ATHORA LIFE RE LTD.

CONSOLIDATED FINANCIAL STATEMENTS

Years ended 31 December 2019 and 2018

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Independent auditor's report

To the Board of Directors and Shareholder of Athora Life Re Ltd.

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Athora Life Re Ltd. (the Company) and its subsidiaries (together 'the Group') as at 31 December 2019, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of income for the year ended 31 December 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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

Independence

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

Responsibilities of management for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, 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.

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

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants
Hamilton, Bermuda
30 April 2020

ATHORA LIFE RE LTD.

CONSOLIDATED STATEMENTS OF INCOME
For the years ended 31 December 2019 and 2018

	Notes	2019 €000's	2018 €000's
Revenue			
Gross premiums		15,731	300,387
Premiums ceded to reinsurers		(26,717)	(20,794)
Net premiums		**(10,986)**	**279,593**
Fee and commission income	4	21,204	15,726
Net investment income	5	10,443	2,131
Net realised gains	6	62,157	38,765
Net fair value gains/(losses)	7	87,468	(44,168)
Other operating income	8	3,150	3,383
Other income		**184,422**	**15,837**
Total revenue		**173,436**	**295,430**
Contract benefits and claims			
Net benefits and claims paid	9	(130,818)	(80,253)
Change in insurance contract liabilities	10	(3,338)	(207,375)
Change in insurance contract liabilities ceded to reinsurer		(1,597)	19,355
Net benefits and claims		**(135,753)**	**(268,273)**
Other operating and administration expenses	11	(58,475)	(41,322)
Total contract benefits and expenses		**(194,228)**	**(309,595)**
Share of profit of associate	17	1,287	1,029
Net loss before income tax		**(19,505)**	**(13,136)**
Income tax recovered	12	1,971	726
Net loss from continuing operations		**(17,534)**	**(12,410)**
Discontinued operations			
Profit after income tax from discontinued operations	13	-	3,417
Net loss		**(17,534)**	**(8,993)**

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 2019 and 2018

	2019	2018
	€000's	€000's
Net loss for the year	(17,534)	(8,993)
Other comprehensive income ("OCI")		
Items that may be reclassified to net income (loss) in subsequent periods		
Foreign currency translation reserve	757	(1,454)
Unrealized gains/(losses) on available for sale financial assets	1,543	2,274
Tax effects of items recognized through OCI	168	(690)
Other comprehensive income	2,468	130
Total comprehensive loss	(15,066)	(8,863)

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 2019 and 2018

	Notes	**2019 €000's**	2018 €000's
Assets			
Cash and cash equivalents	14	61,539	161,711
Insurance and other receivables		1,606	1,941
Other assets	15	6,976	39,585
Financial assets - own risk			
Loans and receivables	16	82,500	16,519
Available for sale financial assets	16	626,492	138,738
Financial assets at fair value through profit or loss	16	247,946	58,524
Investment in associates	17	-	258,369
Reinsurance assets	18	1,276,872	1,507,876
Financial assets - policyholders' risk	16	994,656	960,101
Property and equipment	19	11,026	102
Deferred tax assets	20	12,980	11,251
Deferred expenses	21	950	9,165
Total Assets		3,323,543	3,163,882
Liabilities			
Insurance contract liabilities	22	1,605,764	1,544,250
Derivative financial liabilities	23	57,756	56,039
Borrowings and other financial liabilities	24	108,029	80,580
Insurance payables	25	1,285,765	1,230,393
Trade and other payables	26	48,943	35,236
Total Liabilities		3,106,257	2,946,498
Equity			
Share capital	29	250	250
Capital contribution	29	241,000	226,032
Accumulated other comprehensive income		2,598	130
Retained losses		(26,562)	(9,028)
Total Equity		217,286	217,384
Total Liabilities and Equity		3,323,543	3,163,882

Approved by the Board:

Amy Ponnampalam
Director

Date: 28 April 2020

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 2019 and 2018

	Share Capital €000's	Capital Contributions €000's	Retained Losses €000's	OCI €000's	Total €000's
Balance as at 1 January 2018	250	-	(35)	-	215
Other comprehensive income, net of tax	-	-	-	130	130
Increase in capital contributions	-	226,032	-	-	226,032
Net loss	-	-	(8,993)	-	(8,993)
Balance as at 31 December 2018	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

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 2019 and 2018

	Notes	2019 €000's	Restated 2018 €000's
Net loss before income tax		(19,505)	(13,136)
Adjusted for:			
Depreciation		1,237	651
Unrealized (gains) / losses on investments		(87,468)	44,168
Realized gains on investments		(62,157)	(38,765)
Effect of exchange rate changes		(17,615)	66,627
Income tax paid		(24)	(33)
Profit on sale of discontinued operations	13	-	3,417
		(185,532)	62,929
Movements in working capital:			
Decrease / (increase) in deferred expenses		8,215	(9,165)
Increase in insurance contract liabilities		49,359	154,579
Decrease in insurance assets		326	1,810
Increase in reinsurance assets		(41,437)	(172,496)
Increase in accrued income		(1,872)	(507)
Increase / (decrease) in trade and other payables		68,317	(107,336)
Decrease in deferred tax assets		998	47
Decrease / (increase) in other receivables		36,977	(35,800)
Net cash used in by operations		(64,649)	(105,939)
Cash flow from investing activities:			
Proceeds from sale of financial assets		259,576	402,986
Purchase of financial assets		(259,362)	(164,276)
Net purchase of loans and receivables		(65,981)	(16,379)
Principal element of lease payments	27	(542)	-
Investment in associates	17	-	(258,369)
Acquisition of subsidiary, net of cash acquired		-	(3,044)
Purchase of intangible assets		-	(130)
Net cash used in investing activities		(66,309)	(39,212)
Cash flow from financing activities:			
Proceeds from short-term borrowings		15,818	80,580
Capital contribution	29	14,968	226,032
Net cash flow from financing activities		30,786	306,612
Net (decrease) / increase in cash and cash equivalents		(100,172)	161,461
Cash and cash equivalents at 1 January		161,711	250
Cash and cash equivalents at 31 December		61,539	161,711

The accompanying notes from an integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended 31 December 2019 and 2018

1. 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 2019 were approved by the Board of Directors of the Company (the “Board”) on 28 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 31.

b) Company Information
The consolidated financial statements of the Company include:

Name	Principal activity	Country of incorporation	% Equity interest 2019	% Equity interest 2018
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.

2. 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.

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.

Prior year balances have been reclassified where necessary to conform to the current year presentation. The following balances captured in the consolidated statement of cash flows and note 20 of the 31 December 2018 financial statements have been restated in the consolidated statement of cash flows of these financial statements to correct a classification error: Unrealised (gains)/losses on investments €44,168 (previously €206,939); realized (gains)/losses on investments €(38,765) (previously €142,420); proceeds from sale of financial assets €402,986 (previously €274,937) and purchase of financial assets €(164,276) (previously €(380,183)).

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 2019.

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.

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 28: 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).

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 2019. 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.

IFRS 16: Leases

The Company has adopted IFRS 16 Leases from 1 January 2019. The Company has not restated comparative for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 January 2019.

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6.25%.

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

d) New and amended standards and interpretations (continued)

IFRS 16: Leases (continued)

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review: there were no onerous contracts as at 1 January 2019.
- accounting for operating leases with a remaining lease term of less than twelve months as at 1 January 2019 as short-term leases.
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered before the transition date, the Athora Group relied on its assessment made applying IAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

e) Standards and interpretations issued but not yet effective

The 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 (see below). 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 material impact on profit and total equity together with presentation and disclosure.

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

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

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 4 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 2019 and 2018. 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.

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 as Note 16. The fair value of these assets approximates to the amortised cost. The fair value of all other financial assets is set out in Note 28.

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.

Minor amendments to other accounting standards

The IASB has issued a number of amendments to IFRSs effective 1 January 2020 (including IFRS 3 ‘Business Combinations’ and IAS 1 ‘Presentation of Financial Statements’). These amendments are not expected to have a significant impact on the Company.

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

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.

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.

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

h) Reinsurance contacts (continued)

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.

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.

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

j) Taxation (continued)

Current income tax (continued)

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.

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. In respect of the acquisition of AI that occurred on 3 April 2018, no NCI was recognised as 100 percent of the shares were acquired.

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.

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

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.

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.

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

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.

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 though 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.

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

p) Financial assets (continued)

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.

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 ad reinsures 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.

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

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. See Note 13 for further details.

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.

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.

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

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.

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.

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

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.

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.

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).

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.

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.

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

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.

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 Measurement and Assessment, Risk Management and Monitoring, Risk Reporting and Insights and Data and Technology. The following graphic sets out these components.

3. Financial risk management (continued)

a) Risk management framework (continued)

A *Risk Strategy and Appetite*

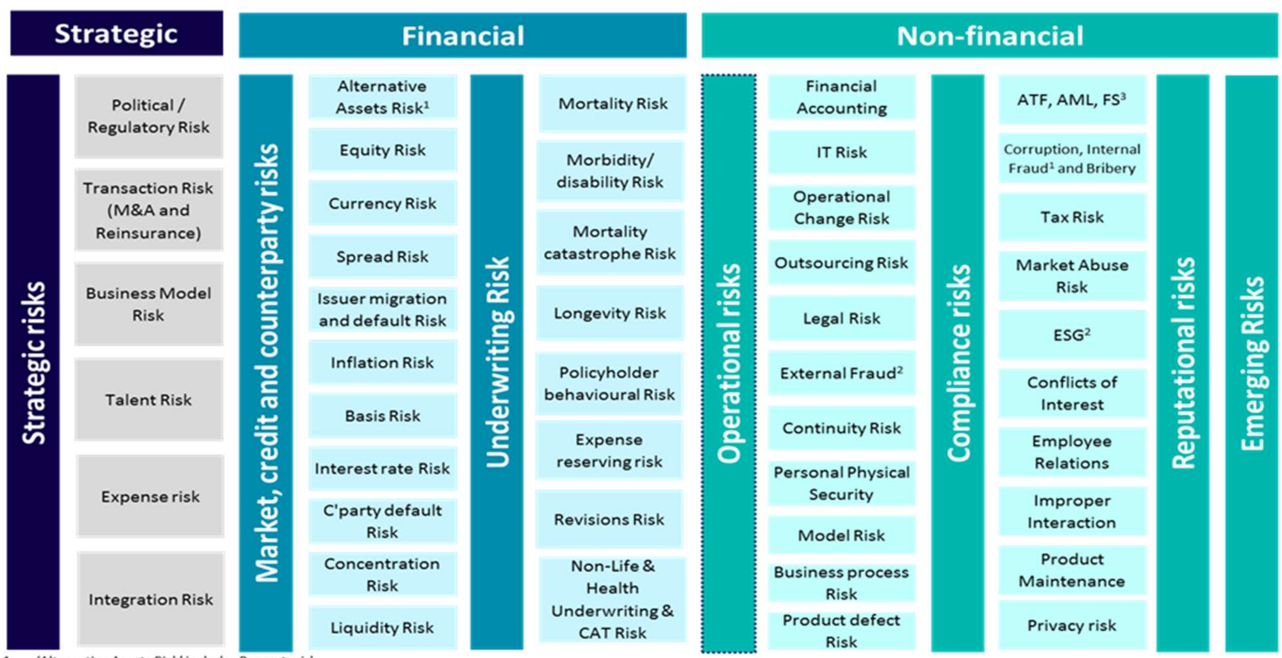
The Risk Strategy and Appetite is an integral part of the business strategy and determines how ARE selects risks it can control and extract value from in line with its strategy. ARE's risk strategy encompasses the follow core pillars:

- **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 group categorises its risk universe into three areas; Strategic, Financial and Non-Financial. The risk universe is shown below:



1. 'Alternative Assets Risk' includes Property risk
2. "Internal Fraud" refers to fraud by Athora's Directors, Officers and Employees, perpetrated against the interests of Athora and/or third parties. "External Fraud" refers to fraud perpetrated by external parties against the interests of Athora.
3. ESG = Environmental, social and governance, ATF = Anti-Terrorist Financing, AML = Anti-money laundering, FS = Financial Sanctions

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:

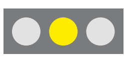
Risk Appetite Statement Indicator

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.

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

Key credit exposure of assets:

2019	Investment grade €000	Non-Investment grade €000	Unrated €000	Unit-linked €000	Total €000
Cash and cash equivalents	61,539	-	-	-	61,539
Insurance 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
Reinsurance assets	-	-	-	1,276,872	1,276,872
Policyholder financial assets	-	-	-	994,656	994,656
Property and equipment	-	-	11,026	-	11,026
Deferred tax assets	-	-	12,980	-	12,980
Deferred expenses	-	-	950	-	950
Total assets	**384,814**	**6,774**	**660,427**	**2,271,528**	**3,323,543**

2018	Investment grade €000	Non-Investment grade €000	Unrated €000	Unit-linked €000	Total €000
Cash and cash equivalents	161,711	-	-	-	161,711
Insurance receivables	-	-	1,941	-	1,941
Other assets	35,764		3,821	-	39,585
Loans and receivables	-	-	16,519	-	16,519
Available for sale financial assets	138,738	-	-	-	138,738
FVTPL financial assets		-	58,524	-	58,524
Investment in associates	-		258,369	-	258,369
Reinsurance assets	-	294,100	-	1,213,776	1,507,876
Policyholder financial assets	-	-	-	960,101	960,101
Property and equipment	-	-	102	-	102
Deferred tax assets	-	-	11,251	-	11,251
Deferred expenses	-	-	9,165	-	9,165
Total assets	**336,213**	**294,100**	**359,692**	**2,173,877**	**3,163,882**

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.

2019	Cash and cash equivalents €000	Loans and receivables €000	AFS financial assets €000	FVTPL financial assets €000	Reinsurance assets €000
Rating					
AAA	-	-	14,982	-	-
AA	47,606	-	140,999	-	1,276,872
A	13,934	-	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**

2018	Cash and cash equivalents €000	Loans and receivables €000	AFS financial assets €000	FVTPL financial assets €000	Reinsurance assets €000
Rating					
AAA	-	-	-	-	-
AA	-	-	138,738	-	1,213,776
A	125,809	-	-	-	294,100
BBB	35,902	-	-	-	-
BB	-	-	-	-	-
B or lower	-	-	-	-	-
Not rated	-	16,519	-	58,524	-
	161,711	**16,519**	**138,738**	**58,524**	**1,507,876**

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 cash, investments, reinsurance assets and liabilities:

2019	Less than 1 year	1 to 5 years	More than 5 years	Unit-linked	Total
Cash and cash equivalents	61,539	-	-	-	61,539
Loans and receivables	17,500	-	65,000	-	82,500
Available for sale financial assets	20,016	7,033	599,443		626,492
Financial assets - FVTPL	229,174	-	18,772	994,656	1,242,602
Reinsurance assets	-	-	-	1,276,872	1,276,872
	328,229	**7,033**	**683,215**	**2,271,528**	**3,290,005**
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 payables	(9,705)	(38,187)	108,231	1,225,427	1,285,765
Trade and other payables	27,650	21,293	-	-	48,943
	43,031	**108,313**	**464,994**	**2,489,920**	**3,106,258**

2018	Less than 1 year	1 to 5 years	More than 5 years	Unit-linked	Total
Cash and cash equivalents	161,711	-	-	-	161,711
Loans and receivables	16,519	-	-	-	16,519
Available for sale financial assets	-	-	138,738	-	138,738
Financial assets - FVTPL	21,299	-	37,225	960,101	1,018,625
Investment in associate	-	-	258,369	-	258,369
Reinsurance assets		-	294,100	1,213,776	1,507,876
	199,529	-	728,432	2,173,877	3,101,838
Insurance contract liabilities	17,765	81,295	243,178	1,202,012	1,544,250
Derivative financial liabilities	(11,644)	(34,281)	101,964	-	56,039
Borrowings and other financial liabilities	580	-	80,000	-	80,580
Insurance payables	(9,771)	(34,281)	104,231	1,170,214	1,230,393
Trade and other payables	35,236	-	-	-	35,236
	32,166	**12,733**	**529,373**	**2,372,226**	**2,946,498**

3. Financial risk management (continued)

b) Credit risk (continued)

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.

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:

2019	Euro €000	UK Sterling €000	US Dollar €000	Swiss Franc €000	Total €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
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 liability	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**

3. Financial risk management (continued)

b) Credit risk (continued)

Currency risk (continued)

2018	Euro €000	UK Sterling €000	US Dollar €000	Swiss Franc €000	Total €000
Cash and cash equivalents	86,687	72,238	2,758	-	161,683
Insurance and other receivables	-	1,941	-	-	1,941
Other assets	38,937	648	-	-	39,585
Loans and receivables	16,519	-	-	-	16,519
AFS financial assets	-	138,738	-	-	138,738
FVTPL financial assets	98,389	920,236	-	-	1,018,625
Reinsurance assets	391,312	1,116,564	-	-	1,507,876
Investment in associates	248,808	9,561	-	-	258,369
Property and equipment	102	-	-	-	102
Deferred tax assets	-	11,251	-	-	11,251
Deferred expenses	9,165	-	-	-	9,165
Total assets	**889,919**	**2,271,177**	**2,758**	**-**	**3,163,854**
Insurance contract liabilities	380,225	1,164,025			1,544,250
Derivative financial liability	19,871	36,168			56,039
Borrowings and other financial liabilities	80,056	524			80,580
Insurance payables	96,570	1,133,823			1,230,393
Trade and other payables	22,255	12,729	241	11	35,236
Total liabilities	**598,977**	**2,347,269**	**241**	**11**	**2,946,498**

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.

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.

	2019		2018	
Type of Variable	**Movement**	**Impact on profit before tax €000**	Movement	Impact on profit before tax €000
Currency – GBP vs Euro	**+15%**	**1,533**	+15%	(34,070)
	-15%	**(1,533)**	-15%	34,070
Lapse rates	**+20%**	**1,268**	+20%	2,086
	-20%	**3,644**	-20%	(3,644)
Interest yields	**+100bps**	**(42,506)**	+100bps	6.697
	-100bps	**49,448**	-100bps	(5,687)
Equity markets	**+20%**	**6,547**	+20%	3,921
	-20%	**(7,082)**	-20%	(3,865)
Long term equity volatility	**+5%**	**-**	+5%	-
	-5%	**-**	-5%	-
Credit spread	**+20bps**	**(11,686)**	+20bps	(215)
	-20bps	**11,686**	-20bps	204
Mortality spread	**+10%**	**6,469**	+10%	6,444
	-10%	**(10,539)**	-10%	(12,799)

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, 2019, 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

	2019 €000	2018 €000
Investment management commissions	**18,562**	15,707
Investment management fee income	**2,642**	-
Other fee income	**-**	19
	21,204	15,726

5. Net investment income

	2019 €000	2018 €000
Interest income on financial assets	**7,780**	2,131
Interest on intercompany loans and receivables	**2,663**	-
	10,443	2,131

6. Net realised gains and losses

	2019 €000	2018 €000
Total realised gains on investment – own risk	**5,135**	-
Impairment losses on investments – own risk	**(5,743)**	-
Total realised gains on investment – policyholder risk	**62,765**	38,765
	62,157	38,765

The impairment of €5,743 in 2019 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

	2019 €000	2018 €000
Fair value gains/(losses) on financial assets – own risk	**13,321**	(61)
Fair value gains/(losses) on financial assets – policyholder risk	**74,147**	(44,107)
	87,468	(44,168)

8. Other operating income

	2019 €000	2018 €000
Other intercompany income	**2,346**	3,281
Realised foreign currency gains	**243**	102
Other income	**561**	-
	3,150	3,383

9. Contract benefits and claims paid

	2019 €000	2018 €000
Claims paid on insurance contracts	**(115,379)**	(80,253)
Claims paid on reinsurance contracts	**(15,461)**	-
Claims and benefits recovered from reinsurer	**22**	-
	(130,818)	(80,253)

10. Change in insurance contract liabilities

	2019 €000	2018 €000
Change in insurance contract liabilities	**863**	(207,375)
Change in reinsurance contract liabilities	**(4,201)**	-
	(3,338)	(207,375)

11. Other operating and administration expenses

	2019 €000	2018 €000
Fee and commission expense	**(22,014)**	(15,016)
Intercompany expense recharges	**(16,425)**	(9,384)
Professional fees	**(4,353)**	(2,819)
Employee-related expenses	**(3,738)**	(9,393)
Acquisition and administration costs	**(3,744)**	(273)
Foreign exchange loss	**(1,358)**	(33)
Interest expenses	**(1,622)**	(199)
Other expenses	**(2,629)**	(2,757)
Investment management expenses	**(1,355)**	(885)
Depreciation on property, equipment and intangible assets	**(1,237)**	(491)
Goodwill write down	**-**	(72)
	(58,475)	(41,322)

12. Taxation

Analysis of tax charge

	2019 €000	2018 €000
Deferred tax		
Origination and reversal of timing differences during the year	**1,642**	726
Adjustment in respect of previous periods	**329**	-
Total deferred tax credit	**1,971**	726

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

	2019 €000	2018 €000
Deferred tax		
Loss on ordinary activities before tax	**(19,506)**	(13,136)
Tax credit calculated at the domestic rates applicable to profits in each operational jurisdiction	**1,691**	777
Effects of:		
Expenses not deductible for tax purposes	**(49)**	(37)
Adjustments in respect of prior years	**329**	
Exchange adjustments	**-**	(14)
Tax credit for the year	**1,971**	726

13. Discontinued operations

On 3 April 2018, AI announced its intention to transfer its offshore bond investment contract portfolio to Utmost Ireland DAC ("Utmost"). The portfolio transfer was completed on 31 December 2018 and is reported in the comparative period as a discontinued operation.

The total profit on the sale of the discontinued operations disposed of during 2018 after tax was €3,417.

	2018 €000
Fee and commission income	7,697
Expenses	(5,449)
Profit for the period	2,248
Profit on disposal	1,666
Profit before tax	3,914
Income tax expense	(497)
Profit after tax	**3,417**

14. Cash and cash equivalents

	2019 €000	2018 €000
Cash at banks	**61,539**	161,711
	61,539	161,711

15. Other assets

	2019 €000	2018 €000
Accrued investment income	**5,177**	353
Intercompany receivables	**1,312**	3,184
Prepayments	**459**	261
Cash amounts held in escrow	**-**	35,433
Intangible asset – capitalised software	**-**	307
Other assets	**28**	47
	6,976	39,585

16. Financial assets

Financial assets – own risk	2019 €000	2018 €000
Loans and receivables	**82,500**	16,519
Available for sale financial assets	**626,492**	138,738
Financial assets at fair value through profit or loss: mutual funds	**247,946**	58,524
	956,938	213,781

Financial assets – policyholder risk	2019 €000	2018 €000
Financial assets at fair value through profit or loss	**994,656**	960,101
	994,656	960,101

Loans and receivables	2019 €000	2018 €000
Intercompany loan with related party	**17,500**	16,519
Subordinated debt with related parties	**65,000**	-
	82,500	16,519

On 20 September 2019, the Company entered into a €17,500 loan agreement with AHL. The loan carries an interest rate of 1.65% and has a maturity date of 28 September 2020. The loan can be repaid by AHL at any time before maturity. The previous loan with AHL was repaid on 5 March 2019.

16. Financial assets (continued)

On 2 January 2019, the Company purchased a subordinated bond of €35,000 from Athora Belgium S.A./N.V., a related party, which bears interest at 4.45%. 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.

Available for sale financial assets	**2019 €000**	2018 €000
Mutual funds	**258,631**	-
Corporate bonds	**186,262**	-
Government bonds	**140,862**	138,738
Asset-backed securities	**40,620**	-
Equities	**118**	-
	626,493	138,738

At 31 December 2018, the Company's holding in each of the Athora Luxembourg Funds was classified as an Investment in associates (see Note 17). During 2019, as a result of additional investment by other Athora entities, the shareholding in each of the funds reduced below 20% for each of the funds and as such the Company no longer exerts significant influence. This has resulted in the cessation of equity accounting and a reclassification of the assets as available for sale financial instruments - classified above as mutual funds.

17. Investment in associates

In 2018, the Company invested in three Athora Luxembourg Funds through Apollo Asset Management Europe LLP ("AAME"). The Company's investments were in excess of 20% of the total fund values and accordingly the Company was considered to exert significant influence over the funds. As such, investments in these funds were classified as investments in associates and were accounted for using the equity method.

In 2019, as a result of additional investment by other Athora entities, the shareholding in each of the funds was reduced below 20% and, accordingly, the Company no longer exerts significant influence over the funds. As a result the Company has reclassified these investments as available for sale financial assets (see Note 16).

	2019 €000	2018 €000
Investment in associates	**258,369**	-
Acquisitions	**-**	257,340
Gains through statement of profit or loss	**1,287**	1,029
Reclassification to available for sale financial assets	**(259,656)**	-
	-	258,369

18. Reinsurance assets

	2019 €000	2018 €000
Modified coinsurance receivable from ceded reinsurance	**1,218,077**	1,156,720
Modified coinsurance receivable from assumed business	**-**	294,100
Reinsurance recoverable	**57,756**	56,039
Other reinsurance balances receivable	**1,039**	1,017
	1,276,872	1,507,876

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 2019, the Company had collateral payable of €34,109 (2018: €17,100). 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 23).

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 (the “Retrocession Agreement”). The Company has a modified coinsurance receivable of €nil as at 31 December 2019 (2018: €294,100). The prior period balance reflects the upfront premium paid by ALV to ALRe and related reserve balances which are recorded in insurance contract liabilities.

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, the Retrocession Agreement terminated; resulting in the Company directly assuming the HLV portfolio from ALRe, recognising a deferred loss of €950 (see Note 21) and eliminating the modified coinsurance receivable from assumed business.

19. Property and equipment

2019	Computer hardware €000	Fixtures and fittings €000	Right-of-use lease asset €000	Total €000
Cost				
At 1 January 2019	4,272	1,241	-	5,513
Right-of-use lease asset capitalised (see Note 27)	-	-	11,853	11,853
Additions	-	-	-	-
Disposals	-	-	-	-
At 31 December 2019	4,272	1,241	11,853	17,366
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)
Net book value at 31 December 2019	**-**	**-**	**11,026**	**11,026**
Net book value at 31 December 2018	**102**	**-**	**-**	**102**

20. 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 2019 and 2018 is as follows:

2019	Opening balance €000	Arising on business combination €000	Recognised in profit or loss from continuing operations €000	Recognised in profit or loss from discontinued 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**

2018	Opening balance €000	Arising on business combination €000	Recognised in profit or loss from continuing operations €000	Recognised in profit or loss from discontinued operations €000	Recognised in OCI €000	Exchange movements €000	Closing balance €000
Losses brought forward	-	11,118	1,064	(5,227)	-	(250)	6,705
Property and equipment	-	145	-	-	-	(4)	141
AFS financial assets	-	-	-	-	(690)	-	(690)
Insurance contract liabilities	-	607	(338)	4,730	-	(127)	4,872
Provisions and other payables	-	229	-	-	-	(6)	223
	-	**12,099**	**726**	**(497)**	**(690)**	**(387)**	**11,251**

21. Deferred expenses

	2019 €000	2018 €000
Balance as at 1 January	**9,165**	-
Expenses deferred through profit or loss	**-**	9,165
Amortisation through profit or loss	**(251)**	
Change in deferred loss arising on assumption of HLV treaty (Note 18)	**(7,964)**	-
Balance as at 31 December	**950**	9,165

22. Insurance contract liabilities

	2019 €000	2018 €000
Balance as at 1 January	**1,544,250**	-
Impact of portfolio transfers, acquisitions and disposals	**834**	1,389,671
Expected change in existing business provisions	**(1,729)**	(110,560)
Foreign exchange rate movements	**61,905**	(38,126)
Other movements	**504**	303,265
Balance as at 31 December	**1,605,764**	1,544,250

23. Derivative financial liabilities

2019	Notional Amount	Assets	Liabilities
Embedded derivative on ceded reinsurance	-	-	57,756
	-	-	57,756

2018	Notional Amount	Assets	Liabilities
Embedded derivative on ceded reinsurance	-	-	56,039
	-	-	56,039

24. Borrowings and financial liabilities

	2019 €000	2018 €000
Funding agreement balance payable	**80,000**	80,056
Bank overdraft	**16,398**	524
Lease liabilities under IFRS 16 (see Note 27)	**11,631**	-
	108,029	80,580

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. This funding agreement does not transfer insurance risk. Accordingly, the contract is accounted for as a deposit liability in a manner similar to interest bearing or other financial instruments.

25. Insurance payables

	2019 €000	2018 €000
Payables arising on insurance business	**15,255**	15,804
Payables arising on reinsurance business	**1,268,699**	1,212,687
Other payable balances	**1,811**	1,902
	1,285,765	1,230,393

26. Trade and other payables

	2019 €000	2018 €000
Collateral balances payable	**34,109**	17,109
Intercompany payables	**5,432**	9,315
Accrued expenses	**1,700**	1,360
Other payables	**7,702**	7,452
	48,943	35,236

The carrying amounts disclosed above approximate fair value at the reporting date. All amounts are payable within one year.

27. Leases

For leases where the Company is a lessee, in accordance with IFRS 16, the statement of financial position shows the following amounts:

	2019 €000
Right of use assets:	
Buildings	**11,026**
Lease liabilities:	
Current	**1,281**
Non-current	**10,350**
	11,631

The total cash outflow for leases in 2019 was €1,281k. Amounts recognised in the statement of income were:

	2019 €000
Depreciation charge for right-of-use assets	**827**
Interest expense	**739**

27. Leases (continued)

Measurement of lease liabilities on transition:

	€000
Operating lease commitments disclosed as at 31 December 2018	18,298
Discounted using the lessee's incremental borrowing rate at the date of initial application of IFRS 16	(6,125)
	12,173
Of which:	
Current	1,281
Non-current	10,892
	12,173

The right-of-use asset was measured on transition at €11,853. The lease was signed in 2018 and has a term of fifteen years (until 14 April 2033) with the Company having the option to cancel the lease after eight years. The lease is for the second floor of the IFSC House in Dublin.

28. Determination of fair value of financial instruments

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

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				
Loans and receivables	**82,500**	-	82,500	-
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	-
Financial assets – policyholder risk	**994,656**	382,910	611,746	-
	1,951,594	659,128	985,186	307,280
Liabilities measured at fair value:				
Financial liabilities	**108,029**	-	108,029	-
Derivative financial liabilities	**57,756**	-	-	57,756
	165,785	-	108,029	57,756

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

2018	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				
Loans and receivables	**16,519**	-	16,519	-
Available for sale financial assets	**138,738**	138,738	-	-
Investments at fair value through profit or loss	**58,524**	37,090	21,434	-
Financial assets – policyholder risk	**960,101**	-	737,851	222,250
	1,173,882	175,828	775,804	222,250
Liabilities measured at fair value:				
Financial liabilities	**80,580**	-	80,580	-
Derivative financial liabilities	**56,039**	-	-	56,039
	136,619	-	80,580	56,039

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:

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)**

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

Movement into level 3 in the fair value hierarchy (continued)

2018	Available for sale financial assets €000	Financial assets – policyholder risk €000	Financial liabilities €000
Opening balances	-	-	-
Total gains/(losses) in profit or loss	-	-	-
Total gains/(losses) in OCI	-	-	-
Business combinations	-	222,250	(56,039)
Purchases	-	-	-
Sales	-	-	-
Settlements	-	-	-
Transfers from level 1 and 2	-	-	-
Closing balance	**-**	**222,250**	**(56,039)**

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.

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 the Athora Luxembourg Funds. 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 valuations specialist.

29. 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. On 14 March 2019, AHL contributed a further €14,968 to the Company.

30. 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.

31. 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:

	2019 €000	2018 €000
Salaries and other short-term employee benefits	**1,225**	957
Bonus awards	**360**	193
Defined benefit pension contributions	**132**	75
Other benefits	**49**	56
	1,766	1,281

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
- ALRe who was party to the HLV Reinsurance Agreement as noted in Note 18: Reinsurance assets.

31. Related party transactions (continued)

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.

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
2019				
Entities with significant influence	-	2,212	-	431
Subsidiaries and group companies	12,653	32,938	85,306	390,535
2018				
Entities with significant influence	294,100	303,265	294,100	303,265
Subsidiaries and group companies	3,150	8,788	19,791	89,459

Transactions with related parties

Funding agreement
The Company executed a five-year funding agreement with ALV on commercial terms during 2018 (see Note 24).

Intercompany loan
On 29 September 2019, the Company executed a loan agreement with AHL (see Note 16).

Investment in subordinated debt
During the 2019 year, the Company invested in subordinated bonds issued by two separate Athora group companies (see Note 16).

Assumed reinsurance
Effective 30 September 2019, ARE entered into a lapse risk solution agreement Lapse Risk Solution Agreement with ALV, which protects the cedant against the economic losses in a low lapse scenario. Under this agreement, ARE recorded premiums of €1,547. At year end, there were no losses recorded on this treaty.

On 31 December 2018, ALRe entered into a reinsurance agreement with ALV which was retroceded on a 100% quota share basis to the Company. Effective 31 December 2019, the Company, ALRe and ALV entered into the Assumption and the Company directly assumed from ALRe the position of reinsurer of the HLV portfolio under the Amended Reinsurance Agreement and the Retrocession Agreement terminated (see Note 18).

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 27).

32. Subsequent events

On 7 April 2020, the BMA notified the Company of the BMA's determination and approval to be Group Supervisor of the Insurance Group for the Athora Group. Pursuant to Section 27B(5) of the Insurance Act, the BMA designated the Company, as a member of the Athora Group, as the 'Designated Insurer' for the purposes of the Insurance Act. The Group Supervision of the Athora Group is effective from 1 January 2020.

On 2 April 2020, the Athora Group completed the acquisition of VIVAT N.V., the fourth largest insurer and second largest life insurer in the Netherlands and subsequently sold the non-life business of VIVAT to NN Group N.V.

On 17 February 2020, the Company executed a funding agreement with Athora Belgium S.A./N.V. The amount of the funding agreement was €75,000, it bears a guaranteed interest rate of 0.64% and has a maturity date of 17 February 2023.

On 31 January 2020, the Company entered into an addendum to the Lapse Risk Solution Agreement, to adjust the existing terms of the agreement and to provide stop loss protection against the risk that annuity policyholders choose or do not choose to take a lump sum payment. The addendum also extended the duration of the agreement by three months. Additional premium of €4,568 was recorded.

The COVID-19 outbreak has developed rapidly in 2020, with a significant number of infections. Measures to prevent transmission of the virus include limiting the movement of people, temporarily closing businesses, and cancelling events. This has adversely affected economic activity across the world. Governments and central banks worldwide are responding to the crisis with aid packages and further quantitative easings. At the date of the issuance of these financial statements, the length and depth of this crisis is unknown.

The outbreak may negatively impact the Company and other insurance and reinsurance businesses that provide protection to affected individuals and businesses. To assess the impact on the Company's financial position and results, management is continuously monitoring the market and economic turbulence that has arisen as a consequence of the COVID-19 outbreak. The most significant risks the Company faces are related to financial markets (particularly credit, equity and interest rates), and underwriting risks (particularly related to mortality, morbidity and policyholder behaviour).

The Company has activated business continuity plans and will continue to actively manage the situation as it unfolds.