hannover re®

HANNOVER LIFE RE OF AUSTRALASIA LTD
NEW ZEALAND BRANCH

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

Hannover Life Re of Australasia Ltd
New Zealand Branch

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 statements, 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 2017.

The Board of Directors of Hannover Life Re of Australasia Ltd authorised these financial statements of the Branch on 15 March 2018.

P. R. Gaydon
Chairman

G. Obertopp
Managing Director

15 March 2018

Corporate Governance Statement

For the Year Ended 31 December 2017

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

Board of Directors

Role of the Board

The Board'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 the entity.

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; and
- risk management.

Composition of the Board

The names of the Directors of the entity are set out in the Directors' Report. The Board currently comprises six Directors (of which three are independent Non-Executive Directors) with a broad range of expertise and experience appropriate to the entity's business and the industry which it operates in. In accordance with the entity's Constitution, 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.

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 meets at least once a year with the Audit Committee without management being present.

Board Risk Committee

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

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

The Managing Director, Chief Risk Officer, Company 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 Company.

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

Remuneration of the Board

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

Fit and Proper Policy

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

Financial supervision

The Life Acts govern the principal activities of the entity and 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 parent entity and regulatory bodies are prepared in accordance with Australian Accounting Standard AASB 1038 *Life Insurance Contracts*, the *Financial Sector (Collection of Data) Act 2001* and the *Corporations Act 2001*;

- the entity's Appointed Actuary is responsible for investigating the financial condition of the entity including the valuation of policy liabilities, solvency and capital adequacy requirements in accordance with the standards applied by the Australian Prudential Regulation Authority (APRA) and for providing advice to Executive Management and the Board as required under Prudential Standards and the Life Acts;

- Investment Guidelines are approved by the Board. Investment management decisions in accordance with the requirements of the Guidelines are delegated to an external investment manager in accordance with an Investment Management Agreement; and

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

Ethical standards

Code of Conduct

The Company 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.

Hannover Life Re of Australasia Ltd
New Zealand Branch

Statement of Comprehensive Income
For the Year Ended 31 December 2017

	Note	2017 $'000	2016 $'000
Revenue			
Life insurance contract premium revenue		39,297	36,666
Outwards reinsurance expense		(29,274)	(1,172)
Net life insurance premium revenue		10,023	35,494
Interest and dividend income		3,695	3,508
Net fair value gains/(losses) on financial assets at fair through profit and loss	6(a)	517	(1,869)
Underwriting fees and exchange gains/(losses)		83	(277)
Total revenue		14,318	36,856
Claims and expenses			
Life insurance contract claims expense		(23,298)	(23,371)
Reinsurance recoveries revenue		27,459	322
Net life insurance claims expense		4,161	(23,049)
Change in life contract liabilities	7(a)	(6,324)	(3,265)
Change in reinsurers' share of life insurance contract liabilities	7(a)	(22,892)	(147)
		(25,055)	(26,461)
Other income/(expenses)	6(b)	17,539	(6,068)
Total net claims and expenses		(7,516)	(32,529)
Profit before income tax		6,802	4,327
Income tax expense	12(b)	(2,329)	(3,937)
Profit for the period attributable to the branch	6(c)	4,473	390
Other comprehensive income		-	-
Total comprehensive income for the period		4,473	390

On behalf of the Board of Directors

....
Director

....
Director

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

Hannover Life Re of Australasia Ltd
New Zealand Branch

Statement of Financial Position
As at 31 December 2017

	Note	2017 $'000	2016 $'000
Assets			
Cash		6,984	4,844
Trade and other receivables	8	3,607	3,438
Financial assets at fair value through profit and loss	9	74,764	65,585
Reinsurers' share of life insurance contract (assets)/labilities	7(a)	(22,255)	637
Total assets		63,100	74,504
Liabilities			
Trade and other payables	10	947	12,701
Gross life reinsurance contract liabilities	7(a)	39,674	33,350
Deferred tax liability		3,026	3,019
Current tax liability		1,475	946
Total liabilities		45,122	50,016
Net assets		17,978	24,488
Equity			
Retained profits		17,978	24,488
Total equity		17,978	24,488

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

On behalf of the Board of Directors

.... **Director**

.... **Director**

Hannover Life Re of Australasia Ltd
New Zealand Branch

Statement of Cash Flows
For the year ended 31 December 2017

	Note	2017 $'000	2016 $'000
Cash flows from operating activities			
Premium received		39,958	35,391
Policy payments		(23,423)	(24,225)
Reinsurance premium paid		(29,370)	(1,433)
Commissions paid		(8,577)	(2,745)
Payments to suppliers		(4,262)	(1,901)
Income tax (paid)		(1,800)	(12)
Reinsurance and other recoveries received		53,963	423
Interest & rent received		3,577	3,486
Other revenue received		29	54
Net cash inflow from operating activities	13	30,095	9,038
Cash flows from investing activities			
Payments for financial assets		(50,490)	(39,404)
Proceeds from sale of financial assets		41,828	37,503
Net cash flows from investing activities		(8,662)	(1,901)
Cash flow from financing activities			
Transfer of profits to Australian parent entity		(19,293)	(8,884)
Net increase/(decrease) in cash and cash equivalents		2,140	(1,747)
Cash and cash equivalents at the beginning of the financial year		4,844	6,591
Cash and cash equivalents at the end of the financial year	13	6,984	4,844

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

Hannover Life Re of Australasia Ltd
New Zealand Branch

Statement of Changes in Equity
For the Year Ended 31 December 2017

	2017 $'000	**2016** $'000
Balance at 1 January	24,488	32,408
Profit for the period	4,473	390
Other comprehensive income	-	-
Total comprehensive income for the period	4,473	390
Transfer to Australian parent entity	(10,983)	(8,310)
Balance at 31 December	17,978	24,488

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

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 statements presented are for the New Zealand branch (the branch) of Hannover Life Re of Australasia Ltd which is registered under the *Companies Act 1993*. The branch is an FMC reporting entity for the purpose of the *Financial Markets Conduct Act 2013.* The financial statements are prepared in accordance with the Financial Market Conduct Act 2013, Companies Act 1993, the Financial Reporting Act 2013 and the Insurance (Prudential Supervision) Act 2010 and also comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

Compliance with NZ IFRS ensures that the financial statements 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 financial statements 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 statements have been disclosed in Note 2.

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

These financial statements are presented in New Zealand dollars, which is the branch's functional currency.

The financial statements were authorised for issue by the Board of Directors on 15 March 2018.

(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) Premium and Claims

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

(e) Liabilities

(i) *Life Insurance Contract Liabilities*

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

(ii) *Trade and Other Payables*

- Trade and other payables are 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 and loss is consistent with key elements of the branch's risk management framework. Consequently all financial assets within the statutory funds are measured at fair value as at the reporting date.

Financial Assets

(i) Valuation

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

- Cash assets are carried at face value of the amounts deposited. The carrying amounts of cash assets approximate their fair value. For the purpose of the Statement of Cash Flows, cash includes cash on hand, deposits held at call with banks and investments in money market investments.
- The fair value of listed fixed interest securities is taken as the bid price of the instruments.
- Trade and other receivables are 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.

(ii) Impairment Financial Assets

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

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

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

All impairment losses are recognised through profit or loss.

(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) 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.

(i) New standards and interpretations not yet adopted

The branch's investments are designed as at fair value through profit or loss on initial recognition and are subsequently remeasured to fair value at each reporting date. The adoption of IFRS 9 is not expected to result in significant changes to accounting for investments. The branch will adopt IFRS 9 effective 1 January 2018.

AASB 15 introduces a single model for the recognition of revenue. The standard does not apply to insurance contracts and financial instruments and consequently it will not have a material impact on the branch's accounting for revenue.

IFRS 16 will replace accounting requirements for leases. IFRS 16 will require the recognition of all leases as a right-of-use asset and a corresponding lease liability in the Balance Sheet, except for leases of low value assets and leases with a term of 12 months or less. The new standard is not expected to impact the branch as it does not have leases that will be covered by standard.

IFRS 17 Insurance Contracts has an expected effective date of 1 January 2021. The branch will implement the standard in the year ending 31 December 2021, with the comparative period of the year ended 31 December 2020. An impact analysis is being completed by the branch.

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 statistical or 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.

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:

1.75% to 3.55% p.a. (2017)
1.80% to 3.63% p.a. (2016)

(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:

2.0% p.a. (2017)
2.0% p.a. (2016)

(iii) Future expenses

Future maintenance expenses are assumed to be a set percentage of future premium income and claim payments.

Future investment expenses have been assumed to be at the same percentage of assets under management as currently applies.

(iv) Rates of taxation

Policy liabilities have been determined on a gross of taxation basis. The rates of taxation that apply to the 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 entity's own experience. For disability income claims, adjustments were made to the tabular claim termination assumptions based on the entity's own experience, as follows.

(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 14% - 20% p.a. (2016: 14% - 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 2016 to 31 December 2017

	Effect on net profit margins Increase/ (decrease) $'000	Effect on net life insurance contract liabilities Increase/ (decrease) $'000
Assumption category		
Discount rates	32	487
Future inflation rates	-	-
Mortality and morbidity	(10)	(100)
Claim expenses margins	-	-
Total	22	387

(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 shareholder 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 shareholders' 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 shareholders' 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 shareholders' 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 after tax and equity $000	
		2017	2016
Worsening of mortality/morbidity claim incidence rates	10%	(5)	(408)
Worsening of income claim termination rates [1]	10%	98	(170)
Deterioration in unreported claims development [2]	10%	(2)	(1,204)
Increase in fixed interest bond yields	1%	(837)	(1,130)

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

[1] 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	
	2017	**2016**
	$'000	**$'000**
Long tailed lump sum benefit claims	1,200	1,243
Long tailed income benefit claims	1,450	(1,351)

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 branch's objectives and policies in respect of managing these risks are set out in the following section.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. A sub-committee of the Board, the Risk Committee, is responsible for monitoring the branch's risk management policies and reporting to the Board on its activities.

The branch's risk management framework is established to identify and manage the risks faced by the branch, to set appropriate risk limits and controls and to monitor risks and adherence to limits. The risk management framework is regularly reviewed to reflect changes in market conditions and the branch's activities. The branch, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Risk Committee monitors compliance with the branch's risk management framework and reviews the adequacy of the framework in relation to the risks faced by the branch. The Risk Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes regular reviews of risk management controls and procedures, the results of which are reported to the Risk Committee as part of a three lines of defence model.

The Board of Directors has adopted a formal risk management strategy which documents the branch's risk management framework. This framework includes a formal process for the identification and monitoring of all material risks (including financial insurance risks) and related controls and periodic reporting to the Board on the effectiveness of the controls. Internal Audit also periodically test controls and reports to the Board via the Risk Committee.

The Board has also adopted an ICAAP Summary Statement which 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 A- (Standard & Poor's). Given these high credit ratings, management does not expect any reinsuranceaire 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.

Concentration of insurance risk

The branch has various reinsurance arrangements in place which are designed to protect the statutory funds from vary 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

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 and loss information

(a) Net fair value gains on financial assets at fair value through profit or loss	**2017 $'000**	**2016 $'000**
Fair value gains includes the following amounts:		
Net realised (losses)/gains	(2,890)	830
Net unrealised fair value gains/(losses)	3,407	(2,699)
	517	(1,869)

(b) Other (income)/expenses	**2017 $'000**	**2016 $'000**
Policy acquisition – Life insurance contracts		
- Net commission	534	1,706
- Other acquisition costs	586	562
Total policy acquisition costs	1,120	2,268
Policy maintenance costs – Life insurance contracts		
- Net commission	(21,001)	2,081
- Other expenses	2,342	1,644
Total policy maintenance costs	(18,659)	3,725
Investment management expenses	-	75
Total other (income)/expenses	(17,539)	6,068

Note: The branch's retrocession arrangements were restructured from 1 January 2017. This restructure resulted in an uplift in the proportion of the branch's business being retroceded to Hannover Rück SE to 80%. In addition, upon the restructure, the branch received an upfront commission payment that represented the economic value of the retrocession of the in-force business. This upfront commission payment has been reflected in Other Income above.

	2017 $'000	2016 $'000
(c) Components of Profit		
Planned margin of revenues over expenses released	2,650	755
Difference between actual and assumed experience	784	(618)
Change in valuation methods and assumptions	16	(622)
Investment earnings on assets in excess of life insurance liabilities	1,023	875
Profit for the year	4,473	390

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

7. Life Insurance Contract Liabilities

	2017 $'000	2016 $'000
(a) Reconciliation of movement in life insurance contract liabilities		
Life insurance contract liabilities		
Gross life insurance contract liabilities at 1 January	33,350	30,085
Change in life insurance contract liabilities reflected in the Statement of Comprehensive Income	6,324	3,265
Gross life insurance contract liabilities at 31 December	39,674	33,350
Reinsurers' share of life insurance contract liabilities		
Reinsured life insurance contract liabilities at 1 January	637	784
Change in reinsurers' share of life insurance contract liabilities reflected in the Statement of Comprehensive Income	(22,892)	(147)
Reinsurers' share of life insurance contract liabilities at 31 December	(22,255)	637
Net life insurance contract liabilities at 31 December	61,929	32,713
Expected to be settled within 12 months	23,303	16,980
Expected to be settled in more than 12 months	38,626	15,733
	61,929	32,713

	2017 $'000	2016 $'000
(b) Components of net life insurance contract liabilities		
Best estimate liability		
- Future policy benefits	46,267	38,478
- Future expenses	1,085	993
- Planned margins over future expenses	4,851	3,611
- Future charges for acquisition expenses	9,726	(10,369)
Total net life insurance contract liabilities	61,929	32,713

8. Trade and Other Receivables

Outstanding premium	2,280	2,934
Investment income accrued and receivable	622	504
Due from Related Parties	685	-
Other	20	-
	3,607	3,438

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

Financial assets at fair value through profit and loss

Debt securities		
- National Government	64,570	39,280
- Other public sector	9,155	25,265
- Private sector	1,039	1,040
Total financial assets at fair value through profit and loss	74,764	65,585
Expected to be realised within 12 months	1,013	32,774
Expected to be realised in more than 12 months	73,751	32,811
	74,764	65,585

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

	2017 $'000	2016 $'000

10. Trade and Other Payables

Current		
Outstanding life insurance contract claims payable	-	127
Amounts due to ceding companies	-	1,856
Amounts due to related parties	-	2,392
Other payables	947	16
Transfer of retained profits to Australian entity	-	8,310
	947	12,701

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 available 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% (2016: 28%).

(b) Income Tax Expense

	2017 $'000	2016 $'000
Current tax expense – current year	1,892	918
Current tax expense – prior year	429	-
Deferred tax expense – prior year	8	3,019
	2,329	3,937

Numerical reconciliation between tax expense and pre-tax net profit

	2017 $'000	2016 $'000
Net profit before tax	6,802	4,327
Prima facie income tax expense calculated at 28% (2016: 28%) on the profit from ordinary activities for the year ended 31 December:	1,904	1,211
Increase in income tax expense due to:		
- Under provision from prior year	429	3,019
Decrease in income tax expense due to:		
- Benefit of tax losses recognised in current year	-	(293)
Other	(4)	-
Income tax expense on pre-tax profit	2,329	3,937

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

	2017 $'000	2016 $'000
Profit from ordinary activities after income tax expense	4,473	390
Add/(less) items classified as investing and financing activities:		
Gain/(loss) on sale of investments	2,890	(830)
Net fair value (gains)/losses on investments	(3,407)	2,699
Exchange losses	-	370
Net cash inflow from operating activities before change in assets & liabilities	3,956	2,629
Change in assets and liabilities:		
(Increase) in receivables	(169)	(1,298)
(Decrease)/Increase in creditors & borrowings	(3,444)	370
Increase in life insurance contract liabilities	6,324	3,265
Increase in reinsurers' share of life insurance contract liabilities	22,892	147
Increase in tax liability	536	3,925
Net cash inflow from operating activities	30,095	9,038

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:

	2017 $'000	2016 $'000
Bank balances		
Cash	6,984	4,844
Cash and cash equivalents in the statement of cash flows	6,984	4,844

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.

The table represents financial assets at fair value through profit and loss.

	2017 $'000	2016 $'000
Level 1	64,571	39,280
Level 2	10,193	26,305
Level 3	-	-
	74,764	65,585

15. Financial Instruments

The entity 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 entity had exposure to credit risk on the following financial instruments:

	2017 **$'000**	**2016** **$'000**
Cash	6,984	4,844
Financial assets at fair value through profit and loss	74,764	65,585
Trade and other receivables	3,607	3,438
	85,355	73,867

	2017 $'000	2016 $'000
The maximum exposure to credit risk for financial assets at fair value through profit and loss (investment assets - debt securities) at the reporting date was by sector:		
Issuing Sector		
Government	64,571	39,280
Other public sector	9,155	25,265
Corporate	1,038	1,040
	74,764	65,585

The maximum exposure to credit risk for financial assets at fair value through profit and loss (investment assets - debt securities) at the reporting date was by rating:		
AAA	3,628	6,410
AA	70,099	58,135
A	1,037	1,040
	74,764	65,585

(b) Market Risk Sensitivity

The entity has sensitivity to the following market risk:

Interest rate risk

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

Investment assets - debt securities	74,764	65,585

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.

- plus 100 basis points - decrease profit by	(3,670)	(1,705)
- minus 100 basis points - increase profit by	4,044	1,771

(c) Liquidity Risk

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

	Effective Interest rate	Total	0-12 months	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years
	%	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2017								
Debt securities at fair value through profit and loss	2.74%	74,764	1,013	20,750	2,588	6,593	-	43,820
Cash	0.75%	6,984	6,984	-	-	-	-	-
Trade and other receivables	-	3,607	3,607	-	-	-	-	-
Trade and other payables	-	(947)	(947)	-	-	-	-	-
		84,408	10,657	20,750	2,588	6,593	-	43,820
2016								
Debt securities at fair value through profit and loss	2.53%	65,585	32,774	1,024	3,808	2,557	6,557	18,865
Cash	0.75%	4,844	4,844	-	-	-	-	-
Trade and other receivables	-	3,438	3,438	-	-	-	-	-
Trade and other payables	-	(12,701)	(12,701)	-	-	-	-	-
		61,166	28,355	1,024	3,808	2,557	6,557	18,865

(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 statements.

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 2017 for the branch and the total company, have been determined in accordance with LPS 110 as follows:

	2017 New Zealand branch $NZ'000	2016 New Zealand branch $NZ'000	2017 Total Company $NZ'000	2016 Total Company $NZ'000
Capital Base				
Net Assets [1]	17,978	24,488	545,163	499,418
Regulatory adjustments to net assets	10,622	(6,643)	(178,275)	(183,562)
Tier 2 capital	-	-	-	-
Regulatory adjustments to Tier 2 capital	-	-	-	-
Intangible Assets	-	-	(5,526)	(2,945)
Total Capital Base	28,600	17,845	361,362	312,911
Prescribed Capital Amount (PCA)				
Insurance risk charge	3,263	8,504	85,678	110,386
Asset risk charge	3,399	1,791	42,010	30,796
Asset concentration risk charge	-	-	-	-
Operational risk charge	1,539	1,181	51,236	47,817
Less aggregation benefit	(1,501)	(1,261)	(24,284)	(20,587)
Combined stress scenario adjustment	-	-	42,105	47,813
Minimum Solvency Capital required	6,700	10,215	196,746	216,225
Margin of Actual over Minimum Solvency Capital	21,900	7,630	164,616	96,686
Capital adequacy multiple (Capital Base/PCA)	4.29	1.75	1.84	1.45

[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:

	2017 $'000	2016 $'000
Transactions during the year		
Outwards reinsurance expenses	(29,234)	886
Reinsurance recoveries	27,459	(2,068)
Other recoveries including commission	4,286	(295)
Management services	(2,827)	(2,281)
Investment management services	(102)	(75)
Transfer of retained profits to Australian entity	(10,983)	8,310
Creditors – Current		
Amounts due to related parties	816	10,702

Parent entities

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

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

HLRA provides services to HLRA New Zealand Branch.

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

Non-Executive Independent Directors	Non-Executive Non-Independent Directors	Executive Directors
Mr P.R. Gaydon (Chairman) Ms S.G. Everingham (appointed 27 September 2017) Ms E.G. Payne (resigned 30 September 2017) Mr S.R. Swil (resigned 29 November 2017) Mr R.J. Wylie (appointed 1 July 2017)	Mr C. J. Chèvre (Deputy Chairman) Mr U. Wallin	Gerd Obertopp

Executive Management

Mr Gerd Obertopp (Managing Director)
Mr Graeme Campbell (Appointed Actuary)
Mr Bruce Christie (Chief Risk Officer) (appointed 20 July 2017)
Ms Moira De Villiers (General Manager (Products, Marketing & Pricing)
Mr David Tallack (General Manager – Finance and Company Secretary)

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:

	2017 $'000	2016 $'000
Short term employee benefits	3,776	4,126
Post employment benefits	168	215
Other long term benefits	579	879
	4,523	5,220

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. Events Occurring after Balance Date

The Board of directors have not become aware of any other matter or circumstance that is likely to affect the operations or the state of affairs of the entity in subsequent financial statements.

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 2017.

P. R. GAYDON
Chairman

G. OBERTOPP
Managing Director

.

KPMG

Independent Auditor's Report

To the Members of Hannover Life Re of Australasia Ltd - New Zealand Branch

Report on the financial statements

Opinion

In our opinion, the accompanying financial statements of Hannover Life Re of Australasia Ltd - New Zealand Branch (the "Branch") on pages 2 to 36:

i. present fairly in all material respects the Branch financial position as at 31 December 2017 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

— the statement of financial position as at 31 December 2017;

— the statements of comprehensive income, changes in equity and cash flows for the year then ended; and

— notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). 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 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 and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

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

Other information

The Directors, on behalf of the Branch, are responsible for the other information included in the entity's Annual Report. Other information may include disclosures relating to corporate governance and statutory information. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

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 materially misstated. If, based on the work we have performed, 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.

Use of this independent auditor's report

This independent auditor's report is made solely to the Branch as a body. Our audit work has been undertaken so that we might state to the Branch those matters we are required to state to them in the independent 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 as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Directors for the financial statements

The Directors, on behalf of the Branch, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards);
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objective is:

- 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 independent 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 will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 these financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-8/

This description forms part of our independent auditor's report.

KPMG

KPMG
Sydney

15 March 2018

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 2017

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 2017.

(a) This report has been prepared by Graeme Campbell BEc, MAS, 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: (a) information relating to the Branch's calculations of premiums, claims, reserves, dividends, insurance and annuity rates, and technical provisions; and (b) information relating to assessments of the probability of uncertain future events occurring and the financial implications for the Branch if those events do occur; and (c) 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 2017, 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 2017.

Graeme Campbell

Graeme Campbell
Appointed Actuary
15 March 2018