

Report on Examination
of
Hannover Life Reassurance Company of America
Orlando, Florida
as of
December 31, 2014



**FLORIDA OFFICE OF
INSURANCE REGULATION**

David Altmaier, Commissioner
Florida Office of Insurance Regulation
Tallahassee, Florida

Dear Sir:

In accordance with Section 624.316, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of Hannover Life Reassurance Company of America as of December 31, 2014. Our report on the examination follows.

Florida Office of Insurance Regulation
March 15, 2016

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2014 of Hannover Life Reassurance Company of America (the "Company"), a multi-state insurer domiciled in Florida. The examination covered the period of January 1, 2010 through December 31, 2014 and took place primarily in the Company's Orlando, Florida office. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2009.

We conducted our examination in accordance with the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook* ("*Handbook*"). The Handbook required that we plan and perform our examination to evaluate the financial condition and identify current and prospective risks of the Company. It required that we do so by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. Our examination included assessing the principles used and significant estimates made by management. It also included evaluating overall financial statement presentation and management's compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

COMPANY HISTORY

The Company was incorporated in Florida on June 16, 1988 and licensed by the Office as an insurer on September 30, 1988. It was authorized by the State of Florida to operate as an insurer in accordance with Section 624.401, Florida Statutes (F.S.), in the following lines:

Life and variable life	Credit life
Accident and health	Credit disability
Variable annuities	Group life and annuities

Dividends and Capital Contributions

The Company neither distributed dividends nor received capital contributions during the period examined.

New Subsidiary

During the first quarter of 2014, the Company established a 100% owned Bermuda subsidiary, Hannover Life Reassurance Company of America (Bermuda) Ltd., which is considered a U.S. entity for U.S. tax purposes. The Bermuda subsidiary was established for the purpose of reinsuring and retroceding life and health insurance risk to, and for the benefit of, the Hannover Re Group. During the first quarter 2014, the Company contributed \$2.5 million in capital in exchange for common stock in the subsidiary.

CORPORATE RECORDS

We reviewed the minutes of the meetings of the Board of Directors, Audit Committee, and Investment Committee. The minutes of the Board adequately documented its meetings and approval of Company transactions, including the authorization of its investments as required by Section 625.304, F.S.

MANAGEMENT AND CONTROL

The Company was wholly owned by Hannover Life Re AG, which was wholly owned by Hannover Rückversicherung SE (formerly Hannover Rückversicherung AG). It was affiliated with numerous other entities through common ownership.

The Company's executive and senior officers, directors, and members of the Audit, Investment, and Compensation Committees serving as of December 31, 2014, were:

Executive Officers

Name	Title
Peter R. Schaefer	President and Chief Executive Officer
David A. Wheat	Executive Vice President and Chief Financial Officer
Jeffrey R. Burt	Executive Vice President, Financial Solutions
Steven B. Najjar	Executive Vice President, Health and Special Risk, General Counsel, and Secretary
Chris Shanahan	Executive Vice President, Mortality Solutions
Glen E. Martin	Senior Vice President, Treasurer

Board of Directors

Name	Location
Edward F. Bader	Marlborough, Connecticut
Dr. Wolf S. Becke	Hannover, Germany
Dennis D. Braziel	Orlando, Florida
William J. Kelty	Washington, D.C.
Dr. Klaus Miller	Hannover, Germany
Peter R. Schaefer	Orlando, Florida
Charles R. Scheper	Covington, Kentucky
Roland H. Vogel	Hannover, Germany
Ulrich M. Wallin	Hannover, Germany

Investment Committee

Glen E. Martin
Peter R. Schaefer
Roland H. Vogel
David A. Wheat

Audit Committee

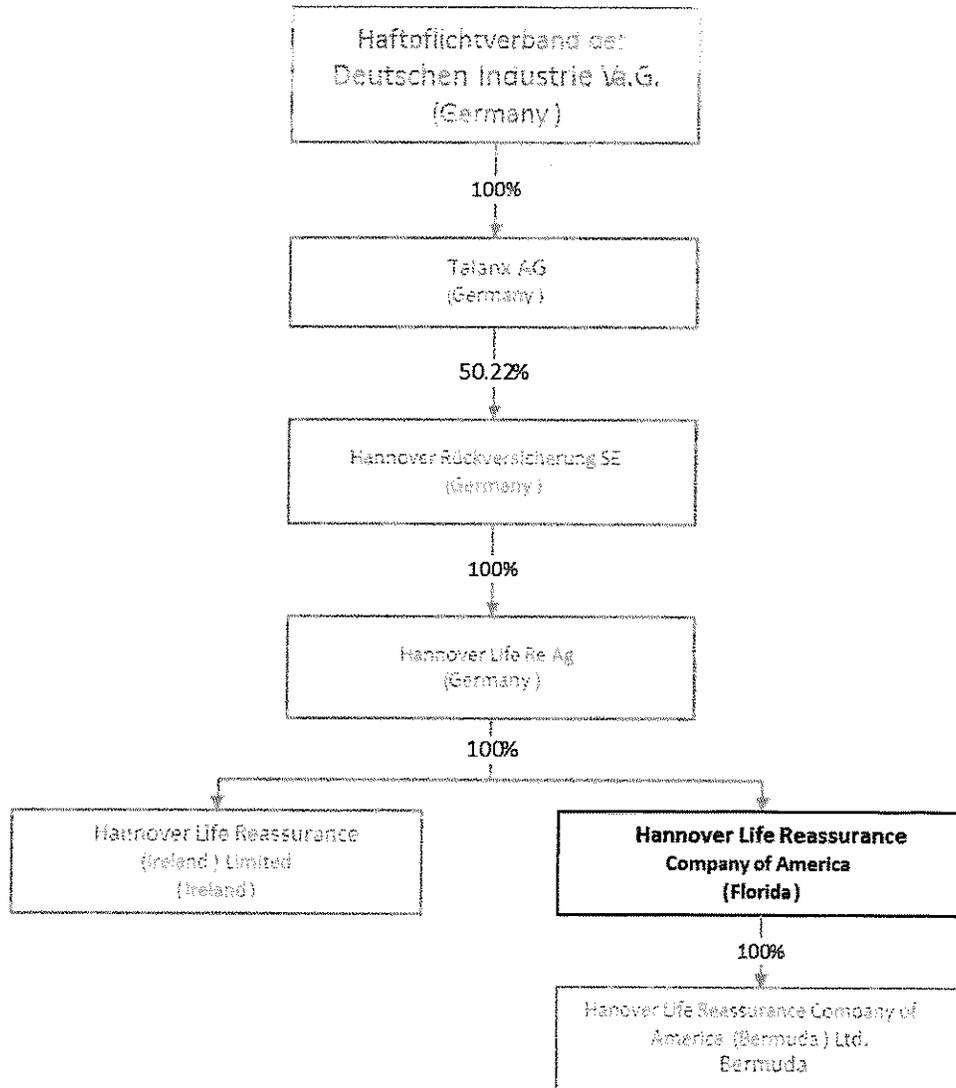
Edward F. Bader
Dennis D. Braziel
Charles R. Scheper
Roland H. Vogel

Compensation Committee

William J. Kelty
Klaus W. Miller
Peter R. Schaefer
Ulrich M. Wallin

The Company was a member of an insurance holding company system. Its latest holding company registration statement was filed with the State of Florida as required by Section 628.801, F.S., and Rule 690-143.046, Florida Administrative Code (F.A.C.), on April 1, 2015.

An abbreviated organizational chart reflecting a holding company system is shown below.



The following agreements were in effect with affiliates.

Investment Management Agreement

Effective December 1, 2010, the Company entered into an asset management agreement with an affiliate, Talanx Asset Management GmbH.

The Company had an agreement with Hannover Re and Hannover Re (Ireland) Limited for the reimbursement of amounts from Hannover Re to Deutsche Investment Management Americas Inc. ("DIMA") for services provided by DIMA in connection with deposits relating to intercompany modified coinsurance agreements effective January 1, 2011.

Master Administrative Services Agreement

Effective January 1, 2014, the Company provided administrative services to Hannover Life Reassurance (Ireland) Limited (HLR Ireland).

Effective April 1, 2014, later amended, the Company provided administrative services to Hannover Life Reassurance Company of America (Bermuda) LTD (HLRA Bermuda).

Management Services Agreement

Effective January 1, 2011, the Company provided administrative services to Hannover Re Real Estate Holdings, Inc.; Hannover Rück SE; and Hannover Life Reassurance Consultants, Inc.

Effective July 12, 2011, the Company provided administrative services to Hannover Finance, Inc.

Tax Sharing Agreement

Effective as of March 3, 2014, the results of the Company's operations along with Hannover Life Reassurance Company of America (Bermuda) Ltd (HLRA Bermuda) were included in a consolidated income tax return. Per the agreement, federal income taxes of the Company and HLRA Bermuda were allocated to the parties of the agreement as if it were filing on a separate return basis with credit given for the tax benefit of any net operating losses, capital losses and tax credits to the extent they reduced the consolidated federal income tax liability.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintained fidelity bond coverage of \$20,000,000 with a deductible of \$100,000 which adequately provided for the suggested minimum amount of coverage for the Company as recommended by the NAIC of \$3,500,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company offered to eligible employees benefits including health, vision and dental insurance, life insurance, short and long-term disability, health savings, educational assistance, and participation in a defined contribution plan, Section 401(k), sponsored by the Company.

TERRITORY AND PLAN OF OPERATION

The Company was exclusively engaged in the reinsurance of life and accident and health insurance policies in the United States, and relied on its ability to reinsure significant business with affiliates Hannover Rück SE, HLR Ireland, and Hannover Life Reassurance Bermuda Limited.

The Company was authorized to transact insurance in all 50 states, the District of Columbia, Puerto Rico, and Guam.

COMPANY GROWTH

The Company reported the following for years 2010 through 2014:

(Dollars are in millions.)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Premiums	\$ 388.9	\$ 359.9	\$ 399.0	\$ 412.4	\$ 287.6
Revenues	\$ (469.1)	\$ (60.4)	\$ (331.7)	\$ (1,288.6)	\$ 1,404.1
Net income	\$ 0.2	\$ 4.1	\$ 9.4	\$ 23.2	\$ 26.9
Shareholder dividends	\$ -	\$ -	\$ -	\$ -	\$ -
Paid in surplus received	\$ -	\$ -	\$ -	\$ -	\$ -
Admitted assets	\$ 3,451.4	\$ 4,296.2	\$ 4,617.8	\$ 4,528.0	\$ 4,346.7
Liabilities	\$ 3,284.8	\$ 4,120.9	\$ 4,436.8	\$ 4,331.1	\$ 4,134.6
Capital and surplus	\$ 166.6	\$ 175.3	\$ 181.0	\$ 196.9	\$ 212.1

REINSURANCE

The Company assumed and ceded reinsurance with other insurers and reinsurers, which also included some reinsurance participation in pools and associations.

SURPLUS NOTES

On December 31, 2014, the Company was obligated to Hannover Finance, Inc. (HFI), an affiliate, for surplus debentures in the amounts of \$25,000,000, \$25,000,000, and \$25,000,000, bearing interest 3.316%, 5.7018%, and 6.1%, respectively. All payments are subject to prior approval of the Florida Office of Insurance Regulation. The debt was included in the Company's surplus in accordance with Section 628.401, F.S., and Statement of Statutory Accounting Principles No. 41, and the notes were approved by the Office as required by Section 628.401(3), F.S.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, F.S., and with other jurisdictions as required:

Holder	Description	Par Value	Market Value
Florida	U.S. Treasury bond	\$ 525,000	\$ 573,174
Florida	U.S. Treasury bond	300,000	418,440
Florida	U.S. Treasury bond	175,000	244,090
Florida	U.S. Treasury bond	600,000	828,678
Total Florida deposits		\$1,600,000	\$2,064,382
Massachusetts	U.S. Treasury bond	200,000	278,960
Total deposits		\$1,800,000	\$2,343,342

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

Financial statements, as reported and filed by the Company with the Florida Office of Insurance Regulation, are reflected in the following:

Hannover Life Reassurance Company of America
Admitted Assets, Liabilities, Capital and Surplus
December 31, 2014

	Per Company	Examination Adjustments	Per Examination
Admitted Assets			
Bonds	\$ 2,189,145,321	\$ -	\$ 2,189,145,321
Mortgage loans on real estate	23,582,303	-	23,582,303
Real Estate	946,435	-	946,435
Cash, cash equivalents and short-term investments	29,893,325	-	29,893,325
Contract loans	1,780,524	-	1,780,524
	<u>\$ 2,245,347,908</u>	<u>\$ -</u>	<u>\$ 2,245,347,908</u>
Investment income due and accrued	43,304,319	-	43,304,319
Uncollected premiums and agents' balances	118,379,012	-	118,379,012
Amounts recoverable from reinsurers	1,782,470	-	1,782,470
Funds held by or deposited with reinsured companies	1,263,782,085	-	1,263,782,085
Other amounts receivable under reinsurance contracts	653,889,991	-	653,889,991
Current income tax recoverable	866,889	-	866,889
Net deferred tax asset	15,635,557	-	15,635,557
Electronic data processing equipment and software	2,473,005	-	2,473,005
Receivables from parent, subsidiaries and affiliates	1,115,466	-	1,115,466
Aggregate write-ins for other than invested assets	121,918	-	121,918
Total admitted assets	<u>\$ 4,346,698,620</u>	<u>\$ -</u>	<u>\$ 4,346,698,620</u>
Liabilities			
Aggregate reserve for life contracts	\$ 218,045,876	\$ -	\$ 218,045,876
Aggregate reserve for accident and health contracts	90,356,981	-	90,356,981
Contract claims - Life	82,985,889	-	82,985,889
Contract claims - Accident and health	64,400,346	-	64,400,346
Policyholders' dividends	64,816	-	64,816
Other amounts payable on reinsurance	554,041,189	-	554,041,189
Interest maintenance reserve	34,898,292	-	34,898,292
Commissions payable on reinsurance assumed	139,220,064	-	139,220,064
General expenses due or accrued	22,312,020	-	22,312,020
Taxes, licenses and fees due or accrued	738,147	-	738,147
Amounts withheld or retained by company as agent or trustee	76,702	-	76,702
Remittances and items not allocated	74,602,579	-	74,602,579
Interest on borrowed money	1,931,719	-	1,931,719
Asset valuation reserve	10,334,007	-	10,334,007
Reinsurance in unauthorized companies	348,375	-	348,375
Fund held under reinsurance with unauthorized reinsurers	2,832,038,166	-	2,832,038,166
Funds held under coinsurance	7,591,050	-	7,591,050
Aggregate write-ins for other liabilities	661,725	-	661,725
Total liabilities	<u>\$ 4,134,647,943</u>	<u>\$ -</u>	<u>\$ 4,134,647,943</u>
Capital and Surplus			
Common capital stock	\$ 2,500,000	\$ -	\$ 2,500,000
Surplus notes	75,000,000	-	\$ 75,000,000
Gross paid in and contributed surplus	110,404,632	-	110,404,632
Unassigned funds (deficit)	24,146,045	-	24,146,045
Total capital and surplus	<u>\$ 212,050,677</u>	<u>\$ -</u>	<u>\$ 212,050,677</u>
Total liabilities, capital and surplus	<u>\$ 4,346,698,620</u>	<u>\$ -</u>	<u>\$ 4,346,698,620</u>

Hannover Life Reassurance Company of America
Statement of Revenue and Expenses
(As reported by the Company)
Year Ended December 31, 2014

Premiums and annuity considerations for life and accident and health contracts	\$ 287,649,088
Net investment income	84,080,915
Amortization of Interest Maintenance Reserve	5,886,107
Commissions and expense allowances on reinsurance ceded	381,830,642
Reserve adjustments on reinsurance ceded	552,260,642
Aggregate write-ins for miscellaneous income	92,376,403
	\$ 1,404,083,797
Death benefits	\$ 151,267,889
Matured endowments	27,467
Annuity benefits	1,901,238
Disability benefits	148,913,269
Surrender benefits and withdrawals for life contracts	7,735,035
Interest and adjustments on contract or deposit-type contract funds	631,218
Payments on supplementary contracts with life contingencies	1,175,817
Increase in aggregate reserves for life and accident and health contracts	(5,185,309)
	\$ 306,466,624
Commissions and expense allowances on reinsurance assumed	390,070,148
General insurance expenses	74,053,035
Insurance taxes, licenses and fees	6,872,767
Aggregate write-ins for deductions	594,169,538
	\$ 1,371,632,112
Aggregate write-ins for deductions	32,451,685
Dividends to policyholders	149,907
Net gain from operations after dividends to policyholders and before federal income taxes	\$ 32,301,778
Federal and foreign income taxes incurred	5,096,843
Net investment gains	\$ 27,204,935
Net realized capital losses	(329,410)
Net income	\$ 26,875,525

Hannover Life Reassurance Company of America
Statement of Changes in Capital and Surplus
For The Five Years Ended December 31, 2014

Capital and surplus - December 31, 2009	\$ 140,765,765
Net income	217,329
Change in net unrealized capital gains or losses	733,113
Change in net deferred income tax	(6,518,295)
Change in nonadmitted assets	11,571,116
Change in liability for reinsurance in unauthorized and certified companies	489,547
Change in asset valuation reserve	(1,875,435)
Change in surplus notes	25,000,000
Change in surplus as a result of reinsurance	(497,050)
<u>Aggregate write-ins for gains or (losses)</u>	<u>(3,286,456)</u>
Capital and surplus - December 31, 2010	\$ 166,599,634
Net income	4,102,712
Change in net unrealized capital gains or losses	158,824
Change in net deferred income tax	11,722,411
Change in nonadmitted assets	(3,314,414)
Change in liability for reinsurance in unauthorized and certified companies	(1,452,894)
Change in asset valuation reserve	(4,001,835)
Change in surplus notes	(173,863)
Change in surplus as a result of reinsurance	(3,521,903)
<u>Aggregate write-ins for gains or (losses)</u>	<u>5,144,888</u>
Capital and surplus - December 31, 2011	\$ 175,263,560
Net income	9,378,324
Change in net unrealized capital gains or losses	124,726
Change in net deferred income tax	13,180,285
Change in nonadmitted assets	5,029
Change in liability for reinsurance in unauthorized and certified companies	1,247,289
Change in asset valuation reserve	(2,794,050)
Change in surplus notes	(3,282,169)
Change in surplus as a result of reinsurance	(3,547,998)
<u>Aggregate write-ins for gains or (losses)</u>	<u>(8,598,432)</u>
Capital and surplus - December 31, 2012	\$ 180,976,564
Net income	23,227,360
Change in net deferred income tax	(7,144,178)
Change in nonadmitted assets	4,989,040
Change in liability for reinsurance in unauthorized and certified companies	(130,732)
Change in asset valuation reserve	3,032,788
Change in surplus notes	(7,502,659)
Change in surplus as a result of reinsurance	(575,399)
Capital and surplus - December 31, 2013	\$ 196,872,784
Net income	26,875,525
Change in net unrealized capital gains or losses	(5,150)
Change in net deferred income tax	(4,475,977)
Change in nonadmitted assets	2,028,086
Change in liability for reinsurance in unauthorized and certified companies	(12,038)
Change in asset valuation reserve	(367,671)
Change in surplus notes	(8,260,710)
Change in surplus as a result of reinsurance	(604,172)
Capital and surplus - December 31, 2014	\$ 212,050,677
Examination adjustments	-
<u>Capital and surplus - December 31, 2014</u>	<u>\$ 212,050,677</u>

**Hannover Life Reassurance Company of America
Comparative Analysis of Changes in Capital and Surplus
December 31, 2014**

The following is a reconciliation of capital and surplus between that reported by the Company and as determined by the examination.

Capital and surplus, December 31, 2014 - per annual statement				\$ 212,050,677
	<u>Per Company</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital & Surplus</u>	
Total assets	\$4,346,698,620	\$4,346,698,620	\$ -	
Total liabilities	\$4,134,647,943	\$4,134,647,943	\$ -	-
Capital and surplus, December 31, 2014 - per examination				<u>\$ 212,050,677</u>

SUBSEQUENT EVENTS

On March 9, 2015, the Company paid an ordinary cash stockholder dividend to its parent, Hannover Life Re AG, in the amount of \$20,000,000. On March 10, 2015, the Company received an additional capital contribution from its parent in the amount of \$20,000,000. On February 24, 2016, the Company paid an ordinary cash stockholder dividend to its parent in the amount of \$15,000,000.

The Company established a Vermont subsidiary, Sand Lake Re, Inc. (SLRE), during the third quarter of 2015. SLRE did not transact any business during 2015 and the Company did not have any non-insurance transactions with the subsidiary during 2015. SLRE was formed as a Vermont domiciled special purpose insurance company and received its Certificate of Authority from the State of Vermont Department of Financial Regulation on January 4, 2016. The entity was established for the purpose of ceding business in compliance with the NAIC's new actuarial guideline, known as "AG 48" which became effective January 1, 2015. In 2016, the Company made an initial investment in SLRE of \$2,000,000 and SLRE received additional capital in the form of a surplus debenture totaling \$5,000,000 from Hannover Re (Ireland) Limited. Pursuant to SLRE's Certificate of Authority and approved by FLOIR, the Company will recapture a block of term business originally ceded to HRI and cede the business to SLRE in compliance with AG 48 during the first quarter of 2016.

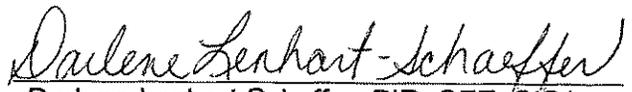
CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Hannover Life Reassurance Company of America consistent with the insurance laws of the State of Florida.

At December 31, 2014, the Company's capital and surplus was \$212,050,677 and the Company was in compliance with the minimum capital and surplus requirement of Section 624.408, F.S.

In addition to the undersigned, the following individuals participated in the examination: Kerry Krantz, Actuary; Thomas Ciavarella, Actuary; Luke Stavenau, Financial Specialist and AGI Services.

Respectfully submitted,


Darlene Lenhart-Schaffer, PIR, CFE, CISA

Chief Examiner
Florida Office of Insurance Regulation