HANNOVER LIFE RE OF AUSTRALASIA LTD
ABN 37 062 395 484

FINANCIAL REPORT
YEAR ENDED 31 DECEMBER 2019

CONTENTS

FINANCIAL REPORT

Company Particulars

Head Office

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Directors

P. R. Gaydon, BCom, CA, MAICD, Chairman
C.J. Chèvre, MSc, Deputy Chairman
S.G. Everingham, B.Ec LLM (Tax), CPA, GAICD
J J Henchoz, BA PolSc, MBA
R.J. Wylie, BA
G. Obertopp, Actuary (DAV), Managing Director

Executive

G. Obertopp, Actuary (DAV), Managing Director
J. Song, BCom, FIAA, FNZSA - Appointed Actuary – Appointed March 2019
B. Christie, Chief Risk & Compliance Officer,B. Bus (UTS), MBA (MGSM), CA
M. de Villiers, BSc (Hons), MBA, FIAA, General Manager (Business Development)
D.N. Tallack, BEc, CPA, AGIA, General Manager (Finance) & Company Secretary

Bankers

National Australia Bank Limited
Westpac Banking Corporation
Macquarie Bank Limited
Bank of New Zealand
Australia and New Zealand Banking Group Limited
HSBC Bank Australia Limited

Solicitors

Minter Ellison

Auditors

PricewaterhouseCoopers

Directors' Report

For the year ended 31 December 2019

The Directors have pleasure in presenting their report together with the financial report of Hannover Life Re of Australasia Ltd (the entity) for the year ended 31 December 2019 and the auditor's report thereon.

Directors

The Directors of the entity at any time during or since the end of the financial year are:

Mr Peter Richard Gaydon, BCom, CA, MAICD
Chairman
Independent Non-Executive Director
Age 69

Mr Gaydon was previously employed by the international accounting firm Ernst & Young for over 40 years and was client service partner to a number of insurance companies in Australia. Mr Gaydon was also involved in insurance industry development activity across Asia and was with Ernst & Young in Japan for almost 6 years. Mr Gaydon is currently a Director of Magenta Shores Golf Club.
Member of the Board Audit, Board Risk and Board Remuneration Committees.
Director and Chairman since 2016.

Mr Claude Jacques Chèvre, MSc
Deputy Chairman
Non-Executive Director
Age 52

Mr Chèvre is a member of the Executive Board of Hannover Rück SE.
Member of the Board Remuneration Committee.
Director since 2011 and Deputy Chairman since 2012.

Ms Susan Granville Everingham, B.Ec LLM (Tax), CPA, GAICD
Independent Non-Executive Director
Age 60

Ms Everingham has held a number of senior positions within Henry Davis York, BT Financial Group, Commonwealth Bank and a number of law firms and has had over 32 years experience in the financial services industry. Ms Everingham has extensive experience as a Director and currently sits on the Board of Destination Southern NSW Ltd and Equity Trustees Superannuation Ltd.

Chair of the Board Audit and Board Remuneration Committees and member of the Board Risk Committee.
Director since 2017.

Directors’ Report

For the year ended 31 December 2019

Mr Jean Jacques Henchoz, BA PolSc, MBA
Appointed as Non Executive Director on 8 May 2019
Age 55

Mr Henchoz is Chair of the Executive Board of Hannover Rück SE and a member of various other Boards within the Hannover Re Group of companies.

Mr Gerd Obertopp, Actuary (DAV)
Managing Director
Age 58

Mr Obertopp has been in the Reinsurance industry for over 32 years, and has previously been Managing Director of entities in the Hannover Re Group in South Africa and Hong Kong. Mr Obertopp is also a member of the FSC Life Board Committee.
Managing Director since 2015.

Mr Ulrich Wallin
Resigned as a Non-Executive Director on 8 May 2019
Age 65

Mr Wallin was Chair of the Executive Boards of Hannover Rück SE and E + S Rückversicherung AG.
Director since 2009.

Mr Robert John Wylie, BA
Independent Non-Executive Director
Age 70

Mr Wylie has previously held a number of senior positions within the insurance industry and has had over 37 years experience in the financial services industry. Mr Wylie has extensive experience as a Director and is currently a Director of Fubon Hyundai Life Insurance, Korea.
Chair of the Board Risk Committee and member of the Board Audit Committee.
Director since 2017.

In accordance with the entity's Constitution, at least one third of Directors (or the number nearest one third) retire from office at each annual general meeting. Retiring Directors may nonetheless be available for re-election at that annual general meeting, provided that their term of office has been no longer than ten years in total.

Company Secretary

Mr David Tallack BEc, CPA, AGIA has held the position of Company Secretary since 2006. Mr Tallack is a member of Governance Institute of Australia and holds a Graduate Diploma of Applied Corporate Governance.

Directors' Report

For the year ended 31 December 2019

Directors' meetings

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the entity during the financial year are:

Director	Directors' Meetings		Board Audit Committee Meetings		Board Risk Committee Meetings		Board Remuneration Committee	
	A	B	A	B	A	B	A	B
*# Mr P Gaydon	3	3	2	2	3	4	3	3
# Mr C Chèvre	3	3	-	-	-	-	3	3
*# Ms S Everingham	3	3	2	2	4	4	3	3
Mr Henchoz	2	2	-	-	-	-	-	-
Mr U Wallin	1	1	-	-	-	-	-	-
* Mr R Wylie	3	3	2	2	4	4	-	-
Mr G Obertopp	3	3	-	-	-	-	-	-

A - number of meetings attended
B - number of meetings held during the time the Director held office during the year
* - member of Board Audit and Board Risk Committee
# - member of Board Remuneration Committee

Principal activities

The principal activities of the entity during the course of the financial year were the transaction of life reinsurance and life insurance business. The entity provides risk carrying and associated services to insurance offices transacting life and disability insurance risk business. It also provides risk carrying and associated services to employers and trustees of superannuation plans in respect of group life insurances and retail policyholders via direct marketed distribution arrangements.

Review and results of operations

The entity recorded a loss before tax for the 2019 financial year of $0.9m (2018: loss of $4.0m). The loss was primarily due to unfavourable claims experience on the reinsurance of individual policy portfolios. The entity also incurred losses on guaranteed premium products as a result of the reduction in bond yields during the year.

The entity generated substantial gains on its fixed interest portfolios, due to decreases in bond yields. The impact of lower bond yields on the entity's fixed interest portfolios was, however, largely offset by the entity's interest rate sensitive policy liabilities.

Directors' Report

For the year ended 31 December 2019

Significant changes in the state of affairs

On 1 November 2019, the entity entered into a material reinsurance contract. The transaction is deemed to be significant due to the increase in the entity's in-force reinsurance portfolio. The transaction is consistent with the entity's underlying reinsurance activities.

Apart from above, in the opinion of the Directors there were no other significant changes in the state of affairs of the entity that occurred during the financial year under review that are not otherwise dealt with in this report or financial statements.

Dividends

The Company has not declared or recommended a dividend for the reporting year (2018: Nil).

Events subsequent to reporting date

In December 2019, APRA announced a range of sustainability measures to address the poor performance of individual disability income insurance (IDII). Measures include a supervisory adjustment to the Prudential Capital Requirement of all life insurers with exposure to IDII. The entity is a reinsurer of IDII and consequently it has received a supervisory adjustment from APRA which will become effective from 31 March 2020.

On 11 March 2020, the World Health Organization (WHO) declared COVID-19 a pandemic. In response, the entity activated various stages of its Pandemic Plan. The entity's claim experience from the pandemic will be linked to the Australian and New Zealand infection and mortality rates and the impact of these on the economies of these countries, however, the extent of impact is highly uncertain at this time.

There has not arisen any other item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect significantly the operations of the entity, the results of those operations, or the state of affairs of the entity, in future financial years.

Likely developments

The entity will continue to pursue its objective of providing insurance and reinsurance products to clients and policyholders in a manner that generates beneficial outcomes for those clients and policyholders. The entity will also continue to seek appropriate returns on shareholders' equity and long term growth in its business consistent with increased profits on a year to year basis.

Environmental regulation

The operations of the entity are not subject to any particular and significant environmental regulation under any law of the Commonwealth of Australia or of any States or Territories. The entity has not incurred any liability (including rectification costs) under any environmental legislation.

Directors' Report

For the year ended 31 December 2019

Indemnification and insurance of Directors and Officers

Indemnification

In accordance with the entity's Constitution, the entity has agreed to indemnify all current and past Directors and Officers of the entity to the fullest extent permitted by the law, against a liability incurred by that person as a Director or Officer of the entity including, without limitation, legal costs and expenses incurred in defending an action.

No such insurance cover has been provided for the benefit of any external auditor of the entity.

Insurance Premiums

Since the end of the previous financial year, the entity has paid insurance premiums in respect of Directors' and Officers' liability and legal expenses insurance contracts for current and former Directors and Officers including Executive Officers of the entity. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and Officers' Liability insurance contract, as such disclosure is prohibited under the terms of the contract.

Lead Auditor's Independence Declaration

The Lead Auditor's Independence Declaration is included after the Corporate Governance Statement and forms part of the Directors' Report for the financial year.

Rounding off

The entity is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that Instrument, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Auditor

PricewaterhouseCoopers, Chartered Accountants, continue in office in accordance with section 327 of the *Corporations Act 2001*.

Signed in accordance with a resolution of the Directors.

Gaydon.

P. R. Gaydon
Chairman

Sydney
18 March 2020

Corporate Governance Statement

For the Year Ended 31 December 2019

This Statement outlines the main corporate governance practices in place throughout the financial year, unless otherwise stated.

Board of Directors

Role of the Board

The Board, should act in accordance with the *Life Insurance Act 1995* and the *Insurance (Prudential Supervision) Act 2010* (jointly "the Life Acts"), has a duty to take reasonable care and use due diligence in relation to the interests of the owners and prospective owners of policies referrable to the Statutory Funds of the entity.

The Board needs to be mindful of its duty to act in the interest of policy holders as well as act in interests of the entity's shareholder.

To fulfil these roles, the Board is responsible for the overall Corporate Governance of the entity including:

- approving the entity's strategic direction;
- establishing goals for management and monitoring the achievement of these goals;
- internal controls and management information systems;
- appraising and monitoring financial and other reporting;
- capital management;
- promoting and monitoring the entity's risk culture; and
- risk management, including tax risk management.

Composition of the Board

The names of the Directors of the entity are set out in the Directors' Report. The Board currently comprises six Directors (of which three are independent Non-Executive Directors) with a broad range of expertise and experience appropriate to the entity's business and the industry which it operates in. In accordance with the entity's Constitution, at least one third of Directors (or the number nearest one third) retire from office at each annual general meeting. Retiring Directors may nonetheless be available for re-election at that annual general meeting, provided that their term of office has been no longer than ten years in total.

Board Processes

To assist it in the execution of its responsibilities, the Board has established a Board Charter and Board Audit, Board Risk, Fit & Proper Committee, and Board Remuneration Committees with their own Charters.

The Board delegates the operation and administration of the entity to the Managing Director who is accountable to the Board.

The full Board currently holds three scheduled meetings each year, plus any other meetings at such other times as may be necessary to address any specific significant matters that may arise. The agenda for meetings include financial reports, technical and investment reports and any legal and statutory matters if required. The Board Book is circulated in advance and Executives are available to be involved in Board discussions.

Corporate Governance Statement

For the Year Ended 31 December 2019

Recognition and Management of Risk

The Board has established a framework for identifying areas of significant business risk and maintaining appropriate and adequate controls and monitoring procedures, in addition to ensuring compliance with legal and regulatory requirements. The framework is documented in the Board's Risk Management Strategy. The Board is responsible for reviewing and overseeing the Strategy and ensuring the appropriate corporate risk culture governance structure.

The Risk Management Strategy operates within the context of the Board's documented risk appetite.

The tax risk management strategy operates through a Tax Risk Management Policy within the Board's set Tax Risk Appetite to ensure tax compliance and escalation of tax issues by management.

Adequacy of Capital

The Board is responsible for ensuring that the entity, and each statutory fund, has adequate capital to meet its obligations under a wide range of circumstances. The Board has adopted a Target Capital position and an Internal Capital Adequacy Assessment Process (ICAAP) that is documented in the Board's ICAAP Summary Statement.

Board Audit Committee

The responsibilities of the Board Audit Committee (Audit Committee) include reviewing compliance with the entity's accounting policies and internal control framework and the industry's regulatory environment and advising the Board of Directors on the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in the financial report. In addition, the performance of the auditors and the adequacy of the internal audit plans are reviewed by the Audit Committee.

The Audit Committee has a documented Charter, approved by the Board. The Chairperson may not be the Chairperson of the Board.

The Managing Director, the Company Secretary, Appointed Actuary, Internal Audit and Appointed Auditor are invited to Audit Committee meetings. The Appointed Auditor meets at least once a year with the Audit Committee without management being present.

Board Risk Committee

The Board Risk Committee (Risk Committee) is responsible for assisting the Board of Directors through its oversight of the implementation and operation of the Company's Risk Management Framework.

The Risk Committee has a documented Charter approved by the Board. The Chairperson may not be the Chairperson of the Board.

The Managing Director, Chief Risk Officer, Company Secretaries, Appointed Actuary, Senior Corporate Actuary, Appointed Auditor and Internal Auditor are invited to the Risk Committee meetings.

Corporate Governance Statement

For the Year Ended 31 December 2019

Board Remuneration Committee

The Board Remuneration Committee (Remuneration Committee) is responsible for conducting regular reviews of the Remuneration Policy, making recommendations to the Board on changes to the Remuneration Policy and making annual recommendations to the Board on the remuneration of the Managing Director, direct reports to the Managing Director and any other person whose activities may, in the Board's opinion, affect the financial soundness of the Company.

The Remuneration Committee has a documented Charter approved by the Board. The Remuneration Committee is selected from the non-executive directors of the Board with a minimum of three members. The Chairperson of the Remuneration Committee must be an independent director with the majority of members being independent directors.

Remuneration of the Board

All Directors' remuneration is determined on a bi-annual basis by the shareholder.

Fit and Proper Policy

The Board has adopted a Fit and Proper Policy under which the Board assesses annually the responsible persons (including individual directors) of the entity for their fitness and proprietary in holding their responsible person positions.

Financial supervision

The Life Acts govern the principal activities of the entity and identify responsibilities of the Board with respect to operations. In addition, the entity is required to comply with the provisions of the *Corporations Act 2001*. The Board seeks to discharge its responsibilities in a number of ways:

- an annual business plan and budget is reviewed and approved by the Board;
- three Board meetings are held to monitor performance against budget and financial benchmarks;
- Directors are responsible for ensuring financial statements that are presented to the parent entity and regulatory bodies are prepared in accordance with Australian Accounting Standard AASB 1038 *Life Insurance Contracts*, the *Financial Sector (Collection of Data) Act 2001* and the *Corporations Act 2001*;
- the entity's Appointed Actuary is responsible for investigating the financial condition of the entity including the valuation of policy liabilities, solvency and capital adequacy requirements in accordance with the standards applied by the Australian Prudential Regulation Authority (APRA) and for providing advice to Executive Management and the Board as required under Prudential Standards and the Life Acts;
- Investment Guidelines are approved by the Board. Investment management decisions in accordance with the requirements of the Guidelines are delegated to an external investment manager in accordance with an Investment Management Agreement; and

- adoption of various policies such as the Risk Appetite Statement, Risk and Capital Management Guideline, Target Capital, ICAAP Summary Statement, Remuneration Policy, Tax Risk Management Policy and Fit & Proper Policy.

Ethical standards

Code of Conduct

The Company has adopted a Code of Conduct that requires all directors, managers and employees to act with the utmost integrity and objectivity in their dealings with business partners, regulators, the community and employees, striving at all times to enhance the reputation and performance of the entity.

Conflict of interest

Directors are required to keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the entity. Details of Director related entity transactions with the entity are set out in the notes to the financial report.

Auditor's Independence Declaration

As lead auditor for the audit of Hannover Life Re of Australasia Ltd for the year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

R Cooper
Partner
PricewaterhouseCoopers

Sydney
18 March 2020

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Statement of Comprehensive Income
For the year ended 31 December 2019

	Note	2019 $'000	2018 $'000
Revenue			
Life insurance contract premium revenue		1,225,911	1,090,050
Outwards reinsurance expense		(725,415)	(606,423)
Net life insurance premium revenue		500,496	483,627
Interest income		74,609	76,130
Net fair value gain on financial assets at fair value through profit or loss		110,677	12,584
Other income	7(a)	1,401	1,893
Total revenue and other income		687,183	574,234
Claims and expenses			
Life insurance contract claims expense		(720,378)	(728,906)
Reinsurance recoveries revenue		696,505	630,263
Net life insurance claims expense		(23,873)	(98,643)
Change in life insurance contract liabilities	8(a)	739,552	(92,687)
Change in reinsurer's share of life insurance contract liabilities	8(a)	(992,920)	(43,496)
		(277,241)	(234,826)
Other expenses	7(b)	(409,412)	(343,369)
Finance costs paid/payable for lease liability	20	(1,397)	-
Net claims and expenses		(688,050)	(578,195)
Loss before income tax		(867)	(3,961)
Income tax expense	16(a)	(9,971)	(6,691)
Loss for the year attributable to the entity	7(c)	(10,838)	(10,652)
Other comprehensive income			
Items that may be reclassified to profit or loss			
Foreign currency translation reserve movement		304	549
Items that will not be reclassified to profit or loss			
Defined benefit plan reserve movement		(1,018)	(1,694)
Income tax on defined benefit plan reserve movement	16(a)	305	508
Total comprehensive income for the year		(11,247)	(11,289)

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position
as at 31 December 2019

	Note	2019 $'000	2018 $'000
Assets			
Cash and cash equivalents		130,542	93,676
Trade and other receivables	9	316,164	134,226
Financial assets at fair value through profit or loss	18	2,450,568	2,208,718
Property, plant and equipment	10	4,611	4,545
Current tax assets		1,012	-
Deferred tax assets	16(b)	36,798	47,635
Intangible assets	12	7,130	5,189
Right of use assets	20	31,614	-
Total assets		2,978,439	2,493,989
Liabilities			
Trade and other payables	11	59,910	62,670
Lease liability	20	35,148	-
Employee benefits	13	8,530	7,698
Current tax liability		-	958
Deferred tax liability	16(b)	-	845
Gross life insurance contract liabilities	8(a)	1,241,234	1,795,249
Reinsurers' share of life insurance contract liabilities	8(a)	1,149,190	156,545
Total liabilities		2,494,012	2,023,965
NET ASSETS		484,427	470,024
EQUITY			
Contributed equity	14(a)	105,000	80,000
Reserves		56,846	57,255
Retained profits		322,581	332,769
TOTAL EQUITY		484,427	470,024

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity
For the year ended 31 December 2019

	Share Capital	Translation Reserve	Defined Benefit Reserve	Other Reserve	Retained Profits	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2019	80,000	4,151	(6,896)	60,000	332,769	470,024
Change in accounting policy due to AASB 16 (Note 20)	-	-	-	-	650	650
Restated balance at 1 January 2019	80,000	4,151	(6,896)	60,000	333,419	470,674
Loss for the year	-	-	-	-	(10,838)	(10,838)
Other comprehensive income						
Foreign currency translation	-	304	-	-	-	304
Revaluation of defined benefit provision	-	-	(713)	-	-	(713)
Total comprehensive income for the year	-	304	(713)	-	(10,838)	(11,247)
Issuance of fully paid up shares	25,000	-	-	-	-	25,000
Dividend paid	-	-	-	-	-	-
Balance at 31 December 2019	105,000	4,455	(7,609)	60,000	322,581	484,427

	Share Capital	Translation Reserve	Defined Benefit Reserve	Other Reserve	Retained Profits	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2018	80,000	3,602	(5,710)	60,000	358,421	496,313
Loss for the year	-	-	-	-	(10,652)	(10,652)
Other comprehensive income						
Foreign currency translation	-	549	-	-	-	549
Revaluation of defined benefit provision	-	-	(1,186)	-	-	(1,186)
Total comprehensive income for the year	-	549	(1,186)	-	(10,652)	(11,289)
Issuance of full paid up shares	-	-	-	-	-	-
Dividend paid	-	-	-	-	(15,000)	(15,000)
Balance at 31 December 2018	80,000	4,151	(6,896)	60,000	332,769	470,024

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes

Statements of Cash Flows
for the year ended 31 December 2019

	Note	2019 $'000	2018 $'000
Cash flow from operating activities			
Premium received		1,178,353	1,097,081
Retrocession premium paid		(724,227)	(644,758)
Policy payments		(720,098)	(708,809)
Commissions paid		(1,409,258)	(284,372)
Reinsurance and other recoveries received		1,792,529	634,914
Portfolio transfer		184,987	-
Reinsurer's share of portfolio transfer		(175,737)	-
Payments to suppliers and employees		(52,356)	(48,461)
Income tax refund received		-	404
Income tax paid		(2,302)	(4,136)
Interest received		75,179	78,823
Other revenue received		1,401	356
Net cash inflow from operating activities	17	148,471	121,041
Cash flow from investing activities			
Payments for financial assets at fair value through profit or loss		(816,260)	(951,775)
Proceeds from sale of financial assets at fair value through profit or loss		685,715	813,105
Payments for property, plant & equipment		(513)	(4,287)
Payments for system development costs		(4,600)	(2,975)
Proceeds from sale of property, plant and equipment		-	13,365
Net cash outflow from investing activities		(135,658)	(132,567)
Cash flow from financing activities			
Dividends paid		-	(15,000)
Issued fully paid up share capital		25,000	-
Lease payments		(998)	-
Net cash inflow/(outflow) from financing activities		24,002	(15,000)
Net increase/(decrease) in cash held		36,814	(26,526)
Cash and cash equivalents at the beginning of the financial year		93,676	119,933
Effects of exchange rate changes on the opening balance of cash and cash equivalents		52	269
Cash and cash equivalents at the end of the financial year	17	130,542	93,676

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Hannover Life Re of Australasia Ltd

Notes to the Financial Statements
For the Year Ended 31 December 2019

Contents of the Notes to the Financial Statements

1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of this Financial Report are set out below. These policies have been consistently applied, unless otherwise stated.

(a) Basis of presentation

The entity is incorporated and domiciled in Australia. The registered office of the entity is Tower 1, Level 33, 100 Barangaroo Avenue, Sydney, Australia 2000. The entity is a public company limited by shares. The entity is a for-profit entity for the purpose of preparing financial statements. This Financial Report includes the financial results and position of the entity's New Zealand Branch.

This Financial Report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) including Australian Interpretations issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. This Financial Report complies with International Financial Reporting Standards (IFRS) and interpretations issued by the International Accounting Standard Board (IASB).

This Financial Report is prepared in accordance with the fair value basis of accounting with certain exceptions as described in the accounting policies below.

The preparation of this Financial Report in conformity with AASBs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Report have been disclosed in Note 2.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial period amounts and other disclosures.

This Financial Report is presented in Australian Dollars, which is the entity's functional currency. The entity is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that Instrument, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This Financial Report is prepared on a liquidity basis as this provides more reliable and relevant information.

This Financial Report was authorised for issue by the Board of Directors on 18 March 2020. The Directors have the power to amend and reissue this Financial Report.

(b) Principles for life insurance business

The life insurance operations of the entity are conducted within separate statutory funds as required by the *Life Insurance Act 1995* (Life Act) and are reported in aggregate with the shareholder's fund in the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows. The life insurance operations of the entity comprise of the insurance and reinsurance of individual and group death, total and permanent disability, trauma and income protection business in Australia and New Zealand.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness. The insured benefit is not linked to the market value of the investments held by the entity, and the financial risks are substantially borne by the entity.

The life insurance operations consist of non-investment linked business only. All business written by the entity is non-participating and all profits and losses from non-participating business are allocated to the shareholder.

Monies held in the statutory funds are subject to the distribution and transfer restrictions and other requirements of the *Life Insurance Act 1995* and the *Insurance (Prudential Supervision) Act 2010.*

(c) Premium and claims

Premium and claims have been classified as revenue and expense respectively as the entity only issues life insurance contract risk products. Premium is recognised as revenue on an accruals basis. Claims are recognised when the liability to the policy owner under the policy owner contract has been established or upon notification of the insured event depending on the type of claim.

(d) Liabilities

(i) Life Insurance contract liabilities

Life insurance contract liabilities are measured at net present values of estimated future cash flows or, where the result would not be materially different, as the accumulated benefits available to policyholders. Applicable reinsurance recoveries are brought to account on the same basis as life insurance contract liabilities. Changes in life insurance contract liabilities are recognised in the Statement of Comprehensive Income in the financial year in which they occur. Profit margins are released over each reporting period in line with the services that have been provided. The balance of the planned profit margins is deferred by including them in the value of the life insurance contract liabilities. Further details of the actuarial assumptions used in these calculations are set out in Note 3.

(ii) Trade and other payables

Trade and other payables are measured at book value, which is the best estimate of fair value. Trade payables are non interest bearing and settled on normal commercial terms.

(e) Assets backing life insurance contract liabilities

The entity has determined that all assets held within its statutory funds are assets backing life insurance contract liabilities. The measurement of these liabilities incorporates current information and measuring the financial assets backing these life insurance contract liabilities at fair value eliminates or significantly reduces a potential measurement inconsistency which would arise if the financial assets were classified as available for sale or measured at amortised cost. In addition, the use of fair value with changes in fair value taken to profit and loss is consistent with key elements of the entity's risk management framework. Consequently all financial assets within the statutory funds are measured at fair value as at the reporting date.

Financial assets

(i) *Recognition and Derecognition*

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the entity commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the entity has transferred substantially all the risks and rewards of ownership.

(ii) *Valuation*

Upon initial recognition, financial assets are designated at fair value through profit or loss. Gains and losses on subsequent measurement to fair value or on sale are recognised through profit or loss. Fair value is determined as follows:

- Cash assets are carried at face value of the amounts deposited. The carrying amounts of cash assets approximate their fair value. For the purpose of the Statement of Cash Flows, cash includes cash on hand, deposits held at call with banks and investments in money market investments.

- The fair value of listed fixed interest securities is taken as the bid price of the instruments.

- Trade and other receivables are carried at book value, which is the best estimate of fair value, as they are settled within a short period.

(iii) *Impairment of financial assets*

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The financial assets are assessed collectively in groups that share similar risk characteristics.

Impairment losses are recognised through profit or loss.

(iv) *Interest Income*

Interest income is recognised using the effective interest rate method.

(f) Shareholder's fund assets

Financial assets which do not back life insurance liabilities are designated at fair value through profit or loss. Plant and equipment are initially recorded at cost and depreciated on either a straight line or diminishing value basis over their estimated useful lives. The depreciation is charged to the profit or loss. Depreciation rates and methods are reviewed annually. When changes are made, adjustments are reflected prospectively in current and future periods only.

(g) Deferred acquisition costs

Acquisition costs relate to the fixed and variable costs incurred in acquiring new business during the financial year. They do not include the general growth and development costs incurred. The actual acquisition costs incurred are recorded in the Statement of Comprehensive Income.

The Appointed Actuary, in determining the life insurance contract liabilities, takes account of the deferral of policy acquisition costs and assesses the value and future recovery of these costs. These deferred amounts are recognised in the Statement of Financial Position as a reduction in life insurance contract liabilities and are amortised through the Statement of Comprehensive Income over the period that they are deemed to be recoverable. The impact of this deferral is reflected in "change in life insurance contract liabilities" in the Statement of Comprehensive Income.

The acquisition costs deferred are determined as the actual costs incurred subject to an overall limit that the value of future profits at inception cannot be negative. Acquisition losses are recognised at inception to the extent the latter situation arises.

(h) Contracts without substantial insurance risk transfer

The entity has contracts of insurance that do not involve the transfer of substantial insurance risk. These contracts are dealt with in accordance with AASB 15 *Revenue from Contracts with Customers* and any premium received or claims paid in relation to these contracts are not reported as insurance revenue.

(i) Outwards reinsurance expense

Premium ceded to reinsurers in exchange for reinsurance protection is expensed in profit or loss from the attachment date in accordance with the reinsurance contracts' expected pattern of incidence of risk.

(j) Income Tax

The income tax expense or credit for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the entity and its branch operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Report. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences, unused tax losses and unused tax credits.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income in which case the tax is also recognised in other comprehensive income.

(k) Recoverability of deferred tax assets

The entity assesses the recoverability of deferred tax assets at each reporting date. In making this assessment, the entity considers in particular the future business plans, history of generating taxable profits, whether the unused tax losses resulted from identifiable causes which are unlikely to recur and if any tax planning opportunities exist in the year in which the taxable losses can be utilised.

(l) Cash and cash equivalents

Cash and cash equivalents include cash at bank and on hand and deposits at call which are readily convertible to cash on hand and which are used for operational cash requirements. Amounts in cash and cash equivalents are the same as those included in the statement of cash flows.

The reconciliation of profit after income tax to cash flows from operating activities is included in note 17.

(m) Trade and other receivables

Receivables are recognised at fair value and are subsequently measured at amortised cost less any impairment. A provision for impairment is established when there is objective evidence that the entity will not be able to collect all amounts due according to the original terms of the receivable. Any increase or decrease in the provision for impairment is recognised in profit or loss within underwriting expenses.

(n) Intangibles

This is the cost of acquired software which is capitalised and amortised over periods of up to 4 years, reflecting the period during which the entity is expected to benefit from the use of the software.

(o) Translation of foreign operations

The Statement of Comprehensive Income and Statement of Financial Position of the New Zealand Branch that has New Zealand dollars as the functional currency different from the entity's presentation currency of Australian dollars are translated into Australian dollars as follows:

- Income, expenses and other current period movements in the Statement of Comprehensive Income are translated at the exchange rate at the beginning of each month; and
- Statement of Financial Position items are translated at the closing balance date rates of exchange.

In the Financial Report, exchange differences arising from the translation of the foreign operations are taken to equity and recognised in other comprehensive income. When a foreign operation is sold in whole or part and retained profits are repatriated, exchange differences on translation from the New Zealand Branch's functional currency to the entity's functional currency of Australian dollars are reclassified out of other comprehensive income and recognised in profit or loss as part of the gain or loss on sale.

(p) Basis of expense apportionments

Apportionments under Part 6, Division 2 of the *Life Insurance Act 1995* have been made as set out below.

Expenses are apportioned between statutory funds as follows:

- Expenses directly identifiable to a particular fund are apportioned to that fund;
- All expenses which are staff related are allocated in proportion to the estimated time involved in each fund;
- Other expenses are allocated in proportion to appropriate cost drivers.

All expenses, excluding investment management fees which are directly identifiable, have been apportioned between policy acquisition and policy maintenance having regard to the objective when incurred. Expenses identifiable as policy acquisition, such as initial commission, have been allocated in accordance with accounts received from cedants. All other expenses have been apportioned between policy acquisition and policy maintenance according to appropriate cost drivers and an analysis of the time spent by each employee.

All expenses relate to non-participating business as the entity only writes this category of business

(q) Leases

The entity has changed its accounting policy for leases where the entity is the lessee and disclosed the impact of this change.

Until 31 December 2018, the lease in which a significant portion of the risks and rewards of ownership were not transferred to the entity as lessee was classified as an operating lease.

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 the use by the entity.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreement does not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date; and
- Payments of penalties for terminating the lease, if the lease term reflects the entity exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the lessee's incremental borrowing rate, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determinate the incremental borrowing rate, the entity:

- Uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the entity, if there is no recent third party financing; and
- Makes adjustments specific to the lease (such as term).

Lease payments are allocated between principal 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.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs; and
- Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

(r) New standards and interpretations not yet adopted

The entity's investments are designated as at fair value through profit or loss on initial recognition and are subsequently remeasured to fair value at each reporting date. The entity plans to defer the adoption of AASB 9 *Financial Instruments* to align with the implementation of AASB 17 *Insurance Contracts*, which is permissible under the standard.

AASB 17 *Insurance Contracts* has an effective date of 1 January 2021, however, the effective date is expected to be deferred to 1 January 2022 following a tentative decision of the International Accounting Standards Board to delay the mandatory implementation date by one year. The entity will implement the standard in the effective year with the relevant comparative period of the year commencing 1 January. An impact analysis is being completed by the entity.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(s) New Standards and interpretation adopted

The entity has applied AASB 16 for the first time for its annual reporting period commencing 1 January 2019 as explained in note 1 (q).

The entity has also elected to adopt early AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material

2. Critical accounting judgments and estimates

The entity makes estimates and assumptions that affect the reported amounts of assets and liabilities at year end. 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. The areas where critical accounting estimates are applied are noted below.

(a) Life insurance contract liabilities

Life insurance contract liabilities are computed using actuarial and mathematical methods, which are expected to give approximately the same results as if an individual liability was calculated for each contract. The computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles. The methodology takes into account the risks and uncertainties of the particular classes of life insurance business. Deferred policy acquisition costs are connected with the measurement basis of life insurance contract liabilities and are equally sensitive to the factors that are considered in the liability measurement.

The key factors that affect the estimation of these liabilities and related assets are:

(i) mortality and morbidity experience on life insurance products;

(ii) the cost of providing benefits and administering these insurance contracts; and

(iii) discontinuance experience, which affects the entity's ability to recover the cost of acquiring new business over the lives of the contracts.

In addition, factors such as regulation, competition, interest rates, taxes, securities market conditions and general economic conditions affect the level of these liabilities. In some contracts, the entity shares experience on mortality, morbidity and persistency with its customers and this can offset the impact of these factors on profitability from those products. Details of specific actuarial policies and methods are set out in Note 3. Details of gross life insurance contract liabilities are set out in Note 8.

(b) Reinsurers' share of life insurance contract liabilities

Reinsurers' share of life insurance contract liabilities is also computed using the methods in (a) above. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the entity may not receive amounts due to it and these amounts can be reliably measured. Details of the reinsurers' share of life insurance contract liabilities are set out in Note 8.

(c) Lease term

The entity's lease arrangement for office space is for a period of 7 years with an option to extend for a further 5 years.

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).

For leases, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the entity is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the entity is typically reasonably certain to extend (or not terminate).
- Otherwise, the entity considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The lease term is reassessed if an option is actually exercised (or not exercised) or the entity becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

(d) Life insurance contract premium revenue

Life insurance contract premium revenue includes estimates for renewal premiums that are based on historical information such as the active status of the insurance contract, the sum assured and other relevant information. Estimates are required as the transfer of the information to the entity is subject to practical timelines and the amount of premium is dependent on the underlying insurance contracts. Subsequent premium receipts may be less than or greater than the estimates recorded at the year-end date. The estimation process is periodically reviewed using the latest information available to ensure that it provides a reasonable basis.

3. Actuarial assumptions and methods

The effective date of the actuarial report on life insurance contract liabilities and solvency reserves is 31 December 2019. The actuarial report dated 18 March 2020 was prepared by Mr Jun Song BCom, FIAA, FNZSA. The actuarial report indicates that Mr Song is satisfied as to the accuracy of the data upon which life insurance contract liabilities have been determined.

The life insurance contract liabilities for life insurance contracts are valued in accordance with AASB 1038 "Life Insurance Contracts", APRA Prudential Standard LPS 340 "Valuation of Policy Liabilities", and the relevant actuarial standards and guidance.

The accounting standard requires that the life insurance contract liabilities equal the amount which together with future expected premium and investment earnings will:

(i) provide for the systematic release of planned margins as services are provided to policyholders and premium is received; and

(ii) meet the expected payment of future benefits and expenses.

The profit carrier used for the major product groups in order to achieve the systematic release of planned margins was as follows:

Major Product Groups	Profit Carrier
Individual and group death and disability insurance	Claims

The life insurance contract liabilities have been calculated using the methods set out below:

(i) *Level premium business*
Where individual policy data was available, liabilities were calculated by projecting cash flows on each policy. Otherwise, liabilities were calculated using accumulation methods.

(ii) *Claims in course of payment*
Claims in course of payment were calculated by projecting cash flows for each individual claim.

(iii) *Other business*
Liabilities for all other business were determined using accumulation methods, including allowances for recoverable deferred acquisition expenses.

(a) Disclosure of assumptions

The assumptions used to value life insurance contract liabilities are best estimates of expected future experience determined in accordance with AASB 1038 and APRA Prudential Standard LPS 340. The key assumptions are as follows:

(i) Discount rates

The discount rates assumed are risk free rates based on current observable objective rates that relate to the nature, structure and term of the future obligations. Discount rates assumed are:

Australian business	2019: 0.75% to 1.65% p.a. 2018: 1.50% to 2.55% p.a.
Overseas business	2019: 1.10% to 1.70% p.a. 2018: 1.75% to 3.09% p.a.

(ii) Inflation rates

Inflation rates are primarily relevant to the determination of the outstanding life insurance contract liabilities. The assumptions have been based on current inflation rates and the outlook for inflation over the term of the liabilities. The assumed inflation rates are:

Australian business	2019: 1.75% p.a. 2018: 2.00% p.a.
Overseas business	2019: 1.50% p.a. 2018: 1.50% p.a.

(iii) Future expenses

Future maintenance expenses are assumed to be a set percentage of future premium income and claim payments. Future investment expenses have been assumed to be at the same percentage of assets under management as currently applies.

(iv) Rates of taxation

Policy liabilities have been determined on a gross of taxation basis. The rates of taxation that apply to the entity are shown in Note 16.

(v) Mortality and morbidity

Assumed claim rates were based on various published tables, primarily those most recently published by the Institute of Actuaries of Australia and the Australian Financial Services Council, adjusted in light of recent industry experience and the entity's own experience. For disability income claims, adjustments were made to the tabular claim termination assumptions based on the entity's own experience, as follows.

Claim termination rates as percentage of tabular termination assumptions:

Australian business	2019:	50% to 300% of ADI 2007-2011
	2018:	50% to 400% of ADI 2007-2011
Overseas business	2019:	75% to 140% of ADI 2007-2011
	2018:	75% to 140% of ADI 2007-2011

(vi) Rates of discontinuance

Assumed policy discontinuance rates are based on recent actual discontinuance experience. Assumed rates may vary by sub-grouping within a category and vary according to the length of time tranches of business have been in force. Future rates of discontinuance for the major categories of business were assumed to be in the order of 5% - 20% p.a. (2018: 5% - 20% p.a.).

(vii) Surrender values

Surrender values are based on the surrender values included in the life insurance contract liabilities as advised by ceding companies. There has been no change in the basis as compared to previous years.

(b) Effects of changes in actuarial assumptions from 31 December 2018 to 31 December 2019

Assumption category	Effect on net profit margins $'000 Increase/ (decrease)	Effect on net life insurance contract liabilities $'000 Increase/ (decrease)
Discount rates	2,590	581
Future inflation rates	(60)	(1,594)
Mortality and morbidity	(112)	(845)
Claim expense margins	-	-
Total	2,418	(1,858)

(c) Processes used to select assumptions

Discount rate
The gross discount rates are derived from gross yields on cash deposits, bank bill swaps and interest rate swaps.

Expense level
The current level of expense rates is taken as an appropriate expense base.

Tax
Current tax legislation and rates are assumed to continue unaltered.

Mortality and morbidity
An appropriate base table of mortality or morbidity is chosen for the type of product being written. An investigation into the actual experience of the entity is performed and statistical methods and judgement are used to adjust the rates reflected in the table to a best estimate of mortality or morbidity. Where data is sufficient to be statistically credible, the statistics generated by the data are used without reference to an industry table.

Discontinuance
An investigation into the actual experience of the entity is performed and statistical methods are used to determine appropriate discontinuance rates. An allowance is then made for any trends in the data to arrive at a best estimate of future discontinuance rates.

(d) Sensitivity analysis

The valuations included in the reported results and the entity's best estimate of future performance are calculated using certain assumptions about the variables such as interest rate, mortality, morbidity and inflation. A movement in any key variable will impact the performance and net assets of the entity.

Variable	Impact of movement in underlying variable
Expense Rates	An increase in the level of expenses over assumed levels will decrease profit and shareholder's equity..
Discount Rates	An increase in market interest rates will cause the value of the entity's financial assets and interest sensitive liabilities to fall. To the extent that the profiles of these assets and liabilities are not matched this will lead to a net profit or loss.
Mortality rates	An increase in mortality rates would lead to higher claims cost and therefore reduced profit and shareholder's equity.
Morbidity rates	The cost of health-related claims depends on both the incidence of policyholders becoming ill and the duration for which they remain ill.
Discontinuance	The impact of the discontinuance rate assumption depends on a range of factors including the surrender value basis (where applicable) and the duration of policies in force. For example, an increase in discontinuance rates at earlier durations usually has a negative effect on profit thereby reducing shareholders' equity.

The table below illustrates how changes in key assumptions would impact the reported profit after tax and equity of the entity.

	Change in Variable	Impact upon net profit after tax and equity	
		2019 $000	2018 $000
Worsening of mortality/morbidity claim incidence rates	10%	16,604	2,200
Worsening of income claim termination rates [1]	10%	11,210	15,733
Deterioration in unreported claims development [2]	10%	6,268	(1,574)
Increase in fixed interest bond yields	1%	2,984	(15,214)

Note 1 - the above analysis is impacted by the interaction of the entity's various reinsurance arrangements and the basis of taxation for each class of business (see Note 16)
Note 2 - This relates to the cost of incurred but not reported claims.

e) Claims development

Reserves are established to provide for the ultimate payment of non-finalised claims, in some cases up to many years after occurrence of the event that gave rise to the claim. Settlement of these claims for either more or less than the amounts provided will lead to losses or profits, respectively. Experience in respect of long duration claims incurred prior to the reporting year is as follows:

	Profit/(loss) on claims development before reinsurance	
	2019 $'000	2018 $'000
Long tailed lump sum benefit claims	(34,535)	(3,585)
Long tailed income benefit claims	(8,815)	20,813

4. Risk Management policies and procedures

The financial condition and operating results of the entity are affected by a number of key financial and non-financial risks. The entity's objectives and policies in respect of managing these risks are set out in the following section.

The Board of Directors has overall responsibility for the establishment and oversight of the entity's risk management framework. This framework, which is documented in a formal risk management strategy, is established to identify and manage the risks faced by the entity, to set appropriate risk limits and to ensure risks and controls are monitored. The framework operates within the context of the Board's appetite for risk, which is documented in a Risk Appetite Statement.

The entity's Chief Risk and Compliance Officer leads and coordinates the entity's key risk management operations.

The Board's ICAAP Summary Statement outlines the Internal Capital Adequacy Assessment Process (ICAAP) of the entity. The objectives of the ICAAP are to enable the entity to maintain adequate capital and to meet all regulatory capital requirements on a continuous basis.

The risk management framework is reviewed at least annually and amended as required. The entity, through its training and management standards and procedures, aims to develop a disciplined and constructive risk and control culture and environment in which all employees understand their roles and obligations.

A sub-committee of the Board, the Board Audit Committee (Committee), is responsible for monitoring the entity's risk management framework and reporting to the Board via a three lines of defence model operated by management. The Committee monitors compliance with, and reviews the adequacy of, the framework in relation to the risks faced by the entity. The Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes regular reviews and tests of risk management controls and procedures, the results of which are reported to the Committee.

(a) Risks arising from financial instruments

Credit risk

Credit risk is the risk of financial loss to the entity if a customer, outwards reinsurer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the entity's receivables from customers, outwards reinsurance receivables and investment securities.

(i) Trade and other receivables

The entity's exposure to credit risk is influenced by the market in which the entity operates. The larger clients of the entity, by premium revenue, are financial entities regulated by the Australian Prudential Regulation Authority. Given this client base, management does not expect a material client to default on trade receivables. The entity has not experienced credit losses on trade receivables.

The entity aims to limit its exposure to credit risk by only reinsuring with financial entities with strong credit ratings. All of the entity's outwards reinsurance exposures are to reinsurers that at the valuation date had a credit rating of at least A- (Standard & Poor's). Given these high credit ratings, management does not expect a reinsurer to fail to meet its obligations.

(ii) Investments

The entity's Investment Guidelines, approved by the Board, contain credit rating based limits on exposure to securities and issuers. Compliance with the Investment Policy is monitored daily by the entity's investment managers and reported regularly to the Investment Strategy Committee. The Committee is responsible for setting strategy within the framework of the Investment Guidelines and reporting to the Board on strategy, performance and compliance.

Liquidity risk

Liquidity risk is the risk that the entity will not be able to meet its financial obligations as they fall due. The entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the entity's reputation.

The entity maintains a float of cash to meet obligations. The entity also has access to more liquid government or semi government bonds within the entity's fixed interest portfolio, the sale proceeds of which would be available to the entity.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the entity's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Interest rate risk

The entity has a portfolio of fixed interest security assets and a portfolio of life insurance contract liabilities. Both of these portfolios are subject to change in carrying value due to changes in interest rates. The entity manages these interest rate risks by approximately matching the duration of the fixed interest portfolio and the insurance contract liability portfolio.

Currency risk

The entity has a New Zealand branch whose assets and liabilities are denominated in New Zealand dollars. On translation of the New Zealand branch into the reporting currency (Australian dollars) of the entity, exchange rate variations on Statement of Financial Position items are recognised in a foreign currency translation reserve within equity. The entity is exposed to currency risk on the translation of Statement of Comprehensive Income items and the settlement of monetary balances between the Australian and New Zealand businesses.

(b) Insurance risks

Controls over insurance risk include the use of underwriting procedures, established processes over setting of premium rates and policy charges and regular monitoring of reinsurance arrangements. Controls are also maintained over claims management practices to ensure the timely payment of insurance claims in accordance with policy obligations.

Methods to limit or transfer insurance risk exposures

(i) Outwards reinsurance

The entity's outwards reinsurance agreements are designed to provide some protection against volatility of profit from claims fluctuations and deteriorating experience and to provide financial support by way of capital relief. Outwards reinsurance treaties are analysed to assess the impact on the entity's exposure to risk.

(ii) Underwriting procedures

The entity has formal Underwriting Guidelines which document the entity's underwriting framework including the types of business that the entity may write, underwriting authorities and limits. The entity also has documented underwriting procedures for underwriting decisions. Such procedures include limits to delegated authorities and signing powers. The underwriting process is regularly reviewed by the entity's internal auditors to assess the adequacy and effectiveness of controls over the underwriting process. Where underwriting authority is delegated to a cedant, the entity has a program for auditing the cedant's underwriting processes.

(iii) Claims Management

Strict claims management procedures and controls are in place to ensure the timely payment of claims in accordance with policy conditions. The entity has in place a program to assist cedants manage their claim portfolios.

(iv) Pricing

The entity adopts standard pricing processes and controls. In specified circumstances, particularly for large or non-standard risks, advice is provided by the Appointed Actuary specific to that quotation and is considered by the entity.

(v) Experience analysis

Experience studies are performed at a client and product level to determine the adequacy of pricing assumptions. The results are used to determine prospective changes in pricing.

(vi) Management reporting

The entity reports quarterly financial and operational results, mortality and morbidity experience, claims frequency and severity, and exposure for each portfolio of contracts (gross and net of reinsurance). This information includes the entity's gross and net results which are compared against the entity's business plan.

(vii) Concentration of insurance risk

The age profile and mix of genders within the population of policyholders is spread with the expectation that the entity's risk concentration in relation to any particular age group is minimal.

(c) Sensitivity to insurance risks

The nature of the terms of the life insurance contracts written is such that certain external variables can be identified on which related cash flows for claim payments depend. The table below provides an overview of the key variables upon which the amount of related cash flows are dependent.

Type of contract	Detail of contract workings	Nature of compensation for claims	Key variables that affect the timing and uncertainty of future cash flows
Non-participating life insurance contracts with fixed terms (Term Life and Disability)	Benefits paid on death or ill health that are fixed and not at the discretion of the issuer	Benefits, defined by the insurance contract, are determined by the contract and are not directly affected by the performance of underlying assets or the performance of the contracts as a whole	Mortality Morbidity Interest rates Inflation rates Discontinuance rates Expenses

(d) Tax risk management and related policies

The entity's Board does not sanction or support any activities which seek to aggressively structure its tax affairs. The entity's tax outcomes are determined by the nature of its business and it pays taxes accordingly. The entity has a framework to ensure that all tax requirements are met.

The entity's tax strategy is focused on integrity in compliance and reporting. The strategy is implemented through the entity's Tax Risk Management Policy. This policy is approved by the Board and supported by business processes.

In conducting the entity's activities (both in Australia and New Zealand), the entity:
– does not shift to and/or accumulate profits in low or zero tax jurisdictions;
– does not use the secrecy rules of jurisdictions to hide assets or income; and
– pays tax where the underlying economic activity occurs.

The entity is subject to transfer pricing obligations under Australia's Country-by-Country (CbC) regime and lodges relevant reports and statements with the Australian Taxation Office within 12 months after the end of income tax year. In compliance with both Australian filing requirements and the OECD BEPS Action Plan, the CbC Report contains details about the entity's international related party dealings, revenue, profits and taxes paid by jurisdiction. Under intergovernmental exchange of information agreements, this CbC Report is available to overseas tax authorities.

5. Disclosure on asset restrictions

Investments held in the statutory funds can only be used within the restrictions imposed under the *Life Insurance Act 1995*. The main restrictions are that the assets in a fund can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of the fund or as distributions when Prudential Capital Requirements are met. Shareholders can only receive a distribution when the Prudential Capital Requirements are met.

6. Capital requirements

The capital adequacy requirements are the amounts required under APRA prudential standards to provide protection against the impact of adverse experience.

Capital Base and Prescribed Capital Amount at 31 December 2019 for each fund have been determined in accordance with LPS 110 as follows:

	Australian Reinsurance Statutory Fund 2019 $'000	Australian Statutory Fund 2019 $'000	Overseas Statutory Fund 2019 $'000	Shareholder Fund 2019 $'000	Total 2019 $'000
Capital Base					
Net assets [1]	228,721	201,391	21,385	32,930	484,427
Regulatory adjustments to net assets	(72,429)	(96,018)	7,158	(1,677)	(162,965)
Tier 2 capital	-	-	-	-	-
Regulatory adjustments to Tier 2 capital	-	-	-	-	-
Intangible Assets	-	(206)	-	(6,924)	(7,130)
Total Capital Base	**156,292**	**105,167**	**28,543**	**24,329**	**314,331**
Prescribed Capital Amount (PCA)					
Insurance risk charge	53,776	26,588	3,764	-	84,129
Asset risk charge	17,823	34,910	2,901	62	55,696
Asset concentration risk charge	-	-	-	-	-
Operational risk charge	38,976	16,924	1,954	-	57,854
Less aggregation benefit	(11,658)	(13,572)	(1,474)	-	(26,704)
Combined stress scenario adjustment	25,689	20,540	2,019	27	48,274
Total PCA	**124,606**	**85,390**	**9,164**	**89**	**219,249**
Capital adequacy multiple (Capital Base/PCA)	1.25	1.23	3.11	274.57	1.43

[1] No Additional Tier 1 Capital was held and hence net assets are comprised solely of Common Equity Tier 1 Capital.

The Capital Base and Prescribed Capital Amount at 31 December 2018 for each fund have been determined in accordance with LPS 110 as follows:

	Australian Reinsurance Statutory Fund 2018 $'000	Australian Statutory Fund 2018 $'000	Overseas Statutory Fund 2018 $'000	Shareholder Fund 2018 $'000	Total 2018 $'000
Capital Base					
Net assets [1]	194,760	201,311	9,252	64,701	470,024
Regulatory adjustments to net assets	(41,301)	(108,951)	8,488	(1,775)	(143,539)
Tier 2 capital	-	-	-	-	-
Regulatory adjustments to Tier 2 capital	-	-	-	-	-
Intangible Assets	-	(206)	-	(4,983)	(5,189)
Total Capital Base	**153,459**	**92,154**	**17,740**	**57,943**	**321,296**
Prescribed Capital Amount (PCA)					
Insurance risk charge	44,866	30,325	3,172	-	78,363
Asset risk charge	22,174	15,002	3,264	395	40,835
Asset concentration risk charge	-	-	-	-	-
Operational risk charge	31,749	16,552	1,969	-	50,270
Less aggregation benefit	(13,164)	(8,904)	(1,450)	-	(23,518)
Combined stress scenario adjustment	23,090	15,610	1,093	169	39,962
Total PCA	**108,715**	**68,585**	**8,048**	**564**	**185,912**
Capital adequacy multiple (Capital Base/PCA)	1.41	1.34	2.20	102.74	1.73

(1) No Additional Tier 1 Capital was held and hence net assets are comprised solely of Common Equity Tier 1 Capital.

7. Profit and loss information

	2019 $'000	2018 $'000
(a) Other income		
Services to related parties	1,344	1,282
Claims handling fee for service	227	250
Exchange (losses)/gains	(99)	72
Net other (expense)/ income	(71)	289
	1,401	1,893

	2019 $'000	2018 $'000
(b) Other expenses		
Policy acquisition costs – life insurance contracts		
- Net commission	61,696	4,226
- Other acquisition costs	3,050	2,768
Total policy acquisition costs	64,746	6,994
Policy maintenance costs – life insurance contracts		
- Net commission	290,268	285,813
- Other expenses	51,810	48,143
Total policy maintenance costs	342,078	333,956
Investment management expenses	2,588	2,419
	409,412	343,369

	2019 $'000	2018 $'000
(c) Components of loss		
Planned margin of revenues over expenses released	9,764	10,464
Difference between actual and assumed experience	(30,019)	(29,267)
Change in valuation methods and assumptions	(4,876)	(6,384)
Investment earnings on assets in excess of life insurance liabilities	14,293	14,535
Loss for the year	(10,838)	(10,652)

All of the loss is attributable to shareholder interests as the entity only writes business that is non-participating.

(d) Defined contribution plans

The entity contributes as a participating employer on a defined contribution basis to the Mercer Superannuation Trust (the default fund) and, where applicable, funds chosen by individual employees. In addition, the entity contributes the minimum pursuant to the Superannuation Guarantee Charge on behalf of Non-Executive Directors. The amount recognised as expense for all defined contribution plans was $2,006,936 for the year ended 31 December 2019 (2018: $1,991,430).

8. Life insurance contract liabilities

(a) Reconciliation of movement in life insurance contract liabilities

	2019 $'000	2018 $'000
Life insurance contract liabilities		
Gross life insurance contract liabilities at 1 January	1,795,249	1,700,838
Exchange rate adjustment on translation of New Zealand branch	550	1,724
Portfolio transfer	184,987	-
Change in life insurance contract liabilities reflected in profit and loss	(739,552)	92,687
Gross life insurance contract liabilities at 31 December	1,241,234	1,795,249
Reinsurers' share of life insurance contract liabilities		
Retroceded life insurance contract liabilities at 1 January	(156,545)	(112,098)
Exchange rate adjustment on translation of New Zealand branch	275	(951)
Reinsurers' share of portfolio transfer	175,737	-
Settlement of portfolio transfer through Reinsurance Recoveries	(175,737)	-
Change in reinsurers' share of life insurance contract liabilities reflected in profit and loss	(992,920)	(43,496)
Reinsurers' share of life insurance contract liabilities at 31 December	(1,149,190)	(156,545)
Net life insurance contract liabilities at 31 December	2,390,424	1,951,794
Expected to be settled within 12 months	849,932	789,697
Expected to be settled in more than 12 months	1,540,492	1,162,097
	2,390,424	1,951,794

(b) Components of net life insurance contract liabilities

	2019 $'000	2018 $'000
Best estimate liability		
- Value of future policy benefits	2,389,362	1,894,084
- Value of future expenses	63,336	50,880
- Value of unrecouped acquisition expense	(184,088)	(125,705)
Total best estimate liability for life insurance contracts	2,268,610	1,819,259
Value of future shareholder profit margins	121,814	132,535
	2,390,424	1,951,794

9. Trade and other receivables

	2019 $'000	2018 $'000
Outstanding premium	164,854	116,214
Investment income accrued and receivable	14,012	14,583
Insurance recoveries due from related parties	132,931	-
Other receivables	4,367	3,429
	316,164	134,226

All trade and other receivables are current assets. The entity does not have any concerns regarding the collectability of the outstanding premium.

The entity's exposure to credit and currency risks related to trade and other receivables is disclosed in Note 19.

10. Property, plant and equipment

Fixtures, Fittings & Equipment	2019 $'000	2018 $'000
Cost		
Balance at 1 January	6,863	7,032
Acquisitions	513	289
Disposals	(829)	(458)
Balance at 31 December	6,547	6,863
Accumulated Depreciation		
Balance at 1 January	2,318	1,296
Depreciation charge for the year	431	1,299
Disposals	(813)	(277)
Balance at 31 December	1,936	2,318
Carrying Amounts		
At 1 January	4,545	5,736
At 31 December	4,611	4,545
Straight line depreciation rate	1-40%	1-40%

11. Trade and other payables

	2019 $'000	2018 $'000
Payables under life insurance contracts	56,289	56,010
Amounts due to related parties	-	4,076
Other payables	3,620	2,584
	59,910	62,670

All trade and other payables are current liabilities.

The entity's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 19.

12. Intangible assets

System Development Costs	2019 $'000	2018 $'000
Cost		
Balance at 1 January	9,474	7,063
Acquisitions	4,600	2,975
Write-offs	(829)	(564)
Balance at 31 December	13,245	9,474
Accumulated amortisation		
Balance at 1 January	4,285	2,032
Amortisation	2,659	2,817
Write-offs	(829)	(564)
Balance at 31 December	6,115	4,285
Carrying Amounts		
At 1 January	5,189	5,031
At 31 December	7,130	5,189

13. Employee Benefits

	2019 $'000	2018 $'000
Current liability		
Annual leave liability	1,238	1,136
Non-Current liability		
Long service leave liability	2,031	1,870
Other long term employee benefit liabilities	2,104	1,943
Net defined benefit liability	3,157	2,749
	8,530	7,698

14. Capital and reserves

(a) Contributed equity

	Ordinary Shares 2019 $'000	Ordinary Shares 2018 $'000
On issue at 1 January	80,000	80,000
Issued for cash	25,000	-
On issue at 31 December	105,000	80,000
Number of ordinary shares issued and fully paid	103,200,002	78,200,002

The ordinary shares of the entity have no par value. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the entity. All shares rank equally with regard to the entity's residual assets.

(b) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of the New Zealand branch to the presentation currency of the entity i.e. Australian dollars.

(c) Defined benefit plan reserve

The reserve relates to the portion of the net defined benefit plan asset/liability that does not flow through profit and loss in accordance with Australian Accounting Standards.

(d) Other reserve

This reserve relates to capital that in addition to contributed equity is not available to be distributed to the shareholder as retained profits.

15. Disaggregated information of life insurance business by fund

2019					
	Australian Statutory Fund	Australian Reinsurance Statutory Fund	Overseas Statutory Fund	Shareholders' Fund	Total
	$'000	$'000	$'000	$'000	$'000
Financial assets	553,582	1,795,291	85,028	16,667	2,450,568
Other assets	100,467	397,395	13,474	16,262	527,871
Reinsurers' share of life insurance contract liabilities	(67,044)	(1,058,096)	(24,050)	-	(1,149,190)
Life insurance contract liabilities assumed	346,754	846,119	48,361	-	1,241,234
Other liabilities	38,861	59,750	4,977	-	103,588
Retained profits	106,575	191,720	16,931	7,355	322,581
Premium revenue	559,972	627,247	38,692	-	1,225,911
Investment revenue	21,425	159,144	4,349	368	185,286
Claims expense	(298,026)	(394,785)	(27,566)	-	(720,377)
Other operating expenses	(256,887)	(146,758)	(7,122)	(42)	(410,809)
Operating profit/(loss) before tax	(19,466)	16,462	1,809	328	(867)
Operating profit/(loss) after tax	(12,856)	(1,040)	2,828	230	(10,838)

2018					
	Australian Statutory Fund	Australian Reinsurance Statutory Fund	Overseas Statutory Fund	Shareholders' Fund	Total
	$'000	$'000	$'000	$'000	$'000
Financial assets	432,302	1,648,187	77,500	50,729	2,208,718
Other assets	80,589	178,581	9,619	16,482	285,271
Reinsurers' share of life insurance contract liabilities	(103,556)	(26,871)	(26,118)	-	(156,545)
Life insurance contract liabilities assumed	187,767	1,564,671	42,811	-	1,795,249
Other liabilities	20,258	40,467	8,935	2,511	72,171
Retained profits	105,782	157,760	5,102	64,125	332,769
Premium revenue	522,845	527,803	39,402	-	1,090,050
Investment revenue	16,394	68,662	2,810	848	88,714
Claims expense	(287,925)	(414,943)	(26,038)	-	(728,906)
Other operating expenses	(236,596)	(99,900)	(6,534)	(339)	(343,369)
Operating profit/(loss) before tax	(5,970)	2,033	(537)	513	(3,961)
Operating profit/(loss) after tax	(6,998)	(2,223)	(1,790)	359	(10,652)

16. Income tax

(a) Income tax expense

	2019 $'000	2018 $'000
Current tax expense/(benefit)		
Current year	1,272	1,902
Prior year	(1,312)	1,381
Deferred tax expense/(benefit)		
Origination and reversal of temporary differences		
- Current year	10,372	4,393
- Adjustment for prior years	(361)	(985)
Total income tax expense charged to Statement of Comprehensive Income	9,971	6,691

Reconciliation between tax expense and pre-tax net loss

	2019	2018
Net loss before tax	(867)	(3,961)
Prima facie income tax benefit calculated at 30% (2018: 30%) on the loss from ordinary activities for the year ended 31 December:	(260)	(1,188)
Increase in income tax expense due to:		
- Non-deductible retrocession	11,785	6,489
- Retained withholding taxes	-	924
- Other	155	18
(Decrease)/increase in income tax expense due to:		
- (Over)/under provision from prior year	(1,673)	396
- Difference in New Zealand tax	(36)	52
Income tax expense on pre-tax profit	9,971	6,691

During 2019 the entity had not made an election under Section 148 of the *Income Tax Assessment Act 1936* (ITAA) and accordingly was taxed on the basis of revenues gross of overseas reinsurance on Accident and Disability business. In New Zealand, business is subject to tax in accordance with the Income Tax Act 2007 at a rate of 28% (2018: 28%).

	2019	2018
Deferred tax recognised directly in equity		
Relating to movement in defined benefit provision	(305)	(508)
	(305)	(508)

16. Income tax (continued)

(b) Recognised deferred tax (assets) and liabilities

	Assets		Liabilities		Net Tax Asset	
	2019 $'000	**2018** $'000	**2019** $'000	**2018** $'000	**2019** $'000	**2018** $'000
Employee benefits	(2,559)	(2,297)	-	-	(2,559)	(2,297)
Life insurance contract liabilities	(24,385)	(23,776)	-	845	(24,385)	(22,931)
Other items	(1,556)	(640)	-	-	(1,556)	(640)
Tax value of loss carry-forward recognised	(8,298)	(20,924)	-	-	(8,298)	(20,924)
Net tax (assets)/liabilities	(36,798)	(47,635)	-	845	(36,798)	(46,790)

(c) Movements in temporary differences during the year

	Balance 1 Jan 2019 $'000	**Exchange Movement in Equity** $'000	**Recognised in Income** $'000	**Recognised in Equity** $'000	**AASB 16 opening balance adjustment** $'000	**Balance 31 Dec 2019** $'000
Employee benefits	(2,297)	-	44	(305)		(2,559)
Life insurance contract liabilities	(22,929)	9	(1,465)	-		(24,385)
Other items	(640)	-	(1,194)	-	278	(1,556)
Tax value of loss carry-forward recognised	(20,924)	-	12,626	-		(8,298)
	(46,790)	9	10,011	(305)	278	(36,798)

	Balance 1 Jan 2018 $'000	**Exchange Movement in Equity** $'000	**Recognised in Income** $'000	**Recognised in Equity** $'000	**AASB 16 opening balance adjustment** $'000	**Balance 31 Dec 2018** $'000
Employee benefits	(1,862)	-	73	(508)	-	(2,297)
Life insurance contract liabilities	(24,893)	120	1,844	-	-	(22,929)
Other items	163	-	(803)	-	-	(640)
Tax value of loss carry-forward recognised	(23,218)		2,294	-	-	(20,924)
	(49,810)	120	3,408	(508)	-	(46,790)

17. Reconciliation of loss after income tax expense to net cash inflow from operating activities

	2019 $'000	2018 $'000
Loss from ordinary activities after income tax expense	(10,838)	(10,652)
Add/(less) items classified as investing/financing activities:		
Net fair value gains on financial assets	(110,677)	(12,584)
Add non cash movements:		
Depreciation and amortisation	6,241	4,297
Finance costs on lease liability	1,397	-
Net unrealised foreign exchange gains	(440)	(1,450)
Net cash inflows from operating activities before change in assets & liabilities	(114,317)	(20,389)
Change in assets and liabilities:		
(Increase)/Decrease in receivables	(181,937)	7,946
Decrease in tax assets	9,826	4,930
Decrease in trade and other payables	(1,928)	(5,709)
(Decrease)/Increase in life insurance contract liabilities	(554,015)	93,062
Increase in reinsurers' share of life insurance contract liabilities	992,645	43,496
Decrease in tax liabilities	(1,803)	(2,295)
Net cash inflows from operating activities	148,471	121,041

Reconciliation of cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents includes cash on hand and at bank and investments in money market instruments. Cash and cash equivalents as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2019 $'000	2018 $'000
Cash and cash equivalents		
Cash	130,542	93,676
Cash and cash equivalents in the cash flow statement	130,542	93,676

The entity's exposures to interest rate risk and sensitivity analysis for financial assets are disclosed in Note 19.

18. Fair value hierarchy

The table below analyses assets that are revalued and carried at fair value in the Statement of Financial Position, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (as prices) or indirectly (derived from prices).
- Level 3: inputs for the asset that are not based on observable market data.

There were no transfers between the Levels during the current and prior year.

	2019 $'000	2018 $'000
Financial Instruments		
Level 1	-	-
Level 2	2,450,568	2,208,718
Level 3	-	-
	2,450,568	2,208,718

19. Financial instrument risks

The entity has exposure to the following risks from its use of financial instruments:

- credit risk
- market risk
- liquidity risk

These risks were discussed in Note 4 – Risk Management Processes and Procedures. Further quantitative disclosures are below.

Management determines concentrations by reference to the inherent risks of the financial assets that are actively monitored and managed.

(a) Credit risk exposure

At balance date, the entity had exposure to credit risk on the following financial instruments:

	2019 $'000	2018 $'000
Cash	130,542	93,676
Investment assets – debt securities	2,450,568	2,208,718
Trade and other receivables	316,164	134,226
	2,897,274	2,436,620

The maximum exposure to credit risk for financial assets at fair value through profit and loss (investment assets - debt securities) at the balance date was by sector:

Issuing Sector		
Government	710,453	640,712
Semi-Government – Government Guaranteed	12,982	13,761
Semi-Government	471,607	420,427
Government Agency	129,582	45,818
Government Agency – Government Guaranteed	59,846	70,340
Sovereign supranational	158,539	152,761
Sovereign supranational – Foreign Government Guaranteed	107,074	114,709
Corporate	800,485	750,190
	2,450,568	2,208,718

Expected to be realised within 12 months	232,074	216,630
Expected to be realised in more than 12 months	2,218,493	1,992,088
	2,450,568	2,208,718

	2019 $'000	2018 $'000
The maximum exposure to credit risk for financial assets at fair value through profit and loss (investment assets - debt securities) at the balance date was by rating:		
Rating of Issuer		
AAA	1,384,461	1,185,008
AA	756,290	753,310
A	177,866	181,353
BBB	131,951	89,047
	2,450,568	2,208,718

(b) Market risk sensitivity

The entity has sensitivity to the following market risks:

(i) Interest rate risk

At balance date the entity held the following interest sensitive financial instruments:

	2019 $'000	2018 $'000
Investment assets – debt securities	2,450,568	2,208,718

A change of 100 basis points in interest rates at balance date would have increased/(decreased) equity and profit/(loss) by the amounts shown below.

	2019 $'000	2018 $'000
- plus 100 basis points - (decrease) profit and equity by	(172,270)	(137,994)
- minus 100 basis points - increase profit and equity by	199,342	160,251

(ii) Currency risk

The entity has a New Zealand branch whose financial assets and liabilities are denominated in New Zealand dollars (NZD). On translation of the financial assets and liabilities into the reporting currency of the entity (Australian dollars), exchange rate variations are recognised in a foreign currency translation reserve within equity.

	$'000 NZD	$'000 NZD
At the balance date the entity's exposure to foreign currency risk was as follows based on notional amounts:		
Total assets denominated in New Zealand dollars	78,339	62,889
Total liabilities denominated in New Zealand dollars	55,521	53,009

A 10% strengthening in the value of the Australian dollar at the balance date would (decrease) equity and (decrease) profit by the amounts shown below.

	2019 $'000 AUD	2018 $'000 AUD
- Strengthening of the Australian dollar against the NZD will (decrease) equity by	(1,652)	(803)
- Strengthening of the Australian dollar against the NZD will increase/(decrease) profits by	183	334

A 10% weakening of the Australian dollar against the New Zealand dollar would have had the equal but opposite effect to the amounts shown above.

The Statement of Comprehensive Income is translated into the currency of the entity at a monthly exchange rate. The Statement of Financial Position is translated at the exchange rate at balance date (2019: NZD $1 = AUD $0.96   2018: NZD $1 = AUD $0.95).

(c) Liquidity risk

The following are the contractual maturities of financial instruments at the reporting date.

	Effective Interest rate	Total $'000	0-12 months $'000	1-2 years $'000	2-3 years $'000	3-4 years $'000	4-5 years $'000	More than 5 years $'000
				2019				
Debt securities at fair value through profit or loss	1.68%	2,450,568	232,074	164,021	90,903	214,008	242,266	1,507,296
Cash	0.60%	130,542	130,542	-	-	-	-	-
Trade and other receivables	-	316,164	316,164	-	-	-	-	-
Trade and other payables	-	(59,910)	(59,910)	-	-	-	-	-
Lease liability	4.00%	(35,148)	269	(2,418)	(2,916)	(3,205)	(3,513)	(23,365)
		2,802,216	619,139	161,603	87,987	210,803	238,753	1,483,931
				2018				
Debt securities at fair value through profit or loss	2.62%	2,208,718	216,630	267,171	178,931	152,697	180,299	1,212,990
Cash	1.35%	93,676	93,676	-	-	-	-	-
Trade and other receivables	-	134,226	134,226	-	-	-	-	-
Trade and other payables	-	(62,670)	(62,670)	-	-	-	-	-
		2,373,950	381,862	267,171	178,931	152,697	180,299	1,212,990

20. Leases

(a) AASB 16 lease recognition

This note provides information for leases where the entity is a lessee. In October 2017, the entity entered into a 7 year non-cancellable lease for office space in Tower 1, Level 33, 100 Barangaroo Avenue, Sydney with commencement date of 1 February 2018 and expiry date of 31 January 2025 and an option to extend for further 5 years subject to a market review process using comparable rents. The lease liability includes the option period.

The costs of the lease arrangement are shared via a cost sharing arrangement with related Australian entities.

(i) Amounts recognised in the Statement of Financial Position

The statement of financial position shows the following amounts relating to lease:

	2019	**1 January 2019**
	$'000	$'000
Right-of-use assets		
Office space	31,614	34,749
Lease liability		
Current	(269)	(399)
Non-current	35,417	35,149
	35,148	34,750

(ii) Amounts recognised in the Statement of Comprehensive Income

The statement of profit or loss shows the following amounts relating to lease:

	2019	**2018**
	$'000	$'000
Depreciation charge of right-of-use assets	3,135	-
Interest expenses (included in finance costs)	1,397	-

(b) Change in accounting policy

This note explains the impact of the adoption of AASB 16 Leases on the entity's financial statements.

The entity has adopted AASB 16 Leases retrospectively from 1 January 2019, but has not restated comparatives 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 recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in note 1(q).

On adoption of AASB 16 Leases, the entity recognised lease liability in relation to its lease which had previously been classified as 'operating lease' under the principles of AASB 117 Leases. This liability was 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 liability on 1 January 2019 was 4%.

(i) Practical expedients applied

In applying AASB 16 *Leases* for the first time, the entity has used the following practical expedients permitted by the standard:

- applying a single discount rate to the lease
- relying on previous assessments on whether a lease is onerous as an alternative to performing an impairment review. There were no onerous contracts as at 1 January 2019.
- 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.

(ii) Measurement of lease liability

	2019 **$'000**
Operating lease commitments disclosed as at 31December 2018	44,938
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(10,189)
	34,749
Lease liability recognised as at 1 January 2019	
Current lease liability	(399)
Non-current lease liability	35,149
	34,749

(iii) Measurement of right-of-use assets

The associated right-of-use asset for the office space lease was measured on a retrospective basis as if the new accounting policy had always been applied.

(iv) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy for AASB 16 *Leases* affected the following items in the balance sheet on 1 January 2019:

	2019 **$'000**
Trade and other payables – decrease by	928
Right-of-use assets – increase by	34,749
Deferred tax assets – decrease by	(278)
Lease liabilities – increase by	(34,749)
The net impact on retained earnings on 1 January 2019 was an increase of	650

(c) Non-cancellable operating lease commitments

	2019 $'000	2018 $'000
Payable – minimum lease payments:	-	998
not later than 12 months	-	13,470
between 12 months and 5 years	-	30,470
greater than 5 years		
	-	44,938

21. Defined Benefit Plan

(a) Plan characteristics

The entity makes contributions to a defined benefit plan (the Plan) that provides retirement, death and invalidity benefits to members based on the member's salary and years of service. The Plan provides an indexed pension benefit on retirement. Part or all the pension benefit may be converted to an account based pension or with the approval of the Plan trustees, the pension benefit may be commuted to a lump sum.

The Plan is a sub account of the Mercer Superannuation Trust (MST). The entity is the Principal Employer of the Plan.

(b) Defined benefit plan obligations and assets

The cost of the defined benefit obligation is recognised in the profit or loss and other comprehensive income (OCI). Member service costs and interest on the net defined benefit plan obligation are recognised in profit or loss. Remeasurements, being actuarial gains and losses, and differences between expected net interest income and the actual return are recognised in OCI.

The defined benefit obligation of the Plan as at 31 December 2019 was $8,425,000 (2018: $6,965,000). The assets of the Plan are invested in unit linked products within MST. The assets of the Plan as at 31 December 2019 were $5,268,000 (2018: $4,216,000). The net defined benefit liability at this date was $3,157,000 (2018: $2,749,000).

22. Auditor's remuneration

	2019 $	2018 $
Audit Services:		
Auditors of the entity – PricewaterhouseCoopers		
Audit and review of the financial reports	342,982	342,982
Other regulatory audit services	38,100	38,100
	381,082	381,082

23. Directors' and Executive disclosures (key management personnel)

The following were specified Directors and Executives of Hannover Life Re of Australasia Ltd for the entire reporting period, unless otherwise stated.

Non-Executive Independent Directors	Non-Executive Non-Independent Directors	Executive Directors
Mr P. R. Gaydon (Chairman)	Mr C. J. Chèvre (Deputy Chairman)	Mr G. Obertopp
Ms S. G. Everingham	Mr J. J Henchoz (appointed May 2019)	
Mr R. J. Wylie	Mr U. Wallin (retired May 2019)	

Executive Management

Mr Gerd Obertopp (Managing Director)
Mr Graeme Campbell (Appointed Actuary) – retired March 2019
Mr Bruce Christie (Chief Risk & Compliance Officer)
Ms Moira De Villiers (General Manager Business Development)
Mr Jun Song (Appointed Actuary) – appointed March 2019
Mr David Tallack (General Manager Finance and Company Secretary)

In addition to their salaries, the entity contributes to post employment benefit plans for the entity's Australian resident Non-Executive Directors and Executive Management.

Transactions with key management personnel

The key management personnel compensations included in Other Expense (see Note 7) are as follows:

	2019 $	2018 $
Short term employee benefits	3,454,029	3,128,383
Post employment benefits	141,049	136,425
Other long term benefits	348,500	505,899
	3,943,578	3,770,707

Director related transactions

Apart from the details disclosed in this note, no Director has entered into a material contract with the entity since the end of the previous financial year, and there were no material contracts involving Directors' interests at year end.

24. Non Director related parties

Related party transactions

The following related party transactions occurred during the financial year.

(i) Reinsurance arrangements with related parties

The entity has reinsurance arrangements through related parties of the Hannover Re Group of Companies. During the reporting period the entity restructured these retrocession arrangements to simplify administration and accommodate Group systems.

(ii) Investment management services

Ampega Asset Management GmbH (formerly Talanx Asset Management GmbH), a related party of the Hannover Re Group of Companies provides investment management services to the entity.

(iii) Transactions with related parties

The value of transactions during the year with related parties and the aggregate amounts receivable from and payable to related parties are as follows:

	2019 $	2018 $
Transactions during the year		
Outwards reinsurance expenses	(687,854,979)	(560,975,890)
Reinsurance recoveries	711,729,315	551,177,558
Payments for services	(3,838,464)	(3,776,422)
Income from services	1,343,877	1,282,505
Investment management fees	(2,588,383)	(2,418,939)
Creditors – Current		
Amounts due to related parties	-	4,075,680
Debtors – Current		
Amounts due from related parties	132,931,048	-

All transactions with related parties were conducted at arm's length. All outstanding balances are due and payable on normal terms of credit.

Parent entities

The immediate parent entity is Hannover Ruck Beteiligung Verwaltungs-GmbH, a wholly owned subsidiary of Hannover Rück SE. The ultimate parent entity is Haftpflichtverband der Deutschen Industrie V.a.G. (HDI). These parent entities are incorporated in Germany and have their headquarters in Hannover, Germany.

25. Reconciliation of reported results with Life Act results

In respect of the entity's life insurance contracts business, there are no differences between the valuation requirements adopted as per relevant accounting standards in these financial statements and those of the *Life Insurance Act 1995*. Consequently the entity's loss/profit and retained profits reported in these financial statements are the same under the *Life Insurance Act 1995*.

26. Contingencies and commitments

The entity has lodged an objection against prior periods Goods & Services Tax assessments. The entity is also subject to a stamp duty compliance audit. The outcomes from the objection and the audit are uncertain.

There are no commitments from the current or prior periods that require disclosure.

27. Events after the reporting date

In December 2019, APRA announced a range of sustainability measures to address the poor performance of individual disability income insurance (IDII). Measures include a supervisory adjustment to the Prudential Capital Requirement of all life insurers with exposure to IDII. The entity is a reinsurer of IDII and consequently it has received a supervisory adjustment from APRA which will become effective from 31 March 2020.

On 11 March 2020, the World Health Organization (WHO) declared COVID-19 a pandemic. In response, the entity activated various stages of its Pandemic Plan. The entity's claim experience from the pandemic will be linked to the Australian and New Zealand infection and mortality rates and the impact of these on the economies of these countries, however, the extent of impact is highly uncertain at this time.

There has not arisen any other item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect significantly the operations of the entity, the results of those operations, or the state of affairs of the entity, in future financial years.

28. Reclassifications to Comparatives

The entity has restated its comparatives in order to reclassify a contract. The contract was classified in the entity's 2018 Financial Report as an insurance contract in accordance with AASB 4 *Insurance Contracts*. In this 2019 Financial Report the contract has been reclassified as a financial instrument in accordance with AASB 139 *Financial Instruments: Recognition and Measurement* and revenue from the contract is recognised in accordance with AASB 15 *Revenue from Contracts with Customers*. The 2018 comparatives have been reclassified to be consistent with the classification of the contract in this Financial Report. This restatement to the 2018 comparatives has no impact on the entity's Total Comprehensive Income for the year in the comparative Statement of Comprehensive Income or Total Equity in the Statement of Financial Position. The comparative 'Life insurance contract premium revenue' decreases by $3,393,000 in the Statement of Comprehensive Income. The comparative 'Trade and other receivables' and the comparative 'Gross life insurance contract liabilities' in the Statement of Financial Position both increased by $1,230,000. There is no impact on 'Cash flows from operating activities' in the comparative Statement of Cash Flows. There is no impact on the balances of Statement of Financial Position for the year ended 31 December 2017.

Changes have been made to the presentation of some other comparative figures in order to achieve consistency with the presentation of the current year Financial Report.

Directors' Declaration

For the Year Ended 31 December 2019

In the opinion of the directors of Hannover Life Re of Australasia Ltd (the Company):

(a) the financial statements and notes are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's financial position as at 31 December 2019 and of its performance for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001, and other mandatory professional reporting requirements; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2 The directors draw attention to Note 1a to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Peter Gaydon
Chairman

Sydney
18 March 2020

Independent auditor's report

To the members of Hannover Life Re of Australasia Ltd

Our opinion

In our opinion:

The accompanying financial report of Hannover Life Re of Australasia Ltd (the Company) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Company's financial position as at 31 December 2019 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The financial report comprises:

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

Basis for opinion

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

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

Independence

We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report for the year ended 31 December 2019, but does not include the financial report and our auditor's report thereon.

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Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is 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 the Australian Auditing Standards 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 the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

R Cooper

R Cooper
Partner

Sydney
18 March 2020

Appointed Actuary's Section 78 Report

To the Directors of Hannover Life Re of Australasia Ltd

In respect of the Financial Statements

31 December 2019

This report is prepared under sections 77 and 78 of the Insurance (Prudential Supervision) Act 2010 (the Act) which requires that a licensed insurer must ensure that the actuarial information contained in, or used in the preparation of, the insurer's financial statements is reviewed by the Appointed Actuary. This report is in respect of the financial statements of Hannover Life Re of Australasia Ltd (the Company) for the 12 month period ending on 31 December 2019.

(a) This report has been prepared by Jun Song BCom, FIAA, FNZSA; Appointed Actuary to Hannover Life Re of Australasia Ltd.

(b) I have undertaken a review of the financial statements of the Company as required by Section 77 of the Act. My review has been carried out in accordance with the Solvency Standard for Life Insurance Business 2014 (as modified by the licence conditions of the Company) (the Life Solvency Standard) and in accordance with the New Zealand Society of Actuaries' Professional Standards.

(c) The actuarial information reviewed was:

- (i) information relating to the Company's calculations of premiums, claims, reserves, dividends, insurance and annuity rates, and technical provisions; and
- (ii) information relating to assessments of the probability of uncertain future events occurring and the financial implications for the Company if those events do occur; and
- (iii) information specified in the Life Solvency Standard as actuarial information for the purposes of this review.

There were no restrictions or limitations placed on my work.

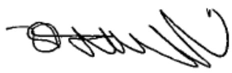
(d) Other than my relationship with the Company as Appointed Actuary, I am an employee of Hannover Life Re of Australasia Ltd. I do not have any other relationship with, or interest in, the Company.

(e) I obtained all of the information and explanations that I required.

(f) In my opinion and from an actuarial perspective:

- (i) the actuarial information included in the financial statements of the Company was appropriately included in those financial statements, and
- (ii) the actuarial information used in the preparation of the financial statements of the Company was used appropriately.

(g) As at 31 December 2019, the solvency margins that apply to Hannover Life Re of Australasia Ltd and its statutory funds under conditions imposed under section 21(2)(b) and (c) of the Act are the solvency margins calculated in accordance with the Australian equivalent of the Life Solvency Standard. In my opinion and from an actuarial perspective, Hannover Life Re of Australasia Ltd and its statutory funds maintained those solvency margins as at 31 December 2019.



Jun Song
Appointed Actuary
18 March 2020