HANNOVER LIFE RE OF AUSTRALASIA LTD

NEW ZEALAND BRANCH

FINANCIAL STATEMENTS

FOR YEAR ENDED 31 DECEMBER 2009

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 and auditor's report for the year ended 31 December 2009.

The Board of Directors of Hannover Life Re of Australasia Ltd authorised these financial statements of the Branch on 23 February 2010.

Chairman

Managing Director

23 February 2010

Hannover Life Re of Australasia Ltd
New Zealand Branch

Statement of Comprehensive Income
For the Year Ended 31 December 2009

	Note	2009 $'000	2008 $'000
Revenue			
Life insurance contract premium revenue	6	25,572	25,572
Outwards reinsurance expense		(1,010)	(1,326)
Net life insurance premium revenue		24,562	24,246
Net fair value gains on financial assets at fair value through profit and loss	6	1,623	4,339
Other income	6	33	22
Total revenue		26,218	28,607
Claims and expenses			
Life insurance contract claims expense	7	(17,217)	(14,412)
Reinsurance recoveries revenue		1,205	67
Net life insurance claims expense		(16,012)	(14,345)
Change in life insurance contract liabilities	9(a)	794	(788)
Change in retrocessionaires share of life insurance contract liabilities	9(a)	25	(90)
		(15,193)	(15,223)
Other expenses	8	(9,077)	(4,421)
Total net claims and expenses		(24,270)	(19,644)
Profit before income tax		1,948	8,963
Income tax expense	16(b)	(13)	(20)
Profit for the period attributable to the entity	10	1,935	8,943
Other comprehensive income		-	-
Total comprehensive income for the period		1,935	8,943

The statement of comprehensive income 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 23 FEBRUARY 2010

Director 23 FEBRUARY 2010

Hannover Life Re of Australasia Ltd
New Zealand Branch

Statement of Financial Position

As at 31 December 2009

	Note	2009 $'000	2008 $'000
ASSETS			
Cash and cash equivalents		5,023	3,234
Trade and other receivables	11	3,849	4,519
Financial assets at fair value through profit and loss	12	42,655	40,947
Retrocessionaires share of life insurance contract liabilities	9(a)	11	-
Current tax assets		164	167
TOTAL ASSETS		51,702	48,867
LIABILITIES			
Trade and other payables	13	7,484	5,776
Gross life reinsurance contract liabilities	9(a)	16,377	17,171
Retrocessionaires share of life insurance contract liabilities	9(a)	-	14
TOTAL LIABILITIES		23,861	22,961
NET ASSETS		27,841	25,906
EQUITY			
Retained profits	14	27,841	25,906
TOTAL EQUITY		27,841	25,906

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
23 FEBRUARY 2010

S. Willcock
Director
23 FEBRUARY 2010

Hannover Life Re of Australasia Ltd
New Zealand Branch

Statement of Changes in Equity
For the Year Ended 31 December 2009

	2009 $'000	2008 $'000
Balance at 1 January	25,906	21,076
Profit for the period	1,935	8,943
Other comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	1,935	8,943
Transfer to Australian Statutory Fund	-	(4,113)
BALANCE AT 31 DECEMBER	27,841	25,906

The above statement of changes in equity should 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 Cash Flows
For the year ended 31 December 2009

	Note	2009 $'000	2008 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premium received		27,259	23,360
Policy payments		(14,818)	(13,061)
Retrocession premium paid		(1,016)	(1,180)
Commissions paid		(8,488)	(3,013)
Payments to suppliers and employees		(1,408)	(768)
Income tax paid		(11)	(14)
Retrocession and other recoveries received		357	67
Interest & rent received		2,298	3,212
Other revenue received		35	57
Net cash inflow from operating activities	17	4,208	8,660
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for financial assets		(15,182)	(23,258)
Proceeds from sale of financial assets		6,123	6,372
Net cash from investing activities		(9,059)	(16,886)
CASH FLOWS FROM FINANCING ACTIVITIES			
Transfer of profits to Australian statutory fund		-	(4,113)
Net cash from financing activities		-	(4,113)
Net (decrease)/increase in cash and cash equivalents		(4,851)	(12,339)
Cash and cash equivalents at the beginning of the financial year		14,845	27,184
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	17	9,994	14,845

The above statement of cash flows is to 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 a reporting entity for the purposes of the Financial Report Act 1993 and its financial statements comply with that Act. The financial statements comprising the Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Financial Position, Statement of Cash Flows and Notes to the Financial Statements have been prepared in accordance 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.

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 23 February 2010.

(b) Activities of Life Insurance Operations

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 shareholders.

(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, a insured event could cause a 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.

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

(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 are deferred by including them in the value of the life insurance contract liabilities. Further details of the actuarial assumptions used in these calculations are set out in Note 3.

(ii) *Trade and Other Payables*

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

(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. Unrealised gains and losses on subsequent measurement to fair value are recognised through profit or loss. Fair value is determined as follows:

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

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

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

(ii) *Investment Income*

- *Interest*
  Interest is recognised on an accruals basis.

- *Realised and unrealised gains and losses*
  The difference between the fair value of investments at the previous reporting date (or cost of acquisition, if acquired during the financial year) and their fair value at the reporting date (or sale proceeds, if sold during the financial year) is recognised as revenue or expense through profit or loss.

(iii) *Collateral*

No financial assets have been pledged as collateral for liabilities or contingent liabilities.

(iv) *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 in 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 cedents. 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 according to the proportion that the branch's gross premium revenue bears to total gross premium revenue of Hannover Life Re of Australasia Ltd.

(i) Income Tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and assessable temporary differences to measure the deferred tax asset or liability. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(j) Goods and Services Tax (GST)

The statement of comprehensive income has been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated net of GST, with the exception of outstanding premium and creditors which include GST where applicable.

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) the cost of providing benefits and administering these insurance contracts;
(ii) mortality and morbidity experience on life insurance products, including enhancements to policyholders benefits; 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, which 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 9.

(b) Retrocessionaires share of life insurance contract liabilities

Retrocessionaires 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 retrocessionaires' share of life insurance contract liabilities are set out in note 9.

3. Actuarial Assumptions and Methods

The life insurance contract liabilities for life insurance contracts are valued in accordance with NZ IFRS 4 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
Traditional non-participating business, term Insurance, group life insurance and disability insurance	Claims

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

(i) Conventional (whole of life) business
Liabilities were calculated by projecting cash flows for individual policies.

(ii) Level premium term 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.

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

(iv) 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 set by the appointed actuary 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:
3.35% to 5.88% p.a. (2009)
4.20% to 4.55% p.a. (2008)

(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, the outlook for inflation over the term of the liabilities and market implied inflation rates relative to the assumed investment earnings rates. Inflation rates assumed are:
2.4% p.a. (2009)
2.4% p.a. (2008)

(iii) Future expenses

Future maintenance expenses on lump sum claims are assessed at fixed amounts per claim. Future maintenance expenses on longer duration claims are assumed to be a set percentage of future 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 16.

(v) Mortality and morbidity

Assumed claim rates were based on various published tables, primarily those most recently published by the Institute of Actuaries of Australia, adjusted in light of most recent industry experience, the branch's own experience and the appointed actuary's best estimate of future claims experience of the branch. For disability income claims, adjustments were made to the IAD 89-93 tabular termination assumptions based on the branch's own experience and recent industry experience, as follows.

Claim termination rates as percentage of IAD 89-93:	2009: 40% to 110%
	2008: 32% to 140%

(vi) Rates of discontinuance

Assumed discontinuance rates are based on recent actual discontinuance experience and the appointed actuary's best estimate of future discontinuance rates. 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% - 20% p.a. (2008: 15% - 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 2008 to 31 December 2009

	Effect on net profit margins Increase/ (decrease) $'000	Effect on net life insurance contract liabilities Increase/ (decrease) $'000
Assumption category		
Discount rates	-	(291)
Future inflation rates	-	-
Mortality and morbidity	-	(300)
Total	-	(591)

(c) Processes used to select assumptions

Discount rates
The gross discount rates are derived from gross yields on cash deposits and government securities.

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. The New Zealand tax regime for life insurance companies that commences on 1 July 2010 is not expected to materially impact assumptions.

Mortality and morbidity
An appropriate base table of mortality 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 for that year. 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 an appropriate discontinuance rate. 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 this will lead to a net profit or loss.
Mortality rates	An increase in mortality rates would lead to higher claims cost and therefore reduced profit and 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.

For the year ended 31 December 2009

	Change in variable	Gross (before reinsurance) Profit / (loss) $'000	Gross (before reinsurance) Life insurance contract liabilities $'000	Net (of reinsurance) Profit / (loss) $'000	Net (of reinsurance) Life insurance contract liabilities $'000	Equity $'000
Balance per accounts		1,387	16,377	1,935	16,366	27,841
Result of change in variables:						
Worsening of mortality/morbidity claim incidence rates	%	(1,941)	2,773	(1,916)	2,737	(1,916)
Worsening of income claim termination rates	%	(254)	363	(254)	363	(254)
Deterioration in unreported claims development [1]	%	(399)	569	(390)	549	(390)
Increase in fixed interest bond Yields	%	(338)	(478)	(340)	(475)	(340)

(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	
	2009 $'000	**2008 $'000**
Long tailed lump sum benefit claims	(323)	2,057
Long tailed income benefit claims	835	1,186

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 Audit Committee, is responsible for monitoring the branch's risk management policies and reporting to the Board on its activities.

The branch's risk management policies are 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. Risk management policies and systems are 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 Audit Committee monitors compliance with the branch's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the branch. The Audit 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 Audit Committee.

The Board of Directors has adopted a formal risk management strategy which documents the risk management framework. This framework includes a formal process for the identification and monitoring of all material risks (including 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 Audit Committee.

(a) Financial Risks

Credit Risk

Credit risk is the risk of financial loss to the branch if a customer, retrocessionaire or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the branch's receivables from customers, retrocession recoverables 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 New Zealand Life Act 1908. 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 and Poor's). Given these high credit ratings, management does not expect any retrocessionaire to fail to meet its 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) Retrocession

The branch has in place a retrocession program. The program is designed to protect the branch 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. Retrocession treaties are analysed using a number of analytical modelling tools 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 cedants, 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. This is particularly necessary for disability business where claims are paid as an income stream. Disability income claims are monitored on a regular basis to track the experience of the portfolio as a result of poor experience in recent years. 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 retrocession). 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 retrocession 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.

Capital Management

Capital management is also a key aspect of the branch's risk management strategy. Capital requirements are measured using regulatory reporting requirements to which the branch is subject.

The branch manages capital by having in place a retrocession programme that provides a substantial buffer against possible adverse experience and a conservative and well matched investment policy.

As an additional means of managing insurance risk the branch holds capital reserves in excess of its best estimate liabilities. The branch ensures that sufficient excess capital is held throughout the year to meet a combination of specific adverse outcomes from its insurance business.

(c) Terms and conditions of life insurance contracts

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 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. 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 higher capital adequacy requirements are met.

6. Revenue and Income

	2009 $'000	2008 $'000
Life insurance contract premium revenue	25,572	25,572
Other income	33	22
	25,605	25,594

Other income includes the following amounts:

	2009 $'000	2008 $'000
Service fee income	31	52
Other	2	(30)
	33	22

Fair value gains includes the following amounts:

	2009 $'000	2008 $'000
Interest income	2,334	3,022
Net realised (losses)/gains	(62)	118
Net unrealised fair value (losses)/gains	(649)	1,199
	1,623	4,339

7. Life Insurance Contract Claims Expense

	2009 $'000	2008 $'000
Inwards life insurance contract claims	17,217	14,412

8. Other Expenses

	2009 $'000	2008 $'000
Policy acquisition – Life insurance contracts		
- Net commission	3,630	1,796
- Other acquisition costs	601	504
Total policy acquisition costs	4,231	2,300
Policy maintenance costs – Life insurance contracts		
- Net commission	3,742	1,287
- Other expenses	1,077	818
Total policy maintenance costs	4,819	2,105
Investment management expenses	27	16
Total administration expenses	9,077	4,421
Analysis of expenses by nature		
Net commission	7,372	3,083
Audit fee	4	6
Head office management fee	1,574	1,230
Other expenses	127	102
Total operating expenses	9,077	4,421

9. Life Insurance Contract Liabilities

(a) Reconciliation of movement in life insurance contract liabilities

	2009 $'000	2008 $'000
Life insurance contract liabilities		
Gross life insurance contract liabilities at 1 January	17,171	16,383
Change in life insurance contract liabilities reflected in the statement of comprehensive income	(794)	788
Gross life insurance contract liabilities at 31 December	16,377	17,171
Retrocessionaires' share of life insurance contract liabilities		
Retroceded life insurance contract liabilities at 1 January	(14)	76
Change in retrocessionaires' share of life insurance contract liabilities reflected in the statement of comprehensive income	25	(90)
Retrocessionaires share of life insurance contract liabilities at 31 December	11	(14)
Net life insurance contract liabilities at 31 December	16,366	17,185
Expected to be settled within 12 months	7,874	7,237
Expected to be settled in more than 12 months	8,492	9,948
	16,366	17,185

(b) Components of net life insurance contract liabilities

	2009 $'000	2008 $'000
Best estimate liability		
- Future policy benefits	24,197	23,414
- Future expenses	86	-
- Planned margins over future expenses	209	206
- Future charges for acquisition expenses	(8,126)	(6,435)
Total net life insurance contract liabilities	16,366	17,185

10. Components of Profit

	2009 $'000	2008 $'000
Planned margin of revenues over expenses released	2,048	1,597
Difference between actual and assumed experience	(1,016)	5,257
Change in valuation methods and assumptions	211	536
Investment earnings on assets in excess of life insurance liabilities	692	1,553
Profit for the year	1,935	8,943

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

11. Trade and Other Receivables

	2009 $'000	2008 $'000
Outstanding premium	2,376	4,063
Insurance recoveries due from related parties	981	-
Investment income accrued and receivable	492	456
	3,849	4,519
Receivable within 12 months	3,849	4,519
Receivable in more than 12 months	-	-
	3,849	4,519

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

12. Financial Assets

	2009 $'000	2008 $'000
Financial assets at fair value through profit and loss		
Debt securities		
- National Government	27,510	21,447
- Other public sector	4,866	4,481
- Private sector	10,279	15,019
Total financial assets at fair value through profit and loss	42,655	40,947
Expected to be realised within 12 months	7,750	17,256
Expected to be realised in more than 12 months	34,905	23,691
	42,655	40,947

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

13. Trade and Other Payables

	2009 $'000	2008 $'000
Current		
Outstanding life insurance contract claims payable	3,549	1,588
Amounts due to ceding companies	491	1,289
Amounts due to related parties	1,556	1,300
Other payables	1,888	1,599
	7,484	5,776
Payable within 12 months	7,484	5,776
Payable in more than 12 months	-	-
	7,484	5,776

The branch's exposure to liquidity risk related to trade and other payables is disclosed in note 19.

14. Capital and Reserves

Reconciliation of movement in capital and reserves

	2008 $'000	2007 $'000
Retained Profits		
Balance at 1 January	25,906	21,076
Total recognised income and expense	1,935	8,943
Transfer of Profits to Australian statutory fund	-	(4,113)
Balance at 31 December	27,841	25,906

15. 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.

16. Income Tax

The income tax expense of the branch is partly determined on a product-basis and partly determined on a profit-basis. New Zealand life business is taxed on the underwriting result and investment income (including gains and losses on sale of investments) less expenses (including commission). 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 during the period in the risk policy liabilities, 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 30% (2008: 30%).

(a) Taxation Basis

The principal elements for the calculation of the taxable income for each class of business are as follows:

Assessable income

1. Life insurance business – underwriting income and investment income (including gains and losses on sale of investments).

2. Other business – accident and disability premium earned and investment income (including gains and losses on sale of investments).

Allowable deductions

The allowable deductions for both taxable classes of business include:

1. Claims expenses and movements during the period in the policy liabilities (which may differ from policy liabilities recognised for accounting purposes).

2. Acquisition costs including commissions.

3. All other expenses referable to the business including investment expenses.

(b) Income Tax Expense

	2009 $'000	2008 $'000
Current tax expense		
Current year	13	20
Total income tax expense charged to statement of comprehensive income	13	20

Numerical reconciliation between tax expense and pre-tax net profit

	2009 $'000	2008 $'000
Net profit/(loss) before tax	1,935	8,963
Prima facie income tax expense/(benefit) calculated at 30% (2008 – 30%) on the profit from ordinary activities for the year ended 31 December:	580	2,958
Decrease in income tax expense due to:		
- Benefit of tax losses recognised	(567)	(2,938)
Income tax expense on pre-tax profit	13	20

The branch did not recognise deferred tax liabilities of $832,604 in the period due to the branch having tax losses available to offset. A deferred tax asset of $1,676,407 was also not recognised due to uncertainty regarding the recoverability of these tax losses.

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

	2009 $'000	2008 $'000
Profit from ordinary activities after income tax expense	1,935	8,943
Add/(less) items classified as investing/ financing activities:		
Loss/(gain) on sale of investments	62	(118)
Net depreciation/(appreciation) of investments	649	(1,199)
Net cash inflow from operating activities before change in assets & liabilities	2,646	7,626
Change in assets and liabilities:		
Decrease/(increase) in receivables	670	(2,022)
Decrease in tax assets	3	6
Increase in creditors & borrowings	1,708	2,172
(Decrease)/increase in life insurance contract liabilities	(794)	788
(Increase)/decrease in retrocessionaires share of life insurance contract liabilities	(25)	90
Net cash inflow from operating activities	4,208	8,660

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:

	2009 $'000	2008 $'000
Bank balances		
Cash	5,023	3,234
Negotiable certificates of deposit	4,971	11,611
Cash and cash equivalents in the statement of cash flows	9,994	14,845

The branch's exposures to interest rate risk and sensitivity analysis for financial assets are disclosed in note 19

18. Financial Instrument - Fair Values 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.

	2009 $'000
Level 1	27,510
Level 2	15,145
Level 3	-
	42,655

AASB 7 does not require comparisons on the above table in the first year of adoption.

19. 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:

	2009 $'000	2008 $'000
Cash and cash equivalents	5,023	3,234
Financial assets at fair value through profit and loss	42,655	40,947
Trade and other receivables	3,849	4,519
	51,527	48,700

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	27,510	21,448
Other public sector	4,866	4,481
Corporate	5,308	3,407
Cash	4,971	11,611
	42,655	40,947

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:

A1+	4,971	11,611
AAA	35,127	26,464
AA	1,560	2,872
A	997	-
	42,655	40,947

(b) Market Risk Sensitivity

The entity has sensitivity to the following market risks:

(i) Interest rate risk

	2009 $'000	2008 $'000
At the balance date the branch held the following interest sensitive financial instruments:		
Investment assets - debt securities	42,655	40,947

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.

	2009	2008
- plus 100 basis points - decrease profit by	(962)	(715)
- minus 100 basis points - increase profit by	997	741

(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
2009								
Debt securities at fair value through profit and loss	4.53%	42,655	7,750	11,390	3,311	14,718	2,015	3,471
Cash and cash equivalents	1.39%	5,023	5,023	-	-	-	-	
Trade and other receivables	-	3,849	3,849	-	-	-	-	-
Trade and other payables	-	(7,484)	(7,484)	-	-	-	-	-
		44,043	9,138	11,390	3,311	14,718	2,015	3,471
2008								
Debt securities at fair value through profit and loss	4.50%	40,947	17,255	2,837	11,046	2,104	7,705	-
Cash and cash equivalents	3.05%	3,234	3,234	-	-	-	-	-
Trade and other receivables	-	4,519	4,519	-	-	-	-	-
Trade and other payables	-	(5,776)	(5,776)	-	-	-	-	-
		42,924	19,232	2,837	11,046	2,104	7,705	-

(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.

20. 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.

21. Capital Expenditure Commitments

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

22. Auditor's Remuneration

Audit Services:	2009 $'000	2008 $'000
Auditors of the entity – KPMG		
Audit and review of the financial reports	4	6
Other regulatory audit services	-	-
	4	6
Other Services:		
Auditors of the entity – KPMG		
Taxation services	-	-
Other consulting		-
	-	-

23. Directors and Executive Disclosures (Key Management Personnel)

The branch did not employ key management personnel during the financial year.

24. Solvency Requirements

The solvency requirements are the amounts required to meet the prudential standards specified by the Australian Life Insurance Act 1995 ("Life Act") to provide protection against the impact of fluctuations and unexpected adverse circumstances.

The methodology and basis used for determining solvency requirements is in accordance with the requirements of the Australian Prudential Standard on Solvency (LPS2.04). The figures in the table below represent the solvency requirements and the number of times coverage for the assets available for solvency over the solvency reserve.

	2009 $'000	2008 $'000
Solvency Requirement "A" (1)	38,486	32,068
Represented by:		
- Minimum termination value (2)	24,228	23,315
- Other liabilities	7,484	4,497
- Solvency reserve "B"	6,774	4,256
	38,486	32,068
Assets available for Solvency Reserve "C"	19,991	19,762
Determined as:		
- Net assets	27,841	25,906
- Excess of gross policy liability over minimum termination value	(7,851)	(6,144)
	19,991	19,762
Solvency reserve % (B/(A-B)) x 100	21%	15%
Coverage of solvency reserve C/B	3.0 times	4.6 times

(1) The minimum level of assets required to be held in the statutory fund, prescribed by the Solvency Standard.

(2) The minimum termination value is determined in accordance with the Solvency Standard and is the base figure upon which reserves against liability and asset risks are layered in determining the solvency requirement. The minimum termination value represents the minimum obligation of the entity to policy owners at the reporting date.

25. Non Director Related Parties

Related party transactions

The following related party transactions occurred during the financial year.

(i) Retrocession arrangements with related parties

The branch has retrocession arrangements through related parties of the Hannover Re Group of Companies.

(ii) Retrocession arrangements with related parties

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

(iii) Transactions with related parties

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

	2009 $'000	2008 $'000
Transactions during the year		
Outwards reinsurance expenses	945	1,273
Reinsurance recoveries	(1,152)	(67)
Other recoveries including commission	(310)	(560)
Investment management services	(27)	(15)
Creditors – Current		
Amounts due to related parties	1,556	1,300
Debtors – Current		
Amounts due from related parties	981	-

Parent entities

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

26. Operating Leases

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

27. Employee Benefits

The branch does not employ staff.

28. Events Occurring After Balance Date

Since the end of the year the Directors of Hannover Life Re of Australasia Ltd have not become aware of any matter or circumstance not otherwise dealt with in these financial statements that is likely to affect the operations or the state of affairs of the branch in subsequent financial statements.

KPMG

Audit report

To the shareholders of Hannover Life Re of Australasia Ltd – New Zealand Branch

We have audited the financial statements of Hannover Life Re of Australasia Ltd – New Zealand Branch ("the Branch"). The financial statements provide information about the past financial performance of the Branch and its financial position as at 31 December 2009. This information is stated in accordance with the accounting policies set out in note 1.

Directors' responsibilities

The Directors of the company are responsible for the preparation of financial statements which give a true and fair view of the financial position of the Branch as at 31 December 2009 and the results of its operations for the year ended on that date.

Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Directors of the company in the preparation of the financial statements;

- whether the accounting policies are appropriate to the Branch's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our firm has also provided other services to the Branch in relation to taxation services. Partners and employees of our firm may also deal with the Branch on normal terms within the ordinary course of trading activities of the business of the Branch. These matters have not impaired our independence as auditors of the Branch. The firm has no other relationship with, or interest in, the Branch.

KPMG

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the Branch as far as appears from our examination of those records;

- the financial statements:

  – comply with New Zealand generally accepted accounting practice;

  – give a true and fair view of the financial position of the Branch as at 31 December 2009 and the results of its operations for the year ended on that date.

Our audit was completed on 23 February 2010 and our unqualified opinion is expressed as at that date.

KPMG

Sydney

23 February 2010

HANNOVER LIFE RE OF AUSTRALASIA LTD

CONSOLIDATED AUSTRALIAN ENTITY

FINANCIAL STATEMENTS

FOR YEAR ENDED 31 DECEMBER 2009

Directors' Report

For the Year Ended 31 December 2009

The Directors have pleasure in presenting their report together with the financial report of the entity for the year ended 31 December 2009 and the auditor's report thereon.

Directors

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

Mr David Arnold Keith Ferguson, BA, LLM
Chairman
Independent Non-Executive Director
Age 74

Mr Ferguson is a Director of AstraZeneca Pty Ltd and Group. He is a practising solicitor and after retiring as a partner of Minter Ellison has become a consultant to that firm.
Member of the Board Audit Committee and Board Compliance Committee.
Director since 1993.

Dr Wolf Siegfried Becke
Deputy Chairman
Non-Executive Director
Age 63

Dr Becke is a member of the Executive Boards of Hannover Rückversicherung AG and E + S Rückversicherung AG.
Director since 1994 and Deputy Chairman since 2007.

Dr Elke Anette Koenig
Non-Executive Director
Age 56

Dr Koenig was a member of the Executive Boards of Hannover Rückversicherung AG and E + S Rückversicherung AG.
Resigned as Director 23 February 2009.

Mr Ulrich Wallin
Non-Executive Director
Age 55
Mr Wallin is Chairman of the Executive Boards of Hannover Rückversicherung AG and E + S Rückversicherung AG.
Appointed as Director 1 July 2009

Mr Wilhelm Zeller
Non-Executive Director
Age 65

Mr Zeller was Chairman of the Executive Boards of Hannover Rückversicherung AG and E + S Rückversicherung AG.
Resigned as Director 30 June 2009.

Mr Rodney John Atfield, FIA, FIAA, FAII
Independent Non-Executive Director
Age 72

Directorships include Avant Insurance Limited, Children's Medical Research Institute and ING Foundation.

Mr Atfield previously held the positions of Managing Director of Mercantile Mutual (now ING Group) and Chief Executive Officer of Mercantile Mutual Life and has had over 40 years experience in the life insurance and funds management industry. Mr Atfield was also previously a director of APRA.
Chairman of the Board Audit Committee and Board Compliance Committee.
Director since 2005.

Mr Samuel Robert Swil, B Bus Sc, MBA, FIAA, FAICD
Independent Non-Executive Director
Age 59

Directorships include FSP Group Pty Limited, FSP Super Pty Limited, FSP Funds Management Ltd, Financial Services Partners Pty Limited and FSP Portfolio Administration Ltd.
Mr Swil previously held the positions of Chairman of Prefsure Life Limited and Managing Director of FAI Life Limited and Australian Casualty and Life Limited and has had over 35 years experience in the life insurance and superannuation industry.
Member of the Board Audit Committee and Board Compliance Committee.
Director since 2006.

Mr Stephen Willcock, BA, FIA, FIAA, ASA, FNZSA
Managing Director
Age 58

Mr Willcock has had over 20 years experience in the life reinsurance industry.
Managing Director since 1993.

Company Secretary

Mr David Tallack BEc CPA ACIS was appointed to the position of General Manager (Finance) and Company Secretary in 2006. Mr Tallack is a member of Chartered Secretaries Australia and holds a Graduate Diploma in Applied Corporate Governance.

Directors' Meetings

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

Director	Directors' Meetings		Board Audit Committee Meetings		Board Compliance Committee Meetings	
	A	B	A	B	A	B
* Mr D A K Ferguson	3	3	2	2	2	2
Dr W S Becke	3	3	-	-	-	-
+ Dr E A Koenig	1	1	1	1	-	-
U Wallin	2	2	-	-	-	-
Mr W Zeller	1	1	-	-	-	-
* Mr R J Atfield	3	3	2	2	2	2
* Mr S Swil	3	3	2	2	2	2
Mr S Willcock	3	3	-	-	-	-

A - number of meetings attended
B - number of meetings held during the time the Director held office during the year
* - member of Board Audit Committee and Board Compliance Committee
+ - Dr E. A. Koenig resigned from the Board and Board Audit Committee on 23 February 2009.

Principal Activities

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

Review and Results of Operations

Overview of the Entity

The 2009 financial year recorded a profit before tax of $36.4M (2008: $38.3M). Significant influences included the ongoing global financial crisis, the completed recapture by a ceding company of a large single block of business, good lump sum claims experience particularly in respect of group life business and poor disability income insurance claims experience.

Investment income decreased over the previous year due to reductions in short term official interest rates and unrealised losses on debt securities arising from increases in longer term market yields.

After allowing for a tax expense of $2.0M (2008: $1.0M tax benefit) profit after tax of $34.4M (2008: $39.3M) showed a decrease of 13% over the previous year. The effective tax charge in 2009 and 2008 was less than the Australian company tax rate of 30% due to the entity deriving tax exempt net income from overseas Accident and Disability (AD) retrocessions and the write-off of a related deferred tax liability on AD retrocessions.

Significant Change in the State of Affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the entity that occurred during the financial year under review.

Dividends

Dividends paid or declared by the entity since the end of the previous financial year were:

Type	Cents per Share	Total Amount $'000	Franking %	Date of Payment
Declared during 2008 and paid during 2009:				
2008 Interim – Ordinary Shares	182.9268	15,000	100	12 March 2009
Declared during 2009:	-	-	-	-

Events Subsequent to Reporting Date

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

Likely Developments

The entity will continue to pursue its policy of attaining above average returns on shareholders' equity and to achieve long term growth in its business consistent with increased profits on a year to year basis.

Environmental Regulation

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

Indemnification and Insurance of Officers

Indemnification

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

Insurance Premiums

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

Lead Auditor's Independence Declaration

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

Rounding Off

The entity is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a
resolution of the Directors.

D.A.K. Ferguson
Chairman

Sydney
23 February 2010

Directors' Declaration

For the Year Ended 31 December 2009

In the opinion of the Directors of Hannover Life Re of Australasia Ltd (the entity):

1. the financial statements and notes of the entity are properly drawn up in accordance with the Corporations Act 2001, including:

    (i) *giving a true and fair view of the financial position of the entity and its performance*, as represented by the results of its operations and its cash flows for the year ended 31 December 2009, and;

    (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

2. the financial statements and notes comply with International Financial Reporting Standards as disclosed in note 1a; and

3. there are reasonable grounds to believe that the entity including the statutory funds will be able to pay all its debts or claims as and when they become due and payable.

Signed in accordance with a resolution of the Directors:

D.A.K. Ferguson
Chairman

Sydney
23 February 2010

S. WILLCOCK

MANAGING DIRECTOR

NATIONAL PROCESSING CENTRE
- 3 JUN 2010
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Statement of Comprehensive Income
For the year ended 31 December 2009

	Note	2009 $'000	2008 $'000
Revenue			
Life insurance contract premium revenue	7	448,339	506,480
Outwards reinsurance expense		(241,335)	(193,961)
Net life insurance premium revenue		207,004	312,519
Net fair value gains on financial assets at fair value through profit or loss	7	24,965	89,693
Other income	7	65	65
Total Revenue		232,034	402,277
Claims and expenses			
Life insurance contract claims expense	8	(314,297)	(296,590)
Reinsurance recoveries revenue		219,299	181,932
Net life insurance claims expense		(94,998)	(114,658)
Change in life insurance contract liabilities	10(a)	4,029	(142,166)
Change in retrocessionaires share of life insurance contract liabilities	10(a)	(6,931)	31,207
		(97,900)	(225,617)
Other expenses	9	(97,720)	(138,363)
Net claims and expenses		(195,620)	(363,980)
Profit before income tax		36,414	38,297
Income tax (expense)/ benefit	19(c)	(2,028)	1,040
Profit for the period attributable to the entity	11	34,386	39,337
Other comprehensive income			
Foreign currency translation reserve movement		(898)	(904)
Asset revaluation reserve movement		(50)	(150)
Income tax on asset revaluation reserve movement		15	45
Total comprehensive income for the period		33,453	38,328

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of Financial Position
As at 31 December 2009

	Note	2009 $'000	2008 $'000
ASSETS			
Cash and cash equivalents	20	29,247	33,458
Trade and other receivables	12	52,621	76,360
Financial assets at fair value through profit or loss	13	766,466	712,576
Retrocessionaires share of life insurance contract liabilities	10(a)	113,060	119,991
Property, plant and equipment	14	8,918	9,172
Current tax assets		132	6,185
Deferred tax assets	19(d)	7,072	8,478
TOTAL ASSETS		977,516	966,220
LIABILITIES			
Trade and other payables	15	38,421	42,551
Dividend payable		-	15,000
Employee benefits	24	6,032	4,433
Gross life insurance contract liabilities	10(a)	707,766	712,392
TOTAL LIABILITIES		752,219	774,376
NET ASSETS		225,297	191,844
EQUITY			
Contributed equity	16	10,000	10,000
Reserves		(406)	527
Retained profits		215,703	181,317
TOTAL EQUITY		225,297	191,844

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity
For the year ended 31 December 2009

	Share Capital	Translation Reserve	Revaluation Reserve	Retained Earnings	Total
Balance at 1 January 2009	10,000	(628)	1,155	181,317	191,844
Profit for the period				34,386	34,386
Other comprehensive income					
Foreign currency translation	-	(898)	-	-	(898)
Revaluation of owner occupied property	-	-	(35)	-	(35)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	-	(898)	(35)	34,386	33,453
Dividend to shareholders	-	-	-	-	-
BALANCE AT 31 DECEMBER 2009	10,000	(1,526)	1,120	215,703	225,297

	Share Capital	Translation Reserve	Revaluation Reserve	Retained Earnings	Total
Balance at 1 January 2008	10,000	276	1,260	156,980	168,516
Profit for the period				39,337	39,337
Other comprehensive income					
Foreign currency translation	-	(904)	-	-	(904)
Revaluation of owner occupied property	-	-	(105)	-	(105)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	-	(904)	(105)	39,337	38,328
Dividends to shareholders	-	-	-	(15,000)	(15,000)
BALANCE AT 31 DECEMBER 2008	10,000	(628)	1,155	181,317	191,844

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows
For the year ended 31 December 2009

	Note	2009 $'000	2008 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premium received		452,065	520,033
Policy payments		(321,005)	(285,348)
Retrocession premium paid		(240,299)	(183,400)
Commissions paid		(118,099)	(126,270)
Payments to suppliers and employees		(13,956)	(13,782)
Income tax refunded/(paid)		5,440	(12,775)
Retrocession and other recoveries received		273,746	135,439
Interest received		41,716	42,991
Other revenue received		110	96
Net cash inflow from operating activities	20	79,718	76,984
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for financial assets		(331,907)	(220,854)
Proceeds from sale of financial assets		264,778	174,977
Payments for property, plant & equipment		(551)	(783)
Proceeds from sale of property, plant & equipment		325	351
Net cash (outflow) from investing activities		(67,355)	(46,309)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(15,000)	(15,000)
Net cash (outflow) from financing activities		(15,000)	(15,000)
Net (decrease)/increase in cash and cash equivalents		(2,637)	15,675
Cash and cash equivalents at the beginning of the financial year		79,584	64,981
Effects of exchange rate changes on the opening balance of cash and cash equivalents		(515)	(1,072)
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	20	76,432	79,584

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements
For the Year Ended 31 December 2009

Contents of the Notes to the Financial Statements

1. Summary of Significant Accounting Policies

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

(a) Basis of Presentation

The entity is incorporated and domiciled in Australia. The registered office of the entity is Level 7, 70 Phillip Street, Sydney, Australia 2000. The entity is a public company limited by shares.

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASB's) including Australian Interpretations adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial statements comply with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standard Board (IASB).

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

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

These financial statements are presented in Australian Dollars, which is the entity's functional currency.

The financial statements were authorised for issue by the Board of Directors on 23 February 2010.

(b) Principles for Life Insurance Business

The life insurance operations of the entity are conducted within separate statutory funds as required by the *Life Insurance Act 1995* (the Life Act) and are reported in aggregate with the shareholders' fund in the statement of comprehensive income, statement of financial position, statement of cash flows and statement of changes in equity. The life insurance operations of the entity comprise 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, a insured event could cause a insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness. The insured benefit is not linked to the market value of the investments held by the entity, and the financial risks are substantially borne by the entity.

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

(c) Premium and Claims

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

(d) Liabilities

(i) *Life Insurance Contract Liabilities*

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

(ii) Trade and Other Payables

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

(e) Assets Backing Life Insurance Contract Liabilities

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

Financial Assets

(i) Valuation

Upon initial recognition, financial assets are designated at fair value through profit or loss. Unrealised gains and losses on subsequent measurement to fair value 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.

- The fair value of unlisted unit trusts is taken as the exit unit price published by the managers of the trust.

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

(ii) *Investment Income*

- *Interest and rents.*
  Interest and rents are recognised on an accruals basis.

- *Realised and unrealised gains and losses*
  The difference between the fair value of investments at the previous reporting date (or cost of acquisition, if acquired during the financial year) and their fair value at the reporting date (or sale proceeds, if sold during the financial year) is recognised as revenue or expense through profit or loss.

Investment income has been allocated between classes of business in the Australian statutory fund in proportion to the average capital adequacy liabilities of the classes of business of the fund.

(iii) *Collateral*

No financial assets have been pledged as collateral for liabilities or contingent liabilities.

(iv) *Impairment of Financial Assets*

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

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

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

All impairment losses are recognised through profit or loss.

(f) Shareholders' Fund Assets

Financial assets which do not back life insurance liabilities are designated at fair value through profit and loss, other than:

- The owner occupied property is measured at fair value with movements in fair value recognised directly in equity.

- Plant and equipment are initially recorded at cost and depreciated on either a straight line or diminishing value basis over their estimated useful lives. The depreciation is charged to the profit or loss. Depreciation rates and methods are reviewed annually. When changes are made, adjustments are reflected prospectively in current and future periods only.

(g) Deferred Acquisition Costs

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

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

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

(h) Basis of Expense Apportionments

Apportionments under Part 6, Division 2 of the Life Insurance Act 1995 have been made as follows:

Expenses directly identifiable to a particular fund are charged to that fund.

The balance of expenses is apportioned between the Australian statutory fund and the overseas statutory fund as follows:

- All expenses which are staff related are allocated in proportion to the estimated time involved in each fund;
- Investment management fees are apportioned according to the average cost of the fixed interest investment portfolio;
- Other expenses are allocated in the proportion that the in-force premium revenue of each fund bears to total gross in-force premium revenue.

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

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

(i) Income Tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the notional income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and assessable temporary differences to measure the deferred tax asset or liability. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Where dividends have been declared to the overseas incorporated shareholders, the entity provides for withholding tax where applicable.

(j) Foreign Currency

(i) Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

(ii) Translation of Controlled Foreign Entities

Assets and liabilities of the entity's self sustaining New Zealand branch are translated at the rates of exchange ruling at balance date. The revenues and expenses are translated at a weighted average rate for the year. The effect of movements in exchange rates on the translation of the New Zealand branch's assets and liabilities are recognised as a separate component of equity.

(k) Goods and Services Tax (GST)

The entity is a provider of financial supplies with the result that the major portion of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition or as part of the expense. Where the revenue or expense is subject to GST and is recoverable from the ATO they are recognised net of the amount of GST.

Receivables and payables are stated in the statement of financial position with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis.

(l) Employee Benefits

Wages, Salaries and Annual Leave

Liabilities for employee entitlements for wages, salaries and annual leave represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on the salary that the entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

Long Service Leave

The obligation for employee entitlement to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' providing their services in the current and prior periods as at reporting date. This obligation is calculated using expected future increases in salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to semi government bonds at reporting date which most closely match the terms to maturity of the related obligations. The unwinding of the discount is treated as long service leave expense.

Superannuation Plans

(i) Defined Contribution Plans

The entity contributes to defined contribution superannuation plans. Contributions to these plans are recognised as an expense in the statement of comprehensive income as incurred.

(ii) Defined Benefit Plan

The entity's net obligation in respect of a defined benefit superannuation plan is calculated in accordance with AASB 119 "Employee Benefits" by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of plan assets is deducted.

The discount rate is the yield at the statement of financial position date on government bonds that have maturity dates approximating to the term of the plan's obligations. The calculation is performed by the plan's actuary using the projected unit credit method.

To the extent that any cumulative unrecognised actuarial gain or loss exceeds 10 per cent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the statement of comprehensive income over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation results in a benefit to the entity, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Past service cost is the increase in the present value of the defined benefit obligation for employee services in prior periods, resulting in the current period from the introduction of, or changes to, post employment benefits or other long term employee benefits.

(m) Operating Lease Payments

Payments made under operating leases are recognised in the statement of comprehensive income on a straight line basis over the term of the lease.

(n) New Standards and Interpretations Not Yet Adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 31 December 2009, but have not been adopted in this financial report:

- AASB 2009-5 *Further amendments to Australian Accounting Standards arising from the Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments which become mandatory for the entity's 31 December 2010 financial statements are not expected to have a significant impact on the entity's financial statements.
- AASB 9 *Financial Instruments* includes requirements that improve and simplify the approach for classification and measurement of financials assets compared with the requirements of AASB 139. The amendments which become mandatory for the entity's 31 December 2013 financial statements are not expected to have a significant impact on the entity's financial statements.
- AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* makes certain changes to various AASBs (including AASB 1038) for consistency with AASB 9. The amendments which become mandatory when AASB 9 is applied are not expected to have a significant impact on the entity's financial statements.

2. Critical Accounting Judgments and Estimates

The entity makes estimates and assumptions that affect the reported amounts of assets and liabilities at year end. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas where critical accounting estimates are applied are noted below.

(a) Life insurance contract liabilities

Life insurance contract liabilities are computed using 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 contract liabilities and are equally sensitive to the factors that are considered in the liability measurement.

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

(i) the cost of providing benefits and administering these insurance contracts;
(ii) mortality and morbidity experience on life insurance products, including enhancements to policyholder benefits; and
(iii) discontinuance experience, which affects the entity's ability to recover the cost of acquiring new business over the lives of the contracts.

In addition, factors such as regulation, competition, interest rates, taxes, securities market conditions and general economic conditions affect the level of these liabilities. In some contracts, the entity shares experience on mortality, morbidity and persistency with its customers, which 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 10.

(b) Retrocessionaires' share of life insurance contract liabilities

Retrocessionaires' share of life insurance contract liabilities is 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 entity may not receive amounts due to it and these amounts can be reliably measured. Details of the retrocessionaires' share of life insurance contract liabilities are set out in Note 10.

(c) Defined benefit plan

The liabilities of the defined benefit plan have been calculated by using the "projected unit credit" method as required by AASB 119.

The key assumptions in preparing the valuation of the liabilities are:

(i) The discount rate applied to expected future benefit payments is based on the risk free bond rate reduced by tax for pre retirement liabilities and reduced by an allowance for the cost of purchasing pensions after a member retires for post retirement liabilities and to make some allowance for future improvements in post retirement mortality.

(ii) Salary increases which are based on recent experiences and expected future increases.

(iii) The expected mortality and morbidity experience which has been estimated for post retirement liabilities in accordance with PA(90) actuarial tables with ages reduced by 7 years.

(iv) The rate of pension indexation which has been set at 3% p.a. in accordance with the plan's trust deed.

(v) Administration expenses paid from the plan are assumed to average 1.5% of the members' salaries.

3. Actuarial Assumptions and Methods

The effective date of the actuarial report on life insurance contract liabilities and solvency reserves is 31 December 2009. The actuarial report dated 11 February 2010 was prepared by Mr G. Campbell, BEc, MAS, FIAA. The actuarial report indicates that Mr Campbell is satisfied as to the accuracy of the data upon which life insurance contract liabilities have been determined.

The life insurance contract liabilities for life insurance contracts are valued in accordance with AASB 1038 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
Traditional non-participating business, term insurance, group life insurance and disability insurance	Claims

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

(i) Conventional (whole of life) business
Liabilities were calculated by projecting cash flows for individual policies.

(ii) Level premium term 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 accumulation methods.

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

(iv) 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 set by the appointed actuary are best estimates of expected future experience in accordance with AASB 1038 and LPS1.04. The key assumptions are as follows:

(i) Discount rates

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

Australian statutory fund	2009: 4.33% to 5.79% p.a. 2008: 3.20% to 4.06% p.a.
Overseas statutory fund	2009: 3.35% to 5.88% p.a. 2008: 4.20% to 4.55% p.a.

(ii) Inflation Rates

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

Australian statutory fund	2009: 2.4% p.a. 2008: 2.4% p.a.
Overseas statutory fund	2009: 2.4% p.a. 2008: 2.4% p.a.

(iii) Future expenses

Future maintenance expenses on lump sum claims are assessed at fixed amounts per claim. Future maintenance expenses on longer duration claims are assumed to be a set percentage of future claim payments.

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

(iv) Rates of taxation

Policy liabilities have been determined on a gross of taxation basis. The rates of taxation that apply to the entity are shown in Note 19.

(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, adjusted in light of most recent industry experience, the entity's own experience and the appointed actuary's best estimate of future claims experience of the entity. For disability income claims, adjustments were made to the IAD 89-93 tabular termination assumptions based on the entity's own experience and recent industry experience, as follows.

Claim termination rates as percentage of IAD 89-93:	2009: 40% to 110%
	2008: 32% to 140%

(vi) Rates of discontinuance

Assumed discontinuance rates are based on recent actual discontinuance experience and the Appointed Actuary's best estimate of future discontinuance rates. 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% - 20% p.a. (2008: 15% - 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 2008 to 31 December 2009

	Effect on net profit margins $'000 Increase/ (decrease)	Effect on net life insurance contract liabilities $'000 Increase/ (decrease)
Assumption category		
Discount rates	-	(37,800)
Future inflation rates	-	-
Mortality and morbidity	-	2,300
Total	-	**(35,500)**

(c) Processes used to select assumptions

Discount rate
The gross discount rates are derived from gross yields on cash deposits and government securities.

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

Tax
Current tax legislation and rates are assumed to continue unaltered. The New Zealand tax regime for life insurance companies that commences on 1 July 2010 is not expected to materially impact assumptions.

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

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

(d) Sensitivity analysis

The valuations included in the reported results and the entity's best estimate of future performance are calculated using certain assumptions about the variables such as interest rate, mortality, morbidity and inflation. A movement in any key variable will impact the performance and net assets of the entity 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 shareholders' equity.
Discount Rates	An increase in market interest rates will cause the value of the entity's financial assets and interest sensitive liabilities to fall. To the extent that the profiles of these assets and liabilities are not matched this will lead to a net profit or loss.
Mortality rates	An increase in mortality rates would lead to higher claims cost and therefore reduced profit and 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 entity.

For the year ended 31 December 2009

	Change in variable	Gross (before reinsurance) Profit / (loss) 2009 $'000	Gross (before reinsurance) Life insurance contract liabilities $'000	Net (of reinsurance) Profit / (loss) 2009 $'000	Net (of reinsurance) Life insurance contract liabilities $'000	Equity 2009 $'000
Balance per accounts		30,135	707,766	34,386	594,706	225,297
Result of change in variables:						
Worsening of mortality/morbidity claim incidence rates	5%	(44,227)	44,895	(1,539)	42,008	(1,539)
Worsening of income claim termination rates [1]	5%	(28,556)	32,926	3,839	32,926	3,839
Deterioration in unreported claims development [2]	5%	(4,882)	6,974	(1,633)	6,541	(1,633)
Increase in fixed interest bond Yields	1%	(4,744)	(20,805)	(5,273)	(19,481)	(5,273)

For the year ended 31 December 2008

	Change in variable	Gross (before reinsurance) Profit / (loss) 2008 $'000	Gross (before reinsurance) Life insurance contract liabilities $'000	Net (of reinsurance) Profit / (loss) 2008 $'000	Net (of reinsurance) Life insurance contract liabilities $'000	Equity 2008 $'000
Balance per accounts		7,582	712,392	39,337	592,400	191,844
Result of change in variables:						
Worsening of mortality/morbidity claim incidence rates	5%	(40,226)	40,815	(1,358)	38,303	(1,358)
Worsening of income claim termination rates [1]	5%	(31,364)	34,611	2,722	34,611	2,722
Deterioration in unreported claims development [2]	5%	(5,912)	8,446	(1,761)	7,942	(1,761)
Increase in fixed interest bond Yields	1%	852	(25,434)	118	(23,598)	118

(1) The above analysis is impacted by the interaction of the entity's various retrocession arrangements and the basis of taxation for each class of business (see Note 19).

(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	
	2009	2008
	$'000	$'000
Long tailed lump sum benefit claims	16,464	16,602
Long tailed income benefit claims	(4,711)	(18,415)

4. Risk Management Policies and Procedures

The financial condition and operating results of the entity are affected by a number of key financial and non-financial risks. The financial risks include credit risk, liquidity risk and market risk. The non-financial risks include insurance risk, compliance risk and operational risk. The entity's objectives and policies in respect of managing these risks are set out in the following section.

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

The entity's risk management policies are established to identify and manage the risks faced by the entity, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are regularly reviewed to reflect changes in market conditions and the entity's activities. The entity, 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 Audit Committee monitors compliance with the entity's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the entity. The Audit 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 Audit Committee.

The Board of Directors has adopted a formal risk management strategy which documents the entity'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 Audit Committee.

(a) Financial Risks

Credit Risk

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

(i) Trade and Other Receivables

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

The entity limits its exposure to credit risk by only retroceding to reinsurers that have a credit rating of at least A- (Standard and Poors). Given these high credit ratings, management does not expect any retrocessionaire to fail to meet its obligations.

(ii) Investments

The entity 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 entity's investment managers and reported regularly to the Investment Strategy Committee. The Committee is responsible for setting strategy within the framework of the Investment Guidelines and reporting to the Board on strategy, performance and compliance.

Liquidity Risk

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

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

Market Risk

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

(i) Interest Rate Risk

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

The entity manages the interest rate risk of that portion of the fixed interest portfolio which is in excess of the life insurance contract liabilities by maintaining a relatively short neutral duration.

(ii) Currency Risk

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

(b) Insurance Risks

The entity's objective is to satisfactorily manage insurance risks in line with the entity'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) Retrocession

The entity has in place a retrocession program. The program is 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. Retrocession treaties are analysed using a number of analytical modelling tools to assess the impact on the entity's exposure to risk.

(ii) Underwriting procedures

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

(iii) Claims Management

Strict claims management procedures and controls are in place to ensure the timely payment of claims in accordance with policy conditions. This is particularly necessary for disability business where claims are paid as an income stream. Disability income claims are monitored on a regular basis to track the experience of the portfolio as a result of poor experience in recent years. The entity has in place a program to assist cedant's manage their claim portfolios.

(iv) Pricing

The entity 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 entity reports quarterly financial and operational results, mortality and morbidity experience, claims frequency and severity, and exposure for each portfolio of contracts (gross and net of retrocession). This information includes the entity's gross and net results which are compared against entity's business plan. The information is reviewed by the Executive Committee on a quarterly basis.

Concentration of insurance risk

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

Capital Management

Capital management is also a key aspect of the entity's risk management strategy. Capital requirements are measured using regulatory reporting requirements to which the entity is subject.

The entity manages capital by having in place an extensive retrocession programme that provides a substantial buffer against possible adverse experience and a conservative and well matched investment policy.

As an additional means of managing insurance risk the entity holds capital reserves in excess of its best estimate liabilities. The entity ensures that sufficient excess capital is held throughout the year to meet a combination of specific adverse outcomes from its insurance business. In addition to meeting all of its statutory obligations in this regard, the Board has adopted a formal target surplus policy, following receipt of advice on this matter from the entity's Appointed Actuary. This policy aims to maintain an additional capital reserve buffer, allowing it to withstand an even greater range of adverse outcomes than envisaged in the statutory regulations.

(c) Terms and conditions of life insurance contracts

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 Discontinuance rates Expenses

5. Disclosure on Asset Restrictions

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

6. Solvency Requirements of the Life Statutory Funds

The solvency requirements are the amounts required to meet the prudential standards specified by the Life Insurance Act 1995 to provide protection against the impact of fluctuations and unexpected adverse circumstances.

The methodology and basis used for determining solvency requirements is in accordance with the requirements of the Prudential Standard on Solvency (LPS2.04). The figures in the table below represent the solvency requirements and the number of times coverage for each fund of the assets available for solvency over the solvency reserve.

	2009 Australian Statutory Fund $'000	2009 Overseas Statutory Fund $'000	2009 Statutory Funds Total $'000	2008 Australian Statutory Fund $'000	2008 Overseas Statutory Fund $'000	2008 Statutory Funds Total $'000
Solvency Requirement "A" (1)	821,486	29,713	851,199	821,542	26,869	848,411
Represented by:						
- Minimum termination value (2)	727,564	19,458	747,022	743,679	19,535	763,214
- Other liabilities	37,487	4,814	42,301	45,796	3,768	49,564
- Solvency reserve "B"	56,435	5,441	61,876	32,067	3,566	35,633
	821,486	29,713	851,199	821,542	26,869	848,411
Assets available for Solvency Reserve "C"	157,824	16,055	173,879	112,447	16,558	129,004
Determined as:						
- Net assets	190,776	22,361	213,137	158,121	21,706	179,826
- Excess of gross policy liability over minimum termination value	(32,952)	(6,306)	(39,258)	(45,674)	(5,148)	(50,822)
	157,824	16,055	173,879	112,447	16,558	129,004
Solvency reserve % (B/(A-B)) x 100	7%	22%	8%	4%	15%	4%
Coverage of solvency reserve C/B	2.8 times	3.0 times	2.8 times	3.5 times	4.6 times	3.6 times

(1) ~~The minimum level of assets required to be held in each statutory fund, prescribed by the Solvency Standard.~~

(2) The minimum termination value is determined in accordance with the Solvency Standard and is the base figure upon which reserves against liability and asset risks are layered in determining the solvency requirement. The minimum termination value represents the minimum obligation of the entity to policy owners at the reporting date.

7. Revenue and Income

	2009 $'000	2008 $'000
Life insurance contract premium revenue	448,339	506,480
Other income	65	65
	448,404	506,545

Other income includes the following amounts:

Service fee income	25	44
Car space rental	29	26
Other	11	(5)
	65	65

Net fair value gains on financial assets at fair value through profit and loss (that were designated as such upon initial recognition) includes the following amounts:

Interest income	43,035	42,983
Net realised (losses)/gains	(6,978)	5,221
Net unrealised fair value (losses)/gains	(11,092)	41,489
	24,965	89,693

8. Life Insurance Contract Claims Expense

	2009 $'000	2008 $'000
Inwards life insurance contract claims	314,297	296,590

9. Other Expenses

	2009 $'000	2008 $'000
Policy acquisition costs – life insurance contracts		
- Net commission	15,588	11,085
- Other acquisition costs	2,366	2,598
Total policy acquisition costs	17,954	13,683
Policy maintenance costs – life insurance contracts		
- Net commission	65,918	111,869
- Other expenses	12,959	11,994
Total policy maintenance costs	78,877	123,863
Investment management expenses	889	817
Total administration expenses	97,720	138,363
Analysis of expenses by nature		
Net commission	81,506	122,954
Depreciation and amortisation expense	430	410
Employee benefits expense	10,592	10,300
Other expenses	5,192	4,699
	97,720	138,363

10. Life Insurance Contract Liabilities

(a) Reconciliation of movement in life insurance contract liabilities

	2009 $'000	2008 $'000
Life insurance contract liabilities		
Gross life insurance contract liabilities at 1 January	712,392	570,962
Exchange adjustment on translation of New Zealand branch	(597)	(736)
Change in life insurance contract liabilities reflected in profit and loss	(4,029)	142,166
Gross life insurance contract liabilities at 31 December	707,766	712,392
Retrocessionaires' share of life insurance contract liabilities		
Retroceded life insurance contract liabilities at 1 January	119,991	88,787
Exchange adjustment on translation of New Zealand branch	-	(3)
Change in retrocessionaires' share of life insurance contract liabilities reflected in profit and loss	(6,931)	31,207
Retrocessionaires share of life insurance contract liabilities at 31 December	113,060	119,991
Net life insurance contract liabilities at 31 December	594,706	592,401
Expected to be settled within 12 months	167,558	173,586
Expected to be settled in more than 12 months	427,148	418,815
	594,706	592,401

(b) Components of net life insurance contract liabilities

	2009 $'000	2008 $'000
Best estimate liability		
- Value of future policy benefits	626,760	625,958
- Value of Future Expenses	10,797	10,330
- Value of Unrecouped Acquisition Expense	(68,058)	(68,509)
Total Best Estimate Liability for Life Insurance Contracts	569,499	567,779
Value of Future Shareholder Profit Margins	25,207	24,622
	594,706	592,401

11. Components of Profit

	2009 $'000	2008 $'000
Planned margin of revenues over expenses released	15,611	18,591
Difference between actual and assumed experience	16,785	5,598
Change in valuation methods and assumptions	(1,610)	450
Investment earnings on assets in excess of life insurance liabilities	3,600	14,698
Profit for the year	34,386	39,337

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

12. Trade and Other Receivables

	2009 $'000	2008 $'000
Outstanding premium	32,172	39,461
Investment income accrued and receivable	10,499	9,205
Insurance recoveries due from related parties	9,935	27,675
Other receivables	15	19
Total trade and other receivables	52,621	76,360
Receivables within 12 months	52,621	76,360
Receivables in more than 12 months	-	-
	52,621	76,360

The entity's exposure to credit and currency risks related to trade and other receivables is disclosed in note 22.

13. Financial Assets

	2009 $'000	2008 $'000
Financial assets at fair value through profit and loss		
Debt securities		
- National Government	55,933	85,425
- Other public sector	363,330	285,548
- Private sector	347,203	322,206
- Held indirectly by Unit Trusts	-	19,397
Total debt securities	766,466	712,576
Total financial assets at fair value through profit and loss	766,466	712,576
Expected to be realised within 12 months	123,907	64,744
Expected to be realised in more than 12 months	642,559	647,832
	766,466	712,576

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

14. Property, Plant and Equipment

	2009			2008		
	Property	Fixtures, Fittings and Equipment	Total	Property	Fixtures, Fittings and Equipment	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cost						
Balance at 1 Jan	6,850	3,220	10,070	7,000	3,029	10,029
Acquisitions	-	551	551	-	783	783
Disposals	-	(752)	(752)	-	(592)	(592)
Revaluation	(50)	-	(50)	(150)	-	(150)
Balance at 31 Dec	6,800	3,019	9,819	6,850	3,220	10,070
Depreciation						
Balance at 1 Jan	-	898	898	-	728	728
Depreciation charge for year	-	330	330	-	355	355
Disposals	-	(327)	(327)	-	(185)	(185)
Balance at 31 Dec	-	901	901	-	898	898
Carrying Amounts						
At 1 January	6,850	2,322	9,172	7,000	2,301	9,301
At 31 December	6,800	2,118	8,918	6,850	2,322	9,172
Depreciation Rate	0%	1-40%	0-40%	0%	1-40%	0-40%

An independent valuation of the property was carried out on 31 December 2009 by Mr M S Smalhorn FAPI of the firm Jones Lang LaSalle Advisory Services Pty Limited and is based on the open market value of the property.

15. Trade and Other Payables

	2009	2008
	$'000	$'000
Current		
Outstanding life insurance contract claims payable	10,314	17,417
Amounts due to related parties	694	872
Other payables	27,413	24,262
	38,421	42,551
Payable within 12 months	38,421	42,551
Payable in more than 12 months	-	-
	38,421	42,551

The entity's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 22.

16. Capital and Reserves

(a) Contributed Equity

	2009 Ordinary Shares $'000	2008 Ordinary Shares $'000
On issue at 1 January	10,000	10,000
Issued for cash	-	-
On issue at 31 December	10,000	10,000
Number of ordinary shares authorised	100,000,000	100,000,000
Number of ordinary shares issued and fully paid	8,200,002	8,200,002

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

(b) Translation Reserve

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

(c) Revaluation Reserve

The revaluation reserve relates to owner occupied property which is measured at fair value in accordance with Australian Accounting Standards.

17. Dividends

(a) Current Year Dividends

No dividends were recognised in the current year by the entity.

(b) Dividend Franking Account

	2009 $'000	2008 $'000
30% franking credits available to shareholders of the entity for subsequent financial years.	3,712	2,576

The above available amounts are based on the balance of the dividend franking account at year end adjusted for:

(a) franking credits that will arise from the payment of the current tax liability.

(b) franking debits that will arise from the payment of dividends recognised as a liability at the year end.

The ability to utilise franking credits is dependent upon there being sufficient available retained profits in the Shareholders' Fund to declare dividends.

18. Disaggregated Information of Life Insurance Business By Fund

	2009				2008			
	Australian Statutory Fund	Overseas Statutory Fund	Shareholders' Fund	Total	Australian Statutory Fund	Overseas Statutory Fund	Shareholders' Fund	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets	727,786	34,258	4,422	766,466	660,398	34,309	17,869	712,576
Other assets	82,492	7,258	10,497	100,247	118,277	6,636	11,488	136,401
Retrocessionaires' share of life insurance contract liabilities	113,051	9	-	113,060	120,003	(12)	-	119,991
Life insurance contract liabilities assumed under reinsurance	694,613	13,153	-	707,766	698,005	14,387	-	712,392
Other liabilities	37,940	6,011	2,759	46,710	42,552	4,841	17,339	64,732
Retained earnings	190,776	23,887	1,040	215,703	158,121	22,333	863	181,317
Premium revenue	427,819	20,520	-	448,339	485,024	21,456	-	506,480
Investment revenue	23,350	1,302	313	24,965	86,868	3,641	(816)	89,693
Claims expense	(300,481)	(13,816)	-	(314,297)	(284,497)	(12,093)	-	(296,590)
Other operating expenses	(90,386)	(7,240)	(94)	(97,720)	(133,919)	(3,710)	(734)	(138,363)
Operating profit/(loss) before tax	34,555	1,564	295	36,414	32,251	7,520	(1,474)	38,297
Operating profit/(loss) after tax	32,655	1,554	177	34,386	32,904	7,503	(1,070)	39,337
Transfer of profits between Funds	-	-	-	-	(12,500)	(3,500)	16,000	-

19. Income Tax

(a) The rates of taxation applicable to the taxable income of significant classes of business are as follows:

Class of Business	2009	2008
Australian business	30%	30%
New Zealand business	30%	30%

(b) Taxation Basis

Australia

The principal elements for the calculation of the taxable income for 2009 and 2008 are as follows:

Assessable income

1. Risk premium.
2. Investment income.
3. Decrease in the value of risk policy liabilities.

Allowable deductions

The allowable deductions for each taxable class of business in Australia include:

1. Claims paid.
2. Acquisitions costs and management expenses.
3. Increase in the value of risk policy liabilities.

New Zealand

New Zealand life business is taxed on the underwriting result and investment income (including gains and losses on sale of investments) less expenses (including commission).

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 during the period in the risk policy liabilities, claims, commission and management expenses.

(c) Income Tax Expense

	2009 $'000	2008 $'000
Current tax expense/(benefit)		
Current year	13,225	(13,715)
Adjustment for prior years	736	24
	13,961	(13,691)
Deferred tax (benefit)/expense		
Origination and reversal of temporary differences		
- Current year	(5,653)	12,627
- Adjustment for prior years	(6,280)	24
Total income tax expense/(benefit) charged to statement of comprehensive income	2,028	(1,040)

Numerical reconciliation between tax expense and pre-tax net profit

	2009	2008
Net profit before tax	36,414	38,297
Prima facie income tax expense calculated at 30% (2008: 30%) on the profit from ordinary activities for the year ended 31 December:	10,924	11,489
Increase in income tax expense due to:		
- Underprovision from prior year	-	48
- Other	133	132
(Decrease) in income tax expense due to:		
- Release of deferred tax liability in respect of Section 148 retrocession amounts	(3,016)	(10,453)
- Overprovision from prior year	(5,544)	-
- Recovery of non resident controlled entity tax losses not previously brought to account	(469)	(2,256)
Income tax expense/(benefit) on pre-tax profit	2,028	(1,040)

During 2009 the entity had not made an election under Section 148 of the Income Tax Assessment Act 1936 (ITAA) and accordingly was taxed on the basis of revenues gross of overseas retrocession on Accident and Disability business.

	2009 $'000	2008 $'000
Deferred tax recognised directly in equity		
Relating to revaluation of property	(15)	(45)
	(15)	(45)

(d) Recognised deferred tax (assets) and liabilities

	Assets		Liabilities		Net	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Property, plant & equipment	-	-	841	856	841	856
Financial assets	-	-	1,697	7,238	1,697	7,238
Reinsurers share of life insurance contract liabilities	-	-	688	6,358	688	6,358
Employee benefits	(1,809)	(1,312)	-	-	(1,809)	(1,312)
Life insurance contract liabilities	(6,510)	(6,229)	-	-	(6,510)	(6,229)
Other items	(830)	(1,046)	-	-	(830)	(1,046)
Tax value of loss carry-forward recognised	(1,149)	(14,343)	-	-	(1,149)	(14,343)
Net tax liabilities/(assets)	(10,298)	(22,930)	3,226	14,452	(7,072)	(8,478)

(e) Movements in temporary differences during the year

	Balance 1 Jan 2009 $'000	Recognised in Income $'000	Recognised in Equity $'000	Balance 31 Dec 2009 $'000
Property, plant & equipment	856	-	(15)	841
Financial assets	7,238	(5,541)	-	1,697
Reinsurers share of life insurance contract liabilities	6,358	(5,670)	-	688
Employee benefits	(1,312)	(497)	-	(1,809)
Life insurance contract liabilities	(6,229)	(281)	-	(6,510)
Other items	(1,046)	216	-	(830)
Tax value of loss carry-forward recognised	(14,343)	13,194	-	(1,149)
	(8,478)	1,421	(15)	(7,072)

	Balance 1 Jan 2008 $'000	Recognised in Income $'000	Recognised in Equity $'000	Balance 31 Dec 2008 $'000
Property, plant & equipment	901	-	(45)	856
Financial assets	(5,359)	12,597	-	7,238
Reinsurers share of life insurance contract liabilities	3,172	3,186	-	6,358
Employee benefits	(754)	(558)	-	(1,312)
Life insurance contract liabilities	(3,639)	(2,590)	-	(6,229)
Other items	(1,009)	(37)	-	(1,046)
Tax value of loss carry-forward recognised	(665)	(13,678)	-	(14,343)
	(7,353)	(1,080)	(45)	(8,478)

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

	2009 $'000	2008 $'000
Profit from ordinary activities after income tax expense	34,386	39,337
Add/(less) items classified as investing/ financing activities:		
Loss/(gain) on sale of investments	6,978	(5,221)
Net fair value losses/(gains) on financial assets	11,092	(41,489)
Loss on sale of plant & equipment	100	55
Add/(less) non cash movements:		
Depreciation	330	355
Net unrealised foreign exchange loss	44	4
Net cash inflow from operating activities before change in assets & liabilities	52,930	(6,959)
Change in assets and liabilities:		
Decrease/(increase) in receivables	23,739	(17,459)
Decrease/(increase) in tax assets	7,459	(7,157)
(Decrease)/increase in creditors & borrowings	(7,312)	4,295
(Decrease)/increase in life insurance contract liabilities	(4,029)	142,166
Decrease/(increase) in retrocessionaires share of life insurance contract liabilities	6,931	(31,207)
(Decrease) in tax liabilities	-	(6,695)
Net cash inflow from operating activities	79,718	76,984

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:

	2009 $'000	2008 $'000
Cash and Cash Equivalents		
Cash	29,247	33,458
Certificates of deposit	47,185	46,126
Cash and cash equivalents in the cash flow statement	76,432	79,584

The entity's exposures to interest rate risk and sensitivity analysis for financial assets are disclosed in note 22.

21. Financial Instrument - Fair Values 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.

	2009 $'000
Level 1	318,572
Level 2	447,894
Level 3	-
	766,466

AASB 7 does not require comparisons on the above table in the first year of adoption.

22. Financial Instrument Risks

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

- credit risk
- market risk
- liquidity risk

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

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

(a) Credit risk exposure

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

	2009 $'000	**2008** $'000
Cash and Cash Equivalents	29,247	33,458
Investment assets – debt securities	766,466	712,576
Trade and other receivables	52,621	76,360
	848,334	822,394

22. **Financial Instrument Risks** (continued)

	2009 $'000	2008 $'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	55,933	85,425
Semi-Government	262,639	174,707
Sovereign supranational	100,691	101,456
Corporate	276,883	249,128
Asset/Mortgage backed	23,135	36,337
Cash	47,185	46,126
Unlisted unit trust – fixed interest	-	19,397
	766,466	712,576

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

	2009 $'000	2008 $'000
Rating of Issuer		
A1+	47,185	46,126
AAA	428,589	438,729
AA	181,976	123,810
A	98,765	103,911
BBB	9,951	-
	766,466	712,576

(b) Market Risk Sensitivity

The entity has sensitivity to the following market risks:

(i) Interest Rate Risk

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

	2009	2008
Investment assets – debt securities	766,466	712,576

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

	2009	2008
- plus 100 basis points - (decrease) profit and equity by	(27,581)	(24,216)
- minus 100 basis points - increase profit and equity by	29,515	25,811

22. Financial Instrument Risks (continued)

	2009 $'000	2008 $'000
(ii) Equity Price Risk		

At the balance date the following assets were exposed to equity price risk:

	2009 $'000	2008 $'000
Unlisted unit trusts – fixed interest	-	19,397

A change of 10% in the market value of these securities would have increased (decreased) equity and profit/(loss) by the amounts shown below.

	2009 $'000	2008 $'000
- 10% increase – increase profit by	-	1,940
- 10% decrease – (decrease) profit by	-	(1,940)

(iii) Currency risk

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

At the balance date the entity's exposure to foreign currency risk was as follows based on notional amounts:

	$'000 NZD	$'000 NZD
Total assets denominated in New Zealand dollars	50,212	47,574
Total liabilities denominated in New Zealand dollars	22,371	21,668

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

	$'000 AUD	$'000 AUD
- Strengthening of the Australian dollar against the NZD will (decrease) equity by	(2,033)	(1,974)
- Strengthening of the Australian dollar against the NZD will (decrease) profits by	(141)	(682)

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

The following exchange rates applied during the year.

	Average Rate 2009	Average Rate 2008	Reporting Date Rate 2009	Reporting Date Rate 2008
NZD 1	$0.802	$0.839	$0.803	$0.838

22. Financial Instrument Risks (continued)

(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
				2009				
Debt securities at fair value through profit and loss	5.91%	766,466	123,907	81,820	68,184	120,938	110,012	261,605
Cash and cash equivalents	3.01%	29,247	29,247	-	-	-	-	-
Trade and other receivables	-	52,621	52,621	-	-	-	-	-
Trade and other payables	-	(38,421)	(38,421)	-	-	-	-	-
		809,913	167,354	81,820	68,184	120,938	110,012	261,605
				2008				
Debt securities at fair value through profit and loss	5.55%	712,576	64,744	116,486	128,947	94,055	66,283	242,061
Cash and cash equivalents	3.49%	33,458	33,458	-	-	-	-	-
Trade and other receivables	-	76,360	76,360	-	-	-	-	-
Trade and other payables	-	(42,551)	(42,551)	-	-	-	-	-
		779,843	132,011	116,486	128,947	94,055	66,283	242,061

23. Operating Leases

Leases as Lessee

The entity does not have any non-cancellable operating lease agreements (2008: Nil).

24. Employee Benefits

	2009 $'000	2008 $'000
Current		
Annual leave liability	856	830
Non-Current		
Long service leave liability	1,284	1,412
Other long term employee benefit liabilities	1,105	577
Net recognised Defined Benefit Plan obligation	2,787	1,614
Total employee benefits	6,032	4,433

(a) Defined Benefit Plan Obligations

The entity makes contributions to a defined benefit plan that provides retirement, death and invalidity benefits to members based on the member's salary and years of service. The plan provides an indexed pension benefit on retirement. With the approval of the plan trustees the pension benefit may be commuted to a lump sum benefit.

The entity is the principal employer of the plan. The plan does not hold any financial assets issued by the entity and the entity does not hold or occupy any property owned by the plan.

The net defined benefit obligation recognised in the statement of financial position is calculated in accordance with AASB 119 "Employee Benefits". Plan funding calculations are calculated in accordance with AAS 25 "Financial Reporting by Superannuation Funds". The plan obligation is wholly funded in accordance with the AAS 25 measurement basis (see Note 24(g)). The valuation of the AASB 119 obligations and the AAS 25 funding calculation was carried out by the consulting actuary to the plan, Mr G McRae of Rice Warner Actuaries. The recognised Plan obligation includes a provision for the cost of purchasing pensions to meet the plan's defined benefit obligations.

The assets of the plan are wholly invested in a complying superannuation pooled unit trust.

The entity adopts an accounting policy which requires actuarial gains and losses to be recognised (to the extent that the amounts have not been immediately recognised) if the accumulated actuarial gains or losses fall outside a corridor of 10% of the greater of the net present value of the defined benefit obligation or the fair value of the plan assets. Actuarial losses are also recognised in the statement of comprehensive income due to changes in the provision for purchasing pensions.

No actuarial gains or losses have been recognised directly in the statement of changes in equity.

In the event of the winding up of the plan, the entity does not have any exposure to the liabilities of the plan or any entitlement to the surplus of the plan.

24. Employee Benefits (continued)

	2009 $'000	2008 $'000
(b) Movements in defined benefit obligations/assets		
Changes in the present value of the defined benefit obligation are as follows:		
Opening defined benefit obligation	18,074	12,263
Current service cost	792	567
Interest cost	844	615
Settlement cost	28	26
Benefits paid	(130)	-
Actuarial (gains)/losses on obligation	(3,405)	4,603
Closing defined benefit obligation	16,203	18,074
Changes in the fair value of plan assets are as follows:		
Opening fair value of plan assets	11,541	13,135
Expected return	853	864
Contributions by employer	638	607
Benefits paid	(130)	-
Actuarial losses	(69)	(3,065)
Closing fair value of plan assets	12,833	11,541
The following economic assumptions were adopted for the defined benefit obligation calculation:		
Discount rate	5.15%	4.17%
Salary increases	4.50%	4.50%
Rate of pension indexation	3.00%	3.00%
Percentage of benefits taken as pension	75%	75%
(c) Net defined benefit obligation recognised in the statement of financial position		
Defined benefit obligation	16,203	18,074
Fair value of plan assets	(12,833)	(11,541)
Accumulated actuarial (losses) not recognised in the statement of financial position	(583)	(4,919)
Past service cost not recognised in the statement of financial position	-	-
Reimbursement rights recognised	-	-
Other amounts recognised/unrecognised	-	-
Net liability for defined benefit obligation	2,787	1,614

24. Employee Benefits (continued)

	2009 $'000	2008 $'000
(d) Net defined benefit expense recognised in the Statement of Comprehensive Income (recognised in Other Expenses)		
Current service costs	792	567
Interest on obligation	844	615
Settlements	28	26
Actuarial losses recognised	1,000	1,990
Expected return on plan assets	(853)	(864)
	1,811	2,334

The recognised expense is not affected by healthcare cost trend rates.

(e) Actual return on defined benefit plan assets

	2009 $'000	2008 $'000
Expected return on plan assets – 7% (2008: 7%)	853	864
Actuarial loss on plan assets	(69)	(3,065)
Actual return on plan assets	784	(2,201)

The expected return on plan assets is the long term rate of return adopted in the consulting actuary's most recent triennial review.

(f) Defined benefit plan assets/obligation history

	2009 $'000	2008 $'000	2007 $'000	2006 $'000	2005 $'000
Present value of defined benefit obligation	(16,203)	(18,074)	(12,263)	(11,602)	(10,491)
Fair value of plan assets	12,833	11,541	13,135	9,653	10,850
Net benefit (deficit)/surplus – non current	(3,370)	(6,533)	872	(1,949)	359

(g) Defined benefit plan funding

Employer contributions to the plan are based on recommendations by the plan's actuary. Comprehensive actuarial valuations are made at not more than three yearly intervals. The most recent comprehensive valuation was at 1 July 2007. Funding recommendations made by the actuary are based on a variety of assumptions such as future salary levels, mortality rates, membership turnover and interest rates. The funding recommendation of the plan's actuary at the most recent valuation was for the entity to contribute to the plan at a rate equal to 33% of members' salaries. The funding method used to make the contribution recommendation is the projected unit credit method.

24. Employee Benefits (continued)

The funding recommendation is based on a calculation of accrued benefits in accordance with AAS 25 "Financial Reporting by Superannuation Plans". The deficit of the plan on this basis is:

	2009 $'000	2008 $'000
Fair value of plan assets	12,833	11,541
Accrued benefits per AAS 25	(15,046)	(15,428)
Deficit per AAS 25 funding basis	(2,213)	(3,887)

[1] *The difference in plan deficit determined under AAS 25 when compared to AASB 119 arises due to the requirement to use a risk free discount rate under AASB 119.*

The following economic assumptions were adopted for the funding recommendation:

Investment Earnings	7%	7%
Salary increases	5%	5%
Rate of pension indexation	3%	3%

The objective of the Plan's trustees is for funding to be sufficient to ensure that the benefit entitlements of members are fully funded by the time that the benefits become payable. The entity expects to contribute $574,193 to the plan in 2010.

(h) Defined contribution plans

The entity contributes as a participating employer on a defined contribution basis to the Mercer Superannuation Trust, (the default fund) as well as the insurance industry superannuation fund, AustralianSuper and where applicable, to the funds chosen by individual employees. In addition the entity also contributes the minimum pursuant to the Superannuation Guarantee Charge on behalf of Non-Executive Directors. The amount recognised as expense for all defined contribution plans was $624,526 for the year ended 31 December 2009 (2008: $636,884).

25. Contingencies

In the ordinary course of business the entity 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.

26. Capital Expenditure Commitments

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

27. Auditor's Remuneration

Audit Services:	2009 $	2008 $
Auditors of the entity – KPMG		
Audit and review of the financial reports	243,824	256,771
Other regulatory audit services	9,000	9,000
	252,824	265,771
Other Services:		
Auditors of the entity – KPMG		
Taxation services	42,892	61,358
Other consulting	54,702	9,845
	97,594	71,203

28. 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 indicated.

Independent Directors	Non-Executive Non-Independent Directors	Executive Directors
Mr D. A. K. Ferguson (Chairman)	Dr W. S. Becke (Deputy Chairman)	Mr S. Willcock (Managing Director)
Mr R.J. Atfield	Dr E.A. Koenig (retired 23 February 2009)	
Mr S. R. Swil	Mr U. Wallin (appointed 1 July 2009)	
	Mr W. Zeller (retired 30 June 2009)	

Executive Management

Mr Stephen Willcock (Managing Director)
Mr Graeme Campbell (Appointed Actuary) (appointed 9 April 2009)
Mr Murray Glase (Appointed Actuary) (resigned 9 April 2009)
Mr Thomas Grogan (General Manager- Marketing)
Mr David Tallack (General Manager – Finance and Secretary)

In addition to their salaries the entity contributes to post employment benefit plans on behalf of the entity's resident Non-Executive Directors and Executive Management.

28. Directors and Executive Disclosures (Key Management Personnel) (continued)

Transactions with key management personnel

The key management personnel compensations included in employee benefits expense (see Note 9) are as follows:

	2009 $'000	**2008** $'000
Short term employee benefits	1,982	2,119
Post employment benefits	530	540
Other long term benefits	29	176
	2,541	2,835
Comprising:		
Directors, including executive director	1,063	1,199
Executives	1,478	1,636
	2,541	2,835

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.

29. Non Director Related Parties

Investment in controlled entity

The Shareholders' Fund has an investment of $2 in a controlled entity which acts as the Trustee Company of the Hannover Life Re of Australasia Ltd Superannuation Plan.

Related party transactions

The following related party transactions occurred during the financial year.

(i) Retrocession arrangements with related parties

The entity has retrocession arrangements through related parties of the Hannover Re Group of Companies.

29. Non Director Related Parties (continued)

(ii) Investment management services

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

(iii) Transactions with related parties

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

	2009	**2008**
	$'000	$'000
Transactions during the year		
Outwards reinsurance expenses	170,586	123,896
Reinsurance recoveries	(166,885)	(137,146)
Other recoveries including commission	(24,897)	(8,817)
Investment Management Fees	(881)	(783)
Creditors – Current		
Dividend due to related parties	-	15,000
Amounts due to related parties	694	872
Total due to related parties	694	15,872
Debtors – Current		
Amounts due from related parties	9,935	27,675

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

Parent entities

The immediate parent entity is Hannover Life Re A.G., a wholly owned subsidiary of Hannover Re. 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.

30. Reconciliation of Reported Results with Life Act Results

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

KPMG

Independent auditor's report to the members of Hannover Life Re of Australasia Ltd

Report on the financial report

We have audited the accompanying financial report of Hannover Life Re of Australasia Limited (the Company), which comprises the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 30 and the directors' declaration.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's financial position and of its performance.

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

KPMG

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001.*

Auditor's opinion

In our opinion:

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

(i) giving a true and fair view of the Company's financial position as at 31 December 2009 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

KPMG

David Kells
Partner

Sydney

23 February 2010