financial position:

2020	Euro €000	UK Sterling €000	US Dollar €000	Swiss Franc €000	Total €000
Cash and cash equivalents	67,745	24,093	(95)	-	91,743
Insurance and other receivables	302	1,190	-	-	1,492
Other assets	11,161	51	1,422	-	12,634
Loans and receivables	110,000	-	-	-	110,000
AFS financial assets	1,731,476	130,643	90,747	-	1,952,866
FVTPL financial assets	90,890	958,615	-	-	1,049,505
Derivative financial assets	1,897	-	-	-	1,897
Reinsurance assets	123,171	1,037,892	-	-	1,161,063
Property and equipment	10,966	-	-	-	10,966
Deferred tax assets	6,730	-	-	-	6,730
Deferred expenses	24,429	-	-	-	24,429
Total assets	2,178,767	2,152,484	92,074	-	4,423,325
Insurance contract liabilities	1,538,884	967,775	-	-	2,506,659
Derivative financial liabilities	105,661	7,653	-	-	113,314
Borrowings and other financial liabilities	166,507	-	-	-	166,507
Insurance payables	92,393	1,009,077	-	-	1,101,470
Trade and other payables	55,544	75,959	38,309	(21)	169,791
Deferred revenue	125,712	-	-	-	125,712
Total liabilities	2,084,701	2,060,464	38,309	(21)	4,183,453

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

3. Financial risk management (continued)

b) Credit risk (continued)

Currency risk (continued)

2019	Euro	UK Sterling	US	Swiss	Total
	€000	€000	Dollar €000	Franc €000	
Cash and cash equivalents	34,346	23,851	3,342	-	61,539
Insurance and other receivables	160	1,446	-	-	1,606
Other assets	6,637	317	14	8	6,976
Loans and receivables	82,500	-	-	-	82,500
AFS financial assets	594,849	31,643	-	-	626,492
Derivative financial assets	-	-	-	-	-
FVTPL financial assets	83,248	1,159,354	-	-	1,242,602
Reinsurance assets	109,968	1,166,904	-	-	1,276,872
Property and equipment	11,026	-	-	-	11,026
Deferred tax assets	12,980	-	-	-	12,980
Deferred expenses	950	-	-	-	950
Total assets	936,664	2,383,515	3,356	8	3,323,543
Insurance contract liabilities	472,373	1,133,391	-	-	1,605,764
Derivative financial liabilities	26,570	31,186	-	-	57,756
Borrowings and other financial liabilities	91,631	16,398	-	-	108,029
Insurance payables	99,052	1,186,713	-	-	1,285,765
Trade and other payables	36,204	12,641	110	(12)	48,943
Total liabilities	725,830	2,380,329	110	(12)	3,106,257

Interest rate risk

Interest rate risk exists if asset and liability cash flows are not closely matched and interest rates change causing a difference in value between the asset and liability.

The Company does not seek to take interest rate risk, as it is not core to the Company's business strategy and the Company believes the return for keeping this risk on its statement of financial position is very low. The asset and liability strategy are structured so as to ensure that the asset is relatively neutral with respect to interest rate movements. Any risk to moves in interest rates should be the result of a tactical and evaluated position.

Equity risk

Equity risk is the uncertainty associated with the valuation of assets and liabilities arising from the change in equity markets. The Company seeks to minimise equity risk and has a limited appetite for investing in equity securities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

3. Financial risk management (continued)

b) Credit risk (continued)

Underwriting risk

Underwriting risk is the risk the insured event occurs and that there are large deviations between expected and actual actuarial assumptions including mortality, persistency, longevity, morbidity and expense variations.

The Company is in the business of accepting risk associated with insurance contract liabilities. The objective of the Company is to mitigate its exposure to risk arising from these contracts through product design, product and geographical diversification, the implementation of underwriting strategy guidelines within each entity, and through the use of reinsurance arrangements.

The Company accepts certain underwriting risks where it helps to achieve business objectives or where mitigation methods are not available or economically viable.

Reinsurance risk

Reinsurance costs and recoveries as defined by the reinsurance agreement are reflected in the valuation with these costs and recoveries being appropriately calibrated to the direct assumptions.

Reinsurance contracts do not relieve the Company of its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers to minimise its exposure to significant losses from the reinsurer insolvencies.

Sensitivities – insurance and financial risk

The analysis below is performed for reasonably possible movements in key variables, with all other variables held constant, showing the impact on income before tax. The correlation of variables will have a significant effect in determining the ultimate impact from market risk, but to demonstrate the impact due to changes in variables, variables were changed on an individual basis. In the current year, scenarios were changed to align sensitivity analyses across the group.

Type of Variable	Movement	2020		2019	
		Impact on profit before tax €000		Impact on profit before tax €000	
Lapse rates	+10%	5,218	+20%	1,268	
	-10%	(6,017)	-20%	(3,644)	
Interest yields	+50bps	(2,466)	+100bps	(42,506)	
	-50bps	2,616	-100bps	49,448	
Equity markets	+10%	(405)	+20%	6,547	
	-10%	335	-20%	(7,082)	
Long term equity volatility	+5%	-	+5%	-	
	-5%	-	-5%	-	
Credit spread	+50bps	(4,930)	+20bps	(11,686)	
	-50bps	5,336	-20bps	11,686	
Mortality spread	+10%	16,944	+10%	6,469	
	+10%	(19,890)	+10%	(10,539)	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

3. Financial risk management (continued)

b) Credit risk (continued)

Capital Management

The Company's approach to capital management is outlined in the Company's capital management policy. The Company has established the following capital management objectives to managing the risks that affect its capital position:

- To manage the capital and liquidity of the Company on an economic basis, and within the constraints and requirements of all external stakeholders (policyholders, regulators, shareholders, and rating agencies);
- To maintain financial strength so that each entity can withstand reasonably adverse business and market conditions; and
- To minimise balance sheet and capital volatility, thus ensuring stability and predictability for all stakeholders and support an efficient management of capital.

The Company is supervised by the Bermuda Monetary Authority ("BMA") and as a Class E reinsurer is required to maintain available statutory capital and surplus to meet the Minimum Margin of Solvency ("MSM") and to meet and maintain an Enhanced Capital Requirement in accordance with the provisions of the Insurance Act and related rules and regulations. As of December 31, 2020, the Company exceeds its required MSM.

The Bermuda Companies Act 1981, as amended, limits the Company's ability to declare and pay dividends and make and pay distributions to shareholders if there are reasonable grounds for believing that the Company would be unable to pay its liabilities as they become due, or if the realisable value of its assets would be less than its liabilities. Under the Insurance Act, the Company cannot in any financial year pay dividends that would exceed 25 percent of its total statutory capital and surplus, as shown on its statutory balance sheet in relation to the previous financial year, unless at least seven days before payment of those dividends it files with the BMA an affidavit stating that the declaration of those dividends has not caused the insurer to fail to meet its relevant margins.

In addition, the Company shall request the approval of the BMA before reducing by 15 percent or more its total statutory capital, as set out in its prior year financial statements. Furthermore, as an insurer carrying on long-term business, the Company is also restricted from declaring or paying a dividend unless the value of its assets, as certified by the Company's approved actuary, exceeds its liabilities (as so certified) by the greater of its margin of solvency or, if applicable, its enhanced capital requirement.

4. Fee and commission income

	2020 €000	2019 €000
Investment management commissions	18,875	18,562
Investment management fee income	-	2,642
	18,875	21,204

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

5. Net investment income

	2020 €000	2019 €000
Interest income on financial assets	8,605	7,780
Interest on intercompany loans and receivables	3,829	2,663
	<u>12,434</u>	<u>10,443</u>

6. Net realised gains and losses

	2020 €000	2019 €000
Total realised gains on investment – policyholder risk	69,937	62,765
Total realised gains on investment – own risk	1,684	5,135
Impairment losses on investments – own risk	-	(5,743)
	<u>71,621</u>	<u>62,157</u>

The impairment of €nil (2019: €5,743) related to a permanent write down on one available for sale financial asset held within the Athora Luxembourg funds.

7. Net fair value gains and losses

	2020 €000	2019 €000
Fair value gains on financial assets – own risk	647	13,321
Fair value (losses)/gains on financial assets – policyholder risk	(69,303)	74,147
	<u>(68,656)</u>	<u>87,468</u>

8. Other operating income

	2020 €000	2019 €000
Realised foreign currency gains	2,432	243
Other intercompany income	1,937	2,346
Other income	832	561
	<u>5,201</u>	<u>3,150</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

9. Net benefits and claims paid

	2020 €000	2019 €000
Claims paid on insurance contracts	(98,416)	(115,379)
Claims paid on reinsurance contracts	(14,958)	(15,461)
Claims and benefits recovered from reinsurer	-	22
	<u>(113,374)</u>	<u>(130,818)</u>

10. Net change in insurance contract liabilities

	2020 €000	2019 €000
Change in insurance contract liabilities	116,833	863
Change in reinsurance contract liabilities	(1,237,879)	(4,201)
	<u>(1,121,046)</u>	<u>(3,338)</u>

11. Other operating and administration expenses

	2020 €000	2019 €000
Fee and commission expense	(22,426)	(22,014)
Intercompany expense recharges	(11,878)	(16,425)
Professional fees	(5,283)	(4,353)
Foreign exchange loss	(3,785)	(1,358)
Acquisition and administration costs	(2,527)	(3,744)
Interest expenses	(2,525)	(1,622)
Employee-related expenses	(2,013)	(3,738)
Depreciation on property, equipment and intangible assets	(950)	(1,237)
Investment management expenses	(544)	(1,355)
Other expenses	(1,687)	(2,629)
	<u>(53,618)</u>	<u>(58,475)</u>

Other expenses of €1,687 (2019: €2,629) consist of marketing, rent, utilities, office and other overhead expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

12. Taxation

Analysis of tax charge

	2020	2019
	€000	€000
Origination and reversal of timing differences during the year	490	1,642
Adjustment in respect of previous periods	(6,150)	329
Total deferred tax (charge) / credit	(5,660)	1,971

Reconciliation of the expected tax (charge) / credit at statutory tax rates to the actual tax charge at the effective rate

	2020	2019
	€000	€000
Deferred tax		
Income / (Loss) on ordinary activities before tax	951	(19,506)
Tax credit calculated at the domestic rates applicable to profits in each operational jurisdiction	490	1,691
Effects of:		
Expenses not deductible for tax purposes	-	(49)
Adjustments in respect of prior years	(6,150)	329
Tax (charge) / credit for the year	(5,660)	1,971

The deferred tax asset decreased by €6,250 from prior year. €6,150 of this change relates to an adjustment in respect of previous periods due to a change in accounting estimate.

13. Cash and cash equivalents

	2020	2019
	€000	€000
Cash at banks	91,743	61,539
	91,743	61,539

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

14. Other assets

	2020 €000	2019 €000
Accrued investment income	8,887	5,177
Intercompany receivables	2,342	1,312
Prepayments	332	459
Other assets	1,073	28
	<u>12,634</u>	<u>6,976</u>

15. Financial assets

Financial assets – own risk	2020 €000	2019 €000
Available for sale financial assets	1,952,866	626,492
Financial assets at fair value through profit or loss: mutual funds	259,364	247,946
Loans and receivables	110,000	82,500
Derivative financial assets (Note 21)	1,897	-
	<u>2,324,127</u>	<u>956,938</u>

Financial assets – policyholder risk	2020 €000	2019 €000
Financial assets at fair value through profit or loss	790,141	994,656
	<u>790,141</u>	<u>994,656</u>

Loans and receivables	2020 €000	2019 €000
Subordinated debt with related parties	70,000	65,000
Intercompany loan with related party	40,000	17,500
	<u>110,000</u>	<u>82,500</u>

On 5 October 2020, the Company entered into a €40,000 loan agreement with AHL. The loan carries an interest rate of 1.25% which can be repaid by AHL. The previous loan with AHL amounting to €17,500 which carried an interest rate of 1.65% was repaid on 17 September 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

15. Financial assets (continued)

On 28 June 2019, the Company purchased a subordinated bond of €30,000 from Athora Lebensversicherung AG, a related party. The bond has a coupon rate of 6.5%, with a maturity date of 28 June 2029.

On 2 January 2019, the Company purchased a subordinated bond of €35,000 from Athora Belgium S.A./N.V. ("AB"), a related party, which bears interest at 4.45%. On 24 December 2020, this bond was redeemed by AB. On the same date, the Company purchased a perpetual subordinated fixed rate note of €40,000 from AB which bears an initial fixed interest rate of 5.50%.

<i>Available for sale financial assets</i>	2020 €000	2019 €000
Corporate bonds	1,109,001	186,262
Government bonds	545,189	140,862
Mutual funds	265,853	258,630
Asset-backed securities	31,771	40,620
Equities	1,052	118
	<u>1,952,866</u>	<u>626,492</u>

16. Reinsurance assets

	2020 €000	2019 €000
Modified coinsurance receivable from ceded reinsurance	1,049,381	1,218,078
Modified coinsurance receivable from assumed business	-	-
Reinsurance recoverable	110,791	57,756
Other reinsurance balances receivable	891	1,039
	<u>1,161,063</u>	<u>1,276,872</u>

Ceded reinsurance

In 2018, the Company executed two reinsurance agreements with New Reinsurance Company Ltd, a highly rated counterparty, to reinsure the risks associated with the Variable Annuity book of business. The Company retains ownership of the assets and the accompanying fee, commissions and guarantee income associated with these assets. A reinsurance premium is subsequently paid to the counterparty for the risks covered as part of the reinsurance agreement. The Company retains associated expense and partial longevity risks. These agreements are structured as a modified coinsurance agreement ("modco"). The modco reinsurance transaction is presented gross on the statement of financial position as the Company retains the assets with respect to all the policies reinsured and also establishes and retains the total reserves. A reinsurance receivable and payable balance are recorded at the value of the underlying reserves which represents the total value of the Variable Annuity liabilities. The treaties include collateral arrangements in the form of cash which is reflected on the statements of financial position.

As at 31 December 2020, the Company had collateral payable of €111,616 (2019: €34,109). The collateral is provided by the reinsurer as a result of the reinsurance agreement entered into on 3 April 2018.

The reinsurance recoverable asset is fully offset by a derivative financial liability position (see Note 21).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

Assumed reinsurance

On 31 December 2018, Athene Life Re Ltd. (“ALRe”) entered into a reinsurance arrangement (“HLV Reinsurance Agreement”) with Athora Lebensversicherung AG (“ALV”) to reinsure certain risks associated with a portfolio of business of Hamburger Lebensversicherung AG (“HLV”), which merged into ALV effective 1 January 2015. The quota share percentage is 60%. ALRe then retroceded to the Company 100% of these risks under a modified coinsurance retrocession agreement (“Retrocession Agreement”). The Company has a modified coinsurance receivable of €nil as at 31 December 2020 and 2019.

Effective 31 December 2019, the Company, ALRe and ALV entered into an assumption of reinsurance agreement (the “Assumption”) pursuant to which the Company assumed all of ALRe’s rights and obligations under the HLV Reinsurance Agreement and the Company thereby directly assumed the position of reinsurer from ALRe under an amended and restated reinsurance agreement (the “Amended HLV Reinsurance Agreement”). As a result of the Assumption, Retrocession Agreement terminated; resulting in the Company directly assuming the HLV portfolio from ALRe, recognising a deferred loss of €nil (2019: €950) (see Note 19) and eliminating the modified coinsurance receivable from assumed business.

On 16 October 2020, the Company entered into a reinsurance agreement with AB to reinsure certain risks associated with blocks of endowment contracts. The quota share percentage is 75%. Al then retroceded to the Company 75% of these risks under a modified coinsurance retrocession agreement.

On 10 December 2020, the Company entered into a reinsurance arrangement with an Irish insurer for a 75% quota share of certain risks associated with blocks of annuity contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

17. Property and equipment

	Computer hardware €000	Fixtures and fittings €000	Building €000	Total €000
2019				
Cost				
At 1 January 2019	4,272	1,241	-	5,513
Additions	-	-	11,853	11,853
Disposals	-	-	-	-
At 31 December 2019	4,272	1,241	11,853	17,366
Additions	-	-	-	-
Disposals	-	-	-	-
Lease Adjustment (Note 25)	-	-	890	890
At 31 December 2020	4,272	1,241	12,743	18,256
Accumulated depreciation				
At 1 January, 2019	(4,170)	(1,241)	-	(5,411)
Charge for the year	(102)	-	(827)	(929)
Disposals	-	-	-	-
At 31 December 2019	(4,272)	(1,241)	(827)	(6,340)
Charge for the year	-	-	(950)	(950)
Disposals	-	-	-	-
At 31 December 2020	(4,272)	(1,241)	(1,777)	(7,290)
Net book value at 31 December 2019	-	-	11,026	11,026
Net book value at 31 December 2020	-	-	10,966	10,966

The lease adjustment relates to the change in lease rate from 6.25% in 2019 to 5.5% in 2020 as described in the Company's accounting policies (See Note 2aa).

Right-of-use asset (see Note 25) with a net carrying amount of €10,966 (2019: €11,026) are recorded under property and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

18. Deferred tax asset

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

The movement in net deferred tax assets during the years ended 31 December 2020 and 2019 is as follows:

2020	Opening balance €000	Recognised in profit or loss from continuing operations €000	Recognised in OCI €000	Exchange movements €000	Closing balance €000
Losses brought forward	8,663	(5,179)	-	-	3,484
Property and equipment	177	(67)	-	-	110
AFS financial assets	(522)	-	(590)	-	(1,112)
Leases	36	32	-	-	68
Insurance contract liabilities	4,481	(358)	-	-	4,123
Provisions and other payables	145	(88)	-	-	57
	12,980	(5,660)	(590)	-	6,730

2019	Opening balance €000	Recognised in profit or loss from continuing operations €000	Recognised in OCI €000	Exchange movements €000	Closing balance €000
Losses brought forward	6,705	1,958	-	-	8,663
Property and equipment	141	36	-	-	177
AFS financial assets	(690)	402	(234)	-	(522)
Leases	-	36	-	-	36
Insurance contract liabilities	4,872	(383)	-	(8)	4,481
Provisions and other payables	223	(78)	-	-	145
	11,251	1,971	(234)	(8)	12,980

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

19. Deferred expenses

	2020 €000	2019 €000
Balance as at 1 January	950	9,165
Expenses deferred through profit or loss	23,669	-
Amortisation through profit or loss	(190)	(251)
Change in deferred loss arising on assumption of HLV treaty (Note 18)	-	(7,964)
Balance as at 31 December	24,429	950

20. Insurance contract liabilities

	2020 €000	2019 €000
Balance as at 1 January	1,605,764	1,544,250
Premiums received	1,213,675	16,892
Liabilities paid for maturities, surrenders and claims	(113,374)	(130,818)
Experience deviations and change in assumptions	8,658	3,144
Fees deducted	(20,087)	(31,692)
Credit of interest or change in unit prices	1,474	115,178
Foreign exchange movements	(74,636)	87,978
Other movements, including deferred gains	(114,815)	832
Balance as at 31 December	2,506,659	1,605,764

21. Derivative financial assets and liabilities

	2020 €000	2019 €000
Derivative financial assets	1,897	-
	1,897	-
Derivative financial liabilities	113,314	57,756
	113,314	57,756

Derivative financials assets in the amount of €1,897 (2019: €nil) related to gains on foreign exchange forward contracts.

Derivative financial liabilities in the amount of €110,791 (2019: €57,756) are embedded derivatives on ceded reinsurance as disclosed in Note 16. This is separated from the host contract and is measured at fair value with changes in fair value reflected in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

22. Borrowings and financial liabilities

	2020 €000	2019 €000
Funding agreements balance payable	155,000	80,000
Bank overdraft	-	16,398
Lease liabilities under IFRS 16 (Note 25)	<u>11,507</u>	<u>11,631</u>
	<u>166,507</u>	<u>108,029</u>

On 6 December 2018, the Company executed a funding agreement with ALV in the amount of €80,000, with a floating interest rate and a maturity date of 6 December 2023.

On 17 February 2020, the Company executed a funding agreement with AB in the amount of €75,000, with a floating interest rate and a maturity date of 17 February 2023.

These funding agreements do not transfer insurance risk. Accordingly, the contracts are accounted for as a deposit liability in a manner similar to interest bearing or other financial instruments.

23. Insurance payables

	2020 €000	2019 €000
Payables arising on reinsurance business	1,082,920	1,268,699
Payables arising on insurance business	18,550	15,255
Other payable balances	-	1,811
	<u>1,101,470</u>	<u>1,285,765</u>

24. Trade and other payables

	2020 €000	2019 €000
Collateral balances payable	111,616	34,109
Intercompany payables	5,139	5,432
Investments pending settlement	45,863	-
Accrued expenses	2,375	1,700
Other payables	<u>4,798</u>	<u>7,702</u>
	<u>169,791</u>	<u>48,943</u>

Other payables consist of payables to suppliers and other sundry liabilities. The carrying amounts disclosed above approximate fair value at the reporting date. All amounts are payable within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

25. Leases

Effective December 1, 2019, the Company has applied IFRS 16 to the consolidated financial statements. The Company leases office space for a term of fifteen years (until 14 April 2033) having the option to cancel the lease after eight years. The lease is for the second floor of the IFSC House in Dublin.

Right-of-use asset

	Building €000	Total €000
At 1 January 2019	-	-
Additions	11,853	11,853
Disposals	-	-
Depreciation	(827)	(827)
	<hr/>	<hr/>
At 31 December 2019	11,026	11,026
Additions	-	-
Lease Adjustment	890	890
Disposals	-	-
Depreciation	(950)	(950)
	<hr/>	<hr/>
At 31 December 2020	10,966	10,966

Lease liabilities

	Building €000	Total €000
At 1 January 2019	-	-
Additions	12,173	12,173
Interest expenses	738	738
Lease payments	(1,281)	(1,281)
	<hr/>	<hr/>
At 31 December 2019	11,630	11,630
Additions	-	-
Lease Adjustment	512	512
Interest expenses	646	646
Lease payments	(1,281)	(1,281)
	<hr/>	<hr/>
At 31 December 2020	11,507	11,507
		<hr/>
Current		1,281
Non-current		10,226
		<hr/>
		11,507

Maturity analysis – contractual undiscounted cash flows

Less than one year	1,281
One to five years	5,125
More than five years	9,395
Total undiscounted lease liabilities at 31 December 2020	<hr/> 15,801 <hr/>

Interest expenses are recorded under Other operating and administration expenses on the Consolidated Statements of Income. The total cash outflow for leases in 2020 was €1.3m.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

26. Determination of fair value of financial instruments

The following table provides the fair value measurement hierarchy of the Company's financial assets and liabilities:

2020	Total	Quoted prices in active markets (Level 1) €000	Significant observable inputs (Level 2) €000	Significant unobservable inputs (Level 3) €000
Assets measured at fair value:				
Financial assets – own risk				
Available for sale financial assets	1,952,866	916,831	317,679	718,356
Investments at fair value through profit or loss	259,364	113,498	145,866	-
Derivative financial assets	1,897	-	1,897	-
Financial assets – policyholder risk	790,141	436,722	353,419	-
	3,114,268	1,467,051	818,861	718,356
Liabilities measured at fair value:				
Derivative financial liabilities	113,314	-	2,523	110,791
	113,314	-	2,523	110,791
2019	Total	Quoted prices in active markets (Level 1) €000	Significant observable inputs (Level 2) €000	Significant unobservable inputs (Level 3) €000
Assets measured at fair value:				
Financial assets – own risk				
Available for sale financial assets	626,492	53,711	265,501	307,280
Investments at fair value through profit or loss	247,946	222,507	25,439	-
Derivative financial assets	-	-	-	-
Financial assets – policyholder risk	994,656	382,910	611,746	-
	1,869,094	659,128	902,686	307,280
Liabilities measured at fair value:				
Derivative financial liabilities	57,756	-	-	57,756
	57,756	-	-	57,756

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

26. Determination of fair value of financial instruments (continued)

Movement into level 3 in the fair value hierarchy

The Company's policy is to record transfers of assets and liabilities between level 1, level 2 and level 3 at their fair values at the beginning of each reporting year. The Company confirms the asset holdings whether in custody or otherwise held by the Company, identifying asset holdings which do not have market observable data.

The following table summarises the change of all assets and liabilities measured at estimated fair value on a recurring basis using significant unobservable inputs (Level 3), including realised and unrealised gains or (losses) of all assets and liabilities still held at the end of the respective periods:

2020	Available for sale financial assets €000	Financial assets – policyholder risk €000	Financial liabilities €000
Opening balances	307,280	-	(57,756)
Total gains/(losses) in profit or loss	212	-	(53,035)
Total gains/(losses) in OCI	3,995	-	-
Business combinations	-	-	-
Purchases	456,853	-	-
Sales	(49,984)	-	-
Settlements	-	-	-
Transfers to level 1 and 2	-	-	-
Transfers from level 1 and 2	-	-	-
Closing balance	718,356	-	(110,791)

2019	Available for sale financial assets €000	Financial assets – policyholder risk €000	Financial liabilities €000
Opening balances	-	222,250	(56,039)
Total gains/(losses) in profit or loss	(7,475)	-	(1,717)
Total gains/(losses) in OCI	6,990	-	-
Business combinations	-	-	-
Purchases	71,604	-	-
Sales	(2,962)	-	-
Settlements	-	-	-
Transfers to level 1 and 2	-	(222,250)	-
Transfers from level 1 and 2	239,123	-	-
Closing balance	307,280	-	(57,756)

The Company reviews the valuation processes used internally and with external Investment Managers and other professionals. This work gives comfort to management that the assets are valued in accordance with applicable regulation and guidance which results in the asset being valued appropriately. Private equity holdings are valued using a range of techniques, including earnings multiples, forecast cash flows and price / earnings ratios which are deemed to be appropriate but unobservable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

26. Determination of fair value of financial instruments (continued)

Significant unobservable inputs for level 3

The valuation process for significant unobservable inputs used for recurring fair value measurements for certain Level 3 assets and liabilities is based on the following valuation technique and assumptions.

- For the embedded derivative the most significant unobservable factor is credit spread. The expected returns are based on risk-free rates. The Company added a premium to reflect the credit spread as required. The credit spread is set by using the credit default swap (CDS) spreads of a reference portfolio of life insurance companies including Athora as provided to the Company by Athora Group Risk.
- Available-for-sale securities consist of the Company's investment in Athora Luxembourg Funds, asset-backed securities, and commercial mortgage loans. Significant unobservable inputs include valuations of private loans and private equity. Where market quotations are unavailable, a model-based approach is used to determine fair value. These valuations are reviewed by a third-party valuation specialist.

27. Equity

The Company's share capital amounts to €250 fully paid shares at €1 par value each.

The capital contribution of €241,000 represents amounts contributed by AHL.

28. Commitments and contingencies

Legal proceedings and regulations

The Company operates in the (re)insurance industry and may be subject to legal proceedings in the normal course of business. The Company has no pending or threatened legal proceedings at the reporting date.

The Company is also subject to insurance laws and regulations of Bermuda and has complied with such laws and regulations. There are no contingencies associated with the Company's compliance or lack of compliance with such laws and regulations.

Capital commitments

The Company has no capital commitments at the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

29. Related party transactions

Key management personnel

For the purposes of the disclosure requirements of IAS 24, the term ‘key management personnel’ (i.e., those persons having authority and responsibility for planning, directing and controlling the activities of the Company) comprises the members of the Company’s Reinsurance and Operations Committee.

The remuneration of key management personnel during the year was as follows:

	2020 €000	2019 €000
Salaries and other short-term employee benefits	1,480	1,225
Bonus awards	670	360
Defined benefit pension contributions	186	132
Other benefits	81	49
	<u>2,417</u>	<u>1,766</u>

Subsidiaries

Note 1 provides information about the Company’s structure, including details of the subsidiaries and the holding company. The following information provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

Entities with significant influence

Entities that have significant influence on the Company and as such are considered related parties are subsidiaries and affiliates of:

- Apollo Global Management, Inc., who provide investment management, management, consulting, financial, and advisory services to the Company

Transactions and balances with related parties

In accordance with IFRS 10: Consolidated financial statements, transactions and balances between overall group companies have been eliminated on consolidation and have not been reported as part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

29. Related party transactions (continued)

Transactions and balances with related parties (continued)

The Company has entered into transactions with related parties in the normal course of business during the year.

	Income €000	Expense €000	Receivable €000	Payable €000
2020				
Entities with significant influence	-	3,573	-	2,026
Affiliates and group companies	1,092,000	1,090,731	114,357	1,529,452
2019				
Entities with significant influence	-	2,212	-	431
Affiliates and group companies	12,653	32,938	85,306	390,535

Transactions with related parties

Funding agreement

In February 2020, the Company executed a three-year funding agreement with AB (see Note 22).

Intercompany loan

In September 2020, the Company executed a loan agreement with AHL (see Note 15).

Investment in subordinated debt

In December 2020, the Company purchased a perpetual subordinated fixed rate note from AB (see Note 15).

Assumed reinsurance

In October 2020, the Company entered into a reinsurance agreement with AB to reinsure certain risks associated with blocks of endowment contracts. The quota share percentage is 75%.

Parental guarantee

AHL has guaranteed the payment of the Company's property lease with IFSC South Block Limited, in respect of the second floor of IFSC House, if the Company were to default on the lease payment (see Note 25).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 and 2019

30. Comparative Figures

Certain of the 2019 comparative figures have been reclassified to conform to the presentation adopted for 2020.

31. Subsequent events

On 26 February 2021, the Company entered into a binding agreement for the sale of its VA portfolio. On the same day, the Company entered into a contract to cede risks not already ceded, including expense and longevity risks, that are associated with the VA portfolio for the period to the completion date of the sale. The sale of the VA portfolio is expected to be completed in late 2021 subject to regulatory and court approvals. The financial effects of the sale cannot be reliably estimated at the date these financial statements are approved for publication.