

**HANNOVER LIFE RE OF AUSTRALASIA LTD
ABN 37 062 395 484**

**FINANCIAL REPORT
YEAR ENDED 31 DECEMBER 2020**

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FINANCIAL REPORT

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Company Particulars

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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
B. Christie, Chief Risk & Compliance Officer, B. Bus (UTS), MBA (MGSM), CA (resigned 7 August 2020)
O. O'Shea, Acting Chief Risk & Compliance Officer (appointed 10 August 2020)
M. de Villiers, BSc (Hons), MBA, FIAA, General Manager (Business Development)
D.N. Tallack, BEc, CPA, AGIA, General Manager (Finance) & Company Secretary
M. Wilson, BA (Hons), MSc, MBA, Chief Operating Officer (appointed 27 July 2020)

Auditors

PricewaterhouseCoopers

Directors' Report

For the year ended 31 December 2020

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 2020 and the auditor's report thereon.

Directors

The Directors of the entity at any time during or since the end of the financial year, up to the date of this report are:

Mr Peter Richard Gaydon, BCom, CA, MAICD
Chairman
Independent Non-Executive Director
Age 70

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 53

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

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 61

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, Equity Trustees Superannuation Ltd and HTFS Nominees Pty Ltd atf Hub 24 Super Fund.

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 2020

Mr Jean Jacques Henchoz, BA PolSc, MBA
Non-Executive Director
Age 56

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.

Director since 2019.

Mr Gerd Obertopp, Actuary (DAV)
Managing Director
Age 59

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 Robert John Wylie, BA
Independent Non-Executive Director
Age 72

Mr Wylie has previously held a number of senior positions within the insurance industry and has had over 38 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 2020

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	5	5	2	2	4	4	3	3
# Mr C Chèvre	5	5	-	-	-	-	3	3
*# Ms S Everingham	4	5	2	2	4	4	3	3
Mr JJ Henchoz	4	5	-	-	-	-	-	-
* Mr R Wylie	5	5	2	2	4	4	-	-
Mr G Obertopp	5	5	-	-	-	-	-	-

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 2020 financial year of \$11.7m (2019: loss of \$0.9m). The loss was primarily due to unfavourable claims experience on the reinsurance of individual policy portfolios and, in particular, reserving for claims arising from COVID-19 and its impact on economic conditions. 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 2020

Significant changes in the state of affairs

In the opinion of the Directors there were no 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 (2019: Nil).

Events subsequent to reporting date

There has not arisen any 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.

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.

Directors' Report

For the year ended 31 December 2020

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.

Auditor's Independence Declaration

The 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.



P. R. Gaydon
Chairman

Sydney
18 March 2021

Corporate Governance Statement

For the year ended 31 December 2020

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, acting 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 referable to the Statutory Funds of the entity.

The Board needs to be mindful of its duty to act in the interest of policyholders 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 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 2020

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.

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 and the Internal 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 & Compliance Officer, Chief Operating 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 2020

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 propriety 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

Corporate Governance Statement

For the year ended 31 December 2020

- 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, Information Security Management System 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 2020, 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

R Cooper
Partner
PricewaterhouseCoopers

Sydney
18 March 2021

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Statement of Comprehensive Income

For the year ended 31 December 2020

	<u>Note</u>	2020 \$'000	2019 \$'000
Revenue			
Life insurance contract premium revenue		1,721,251	1,225,911
Outwards reinsurance expense		(1,180,395)	(725,415)
Net life insurance premium revenue		540,856	500,496
Interest income		79,308	74,609
Net fair value gain on financial assets at fair value through profit or loss		71,302	110,677
Other income	7(a)	2,844	1,401
Total revenue and other income		<u>694,310</u>	<u>687,183</u>
Claims and expenses			
Life insurance contract claims expense		(903,757)	(720,378)
Reinsurance recoveries revenue		1,155,691	696,505
Net life insurance claims recovery/(expense)		251,934	(23,873)
Change in life insurance contract liabilities	8(a)	(762,745)	739,552
Change in reinsurer's share of life insurance contract liabilities	8(a)	142,262	(992,920)
		(368,549)	(277,241)
Other expenses	7(b)	(336,044)	(409,412)
Finance costs paid/payable for lease liability	20	(1,411)	(1,397)
Net claims and expenses		<u>(706,004)</u>	<u>(688,050)</u>
Loss before income tax		(11,694)	(867)
Income tax benefit/(expense)	16(a)	23,720	(9,971)
Profit/(loss) for the year attributable to the entity	7(c)	<u>12,026</u>	<u>(10,838)</u>
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Foreign currency translation reserve movement		72	304
<i>Items that will not be reclassified to profit or loss</i>			
Defined benefit plan reserve movement		27	(1,018)
Income tax on defined benefit plan reserve movement	16(a)	(8)	305
Total comprehensive income/(loss) for the year		<u>12,117</u>	<u>(11,247)</u>

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

Statement of Financial Position as at 31 December 2020

	<u>Note</u>	2020 \$'000	2019 \$'000
Assets			
Cash and cash equivalents	17	128,241	130,542
Trade and other receivables	9	128,393	316,164
Financial assets at fair value through profit or loss	18	3,310,474	2,450,568
Property, plant and equipment	10	4,599	4,611
Current tax assets		968	1,012
Deferred tax assets	16(b)	60,672	36,798
Intangible assets	12	8,709	7,130
Right of use assets	20	28,479	31,614
Total assets		<u>3,670,535</u>	<u>2,978,439</u>
Liabilities			
Trade and other payables	11	76,477	59,910
Lease liability	20	35,418	35,148
Employee benefits	13	7,998	8,530
Gross life insurance contract liabilities	8(a)	2,002,620	1,241,234
Reinsurers' share of life insurance contract liabilities	8(a)	1,006,478	1,149,190
Total liabilities		<u>3,128,991</u>	<u>2,494,012</u>
NET ASSETS		<u>541,544</u>	<u>484,427</u>
EQUITY			
Contributed equity	14(a)	150,000	105,000
Reserves		56,937	56,846
Retained profits		334,607	322,581
TOTAL EQUITY		<u>541,544</u>	<u>484,427</u>

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 2020

	Share Capital	Translation Reserve	Defined Benefit Reserve	Other Reserve	Retained Profits	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2020	105,000	4,455	(7,609)	60,000	322,581	484,427
Profit for the year	-	-	-	-	12,026	12,026
Other comprehensive income						
Foreign currency translation	-	72	-	-	-	72
Revaluation of defined benefit provision	-	-	19	-	-	19
Total comprehensive income for the year	-	72	19	-	12,026	12,117
Issuance of fully paid up shares	45,000	-	-	-	-	45,000
Balance at 31 December 2020	150,000	4,527	(7,590)	60,000	334,607	541,544

	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	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
Balance at 31 December 2019	105,000	4,455	(7,609)	60,000	322,581	484,427

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 2020

	<u>Note</u>	2020 \$'000	2019 \$'000
Cash flow from operating activities			
Premium received		1,779,966	1,178,353
Retrocession premium paid		(1,181,583)	(724,227)
Policy payments		(954,850)	(720,098)
Commissions paid		(122,409)	(1,409,258)
Reinsurance and other recoveries received		1,195,645	1,792,529
Portfolio transfer		-	184,987
Reinsurer's share of portfolio transfer		-	(175,737)
Payments to suppliers and employees		(46,145)	(52,356)
Income tax paid		(566)	(2,302)
Interest received		75,775	75,179
Other revenue received		3,093	1,401
Net cash inflow from operating activities	17	<u>748,926</u>	<u>148,471</u>
Cash flow from investing activities			
Payments for financial assets at fair value through profit or loss		(1,942,480)	(816,261)
Proceeds from sale of financial assets at fair value through profit or loss		1,151,905	685,715
Payments for property, plant & equipment		(524)	(513)
Payments for system development costs		(3,986)	(4,600)
Net cash outflow from investing activities		<u>(795,085)</u>	<u>(135,659)</u>
Cash flow from financing activities			
Issued fully paid up share capital		45,000	25,000
Lease payments		(1,142)	(998)
Net cash inflow from financing activities		<u>43,858</u>	<u>24,002</u>
Net (decrease)/increase in cash held		(2,301)	36,814
Cash and cash equivalents at the beginning of the financial year		130,542	93,676
Effects of exchange rate changes on the opening balance of cash and cash equivalents		-	52
Cash and cash equivalents at the end of the financial year	17	<u><u>128,241</u></u>	<u><u>130,542</u></u>

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 2020

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For the year ended 31 December 2020

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 NSW 2000, Australia. 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 and Interpretations issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. This Financial Report complies with International Financial Reporting Standards (IFRS) as 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 2021. 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.

For the year ended 31 December 2020

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) Premiums and claims

Premiums 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.

For the year ended 31 December 2020

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.

For the year ended 31 December 2020

(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.

For the year ended 31 December 2020

(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 or loss 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.

For the year ended 31 December 2020

(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

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).

For the year ended 31 December 2020

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 amendments not yet adopted**

AASB 9 *Financial Instruments*

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*

AASB 17, a new accounting standard for insurance contracts, was adopted by the Australian Accounting Standards Board (AASB) in July 2017 to replace AASB 4 Insurance Contracts. In June 2020, the AASB issued Amendments to AASB 17 which deferred the effective date from 1 January 2021 to 1 January 2023 and made significant amendments to the standard in response to feedback from, and implementation issues raised by, stakeholders. These amendments were adopted by the AASB in July 2020.

It requires a current measurement model where estimates are re-measured each reporting period.

Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows;
- an explicit risk adjustment; and
- a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period.

Given the broad scope of the recent amendments, complexity of the new requirements and lack of general consensus on the interpretation of key components of the standard, the impact of AASB 17 on the entity's financial statements is still being determined; however, significant presentation and disclosure changes and some impact on reported profit or loss are expected.

Hannover Re Group and local accounting guidance and application methodologies are being developed, and Group and local project teams are progressing the detailed design and implementation of changes to financial reporting systems. Market developments also continue to be monitored in order to assess the impact of evolving interpretations and other changes.

For the year ended 31 December 2020

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.

During the current year, the COVID-19 impacts were assessed by the Actuaries and an appropriate claim reserve was recorded in the life insurance contract liabilities.

(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) **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.

For the year ended 31 December 2020

(d) Receivables and payables for life insurance contracts

During the current year, the entity has implemented a more granular process for the allocation of the quarterly technical estimates to life insurance contracts at year end. The updated process allocates, at a more granular level, the estimates to the receivables and payables of life insurance contracts after taking account of the actual transactions. The revised estimation approach is applied prospectively without any changes to the comparative figures

3. Actuarial assumptions and methods

The effective date of the actuarial report on life insurance contract liabilities and solvency reserves is 31 December 2020. The actuarial report dated 18 March 2021 was prepared by Appointed Actuary, 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:

<u>Major Product Groups</u>	<u>Profit Carrier</u>
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:

For the year ended 31 December 2020

(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	2020: 0.00% to 1.43% p.a. 2019: 0.75% to 1.65% p.a.
Overseas business	2020: 0.16% to 0.88% p.a. 2019: 1.10% to 1.70% 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	2020: 1.75% p.a. 2019: 1.75% p.a.
Overseas business	2020: 1.25% p.a. 2019: 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	2020: 45% to 300% of ADI 2007-2011 2019: 50% to 300% of ADI 2007-2011
Overseas business	2020: 75% to 140% of ADI 2007-2011 2019: 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 2% - 35% p.a. (2019: 5% - 20% p.a.).

For the year ended 31 December 2020

(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 2019 to 31 December 2020

Assumption category	Effect on net profit margins \$'000 Increase/ (decrease)	Effect on net life insurance contract liabilities \$'000 Increase/ (decrease)
Discount rates	990	12,526
Future inflation rates	(9)	(224)
Mortality and morbidity	(1,301)	3,235
Claim expense margins	-	-
Total	(320)	15,537

(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.

For the year ended 31 December 2020

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	
		2020	2019
		\$'000	\$'000
Worsening of mortality/morbidity claim incidence rates	10%	20,778	16,604
Worsening of income claim termination rates ¹	10%	28,653	11,210
Deterioration in unreported claims development ²	10%	2,099	6,268
Increase in fixed interest bond yields	1%	3,280	2,984

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:

	Loss on claims development before reinsurance	
	2020	2019
	\$'000	\$'000
Long tailed lump sum benefit claims	(36,060)	(34,535)
Long tailed income benefit claims	(3,143)	(8,815)

For the year ended 31 December 2020

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 is responsible for the entity's risk management framework and is responsible for the oversight of its operation by management. 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 co-ordinates with the executive team, the development, implementation, continuous improvement and monitoring of the Risk Management and Compliance Management Frameworks.

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.

The Board Risk Committee, a sub-committee of the Board, is responsible for oversight of the implementation and operation of the entity's risk and compliance frameworks.

The Board Audit Committee, a sub-committee of the Board, is responsible for monitoring the entity's risk management framework and reporting to the Board. It provides independent assurance to the Board that the risk management framework is appropriate, consistently implemented and operating effectively.

The Board Audit Committee is assisted in its 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.

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.

(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 AA- (Standard & Poor's). Given these high credit ratings, management does not expect a reinsurer to fail to meet its obligations.

For the year ended 31 December 2020

(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 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.

For the year ended 31 December 2020

(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
<i>Non-participating life insurance contracts with fixed terms (Term Life and Disability)</i>	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

For the year ended 31 December 2020

(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.

For the year ended 31 December 2020

The Capital Base and Prescribed Capital Amount at 31 December 2020 for each fund have been determined in accordance with LPS 110 as follows:

	Australian Reinsurance Statutory Fund	Australian Statutory Fund	Overseas Statutory Fund	Shareholder Fund	Total
	2020 \$'000	2020 \$'000	2020 \$'000	2020 \$'000	2020 \$'000
Capital Base					
Net assets ⁽¹⁾	281,043	207,325	22,192	30,984	541,544
Regulatory adjustments to net assets	(78,073)	(71,796)	6,138	(1,655)	(145,386)
Tier 2 capital	-	-	-	-	-
Regulatory adjustments to Tier 2 capital	-	-	-	-	-
Intangible Assets	-	(206)	-	(8,503)	(8,709)
Total Capital Base	202,970	135,323	28,333	20,826	387,449
Prescribed Capital Amount (PCA)					
Insurance risk charge	60,865	29,278	4,260	-	94,404
Asset risk charge	33,634	41,833	3,270	44	78,781
Asset concentration risk charge	-	-	-	-	-
Operational risk charge	55,980	17,370	2,434	-	75,783
Less aggregation benefit	(19,302)	(15,459)	(1,664)	-	(36,425)
Combined stress scenario adjustment	32,228	23,851	2,281	19	58,379
Total PCA	163,405	96,873	10,581	63	270,922
Capital adequacy multiple (Capital Base/PCA)	1.24	1.40	2.68	330.57	1.43

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

For the year ended 31 December 2020

The 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	Australian Statutory Fund	Overseas Statutory Fund	Shareholder Fund	Total
	2019 \$'000	2019 \$'000	2019 \$'000	2019 \$'000	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.

For the year ended 31 December 2020

	2020	2019
	\$'000	\$'000
7. Profit or loss information		
(a) Other income		
Services to related parties	2,374	1,344
Claims handling fee for service	250	227
Exchange losses	(7)	(99)
Net other income/(expense)	227	(71)
	<u>2,844</u>	<u>1,401</u>
(b) Other expenses		
Policy acquisition costs – life insurance contracts		
- Net commission	(6,087)	61,696
- Other acquisition costs	3,286	3,050
Total policy acquisition costs	<u>(2,801)</u>	<u>64,746</u>
Policy maintenance costs – life insurance contracts		
- Net commission	281,602	290,268
- Other expenses	54,033	51,810
Total policy maintenance costs	<u>335,635</u>	<u>342,078</u>
Investment management expenses	3,210	2,588
	<u>336,044</u>	<u>409,412</u>
(c) Components of profit/(loss)		
Planned margin of revenues over expenses released	10,343	9,764
Difference between actual and assumed experience	2,347	(30,019)
Change in valuation methods and assumptions	(11,972)	(4,876)
Investment earnings on assets in excess of life insurance liabilities	11,308	14,293
Profit/(loss) for the year	<u>12,026</u>	<u>(10,838)</u>

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

For the year ended 31 December 2020

(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 \$2,495,482 for the year ended 31 December 2020 (2019: \$2,006,936).

8. Life insurance contract liabilities

(a) Reconciliation of movement in life insurance contract liabilities

	2020	2019
	\$'000	\$'000
Life insurance contract liabilities		
Gross life insurance contract liabilities at 1 January	1,241,234	1,795,249
Exchange rate adjustment on translation of New Zealand branch	(1,359)	550
Portfolio transfer	-	184,987
Change in life insurance contract liabilities reflected in profit or loss	762,745	(739,552)
	2,002,620	1,241,234
Reinsurers' share of life insurance contract liabilities		
Retroceded life insurance contract liabilities at 1 January	(1,149,190)	(156,545)
Exchange rate adjustment on translation of New Zealand Branch	450	275
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 or loss	142,262	(992,920)
	(1,006,478)	(1,149,190)
Net life insurance contract liabilities at 31 December	3,009,098	2,390,424
Expected to be settled within 12 months	1,257,041	849,932
Expected to be settled in more than 12 months	1,752,057	1,540,492
	3,009,098	2,390,424

For the year ended 31 December 2020

(b) Components of net life insurance contract liabilities

	2020	2019
	\$'000	\$'000
<i>Best estimate liability</i>		
- Value of future policy benefits	2,983,667	2,389,362
- Value of future expenses	74,121	63,336
- Value of unrecouped acquisition expense	(149,436)	(184,088)
	2,908,352	2,268,610
Total best estimate liability for life insurance contracts		
Value of future shareholder profit margins	100,746	121,814
	3,009,098	2,390,424

9. Trade and other receivables

	2020	2019
	\$'000	\$'000
Outstanding premium	107,392	164,854
Investment income accrued and receivable	17,546	14,012
Insurance recoveries due from related parties	-	132,931
Other receivables	3,455	4,367
	128,393	316,164

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.

For the year ended 31 December 2020

10. Property, plant and equipment

	2020	2019
	\$'000	\$'000
Fixtures, Fittings & Equipment		
<u>Cost</u>		
Balance at 1 January	6,547	6,863
Acquisitions	524	513
Disposals	(85)	(829)
Balance at 31 December	6,986	6,547
 <u>Accumulated Depreciation</u>		
Balance at 1 January	1,936	2,318
Depreciation charge for the year	536	431
Disposals	(85)	(813)
Balance at 31 December	2,387	1,936
 <u>Carrying Amounts</u>		
At 1 January	4,611	4,545
At 31 December	4,599	4,611
Straight line depreciation rate	1-40%	1-40%

The property, plant and equipment comprise of non-current fixed assets at reporting date.

11. Trade and other payables

	2020	2019
	\$'000	\$'000
Payables under life insurance contracts	11,715	56,289
Amounts due to related parties	62,222	-
Other payables	2,540	3,621
	76,477	59,910

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.

For the year ended 31 December 2020

12. Intangible assets

	2020	2019
	\$'000	\$'000
System Development Costs		
<u>Cost</u>		
Balance at 1 January	13,245	9,474
Acquisitions	3,986	4,600
Write-offs	(2,350)	(829)
Balance at 31 December	14,881	13,245
<u>Accumulated amortisation</u>		
Balance at 1 January	6,115	4,285
Amortisation	2,407	2,659
Write-offs	(2,350)	(829)
Balance at 31 December	6,172	6,115
<u>Carrying Amounts</u>		
At 1 January	7,130	5,189
At 31 December	8,709	7,130

The intangible assets are all non-current assets at reporting date.

13. Employee Benefits

	2020	2019
	\$'000	\$'000
Current liability		
Annual leave liability	1,881	1,238
Non-Current liability		
Long service leave liability	2,429	2,031
Other long term employee benefit liabilities	1,430	2,104
Net defined benefit liability (Note 21(b))	2,258	3,157
	7,998	8,530

For the year ended 31 December 2020

14. Capital and reserves

(a) Contributed equity

	Ordinary Shares	
	2020	2019
	\$'000	\$'000
On issue at 1 January	105,000	80,000
Issued for cash	45,000	25,000
	150,000	105,000
	150,000	105,000
 Number of ordinary shares issued and fully paid	148,200,002	103,200,002

The ordinary shares of the entity were issued by the Parent Company and 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.

For the year ended 31 December 2020

15. Disaggregated information of life insurance business by fund

2020					
	Australian Statutory Fund	Australian Reinsurance Statutory Fund	Overseas Statutory Fund	Shareholders' Fund	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets	656,524	2,543,394	97,290	13,266	3,310,474
Other assets	134,011	198,286	10,047	17,717	360,061
Reinsurers' share of life insurance contract liabilities	(61,531)	(925,430)	(19,517)	-	(1,006,478)
Life insurance contract liabilities assumed	460,439	1,473,163	69,018	-	2,002,620
Other liabilities	61,240	62,043	(3,390)	-	119,893
Retained profits	112,492	219,046	17,664	(14,595)	334,607
Premium revenue	561,578	1,117,989	41,684	-	1,721,251
Investment revenue	30,342	115,903	4,267	98	150,610
Claims expense	(293,714)	(579,081)	(30,962)	-	(903,757)
Other operating expenses	(255,491)	(77,713)	(4,224)	(27)	(337,455)
Operating profit/(loss) before tax	(6,730)	(1,782)	(3,255)	73	(11,694)
Operating profit/(loss) after tax	915	13,326	(2,266)	51	12,026

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	13,747	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)

For the year ended 31 December 2020

16. Income tax

(a) **Income tax (benefit)/expense**

	2020 \$'000	2019 \$'000
<u>Current tax (benefit)/expense</u>		
Current year	455	1,272
Prior year	(289)	(1,312)
<u>Deferred tax (benefit)/expense</u>		
Origination and reversal of temporary differences		
- Current year	(22,081)	10,372
- Adjustment for prior years	(1,805)	(361)
Total income tax (benefit)/expense disclosed in Statement of Comprehensive Income	(23,720)	9,971

Reconciliation between tax expense and pre-tax net loss

Net loss before tax	(11,694)	(867)
Prima facie income tax benefit calculated at 30% (2019: 30%) on the loss from ordinary activities for the year ended 31 December:	(3,508)	(260)
Increase in income tax expense due to:		
- Non-deductible retrocession	-	11,785
- Difference in New Zealand tax rate	65	-
- Other	84	155
(Decrease) in income tax expense due to:		
- Non-assessable retrocession	(18,267)	-
- Over provision from prior year	(2,094)	(1,673)
- Difference in New Zealand tax rate	-	(36)
Income tax (benefit)/expense on pre-tax profit	(23,720)	9,971

During 2020 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% (2019: 28%).

Deferred tax recognised directly in equity

Relating to movement in defined benefit provision	8	(305)
	8	(305)

For the year ended 31 December 2020

16. Income tax (continued)

(b) Recognised deferred tax (assets) and liabilities

	Assets		Liabilities		Net Tax Asset	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Employee benefits	(2,391)	(2,559)	-	-	(2,391)	(2,559)
Life insurance contract liabilities	(28,659)	(24,385)	-	-	(28,659)	(24,385)
Other items	(2,021)	(1,556)	-	-	(2,021)	(1,556)
Tax value of loss carry-forward recognised	(27,601)	(8,298)	-	-	(27,601)	(8,298)
Net tax (assets)	(60,672)	(36,798)	-	-	(60,672)	(36,798)

(c) Movements in temporary differences during the year

	Balance 1 Jan 2020 \$'000	Exchange Movement in Equity \$'000	Recognised in Income \$'000	Recognised in Equity \$'000	AASB 16 opening balance adjustment \$'000	Balance 31 Dec 2020 \$'000
Employee benefits	(2,559)	-	160	8	-	(2,391)
Life insurance contract liabilities	(24,385)	4	(4,278)	-	-	(28,659)
Other items	(1,556)	-	(465)	-	-	(2,021)
Tax value of loss carry-forward recognised	(8,298)	-	(19,303)	-	-	(27,601)
	<u>(36,798)</u>	<u>4</u>	<u>(23,886)</u>	<u>8</u>	<u>-</u>	<u>(60,672)</u>
	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	(2,299)	-	44	(304)	-	(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)
	<u>(46,792)</u>	<u>9</u>	<u>10,011</u>	<u>(304)</u>	<u>278</u>	<u>(36,798)</u>

For the year ended 31 December 2020

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

	2020 \$'000	2019 \$'000
Profit/(loss) from ordinary activities after income tax benefit/(expense)	12,026	(10,838)
Add/(less) adjusting items:		
Net fair value gains on financial assets	(71,302)	(110,677)
Add non-cash movements:		
Depreciation and amortisation	6,079	6,241
Finance costs on lease liability	1,411	1,397
Net unrealised foreign exchange loss/(gains)	2,062	(440)
Net cash outflows from operating activities before change in assets & liabilities	(49,724)	(114,317)
Change in assets and liabilities:		
Decrease/(increase) in receivables	187,771	(181,937)
(Increase)/decrease in tax assets	(23,830)	9,826
Increase/(decrease) in trade and other payables	16,035	(1,928)
Increase/(decrease) in life insurance contract liabilities	761,386	(554,015)
(Decrease)/increase in reinsurers' share of life insurance contract liabilities	(142,712)	992,645
Decrease in tax liabilities	-	(1,803)
Net cash inflows from operating activities	748,926	148,471

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:

	2020 \$'000	2019 \$'000
Cash and cash equivalents		
Cash	128,241	130,542
Cash and cash equivalents in the cash flow statement	128,241	130,542

The entity's exposures to credit risk is disclosed in Note 19.

For the year ended 31 December 2020

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.

	2020	2019
	\$'000	\$'000
Financial Instruments		
Level 1	-	-
Level 2	3,310,474	2,450,568
Level 3	-	-
	<u>3,310,474</u>	<u>2,450,568</u>

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:

	2020	2019
	\$'000	\$'000
Cash	128,241	130,542
Investment assets – debt securities	3,310,474	2,450,568
Trade and other receivables	128,393	316,164
	<u>3,567,108</u>	<u>2,897,274</u>

For the year ended 31 December 2020

19. Financial instrument risks (continued)

(a) **Credit risk exposure** (continued)

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:

	2020	2019
	\$'000	\$'000
<i>Issuing Sector</i>		
Government	919,485	710,453
Semi-Government – Government Guaranteed	12,455	12,982
Semi-Government	337,757	471,607
Government Agency	142,312	129,582
Government Agency – Government Guaranteed	96,738	59,846
Sovereign supranational	459,899	158,539
Sovereign supranational – Foreign Government Guaranteed	181,631	107,074
Corporate	1,160,197	800,485
	<u>3,310,474</u>	<u>2,450,568</u>
Expected to be realised within 12 months	192,938	232,074
Expected to be realised in more than 12 months	3,117,536	2,218,494
	<u>3,310,474</u>	<u>2,450,568</u>

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:

<i>Rating of Issuer</i>		
AAA	1,974,242	1,384,461
AA	845,414	756,290
A	294,767	177,866
BBB	196,051	131,951
	<u>3,310,474</u>	<u>2,450,568</u>

For the year ended 31 December 2020

19. Financial instrument risks (continued)

(b) Market risk sensitivity

The entity has sensitivity to the following market risks:

	2020 \$'000	2019 \$'000
<i>(i) Interest rate risk</i>		
At balance date the entity held the following interest sensitive financial instruments:		
Investment assets – debt securities	3,310,474	2,450,568
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.		
- plus 100 basis points - (decrease) profit and equity by	(209,579)	(172,270)
- minus 100 basis points - increase profit and equity by	237,065	199,342

(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	97,417	78,339
Total liabilities denominated in New Zealand dollars	73,753	55,521

For the year ended 31 December 2020

19. Financial instrument risks (continued)

(b) Market risk sensitivity (continued)

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.

	2020	2019
	\$'000	\$'000
	AUD	AUD
- Strengthening of the Australian dollar against the NZD will (decrease) equity by	(2,082)	(1,652)
- Strengthening of the Australian dollar against the NZD will increase/(decrease) profits by	283	183

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 (2020: NZD \$1 = AUD \$0.94 2019: NZD \$1 = AUD \$0.96).

(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
2020								
Debt securities at fair value through profit or loss	0.86%	3,310,474	192,938	194,006	352,329	436,410	354,611	1,780,180
Cash	0.00%	128,241	128,241	-	-	-	-	-
Trade and other receivables	-	128,393	128,393	-	-	-	-	-
Trade and other payables	-	(76,477)	(76,477)	-	-	-	-	-
Lease liability	4.00%	(35,418)	(2,418)	(2,916)	(3,205)	(3,513)	(3,840)	(19,526)
		3,455,213	370,677	191,090	349,124	432,897	350,771	1,760,654
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

For the year ended 31 December 2020

20. Leases

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:

	2020	2019
	\$'000	\$'000
Right of use assets		
Office space	28,479	31,614
	<u> </u>	<u> </u>
Lease liability		
Current	2,418	(269)
Non-current	33,000	35,417
	<u> </u>	<u> </u>
	<u>35,418</u>	<u>35,148</u>

(ii) Amounts recognised in the Statement of Comprehensive Income

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

	2020	2019
	\$'000	\$'000
Depreciation charge of right of use assets	3,135	3,135
Interest expenses (included in finance costs)	1,411	1,397

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.

For the year ended 31 December 2020

(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 2020 was \$8,574,000 (2019: \$8,425,000). The assets of the Plan are invested in unit linked products within MST. The assets of the Plan as at 31 December 2020 were \$6,316,000 (2019: \$5,268,000). The net defined benefit liability at this date was \$2,258,000 (2019: \$3,157,000).

22. Auditor's remuneration

	2020	2019
	\$	\$
Audit Services:		
Auditors of the entity – PricewaterhouseCoopers		
Audit and review of the financial reports	340,056	342,982
Other regulatory audit services	38,100	38,100
	378,156	381,082
Other Services:		
Auditors of the entity – PricewaterhouseCoopers		
Other consulting (RMF & ICAAP review)	137,700	-
	137,700	-

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) Ms S. G. Everingham Mr R. J. Wylie	Mr C. J. Chèvre (Deputy Chairman) Mr J. J. Henchoz	Mr G. Obertopp

Executive Management

Mr Gerd Obertopp (Managing Director)
 Mr Bruce Christie (Chief Risk & Compliance Officer) – resigned 7 August 2020
 Ms Orla O'Shea, (Acting Chief Risk & Compliance Officer) - appointed 10 August 2020)
 Ms Moira De Villiers (General Manager Business Development)
 Mr Jun Song (Appointed Actuary)
 Mr David Tallack (General Manager Finance and Company Secretary)
 Ms Margot Wilson (Chief Operating Officer) – appointed 27 July 2020

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.

For the year ended 31 December 2020

Transactions with key management personnel

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

	2020	2019
	\$	\$
Short term employee benefits	3,137,749	3,454,029
Post employment benefits	139,122	141,049
Other long term benefits	399,866	348,500
	<u>3,676,737</u>	<u>3,943,578</u>

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) *Other services rendered by/to related parties*

Payments are made to Hannover Rück SE for the entity's share of various project and line costs incurred by the Hannover Re Group. Further, income is received by entity for various secondment services provided to Hannover Rück SE and the recovery of shared expenses from Australian branches of Hannover Rück SE and HDI Global Specialty.

For the year ended 31 December 2020

(iv) *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:

	2020	2019
	\$	\$
Transactions during the year		
Outwards reinsurance expenses	(1,149,111,545)	(687,854,979)
Reinsurance recoveries	1,074,414,169	711,729,315
Payments for services	(4,468,295)	(3,838,464)
Income from services	2,374,348	1,343,877
Investment management fees	(3,210,543)	(2,588,383)
Creditors – Current		
Amounts due to related parties	62,222,137	-
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 Rück 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

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

27. Events after the reporting date

There has not arisen any 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.

Directors' Declaration

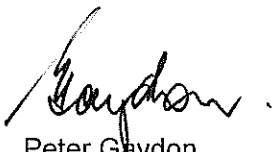
For the Year Ended 31 December 2020

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

- (a) the financial statements and notes, set out on pages 13 to 53 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 2020 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.

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 2021



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 2020 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 2020
- 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 significant accounting policies and other explanatory information
- 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 & 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 2020, but does not include the financial report and our auditor's report thereon.

PricewaterhouseCoopers, ABN 52 780 433 757

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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 2021

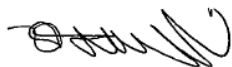
Appointed Actuary's Section 78 Report
To the Directors of Hannover Life Re of Australasia Ltd
In respect of the Financial Statements
31 December 2020

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 2020.

- (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 2020, 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 2020.



Jun Song
Appointed Actuary
18 March 2021