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HANNOVER LIFE RE OF AUSTRALASIA LTD

NEW ZEALAND BRANCH

FINANCIAL REPORT

YEAR ENDED 31 DECEMBER 2020

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FINANCIAL REPORT

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Hannover Life Re of Australasia Ltd
New Zealand Branch

Letter of Authorisation

The Board of Directors have pleasure in presenting the annual report of Hannover Life Re of Australasia Ltd, New Zealand Branch (the Branch), incorporating the Financial Report, the Appointed Actuary's Report under Section 78 of the *Insurance (Prudential Supervision) Act 2010* and the Independent Auditor's Report for the year ended 31 December 2020.

The Board of Directors of Hannover Life Re of Australasia Ltd authorised this Financial Report of the Branch on 18 March 2021.

P. R. Gaydon
Chairman

G. Obertopp
Managing Director

18 March 2021

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Corporate Governance Statement

For the year ended 31 December 2020

This Statement outlines the main corporate governance practices of Hannover Life Re of Australasia Ltd and applicable to the New Zealand Branch throughout the financial year, unless otherwise stated.

Board of Directors

Role of the Board

The Board's primary role is the protection and enhancement of long-term shareholder value.

In addition, the Board, in accordance with the *Life Insurance Act 1995* and the *Insurance (Prudential Supervision) Act 2010* (jointly "the Life Acts"), has a duty to take reasonable care and use due diligence in relation to the interests of the owners and prospective owners of policies referrable to the Statutory Funds of Hannover Life Re of Australasia Ltd (the entity), including the New Zealand Branch (the branch).

To fulfil this role, 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 note 21 of the branch's Financial Statements. 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, Directors must retire after three years, at which time, if they are eligible, they may offer themselves for re-election.

Board Processes

To assist it in the execution of its responsibilities, the Board has established a Board Charter and Board Audit, Risk and 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 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 Appointed Auditor, the Managing Director, the Company Secretary and Appointed Actuary 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 entity's Risk Management Framework.

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

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

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 entity.

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

Remuneration of the Board

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

Fit and Proper Policy

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

Financial supervision

The Life Acts govern the principal activities of the entity and identifies 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 entity and regulatory bodies are prepared in accordance with Australian Accounting Standard AASB 1038 *Life Insurance Contracts*, New Zealand International Financial Reporting Standards, the *Financial Sector (Collection of Data) Act 2001* and the *Corporations Act 2001*;
- the entity's Appointed Actuary is responsible for investigating the financial condition of the entity including the valuation of policy liabilities, solvency and capital adequacy requirements in accordance with the standards applied by the Australian Prudential Regulation Authority (APRA) and for providing advice to Executive Management and the Board as required under Prudential Standards and the Life Acts;
- Investment Guidelines are approved by the Board. Investment management decisions in accordance with the requirements of the Guidelines are delegated to an external investment manager in accordance with an Investment Management Agreement; and
- adoption of various policies such as the Risk Appetite Statement, Risk and Capital Management Strategy, Target Capital, ICAAP Summary Statement, Remuneration Policy, Tax Risk Management Policy, Information Security Management System and Fit & Proper Policy.

Corporate Governance Statement

For the Year Ended 31 December 2020

Ethical standards

Code of Conduct

The entity has adopted a Code of Conduct that requires all 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.

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Hannover Life Re of Australasia Ltd
New Zealand Branch

Statement of Comprehensive Income
For the year ended 31 December 2020

	Note	2020 $'000	2019 $'000
Revenue			
Life insurance contract premium revenue		45,375	40,702
Outwards reinsurance expense		(36,916)	(33,797)
Net life insurance premium revenue		8,459	6,905
Interest income		3,563	2,989
Net fair value gains on financial assets at fair value through profit or loss		997	1,655
Other income		220	98
Total revenue and other income		13,239	11,647
Claims and expenses			
Life insurance contract claims expense		(29,940)	(29,207)
Reinsurance recoveries revenue		40,860	30,166
Net life insurance claims expense		10,920	959
Change in life insurance contract liabilities	7(a)	(19,985)	(5,283)
Change in reinsurers' share of life insurance contract liabilities	7(a)	(2,832)	2,453
		(11,897)	(1,871)
Other expenses	6(a)	(2,953)	(7,441)
Net claims and expenses		(14,850)	(9,312)
(Loss)/profit before income tax		(1,611)	2,335
Income tax benefit	12(b)	514	1,147
(Loss)/profit for the year attributable to the branch	6(b)	(1,097)	3,482
Other comprehensive income		-	-
Total comprehensive (loss)/income for the year		(1,097)	3,482

On behalf of the Board of Directors

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Director **Director**

The Statement of Comprehensive Income is to be read in conjunction with the notes to and forming part of the Financial Report.

Hannover Life Re of Australasia Ltd
New Zealand Branch

Statement of Financial Position
As at 31 December 2020

	Note	2020 $'000	2019 $'000
Assets			
Cash and cash equivalents	13	7,370	3,006
Financial assets at fair value through profit or loss	9	103,657	88,489
Trade and other receivables	8	12,312	10,116
Current tax assets		347	1,627
Deferred tax assets		1,574	129
Total assets		125,260	103,367
Liabilities			
Trade and other payables	10	2,173	5,192
Gross life reinsurance contract liabilities	7(a)	70,314	50,329
Reinsurers' share of life insurance contract liabilities	7(a)	27,860	25,028
Total liabilities		100,347	80,549
Net assets		24,913	22,818
Equity			
Retained profits		24,913	22,818
Total equity		24,913	22,818

The Statement of Financial Position is to be read in conjunction with the notes to and forming part of the Financial Report.

On behalf of the Board of Directors

Director   **Director**

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Hannover Life Re of Australasia Ltd
New Zealand Branch

Statement of Changes in Equity
For the year ended 31 December 2020

	2020 $'000	**2019** $'000
Balance at 1 January	22,818	9,879
(Loss)/profit for the year	(1,097)	3,482
Other comprehensive income	-	-
Total comprehensive (loss)/income for the year	(1,097)	3,482
Transfer from the Australian parent entity	3,192	9,457
Balance at 31 December	24,913	22,818

The above Statement of Changes in Equity should be read in conjunction with the notes to and forming part of the Financial Report.

Hannover Life Re of Australasia Ltd
New Zealand Branch

Statement of Cash Flows
For the year ended 31 December 2020

	Note	2020 $'000	2019 $'000
Cash flows from operating activities			
Premium received		43,944	39,259
Policy payments		(31,932)	(30,401)
Reinsurance premium paid		(37,316)	(33,797)
Net commissions received/(paid)		2,520	(4,939)
Payments to suppliers		(4,751)	(5,209)
Income tax paid		(599)	(2,439)
Reinsurance and other recoveries received		39,523	29,475
Interest received		3,486	3,081
Other revenue received		467	98
Net cash inflows/(outflows) from operating activities	13	15,342	(4,872)
Cash flows from investing activities			
Payments for financial assets at fair value through profit or loss		(44,793)	(25,965)
Proceeds from sale of financial assets at fair value through profit or loss		30,623	20,675
Net cash outflows from investing activities		(14,170)	(5,290)
Cash flow from financing activities			
Transfer of profits & funds from Australian parent entity		3,192	9,457
Cash inflows from financing activities		3,192	9,457
Net increase/(decrease) in cash and cash equivalents		4,364	(705)
Cash and cash equivalents at the beginning of the financial year		3,006	3,711
Cash and cash equivalents at the end of the financial year	13	7,370	3,006

The above Statement of Cash Flows is to be read in conjunction with the notes to and forming part of the Financial Report.

1. Statement of Accounting Policies

The significant policies which have been adopted in the preparation of this Financial Report are:

(a) Basis of Presentation

The Financial Report presented is for the New Zealand branch (the branch) of Hannover Life Re of Australasia Ltd (the entity) which is registered under the *Companies Act 1993*. The branch is a registered overseas operation of the entity which is domiciled in Australia. The branch's principal place of business in New Zealand is at Melville Jessup Weaver, Level 5, 40 Mercer Street, Wellington, 6011, New Zealand.

The branch is a for-profit entity for the purpose of preparing financial statements and is an FMC reporting entity for the purpose of the *Financial Markets Conduct Act 2013*. The Financial Report is prepared in accordance with the Financial Markets Conduct Act 2013, Companies Act 1993, the Financial Reporting Act 2013 and the Insurance (Prudential Supervision) Act 2010 and also complies with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

Compliance with NZ IFRS ensures that the Financial Report and notes of the branch comply with International Financial Reporting Standards.

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 the Financial Report in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the branch'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 has 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 New Zealand dollars, which is the branch's functional currency.

The 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) Activities of Life Insurance Operations

The life insurance operations of the branch are conducted in accordance with the *Insurance (Prudential Supervision) Act 2010* (the Insurance Act). The Reserve Bank of New Zealand issued the branch with a licence under the Insurance Act on 2 April 2013.

The life insurance operations consist of non-investment linked business only. Non-investment linked business is business in which the branch issues a policy contract where the insured benefit is not directly linked to the market value of the investments held, is payable on death, or on the occurrence of a contingency dependent on the termination or continuance of human life, or on the occurrence of injury or disability caused by accident or illness, and the financial risk of the occurrence of the event which crystallises the payment of the insured benefit is borne by the branch.

All business written by the branch is non-participating and all profits and losses from non-participating business are allocated to the shareholder.

(c) Principles for Life Insurance Business

The life insurance operations of the branch comprise insurance of life and disability insurance and the administration thereof. 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 branch, and the financial risks are substantially borne by the branch.

(d) Premiums and Claims

Premiums and claims have been classified as revenue and expense respectively as the branch only sells risk products. Premiums are 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.

(e) Liabilities

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.

Trade and Other Payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost. Carrying amount is the best estimate of fair value, as they are settled within a short period.

(f) Assets Backing Life Insurance Contract Liabilities

The branch has determined that all assets held within the branch 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 to fair value taken to profit or loss is consistent with key elements of the branch's risk management framework. Consequently all financial assets within the statutory fund is measured at fair value as at the reporting date.

Investments

The business model for the branch's portfolio of investments, which comprise interest-bearing assets that represent solely payments of principal and interest (SPPI), is to manage and evaluate the portfolio on a fair value basis, in accordance with the documented investment strategy. The branch is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. Investments are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to realise proceeds from sale. As required by NZ IFRS 9 *Financial Instruments* (NZ IFRS 9), the branch's portfolio of financial assets is categorised as fair value through profit or loss on initial recognition. There was no change to this categorisation as a result of the transition to NZ IFRS 9.

Investments are initially recorded at fair value, being cost of acquisition excluding transaction costs, and are subsequently remeasured to fair value at each reporting date. Assets that are subsequently measured at fair value through profit or loss are not subject to impairment consideration under the expected credit losses model. Fixed rate securities are valued using independently sourced valuations as detailed in Note 15.

All purchases and sales of investments that require delivery of the asset within the time frame established by regulation or market convention ("regular way" transactions) are recognised at trade date, being the date on which the branch commits to buy or sell the asset. Investments are derecognised when the right to receive future cash flows from the asset has expired or has been transferred and the branch has transferred substantially all the risk and rewards of ownerships.

Interest income is recognised using the effective interest rate method.

(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 branch has contracts of insurance that do not involve the transfer of substantial insurance risk. These contracts are dealt with in accordance with NZ IFRS 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 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 country where the branch operates and generates 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 branch has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

(k) Recoverability of deferred tax assets

The branch assesses the recoverability of deferred tax assets at each reporting date. In making this assessment, the branch 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 13.

(m) Trade and other receivables

All receivables arising under an insurance contract as defined in NZ IFRS 4 *Insurance Contracts (Trade Debtors)* are recognised at amount receivable less a provision for impairment. A provision for impairment is established when there is objective evidence that the branch will not be able to collect all amounts due according to the original term of the receivable.

Receivables within the scope of NZ IFRS 9 are managed to collect contractual cash flows and their contractual terms generate cash flows that are solely payments of principal (and interest thereon, if any). Receivables are initially recognised at fair value and are subsequently measured at amortised cost less a provision for impairment.

Impairment is calculated as a provision for expected credit losses (ECL). The provision for ECL is based on the difference between the cash flows due in accordance with the contract and the cash flows that the branch expects to receive. Any shortfall is discontinued at an approximation to the asset's original effective interest rate. The assessment of ECL reflects judgements and assumptions that take into account prior credit risk and loss history, current and expected future market conditions and individual debtor circumstances.

The branch adopts the simplified approach permitted by NZ IFRS 9 with regard to non-insurance trade receivables and calculates the provision with reference to lifetime ECL. For all other receivables, the provision is based on the portion of lifetime ECL that result from possible default events within 12 months from reporting date, unless there has been a significant increase in credit risk since initial recognition, in which case the provision is based on lifetime ECL.

The transition to NZ IFRS 9 had no impact on the amount recorded in respect of these receivables.

Any increase or decrease in the provision for impairment is recognised in profit or loss within underwriting expenses. When a receivable is uncollectible, it is written off against the provision for impairment account. Subsequent recoveries of amounts previously written off are credited against underwriting expenses.

(n) Expense Recognition and Apportionment

All costs are charged as expenses when due and payable. All expenses, excluding investment management fees which are directly identifiable, have been apportioned between policy acquisition and policy maintenance with regard to the objective when incurring each expense, and the outcome achieved. Expenses directly 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.

Expenses incurred by the Australian head office for the administration of the branch have been allocated as follows:

- All expenses which are staff related are allocated in proportion to the estimated time involved;
- Other expenses are allocated in proportion to appropriate cost drivers.

(o) **New standards and amendments not yet adopted**

NZ IFRS 17 *Insurance Contracts*

NZ IFRS 17, a new accounting standard for insurance contracts, was adopted by the New Zealand Accounting Standards Board (NZASB) in August 2017 to replace NZ IFRS 4 Insurance Contracts. In August 2020, the NZASB issued Amendments to NZ IFRS 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 NZASB in August 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 NZ IFRS 17 on the branch'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.

2. Critical Accounting Judgments and Estimates

The branch 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 written. Deferred policy acquisition costs are connected with the measurement basis of life insurance contact 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 branch'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 branch shares experience on mortality, morbidity and persistency with its customers. 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 7.

(b) Reinsurers' share of life insurance contract liabilities

Reinsurers' share of life insurance contract liabilities are also computed using the above methods. 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 branch 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 7.

(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 branch 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.

(d) Receivables and payables for life insurance contracts

During the current year, the branch 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 life insurance contract liabilities for life insurance contracts are valued in accordance with NZ IFRS 4 "Insurance Contracts" and the relevant standards and actuarial guidance.

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

(i) provide for the systematic release of planned margins as services are provided to policyholders and premium is received; and
(ii) meet the expected payment of future benefits and expenses.

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

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

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

(i) Level premium business

Where individual policy data was available from the ceding company, liabilities were calculated by projecting cash flows on each policy. Otherwise, liabilities were calculated using accumulating 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 in accordance with NZ IFRS 4. The key assumptions are as follows:

(i) Discount rates

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

0.16% to 0.88% p.a. (2020)
1.10% to 1.70% p.a. (2019)

(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. Inflation rates assumed are:

1.25% p.a. (2020)
1.5% p.a. (2019)

(ii) 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.

(iii) Rates of taxation

Policy liabilities have been determined on a gross of taxation basis. The rates of taxation that apply to the branch are shown in Note 12.

(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 branch's own experience. For disability income claims, adjustments were made to the tabular claim termination assumptions based on the branch's own experience, as follows:

2020: 75% to 140% of ADI 2007-2011
2019: 75% to 140% of ADI 2007-2011

(vi) Rates of discontinuance

Assumed 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 11% - 18% p.a. (2019: 10% - 20% p.a.).

(vii) Surrender values

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

(b) Effects of changes in actuarial assumptions from 31 December 2019 to 31 December 2020

	Effect on net profit margins Increase/ (decrease) $'000	Effect on net life insurance contract liabilities Increase/ (decrease) $'000
Assumption category		
Discount rates	143	1,058
Future inflation rates	(9)	(85)
Mortality and morbidity	-	-
Claim expenses margins	-	-
Total	134	973

(c) Processes used to select assumptions

Discount rates
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
It has been assumed that current tax legislation and rates 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 branch is performed and statistical methods and judgment 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 branch 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 branch'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 branch and as such represents a risk.

Variable	Impact of movement in underlying variable
Expense rates	An increase in the level of expenses over assumed levels will decrease profit and total equity.
Discount rates	An increase in market interest rates will cause the value of the branch's financial assets and interest sensitive liabilities to fall. To the extent that the profiles of these assets and liabilities are not matched 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 total 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. Higher than expected incidence and duration would increase claim costs, reducing profit and total equity.
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 total equity.

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

	Change in Variable	Impact upon net profit or loss after tax and total equity $000	
		2020	**2019**
Worsening of mortality/morbidity claim incidence rates	10%	7	(14)
Worsening of income claim termination rates [1]	10%	60	61
Deterioration in unreported claims development [2]	10%	-	(87)
Increase in fixed interest bond yields	1%	194	(96)

[1] The above analysis is impacted by the interaction of the branch's various reinsurance arrangements and the basis of taxation for each class of business (see Note 12).
[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 unfinalised 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 are as follows:

	Profit/(loss) on claims development before reinsurance	
	2020 $'000	**2019 $'000**
Long tailed lump sum benefit claims	203	(202)
Long tailed income benefit claims	(3,355)	952

4. Risk Management Policies and Procedures

The financial condition and operating results of the branch are affected by a number of key financial and non-financial risks. Financial risks include credit risk, liquidity risk and market risk. The non-financial risks are insurance risk, compliance risk and operational risk. The entity's risk management policies and procedures are applicable to the management of risks of the branch.

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) Financial Risks

Credit Risk

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

(i) Receivables

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

The branch limits its exposure to credit risk by only retroceding to reinsurers' that have a credit rating of at least AA- (Standard & Poor's). Given these high credit ratings, management does not expect any retrocessionaire to fail to meet their obligations.

(ii) Investments

The branch has in place Investment Guidelines, approved by the Board, which contain credit rating based limits on exposure to securities and issuers. Compliance with the Investment Policy is monitored daily by the branch'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 branch will not be able to meet its financial obligations as they fall due. The branch'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 branch's reputation.

The branch maintains a float of cash or near cash money market securities to meet obligations. The branch also has access to liquid government bonds within the branch's fixed interest portfolio, the sale proceeds of which would be available to the branch.

Market Risk

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

Interest Rate Risk

The branch has a portfolio of fixed interest security assets and a portfolio of life insurance contract liabilities.

The branch manages the interest rate risk of the fixed interest portfolio by maintaining a relatively short neutral duration.

Currency Risk

The branch is exposed to currency risk on the settlement of monetary balances between the Australian and New Zealand businesses.

(b) Insurance Risks

The branch's objective is to satisfactorily manage insurance risks in line with the branch's risk management policies and procedures.

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) Reinsurance

The branch has in place a reinsurance program. The program is 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. Reinsurance treaties are analysed to assess the impact on the branch's exposure to risk.

(ii) Underwriting procedures

The branch has formal Underwriting Guidelines which document the branch's underwriting framework including the types of business that the branch may write, underwriting authorities and limits. The branch also has documented underwriting procedures for underwriting decisions. Such procedures include limits to delegated authorities and signing powers. The underwriting process is monitored by the branch's internal auditors to assess the adequacy and effectiveness of controls in place over the underwriting process. Where underwriting authority is delegated to a cedant, the branch 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 branch has in place a program to assist cedant's management of their claim portfolios.

(iv) Pricing

The branch adopts standard pricing bases which are reviewed and reported on by the Appointed Actuary. In specified circumstances, quotations which contain deviations from the standard pricing bases require advice from the Appointed Actuary specific to that quotation.

(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 branch 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 branch's gross and net results which are compared against branch's business plan. The information is reviewed by the Executive Committee on a quarterly basis.

(vii) Concentration of insurance risk

The branch has various reinsurance arrangements in place which are designed to protect the statutory funds from very large claims, to provide some protection against volatility of profit from claims fluctuations and deteriorating experience and to provide financial support by way of capital relief.

(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 tables below provide an overview of the key variables upon which the amount of related cash flows are dependent.

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

(d) Tax risk management and related policies

The Board does not sanction or support any activities which seek to aggressively structure its tax affairs. The branch'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 of branch 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 branch's activities in 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 Country by Country 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 Country by Country Report is available to overseas tax authorities.

5. Disclosure on Asset Restrictions

Investments held in the branch can only be used within the restrictions imposed under the Australian *Life Insurance Act 1995* and the *Insurance (Prudential Supervision) Act 2010*. The main restrictions are that the assets of the branch can only be used to meet the liabilities and expenses of the branch, to acquire investments to further the business of the branch or as distributions when solvency and capital adequacy requirements are met. Shareholders can only receive a distribution when the capital adequacy requirements are met.

6. Profit or loss information

(a) Other expenses	**2020 $'000**	**2019 $'000**
Policy acquisition – Life insurance contracts		
- Net commission expense	31	922
- Other acquisition costs	136	142
Total policy acquisition costs	167	1,064
Policy maintenance costs – Life insurance contracts		
- Net commission (income)/expense	(2,550)	829
- Other expenses	5,336	5,548
Total policy maintenance costs	2,786	6,377
	2,953	7,441

	2020 $'000	2019 $'000
(b) Components of profit or loss		
Planned margin of revenues over expenses released	282	464
Difference between actual and assumed experience	(1,795)	720
Change in valuation methods and assumptions	(381)	1,749
Investment earnings on assets in excess of life insurance liabilities	797	549
(Loss)/profit for the year	(1,097)	3,482

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

7. Life Insurance Contract Liabilities

	2020 $'000	2019 $'000
(a) Reconciliation of movement in life insurance contract liabilities		
Life insurance contract liabilities		
Gross life insurance contract liabilities at 1 January	50,329	45,046
Change in life insurance contract liabilities reflected in the Statement of Comprehensive Income	19,985	5,283
Gross life insurance contract liabilities at 31 December	70,314	50,329
Reinsurers' share of life insurance contract liabilities		
Reinsured life insurance contract liabilities at 1 January	(25,028)	(27,481)
Change in reinsurers' share of life insurance contract liabilities reflected in the Statement of Comprehensive Income	(2,832)	2,453
Reinsurers' share of life insurance contract liabilities at 31 December	(27,860)	(25,028)
Net life insurance contract liabilities at 31 December	98,174	75,357
Expected to be settled within 12 months	38,608	28,122
Expected to be settled in more than 12 months	59,566	47,235
	98,174	75,357

	2020 $'000	2019 $'000
(b) Components of net life insurance contract liabilities		
Best estimate liability		
- Future policy benefits	81,763	61,359
- Future expenses	4,022	1,878
- Planned margins over future expenses	4,171	4,309
- Future charges for acquisition expenses	8,218	7,811
Total net life insurance contract liabilities	98,174	75,357

8. Trade and Other Receivables

	2020 $'000	2019 $'000
Outstanding premiums	7,878	5,877
Investment income accrued and receivable	566	490
Due from related parties	3,832	2,495
Other	36	1,254
	12,312	10,116

All trade and other receivables are current assets. The branch's exposure to credit and currency risks related to trade and other receivables is disclosed in Note 15.

9. Financial Assets

	2020 $'000	2019 $'000
Financial assets at fair value through profit or loss		
Debt securities		
- National Government	86,322	72,138
- Other public sector	17,335	16,351
Total financial assets at fair value through profit or loss	103,657	88,489
Expected to be realised within 12 months	17,335	12,054
Expected to be realised in more than 12 months	86,322	76,435
	103,657	88,489

The regular purchase and sale of financial assets at fair value through profit or loss is accounted for at trade date.

10. Trade and Other Payables

	2020 $'000	2019 $'000
Other payables under life insurance contracts	1,954	3,946
Other payables	219	1,246
	2,173	5,192

All trade and other payables are current liabilities. The branch's exposure to liquidity risk related to trade and other payables is disclosed in Note 15(c).

11. Disaggregated Information of Life Insurance Business

Disaggregated information is not relevant as the branch writes only non-investment linked business in a single geographical segment.

12. Income Tax

(a) Taxation Basis

The branch is taxed on risk premiums less claims net of reinsurance, investment income and other income plus changes in risk reserves less allowable deductions.

The assessable income for accident and disability business includes risk premium, investment income and the decrease in the value of risk policy liabilities during the period. The allowable deductions include the increase in the value of risk policy liabilities during the period, claims, commission and management expenses.

The income tax expense has been determined after aggregating the various classes of business. The rate of taxation applicable to the taxable income of the branch is 28% (2019: 28%).

(b) Income Tax (Benefit)

	2020 $'000	2019 $'000
Current tax expense – current year	1,175	1,294
Current tax expense – prior year	(244)	(1,422)
Deferred tax expense – current year	(1,626)	(640)
Deferred tax expense – prior year	181	(379)
	(514)	(1,147)

Numerical reconciliation between tax (benefit)/expense and pre-tax net (loss)/profit

	2020 $'000	2019 $'000
Net (loss)/profit before tax	(1,611)	2,335
Prima facie income tax (benefit)/expense calculated at 28% (2019: 28%) on the (loss)/profit from ordinary activities for the year ended 31 December:	(451)	654
Decrease in income tax expense due to:		
- Over provision from prior year	(63)	(1,801)
Income tax (benefit) on pre-tax (loss)/profit	(514)	(1,147)

13. Reconciliation of Profit or Loss after Income Tax to Net Cash Inflow from Operating Activities

	2020 $'000	2019 $'000
(Loss)/profit from ordinary activities after income tax benefit	(1,097)	3,482
Add/(less) adjusting items:		
Net fair value gains on investments	(997)	(1,655)
Net cash (outflows)/inflows from operating activities before change in assets & liabilities	(2,094)	1,827
Change in assets and liabilities:		
Increase in trade and other receivables	(2,196)	(3,707)
Decrease in trade and payables	(3,019)	(2,325)
Increase in life insurance contract liabilities	19,984	5,283
Increase/(decrease) in reinsurers' share of life insurance contract liabilities	2,832	(2,453)
Increase in tax assets	(165)	(1,756)
Decrease in tax liabilities	-	(1,741)
Net cash inflows/(outflows) from operating activities	15,342	(4,872)

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, net of outstanding bank overdrafts. 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
Bank balances		
Cash	7,370	3,006
Cash and cash equivalents in the statement of cash flows	7,370	3,006

The branch's exposures to interest rate risk and sensitivity analysis for financial assets are disclosed in Note 15.

14. Financial Instrument - Fair Value Hierarchy

The table below analyses financial instruments carried at fair value, 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. The table represents financial assets at fair value through profit or loss.

	2020 $'000	**2019 $'000**
Level 1	-	-
Level 2	103,657	88,489
Level 3	-	-
	103,657	88,489

15. Financial Instruments

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

- credit risk
- liquidity risk
- market risk

These risks were discussed in Note 4 – Risk Management Policies 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 branch had exposure to credit risk on the following financial instruments:

	2020 $'000	**2019 $'000**
Cash	7,370	3,006
Financial assets at fair value through profit or loss	103,657	88,489
Trade and other receivables	12,312	10,116
	123,339	101,611

	2020 $'000	2019 $'000
The maximum exposure to credit risk for financial assets at fair value through profit or loss (investment assets - debt securities) at the reporting date was by sector:		
Issuing Sector		
National Government	86,322	72,138
Other public sector	17,335	16,351
	103,657	88,489
The maximum exposure to credit risk for financial assets at fair value through profit or loss (investment assets - debt securities) at the reporting date was by rating:		
AA	103,657	88,489

(b) Market Risk Sensitivity

The branch has sensitivity to the following market risk:

Interest rate risk

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

	2020 $'000	2019 $'000
Investment assets - debt securities	103,657	88,489

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

	2020 $'000	2019 $'000
- plus 100 basis points - decrease profit by	(4,486)	(3,931)
- minus 100 basis points - increase profit by	4,799	4,289

(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	0.47%	103,657	17,335	22,359		22,501	-	41,462
Cash	0.00%	7,370	7,370	-	-	-	-	-
Trade and other receivables	-	12,312	12,312	-	-	-	-	-
Trade and other payables	-	(2,173)	(2,173)	-	-	-	-	-
		121,166	34,844	22,359	-	22,501	-	41,462
				2019				
Debt securities at fair value through profit or loss	1.35%	88,489	12,056	11,160		27,297	-	37,976
Cash	1.00%	3,006	3,006	-	-	-	-	-
Trade and other receivables	-	10,116	10,116	-	-	-	-	-
Trade and other payables	-	(5,192)	(5,192)	-	-	-	-	-
		96,419	19,986	11,160	-	27,297	-	37,976

(d) Currency risk

All of the assets and liabilities of the branch are denominated in New Zealand dollars. The branch is exposed to currency risk on the settlement of monetary balances between the Australian and New Zealand businesses. The branch is not exposed to any other currency risk.

(e) Fair Values

The carrying amount of financial assets and liabilities in the Statement of Financial Position is equivalent to the respective fair value of those financial assets and liabilities. The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Debt Securities

Fixed interest securities are valued by applying the quoted bid prices at balance date without deduction for transaction costs.

Trade and Other Receivables / Trade and Other Payables

All trade and other receivables / payables are settled in less than one year. The notional value is deemed to reflect the fair value.

16. Contingencies

In the ordinary course of the business, the branch is involved, at any point in time, in legal action relating to claims under policies of insurance. The Directors believe that no material unfavourable outcome will arise from these legal actions in excess of the amounts provided for in gross life insurance contract liabilities in the Financial Report.

17. Capital Expenditure Commitments

The branch has not entered into any capital expenditure contracts as at balance date.

18. Directors and Executive Disclosures (Key Management Personnel)

The branch's key management personnel were remunerated by the Australian head office during the financial year.

19. Capital Requirements

Under the terms of the Insurance (Prudential Supervision) Act 2010, Hannover Life Re of Australasia Ltd is licenced to carry on insurance business in New Zealand through its New Zealand branch. Hannover Life Re of Australasia Ltd is deemed to satisfy the solvency requirements of the Insurance (Prudential Supervision) Act if it satisfies home jurisdiction (APRA) requirements for solvency.

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

Capital Base and Prescribed Capital Amount at 31 December 2020 for the branch and the total company, have been determined in accordance with LPS 110 as follows:

	2020 New Zealand branch $NZ'000	2019 New Zealand branch $NZ'000	2020 Total Company $NZ'000	2019 Total Company $NZ'000
Capital Base				
Net Assets [1]	24,913	22,818	576,983	504,140
Regulatory adjustments to net assets	7,789	7,449	(154,900)	(169,597)
Tier 2 capital	-	-	-	-
Regulatory adjustments to Tier 2 capital	-	-	-	-
Intangible Assets	-	-	(9,279)	(7,421)
Total Capital Base	32,702	30,267	412,804	327,122
Prescribed Capital Amount (PCA)				
Insurance risk charge	4,539	3,918	100,581	87,552
Asset risk charge	3,484	3,019	83,937	57,963
Asset concentration risk charge	-	-	-	-
Operational risk charge	2,593	2,033	80,742	60,207
Less aggregation benefit	(1,773)	(1,534)	(38,808)	(27,791)
Combined stress scenario adjustment	2,431	2,101	62,199	50,239
Minimum Solvency Capital required	11,274	9,537	288,651	228,170
Margin of Actual over Minimum Solvency Capital	21,428	20,730	124,153	98,952
Capital adequacy multiple (Capital Base/PCA)	2.90	3.17	1.43	1.43

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

20. Related Parties

Related party transactions

The following related party transactions occurred during the financial year.

(i) Reinsurance arrangements with related parties

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

(ii) Management services

Hannover Life re of Australasia Ltd's Sydney Australia office provides administration on underwriting services to the branch.

(iii) Investment management services

A related party of the Hannover Re Group of Companies provides Investment Management services to the branch.

(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	(36,893,059)	(33,769,910)
Reinsurance recoveries	39,281,695	35,839,051
Management services	(5,294,100)	(4,485,182)
Investment management services	(116,793)	(199,815)
Transfer of retained profits from the Australian entity	3,192,067	9,457,149
Receivables – Current		
Amounts due from a related party	3,831,569	2,494,513

Parent entities

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

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

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

Non-Executive Independent Directors	Non-Executive Non-Independent Directors	Executive Directors
Mr P. R. Gaydon (Chairman)	Mr C. J. Chèvre (Deputy Chairman)	Mr Gerd Obertopp
Ms S. G. Everingham	Mr J. J Henchoz	
Mr R. J. Wylie		

Executive Management

Mr Gerd Obertopp (Managing Director)
Mr Bruce Christie (Chief Risk & Compliance Officer) – resigned 7 August 2020
Ms Moira De Villiers (General Manager Business Development)
Ms Orla O'Shea, (Acting Chief Risk & Compliance Officer) - appointed 10 August 2020
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 on behalf of the entity's Australian resident Non-Executive Directors and Executive Management.

Transactions with key management personnel

The key management personnel compensations for Hannover Life Re of Australasia Ltd, which includes the branch, are as follows:

	2020 $	2019 $
Short term employee benefits	3,343,083	3,594,587
Post employment benefits	148,226	146,789
Other long term benefits	426,033	362,682
	3,917,342	4,104,058

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.

22. Operating leases

The branch has not entered into a lease arrangement during the reporting periods.

23. Employee benefits

The branch does not employ staff.

24. Reclassifications to Comparatives

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

Hannover Life Re of Australasia Ltd
New Zealand Branch

Life Insurance - Certificate

We certify that the attached is a true and correct copy of the financial statements of the New Zealand Branch of Hannover Life Re of Australasia Ltd for the year ended 31 December 2020.

Gaydon.
P. R. GAYDON
Chairman

G. OBERTOPP
Managing Director

18 March 2021

Independent auditor's report

To the shareholder of Hannover Life Re of Australasia Ltd New Zealand Branch

We have audited the financial statements, which comprise:

- 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; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the accompanying financial statements of Hannover Life Re of Australasia Ltd New Zealand Branch (the Branch), present fairly, in all material respects, the financial position of the Branch as at 31 December 2020, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

We are independent of the Branch in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor we have no relationship with, or interests in, the Branch.

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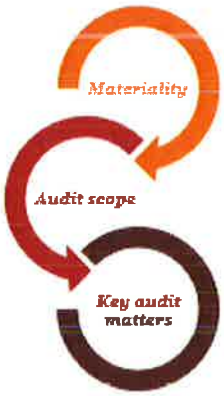
Our audit approach

Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall materiality: $1.4 million, which represents approximately 3% of life insurance contract premium revenue.

We chose life insurance contract premium revenue as the benchmark because, in our view, it is the benchmark against which the performance of the Branch is most commonly measured by users, and is a generally accepted benchmark. We used a 3% threshold based on our professional judgement, noting it is within the range of commonly acceptable revenue related thresholds.

We have determined that there is one key audit matter:

- Valuation of net life insurance contract liabilities

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Branch, the accounting processes and controls, and the industry in which the Branch operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of net life insurance contract liabilities (Note 7a) $94m We considered the valuation of life insurance contract liabilities a key matter because it involves significant judgement given the complexity involved in the estimation process and the inherent uncertainty in estimating the expected payment of future benefits and expenses for the particular classes of life insurance business written. It requires expert judgement when assessing the appropriateness of management's calculation. The two key elements to this balance are the gross life insurance contract liabilities and the reinsurers' share of life insurance contract liabilities, which are computed using the same methods. The key factors that affect the estimation of these liabilities and related assets are: • mortality and morbidity experience on life insurance products • the cost of providing benefits and administering these insurance contracts • discontinuance experience, which affects the Branch's ability to recover the cost of acquiring new business over the lives of the contracts.	Our audit procedures included evaluating the design effectiveness and implementation of relevant key actuarial controls, including key data reconciliations and management review of the estimates. New business, claims and reinsurance data are key inputs to the actuarial estimates. Accordingly, we: • tested a sample of premiums received, claims paid, reinsurance recoveries and reinsurance premium ceded during the year to supporting documentation • considered relevant documentation regarding management's review procedures and findings, in particular with respect to reasonableness checks performed on the underlying policyholder data. To evaluate the methodologies and assumptions utilised, we, together with PwC actuarial experts: • evaluated the work of management's expert, being the Appointed Actuary, including his professional competence, capability and objectivity • evaluated whether actuarial methodologies were consistent with recognised practices and the prior year • assessed the reasonableness of assumptions selected by management in the estimation of the gross liabilities, reinsurance and other recoveries on outstanding claims by comparing them with our expectations based on experience, current trends and benchmarks, and our own industry knowledge • reviewed any new or significant insurance treaties and terms, with particular focus on risks reinsured and the reinsurance arrangements.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not, express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements 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 statements

The Directors are responsible, on behalf of the Branch, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Branch's shareholder. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Branch and the Branch's shareholder for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Renae Cooper.

For and on behalf of:

pricewaterhouseCoopers

Chartered Accountants
18 March 2021

Sydney

Appointed Actuary's Section 78 Report

To the Directors of Hannover Life Re of Australasia Ltd

In respect of the Financial Statements of the New Zealand Branch

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 the New Zealand Branch of Hannover Life Re of Australasia Ltd (the Branch) 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 Branch 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 Branch) (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 Branch'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 Branch if those events 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 Branch 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 Branch.

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