

Introduction

- 1 Hannover Life Re of Australasia Ltd (**HLR Aus/Company**) is a Life Company regulated by APRA in accordance with section 21 of the Life Insurance Act. HLR AUS has a financial year that is a calendar year and accordingly, runs from 1 January until 31 December.
- 2 HLR Aus is owned by Hannover Rück SE, an insurer headquartered in Germany and regulated by the Federal Financial Supervisory Authority, known as BaFin (**Group**).
- 3 This document has been prepared by HLR Aus to provide information about its remuneration arrangements as required by the Prudential Standard and explains the following:
 - 3.1 HLR Aus's remuneration framework and the governance of that framework.
 - 3.2 The design of the HLR Aus variable remuneration plans and the way in which variable remuneration is deferred or adjusted under those plans.
- 4 HLR Aus's Remuneration Policy has been endorsed by the Remuneration Committee (**Remuneration Committee**) and approved by HLR Aus Board (**Board**).

Remuneration framework governance

Remuneration Policy and Remuneration Committee

- 5 The HLR Aus Remuneration Policy provides a governance framework for the structure and operation of remuneration within the context of HLR Aus's strategy, long-term financial soundness and risk management arrangements. The Board has sought to ensure the remuneration framework is aligned to prudent risk management, material risk matters are considered in remuneration outcomes and the framework incentivises proper conduct and behaviours.
- 6 Other HLR Aus codes and policies that form part of the governance framework include the Code of Conduct, the Company 'Purpose and Values', Conflict of Interest Policy and the Consequence Management Policy.
- 7 The Board, the Remuneration Committee and the Risk Committee are the main governance bodies that oversee remuneration and remuneration related risk at HLR Aus, the key body being the Remuneration Committee which reports to the Board.
- 8 The Remuneration Committee is governed by a Charter which records its mandate to assist the Board by overseeing the design, operation and monitoring of the Remuneration Policy approved by the Board.
- 9 The Remuneration Committee has:
 - 9.1 three members, all of whom are members of the Board; and
 - 9.2 an independent chair, who is one of these three Board members.
- 10 The Remuneration Committee meets at least two times each financial year. The Risk Committee meets at least four times each financial year. Both have free and unfettered access to other Board Committees, access to risk and financial control personnel and other relevant parties (internal and external). If a Committee chooses to engage third-party experts, the a Committee can do so in a way that ensures that the engagement, including any advice received, is independent.

Role of the Board

- 11 The Board approves the Remuneration Policy and is responsible for the effectiveness of the remuneration framework.
- 12 The Board's oversight of remuneration policies and procedures is derived from its consideration of reports from the Remuneration and Risk Committees and the reporting framework for management to the Board.
- 13 The Board also has access to risk and financial control personnel and other relevant parties (internal and external) and the right to engage third-party experts on an independent basis.

Remuneration framework

- 14 The key objectives of HLR Aus's remuneration arrangements are as follows:
 - 14.1 To allow the Company to attract, motivate and retain quality personnel by having in place remuneration arrangements that are simple, transparent, flexible and competitive.
 - 14.2 To encourage behaviour that aligns with the business plan, strategic objectives and the risk management framework of the Company.
 - 14.3 To align remuneration with stakeholder interests to promote the effective management of financial and non-financial risks, sustainable performance and the long-term soundness of the Company, whilst recognising superior performance.
- 15 Applying the framework, performance-based components of remuneration are judged in the context of the effective management of financial and non-financial risks, policyholder protection and behaviour that supports the prevention and mitigation of conduct risk, as well as sustainable performance and the long-term soundness of HLR Aus.
- 16 The arrangements described in the Remuneration Policy are designed to encourage and provide incentives for employees to act responsibly and with integrity, in a manner consistent with the risk management framework of HLR Aus.

Remuneration Policy

Policy scope

- 17 The Remuneration Policy covers the remuneration arrangements for:
 - 17.1 Each responsible person¹, excluding external and Appointed Auditors and Non-Executive Directors. This includes the Managing Director, Chief & Appointed Actuary, General Manager (Finance) & Company Secretary, Chief Operating Officer, the General Manager, Group Business and the General Manager, Retail Business (**Executives**).
 - 17.2 Other representatives of HLR Aus (**Non-Executives**), as follows:
 - (a) Any other persons for whom a significant portion of their total remuneration is based on performance and whose activities, individually or collectively, may affect the financial soundness of the Company (**Material Risk Takers**). Material Risk Takers include the Chief Risk & Compliance Officer/Privacy Officer and Head of HR/Assistant Company Secretary.
 - (b) Any other person who is a direct report to the Managing Director, including the Senior Internal Auditor and the Head of Data Insights.

¹ As that term is defined in Prudential Standard CPS 520 Fit and Proper.

- 17.3 Each person (or service company) whose primary role is risk management, compliance, internal audit, financial control or actuarial control (**Other Specified Persons**), not included in any of the above categories. These include the Deputy Chief Actuary & Head of Corporate Actuarial, Deputy Chief Actuary & Head of Actuarial Projects & Modelling, Financial Controller, Finance Manager, Senior Risk Officer, Senior Risk & Reporting Officer, Senior Compliance Officer and the Compliance Officer.
- 18 For the Executives, the Group remuneration policy, as set out in the Global Rewards Framework Policy, (**Hannover Office Policy**) applies.
- 19 For these Executives, the arrangements that apply to salary levels, salary reviews, evaluation processes, bonus plans and bonus payments are set out in the Hannover Office Policy and other relevant Group policies and procedures. For these employees, the internal policies, Principles of Determining Variable Compensation and/or Conditions for Granting Share Awards, apply. The Hannover Office Policy forms part of the Remuneration Policy for these Executives and any material alterations as they apply must be reviewed, assessed and approved by the Remuneration Committee and the Board before they are applicable to the Executives.
- 20 All employees other than those covered by the Hannover Office Policy are subject to the variable and performance-based components of remuneration set out in the HLR Aus Staff Bonus Plan (**Local Office Plan**).
- 21 Remuneration arrangements for individuals covered by the Local Office Plan are structured as:
- 21.1 A fixed component: Payable as salary or traded-off for allowable benefits e.g. salary sacrificed superannuation. The fixed component for each year will be determined after the end of the year of the remuneration cycle for the previous year by reference to factors such as previous year's performance assessment, CPI and market rates. The fixed component is based on the employee's function and, on this basis, is aligned with the level of responsibility.
- 21.2 A variable, incentive based, component: Variable remuneration based on the relevant applicable policy/plan.
- 21.3 Superannuation benefits: These will be paid in accordance with legal requirements and contributed to the relevant superannuation plan to which the individual member belongs.
- 22 Entitlements to any variable, incentive-based components may continue to be available based on the terms of the Hannover Office Policy, the Principles of Determining Variable Compensation, Conditions for Granting Share Awards and Local Office Plan after a person ceases employment. Each award will be approved by the Board.
- 23 HLR Aus is entitled apply incentive arrangements such that:
- 23.1 misconduct on the part of a former Executive or Non-Executive during their employment will result in the Executive or Non-Executive forfeiting any claim for incentive payments left owing to them under the Hannover Office Policy, the Principles of Determining Variable Compensation and Conditions for Granting Share Awards or the Local Office Plan; or
- 23.2 misconduct or breaches of company policies, breaches of employment terms or other unacceptable performance as applicable on the part of a current Executive or Non-Executive will require a forfeiture or repayment of all or part of any claim for incentive payments owing to them under any variable remuneration arrangements.
- 24 No person covered by the Remuneration Policy receiving equity or equity-linked deferred remuneration is permitted to hedge their economic exposures to the resultant equity price risk before the equity-linked remuneration is fully vested and able to be sold for cash by the recipient.
- 25 While bonus and sign-on payments are rarely if ever made and were not made in the relevant financial year, any bonuses or sign-on payments for new employees will not extend beyond a year and any payments for incoming staff to compensate for deferred remuneration or forfeited remuneration will be subject to performance validation or risk adjustment or deferral.

Entitlement to variable remuneration

- 26 The entitlement to variable remuneration under the HLR Aus Remuneration Policy is subject to employment contract terms, and relevantly, the Hannover Office Plan and the Local Office Plan.
- 27 HLR Aus employees must demonstrate behaviours that reflect the strategy, values and objectives of HLR Aus, and the obligations of their role. These obligations include compliance with the policies and procedures of HLR Aus, including adherence to HLR Aus' overall risk management requirements. Variable reward plans (both cash and equity) include specific risk considerations that are designed to ensure that quantifiable results are achieved within appropriate risk management parameters.
- 28 The approach to the assessment of bonus under the Hannover Office Plan and shadow share entitlement is a weighted approach based on the factors relevant to Group performance and individual performance, with individual performance contributing to bonus entitlement less than group performance.
- 29 The approach to the assessment of bonus under the Local Office Plan is a weighted approach, based on factors relevant to Group performance, HLRAus performance and individual performance, with the weighting for individual performance being equal to the other two factors combined.

Individual performance measures

- 30 The Remuneration Committee approves the performance metrics and ratings for all individuals covered by the Remuneration Policy.
- 31 Individual performance is measured at the end of each remuneration cycle and outcomes are used to assess the variable component of remuneration for that cycle.
- 32 Individual performance is assessed against a balanced scorecard. The performance-based assessment process will consider financial and non-financial risk outcomes (including in respect of customers, people and reputation) and measure performance against agreed targets and weighted objectives. However, there are a number of objectives common to everyone, these being modelling the values, completion of mandatory training and technical competencies.
- 33 Performance assessment metrics will differ from individual to individual by reference to role and subject to the relevant application of the Hannover Office Policy and Local Office Plan, targets and objectives that are established under these Policies/Plans. For the risk and financial control personnel, objectives are limited to non-financial parameters.
- 34 Variable remuneration is assessed and awarded by the Board, after this process, in consideration of recommendations of the Remuneration Committee.
- 35 At the discretion of the Board, unsatisfactory individual performance may disentitle the relevant individual to some or all of their variable compensation, irrespective of whether the financial performance achievements for HLR Aus and/or Group have been met. This includes, but is not limited to, circumstances involving:
- 35.1 misconduct leading to significant adverse outcomes;
 - 35.2 a significant failure of financial or non-financial risk management;
 - 35.3 a significant failure or breach of accountability, fitness and propriety or compliance obligations;
 - 35.4 a significant error or a significant misstatement of criteria on which the variable remuneration determination was based;
 - 35.5 significant adverse outcomes for customers or counterparties.
- 36 The Board may adjust any variable, incentive based remuneration components downwards to zero if appropriate, if such adjustments are necessary to protect the financial soundness of HLR Aus, to respond to significant unexpected or unintended consequences that were not foreseen by the Board or in accordance with the Consequence Management Policy to proportionately reflect the appropriate

remuneration consequence for an individual who has engaged in misconduct or non-compliance (including failing to comply with the AFAR obligations or policies and procedures), including the Code of Conduct or has failed to meet certain individual targets.

- 37 An individual's variable compensation may be:
- 37.1 reduced at any time before it is actually paid or vested; or
 - 37.2 clawed back at any time after it is actually paid or vested.

Payment of variable remuneration

- 38 For the Executives, under the Hannover Office Plan, 60% of variable remuneration entitlement is paid in cash in June of the year after the bonus year. 40% is held as a long-term incentive (LTI) and does not vest for four years.
- 39 For all others covered under the Local Office Plan, the total variable remuneration is paid in cash in June of the year after the bonus year.

Deferrals and adjustments

- 40 The Board of HLR Aus can defer or adjust the variable remuneration of any person in the scope of the Remuneration Policy or clawback some or all of the variable compensation paid to such a person in its discretion, applied subject to the relevant plan, and other HLR Aus policies and procedures.
- 41 The Board in its exercise of this discretion, will consider any information (internal or external) that it considers is relevant, including the overarching performance against objectives, feedback and other reports about conduct, culture and behaviours.
- 42 The reduction or clawback referred to above may be applied at the discretion of the Board in respect of one or more of:
- 42.1 the remuneration cycle year in which the decision is made to reduce or clawback the individual's variable remuneration (which may include the remuneration cycle(s) in which the relevant matter is being investigated, noting that no variable remuneration will vest until the closure of any such investigation);
 - 42.2 any earlier remuneration cycle year(s); and
 - 42.3 in all cases, proportionately to reflect the severity of the risk and conduct outcome.

Interpretation

- 43 **APRA** means the Australian Prudential Regulation Authority.
- Consequence Management Policy** means the policy of this name approved by the HLR Aus Board.
- Code of Conduct** means the Code of Conduct for the Group.
- Conflict of Interest Policy** means the policy of this name approved by the HLR AUS Board.
- Group Manager** is an Accountable Person as that terms if defined pursuant to the Australian Financial Accountability Regime (**AFAR**).
- Life Company** has the meaning given in the Schedule to the Life Insurance Act 1995.
- Parent Entity** has the meaning given in Prudential Standard GPS 001 Definitions.
- Subsidiary** has the meaning given in Prudential Standard GPS 001 Definitions.
- Prudential Standard** means Prudential Standard CPS 511 Remuneration.