10061757013

HANNOVER LIFE RE OF AUSTRALASIA LTD

NEW ZEALAND BRANCH

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

BUSINESS & REGISTRIES BRANCH, AUCKLAND

17 JUN 2013

RECEIVED

Hannover Life Re of Australasia Ltd
New Zealand Branch

The Board of Directors have pleasure in presenting the annual report of Hannover Life Re of Australasia Ltd, New Zealand Branch (the Branch), incorporating the financial statements, the Appointed Actuary's Report under Section 78 of the *Insurance (Prudential Supervision) Act 2010* and the Independent Auditor's Report for the year ended 31 December 2012.

The Board of Directors of Hannover Life Re of Australasia Ltd authorised these financial statements of the Branch on 22 March 2013.

Chairman

Managing Director

22 March 2013

BUSINESS & REGISTRIES
BRANCH, AUCKLAND
17 JUN 2013
RECEIVED

Hannover Life Re of Australasia Ltd
New Zealand Branch

Statement of Comprehensive Income
For the Year Ended 31 December 2012

	Note	2012 $'000	2011 $'000
Revenue			
Life insurance contract premium revenue	6	33,276	31,133
Outwards reinsurance expense		(1,373)	(1,258)
Net life insurance premium revenue		31,903	29,875
Net fair value gains on financial assets at fair value through profit and loss	6	2,305	4,293
Other income	6	74	97
Total revenue		34,282	34,265
Claims and expenses			
Life insurance contract claims expense	7	(23,968)	(22,244)
Reinsurance recoveries revenue		403	672
Net life insurance claims expense		(23,565)	(21,572)
Change in life contract liabilities	9(a)	(802)	669
Change in retrocessionaires' share of life insurance contract liabilities	9(a)	519	(251)
		(23,848)	(21,154)
Other expenses	8	(7,277)	(8,857)
Total net claims and expenses		(31,125)	(30,011)
Profit before income tax		3,157	4,254
Income tax expense	16(b)	(16)	(13)
Profit for the period attributable to the entity	10	3,141	4,241
Other comprehensive Income		-	-
Total comprehensive income for the period		3,141	4,241

On behalf of the Board of Directors

.... **Director**

A. Willcock .... **Director**

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

Hannover Life Re of Australasia Ltd
New Zealand Branch

Statement of Financial Position
As at 31 December 2012

	Note	2012 $'000	2011 $'000
ASSETS			
Cash		3,310	3,075
Trade and other receivables	11	6,268	6,668
Financial assets at fair value through profit and loss	12	64,210	58,880
Retrocessionaires' share of life insurance contract liabilities	9(a)	532	13
TOTAL ASSETS		74,320	68,636
LIABILITIES			
Trade and other payables	13	5,861	4,121
Gross life reinsurance contract liabilities	9(a)	29,650	28,848
Current tax liability		29	28
TOTAL LIABILITIES		35,540	32,997
NET ASSETS		38,780	35,639
EQUITY			
Retained profits		38,780	35,639
TOTAL EQUITY		38,780	35,639

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements.

On behalf of the Board of Directors

....
Director

....
Director

Hannover Life Re of Australasia Ltd
New Zealand Branch

Statement of Cash Flows
For the year ended 31 December 2012

	Note	2012 $'000	2011 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premium received		33,636	32,203
Policy payments		(24,133)	(24,547)
Retrocession premium paid		(1,371)	(728)
Commissions paid		(3,867)	(7,542)
Payments to suppliers and employees		(1,242)	(1,876)
Income tax (paid)		(15)	(11)
Retrocession and other recoveries received		152	480
Interest & rent received		3,729	3,310
Other revenue received		47	35
Net cash inflow from operating activities	17	6,936	1,324
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for financial assets		(17,491)	(23,777)
Proceeds from sale of financial assets		10,790	17,098
Net cash (outflow) from investing activities		(6,701)	(6,679)
Net increase/(decrease) in cash and cash equivalents		235	(5,355)
Cash and cash equivalents at the beginning of the financial year		3,075	8,430
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	17	3,310	3,075

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 purpose of the *Financial Report Act 1993* and its financial statements comply with the 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.

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

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

The financial statements were authorised for issue by the Board of Directors on 22 March 2013.

(b) Activities of Life Insurance Operations

The life insurance operations of the branch are conducted in accordance with the *Insurance (Prudential Supervision) Act 2010* (the Insurance Act). The Reserve Bank of New Zealand issued the branch with a provisional licence under the Insurance Act on 18 January 2012.

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, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e have no discernible effect on the economics of the transaction). Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness. The insured benefit is not linked to the market value of the investments held by the branch, and the financial risks are substantially borne by the branch.

(d) Premium and Claims

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

(e) Liabilities

(i) *Life Insurance Contract Liabilities*

Life insurance contract liabilities are measured at net present values of estimated future cash flows or, where the result would not be materially different, as the accumulated benefits available to policyholders. Applicable reinsurance recoveries are brought to account on the same basis as life insurance contract liabilities. Changes in life insurance contract liabilities are recognised in the statement of comprehensive income in the financial year in which they occur. Profit margins are released over each reporting period in line with the services that have been provided. The balance of the planned profit margins 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 through profit or loss.

(g) Deferred Acquisition Costs

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

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

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

(h) Expense Recognition and Apportionment

All costs are charged as expenses when due and payable. All expenses, excluding investment management fees which are directly identifiable, have been apportioned between policy acquisition and policy maintenance with regard to the objective when incurring each expense, and the outcome achieved. Expenses directly identifiable as policy acquisition, such as initial commission, have been allocated in accordance with accounts received from 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 as follows:

- All expenses which are staff related are allocated in proportion to the estimated time involved;
- Investment management fees are apportioned according to the average cost of the fixed interest investment portfolio;
- Other expenses are allocated in proportion to appropriate cost drivers.

(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.

(k) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing this financial report. None of these is expected to have a significant effect on the financial report of the branch, except for IFRS 9 *Financial Instruments*, which becomes mandatory for the branches 2013 financial statements and could change the classification and measurement of financial assets. The branch does not plan to adopt this standard early and the extent of the impact has not been determined.

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:
2.35% to 3.30% p.a. (2012)
3.56% to 4.14% p.a. (2011)

(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:
2.2% p.a. (2012)
2.2% p.a. (2011)

(iii) Future expenses

Future maintenance expenses on 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:	2012: 50% to 110%
	2011: 50% to 110%

(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 8% - 20% p.a. (2011: 4% - 15% 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 2011 to 31 December 2012

Assumption category	Effect on net profit margins Increase/ (decrease) $'000	Effect on net life insurance contract liabilities Increase/ (decrease) $'000
Discount rates	-	(11)
Future inflation rates	-	-
Mortality and morbidity	-	(1,800)
Total	-	(1,811)

(c) Processes used to select assumptions

Discount rates
The gross discount rates are derived from gross yields on cash deposits, bank bill swaps and interest rate swaps.

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

Tax
It has been assumed that current tax legislation and rates continue unaltered.

Mortality and morbidity
An appropriate base table of mortality or morbidity is chosen for the type of product being written. An investigation into the actual experience of the branch is performed and statistical methods and judgment are used to adjust the rates reflected in the table to a best estimate of mortality or morbidity 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 2012

		Gross (before reinsurance)		**Net (of reinsurance)**		
	Change in variable	**Profit / (loss) $'000**	**Life insurance contract liabilities $'000**	**Profit / (loss) $'000**	**Life insurance contract liabilities $'000**	**Equity $'000**
Balance per accounts		3,517	29,650	3,141	29,118	38,780
Result of change in variables:						
Worsening of mortality/morbidity claim incidence rates	5%	(544)	756	(536)	748	(536)
Worsening of income claim termination rates	5%	(1,239)	1,721	(1,223)	1,703	(1,223)
Deterioration in unreported claims development [1]	5%	(585)	812	(573)	795	(573)
Increase in fixed interest bond Yields	1%	(363)	(451)	(354)	(471)	(354)

(1) This relates to the cost of incurred but not reported claims.

For the year ended 31 December 2011

		Gross (before reinsurance)		Net (of reinsurance)		
	Change in variable	Profit / (loss) $'000	Life insurance contract liabilities $'000	Profit / (loss) $'000	Life insurance contract liabilities $'000	Equity $'000
Balance per accounts		4,856	28,848	4,241	28,835	35,639
Result of change in variables:						
Worsening of mortality/morbidity claim incidence rates	5%	(603)	838	(594)	829	(594)
Worsening of income claim termination rates	5%	(771)	1,017	(759)	1,059	(759)
Deterioration in unreported claims development [1]	5%	(625)	868	(611)	849	(611)
Increase in fixed interest bond Yields	1%	(817)	(261)	(808)	(283)	(808)

(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	
	2012 $'000	**2011 $'000**
Long tailed lump sum benefit claims	(369)	(392)
Long tailed income benefit claims	(316)	(495)

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

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

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

The Board of Directors has adopted a formal risk management strategy which documents the branch's risk management framework. This framework includes a formal process for the identification and monitoring of all material risks (including financial insurance risks) and related controls and periodic reporting to the Board on the effectiveness of the controls. Internal Audit also periodically test controls and reports to the Board via the Audit & Risk 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 Insurance Act. Given this client base, management does not expect a material client to default on receivables. The branch has not experienced credit losses on receivables.

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

(ii) Investments

The branch has in place Investment Guidelines, approved by the Board, which contain credit rating based limits on exposure to securities and issuers. Compliance with the Investment Policy is monitored daily by the branch's investment managers and reported regularly to the Investment Strategy Committee. The Committee is responsible for setting strategy within the framework of the Investment Guidelines and reporting to the Board on strategy, performance and compliance.

Liquidity Risk

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

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

Market Risk

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

Interest Rate Risk

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

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

Currency Risk

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

(b) Insurance Risks

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

Controls over insurance risk include the use of underwriting procedures, established processes over setting of premium rates and policy charges and regular monitoring of reinsurance arrangements. Controls are also maintained over claims management practices to ensure the timely payment of insurance claims in accordance with policy obligations.

Methods to limit or transfer insurance risk exposures

(i) 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 a cedant, the branch has a program for auditing the cedant's underwriting processes.

(iii) Claims Management

Strict claims management procedures and controls are in place to ensure the timely payment of claims in accordance with policy conditions. 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 requirements are measured using regulatory reporting requirements to which the entity is subject.

The entity manages capital requirements by implementing a risk management framework, monitoring capital levels, planning movements in capital in conjunction with the business plan and performing capital forecast and sensitivity analysis over a range of stressed scenarios.

The entity's risk management strategies include a conservative and well matched investment policy and an extensive retrocession program.

As an additional means of managing insurance risk the entity holds capital reserves in excess of 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) Sensitivity to insurance risks

The nature of the terms of the life insurance contracts written is such that certain external variables can be identified on which related cash flows for claim payments depend. The tables below provide an overview of the key variables upon which the amount of related cash flows are dependent.

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

5. Disclosure on Asset Restrictions

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

6. Revenue and Income

	2012 $'000	2011 $'000
Life insurance contract premium revenue	33,276	31,133
Other income	74	97
	33,350	31,230

Other income includes the following amounts:

Service fee income	47	34
Other	27	63
	74	97

Fair value gains includes the following amounts:

Interest income	3,676	3,408
Net realised (losses)	(99)	(209)
Net unrealised fair value (losses)/gains	(1,272)	1,094
	2,305	4,293

	2012 $'000	2011 $'000

7. Life Insurance Contract Claims Expense

	2012 $'000	2011 $'000
Life insurance contract claims	23,968	22,244

8. Other Expenses

	2012 $'000	2011 $'000
Policy acquisition – Life insurance contracts		
- Net commission	2,684	4,965
- Other acquisition costs	723	769
Total policy acquisition costs	3,407	5,734
Policy maintenance costs – Life insurance contracts		
- Net commission	2,201	1,606
- Other expenses	1,606	1,456
Total policy maintenance costs	3,807	3,062
Investment management expenses	63	61
Total administration expenses	7,277	8,857
Analysis of expenses by nature		
Net commission	4,885	6,571
Audit fee	35	35
Head office management fee	2,229	2,115
Other expenses	128	136
Total operating expenses	7,277	8,857

	2012 $'000	2011 $'000

9. Life Insurance Contract Liabilities

(a) Reconciliation of movement in life insurance contract liabilities

	2012 $'000	2011 $'000
Life insurance contract liabilities		
Gross life insurance contract liabilities at 1 January	28,848	29,517
Change in life insurance contract liabilities reflected in the statement of comprehensive income	802	(669)
Gross life insurance contract liabilities at 31 December	29,650	28,848
Retrocessionaires' share of life insurance contract liabilities		
Retroceded life insurance contract liabilities at 1 January	13	264
Change in retrocessionaires' share of life insurance contract liabilities reflected in the statement of comprehensive income	519	(251)
Retrocessionaires' share of life insurance contract liabilities at 31 December	532	13
Net life insurance contract liabilities at 31 December	29,118	28,835
Expected to be settled within 12 months	14,792	15,466
Expected to be settled in more than 12 months	14,325	13,369
	29,118	28,835

(b) Components of net life insurance contract liabilities

	2012 $'000	2011 $'000
Best estimate liability		
- Future policy benefits	40,823	39,642
- Future expenses	278	247
- Planned margins over future expenses	1,410	1,164
- Future charges for acquisition expenses	(13,393)	(12,218)
Total net life insurance contract liabilities	29,118	28,835

	2012 $'000	2011 $'000

10. Components of Profit

Planned margin of revenues over expenses released	1,394	1,483
Difference between actual and assumed experience	(452)	1,275
Change in valuation methods and assumptions	1,296	(75)
Investment earnings on assets in excess of life insurance liabilities	903	1,558
Profit for the year	3,141	4,241

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

11. Trade and Other Receivables

	2012 $'000	2011 $'000
Outstanding premium	5,558	5,919
Investment income accrued and receivable	696	749
Amounts due from related parties	14	-
	6,268	6,668
Receivable within 12 months	6,268	6,668
Receivable in more than 12 months	-	-
	6,268	6,668

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

12. Financial Assets

Financial assets at fair value through profit and loss

	2012 $'000	2011 $'000
Debt securities		
- National Government	50,800	44,826
- Other public sector	5,630	3,748
- Private sector	7,780	10,306
Total financial assets at fair value through profit and loss	64,210	58,880
Expected to be realised within 12 months	12,441	3,977
Expected to be realised in more than 12 months	51,769	54,903
	64,210	58,880

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

	2012 $'000	2011 $'000

13. Trade and Other Payables

Current

	2012 $'000	2011 $'000
Outstanding life insurance contract claims payable	1,672	1,576
Amounts due to ceding companies	1,608	501
Amounts due to related parties	2,263	1,468
Other payables	318	576
	5,861	4,121
Payable within 12 months	5,861	4,121
Payable in more than 12 months	-	-
	5,861	4,121

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

Retained Profits

	2012 $'000	2011 $'000
Balance at 1 January	35,639	31,398
Total recognised income and expense	3,141	4,241
Balance at 31 December	38,780	35,639

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

(a) Taxation Basis

The branch is taxed on risk premiums less claims net of reinsurance, investment income and other income plus changes in risk reserves less allowable deductions. Certain portions of the life insurance business are grandfathered after 1 July 2010 to be taxed on the pre 1 July 2010 basis for a period up to five years.

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

The income tax expense has been determined after aggregating the various classes of business. The rate of taxation applicable to the taxable income of the branch is 28% (2011: 28%).

(b) Income Tax Expense

	2012 $'000	2011 $'000
Current tax expense		
Current year	16	13

Numerical reconciliation between tax expense and pre-tax net profit

	2012 $'000	2011 $'000
Net profit before tax	3,157	4,254
Prima facie income tax expense calculated at 28% (2011: 28%) on the profit from ordinary activities for the year ended 31 December:	884	1,191
Decrease in income tax expense due to:		
- Benefit of tax losses recognised	(868)	(1,178)
Income tax expense on pre-tax profit	16	13

The branch did not recognise deferred tax liabilities of $12,180 in the period due to the branch having tax losses available to offset. A deferred tax asset of $4,554,173 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

	2012 $'000	2011 $'000
Profit from ordinary activities after income tax expense	3,141	4,241
Add/(less) items classified as investing/ financing activities:		
Loss on sale of investments	99	209
Net fair value losses/(gains) on investments	1,272	(1,094)
Net cash inflow from operating activities before change in assets & liabilities	4,512	3,356
Change in assets and liabilities:		
Decrease in receivables	400	973
Increase/(decrease) in creditors & borrowings	1,740	(2,588)
Increase/(decrease) in life insurance contract liabilities	802	(669)
(Increase)/decrease in retrocessionaires share of life insurance contract liabilities	(519)	251
Increase in tax liability	1	1
Net cash inflow from operating activities	6,936	1,324

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:

	2012 $'000	2011 $'000
Bank balances		
Cash	3,310	3,075
Cash and cash equivalents in the statement of cash flows	3,310	3,075

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.

	2012 $'000	**2011** $'000
Level 1	50,800	44,826
Level 2	13,410	14,054
Level 3	-	-
	64,210	58,880

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:

	2012 $'000	**2011 $'000**
Cash	3,310	3,075
Financial assets at fair value through profit and loss	64,210	58,880
Trade and other receivables	6,268	6,668
	73,788	68,623

19. Financial Instruments (continued)

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:

	2012 $'000	2011 $'000
Issuing Sector		
Government	50,800	44,826
Other public sector	5,630	3,748
Corporate	5,695	8,185
Corporate – New Zealand Government guaranteed	2,085	2,121
	64,210	58,880

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:

	2012 $'000	2011 $'000
AAA	4,482	3,748
AA	58,129	53,021
A	1,599	1,610
BBB	-	501
	64,210	58,880

(b) Market Risk Sensitivity

The entity has sensitivity to the following market risks:

(i) Interest rate risk

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

	2012 $'000	2011 $'000
Investment assets - debt securities	64,210	58,880

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.

	2012 $'000	2011 $'000
- plus 100 basis points - decrease profit by	(1,514)	(1,396)
- minus 100 basis points - increase profit by	1,575	1,447

19. Financial Instruments (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
				2012				
Debt securities at fair value through profit and loss	2.80%	64,210	12,441	4,188	28,921	531	16,176	1,953
Cash	2.40%	3,310	3,310	-	-	-	-	-
Trade and other receivables	-	6,268	6,268	-	-	-	-	-
Trade and other payables	-	(5,861)	(5,861)					
		67,927	16,158	4,188	28,921	531	16,176	1,953
				2011				
Debt securities at fair value through profit and loss	2.92%	58,880	3,977	17,635	4,260	28,708	527	3,773
Cash	2.31%	3,075	3,075	-	-	-	-	-
Trade and other receivables	-	6,668	6,668	-	-	-	-	-
Trade and other payables	-	(4,121)	(4,121)	-	-	-	-	-
		64,502	9,599	17,635	4,260	28,708	527	3,773

(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. Directors and Executive Disclosures (Key Management Personnel)

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

23. Solvency Requirements

The solvency requirements are the amounts required to meet the prudential standards specified by the *Insurance (Pudential Supervision) Act 2010* and the *Australian Life Insurance Act 1995* (jointly the Life Acts) 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.

	2012 $'000	2011 $'000
Solvency Requirement "A" (1)	58,045	55,072
Represented by:		
- Minimum termination value (2)	40,342	38,635
- Other liabilities	5,890	4,149
- Solvency reserve "B"	11,813	12,288
	58,045	55,072
Assets available for Solvency Reserve "C"	28,088	25,852
Determined as:		
- Net assets	38,780	35,639
- Excess of gross policy liability over minimum termination value	(10,692)	(9,787)
	28,088	25,852
Solvency reserve % (B/(A-B)) x 100	26%	29%
Coverage of solvency reserve C/B	2.4 times	2.1 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.

24. 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) Investment management services

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:

	2012 $'000	2011 $'000
Transactions during the year		
Outwards reinsurance expenses	1,323	1,205
Reinsurance recoveries	(403)	(672)
Other recoveries including commission	(77)	(212)
Investment management services	(63)	(68)
Debtors – Current		
Amounts due from related parties	14	-
Creditors – Current		
Amounts due to related parties	2,263	1,468

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.

25. Operating Leases

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

26. Employee Benefits

The branch does not employ staff.

27. 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.

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Hannover Life Re of Australasia Ltd - the New Zealand Branch ("the Branch"). The financial statements comprise the statement of financial position as at 31 December 2012 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the branch's preparation of the financial statements that give a true and fair view of the matters to which they relate 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 branch's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

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

KPMG

Partners and employees of our firm may 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.

Opinion

In our opinion the financial statements of Hannover Life Re of Australasia Ltd - the New Zealand Branch:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the Branch as at 31 December 2012 and of its financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of section 16(1)(d) and section 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations we have required; and
- in our opinion, proper accounting records have been kept by Hannover Life Re of Australasia Ltd - the New Zealand Branch as far as appears from our examination of those records.

KPMG

KPMG

Sydney

22 March 2013

HANNOVER LIFE RE OF AUSTRALASIA LTD

CONSOLIDATED AUSTRALIAN ENTITY

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

Directors' Report

For the Year Ended 31 December 2012

The Directors have pleasure in presenting their report together with the financial report of the entity for the year ended 31 December 2012 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 Rodney John Atfield, FIA, FIAA, FAII
Chairman
Independent Non-Executive Director
Age 75

Directorships include Children's Medical Research Institute and ING Foundation. Mr Atfield previously held the positions of Managing Director of Mercantile Mutual (now OnePath 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.
Member of the Board Audit & Risk Committee, Board Compliance Committee and Board Remuneration Committee.
Director since 2005 and Chairman since 2011.

Mr Claude Jacques Chèvre
Deputy Chairman
Non-Executive Director
Age 45

Mr Chèvre is a member of the Executive Boards of Hannover Rückversicherung AG and E + S Rückversicherung AG.
Member of the Board Remuneration Committee.
Director since 2011 and Deputy Chairman since March 2012.

Dr Wolf Siegfried Becke
Non-Executive Director
Age 66

Dr Becke is on the Board of a number of subsidiaries within the Hannover Re Group. Dr Becke is also a director of Swiss Life. Dr Becke was previously a member of the Executive Boards of Hannover Rückversicherung AG and E + S Rückversicherung AG.
Director since 1994.

Ms Elsa Gene Payne, BEc(Hons), BLegS, CA, CTA, GAICD
Independent Non-Executive Director
Age 59

Ms Payne held the position of Tax Partner at PriceWaterhouseCoopers for over 20 years and has had over 30 years experience in the financial services industry.
Member of the Board Audit & Risk Committee and Board Compliance Committee.
Director since 2010.

Mr Samuel Robert Swil, B Bus Sc, MBA, FIAA, FAICD
Independent Non-Executive Director
Age 62

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.
Chairman of the Board Audit & Risk Committee, Board Compliance Committee and Board Remuneration Committee.
Director since 2006.

Mr Ulrich Wallin
Non-Executive Director
Age 58

Mr Wallin is Chairman of the Executive Boards of Hannover Rückversicherung AG and E + S Rückversicherung AG.
Director since 2009.

Mr Stephen Willcock, BA, FIA, FIAA, ASA, FNZSA
Managing Director
Age 61

Mr Willcock has had over 25 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 & Risk Committee Meetings		Board Compliance Committee Meetings		Board Remuneration Committee	
	A	B	A	B	A	B	A	B
* # Mr R Atfield	3	3	2	2	2	2	2	2
Dr W Becke	3	3	-	-	-	-	-	-
# Mr C Chèvre	3	3	-	-	-	-	2	2
* Ms E Payne	3	3	2	2	2	2	-	-
* # Mr S Swil	3	3	2	2	2	2	2	2
Mr S Willcock	3	3	-	-	-	-	-	-
Mr U Wallin	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 & Risk Committee and Board Compliance Committee
\# - member of Board Remuneration Committee

Principal activities

The principal activities of the entity during the course of the financial year were the transaction of life reinsurance and life insurance business. The entity provides risk carrying and associated services to insurance offices transacting life and disability insurance risk business. It also provides risk carrying and associated services to 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 2012 financial year recorded a profit before tax of $32.3M (2011: $27.0M). Significant influences included strong growth in the underlying business, poor claims experience in respect of group life insurance and disability income reinsurance and solid investment returns.

Investment income increased over the previous year due to strong operating cash flows and gains on debt securities, primarily due to the reduction in market yields.

After allowing for a tax benefit of $5.8M (2011: $18.5M) the profit after tax of $38.1M (2011: $45.5M) showed a decrease of 16% over the previous year. The effective tax charge in 2012 and 2011 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.

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

No dividends were paid or declared by the entity since the end of the previous financial year.

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 objective 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 Directors and Officers

Indemnification

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

Insurance Premiums

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

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.

R. J. Atfield
Chairman

Sydney
22 March 2013

Directors' Declaration

For the Year Ended 31 December 2012

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

(a) the financial statements and notes are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's financial position as at 31 December 2012 and of its performance for the financial year ended on that date; and

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

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2 The directors draw attention to Note 1a to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

R. J. Atfield
Chairman

Sydney
March 2013

Statement of Comprehensive Income
For the year ended 31 December 2012

	Note	2012 $'000	2011 $'000
Revenue			
~~Life insurance contract premium revenue~~	~~7~~	~~718,380~~	~~547,325~~
Outwards reinsurance expense		(373,798)	(283,973)
Net life insurance premium revenue		344,582	263,352
Net fair value gains on financial assets at fair value through profit or loss	7	85,727	88,321
Other income	7	123	99
Total Revenue		430,432	351,772
Claims and expenses			
Life insurance contract claims expense	8	(469,110)	(369,054)
Reinsurance recoveries revenue		330,716	281,077
Net life insurance claims expense		(138,394)	(87,977)
Change in life insurance contract liabilities	10(a)	(87,992)	(118,271)
Change in retrocessionaires' share of life insurance contract liabilities	10(a)	17,821	19,116
		(208,565)	(187,132)
Other expenses	9	(189,574)	(137,648)
Net claims and expenses		(398,139)	(324,780)
Profit before income tax		32,293	26,992
Income tax benefit	19(c)	5,780	18,545
Profit for the period attributable to the entity	11	38,073	45,537
Other comprehensive income			
Foreign currency translation reserve movement		1,126	33
Asset revaluation reserve movement		-	100
Income tax on asset revaluation reserve movement		-	(30)
Total comprehensive income for the period		39,119	45,640

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

Statement of Financial Position
As at 31 December 2012

	Note	2012 $'000	2011 $'000
ASSETS			
Cash		58,617	37,206
Trade and other receivables	12	98,716	105,943
Financial assets at fair value through profit or loss	13	1,017,677	924,290
Retrocessionaires' share of life insurance contract liabilities	10(a)	133,522	115,696
Property, plant and equipment	14	9,165	9,078
Deferred tax assets	19(d)	34,102	28,309
TOTAL ASSETS		1,351,799	1,220,522
LIABILITIES			
Trade and other payables	15	64,277	59,421
Employee benefits	24	5,346	7,013
Gross life insurance contract liabilities	10(a)	945,673	856,786
Current tax liability		23	21
TOTAL LIABILITIES		1,015,319	923,241
NET ASSETS		336,480	297,281
EQUITY			
Contributed equity	16	10,000	10,000
Reserves		(506)	(1,632)
Retained profits		326,986	288,913
TOTAL EQUITY		336,480	297,281

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 2012

	Share Capital $'000	Translation Reserve $'000	Revaluation Reserve $'000	Retained Earnings $'000	Total $'000
Balance at 1 January 2012	10,000	(2,822)	1,190	288,913	297,281
Profit for the period	-	-	-	38,073	38,073
Other comprehensive income					
Foreign currency translation	-	1,126	-	-	1,126
Revaluation of owner occupied property	-	-	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	-	1,126	-	38,073	39,199
Dividend to shareholders	-	-	-	-	-
BALANCE AT 31 DECEMBER 2012	10,000	(1,696)	1,190	326,986	336,480

	Share Capital $'000	Translation Reserve $'000	Revaluation Reserve $'000	Retained Earnings $'000	Total $'000
Balance at 1 January 2011	10,000	(2,855)	1,120	243,376	251,641
Profit for the period	-	-	-	45,537	45,537
Other comprehensive income					
Foreign currency translation	-	33	-	-	33
Revaluation of owner occupied property	-	-	70	-	70
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	-	33	70	45,537	45,640
Dividends to shareholders	-	-	-	-	-
BALANCE AT 31 DECEMBER 2011	10,000	(2,822)	1,190	288,913	297,281

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 2012

	Note	2012 $'000	2011 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premium received		708,065	532,325
Policy payments		(457,325)	(369,912)
Retrocession premium paid		(389,539)	(261,251)
Commissions paid		(221,462)	(163,014)
Payments to suppliers and employees		(22,810)	(17,345)
Income tax paid		(12)	(9)
Retrocession and other recoveries received		412,642	300,755
Interest and dividend received		52,570	49,760
Other revenue received		78	50
Net cash inflow from operating activities	20	82,207	71,359
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for financial assets		(641,032)	(587,854)
Proceeds from sale of financial assets		546,414	553,096
Payments for property, plant & equipment		(855)	(1,158)
Proceeds from sale of property, plant & equipment		188	304
Net cash (outflow) from investing activities		(95,285)	(35,612)
Net (decrease)/increase in cash and cash equivalents		(13,078)	35,747
Cash and cash equivalents at the beginning of the financial year		104,561	68,799
Effects of exchange rate changes on the opening balance of cash and cash equivalents		95	15
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	20	91,578	104,561

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

Contents of the Notes to the Financial Statements

Note

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

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

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

The financial statements were authorised for issue by the Board of Directors on 22 March 2013.

(b) Principles for life insurance business

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

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

(c) Premium and claims

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

(d) Liabilities

(i) Life Insurance contract liabilities

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

(ii) Trade and other payables

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

(e) Assets backing life insurance contract liabilities

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

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.
- 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.

(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.

Owner Occupied Property

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

(f) Shareholders' fund assets

Financial assets which do not back life insurance liabilities are designated at fair value through profit and loss. Plant and equipment are initially recorded at cost and depreciated on either a straight line or diminishing value basis over their estimated useful lives. The depreciation is charged to the profit or loss. Depreciation rates and methods are reviewed annually. When changes are made, adjustments are reflected prospectively in current and future periods only.

(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 proportion to appropriate cost drivers.

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

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

(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. The liabilities are undiscounted and 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 interest rate swaps 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.

Any cumulative unrecognised actuarial gain or loss is recognised in the statement of comprehensive income over the expected average remaining working lives of the employees participating in the plan.

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing this financial report. None of these is expected to have a significant effect on the financial report of the entity, except for IFRS 9 Financial Instruments, which becomes mandatory for the entity's 2013 financial statements and could change the classification and measurement of financial assets. The entity does not plan to adopt this standard early and the extent of the impact has not been determined.

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. 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 methods in (a) above. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the entity may not receive amounts due to it and these amounts can be reliably measured. Details of the 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 2012. The actuarial report dated 12 March 2013 was prepared by Mr G. Campbell, BEc, MAS, FIAA, FNZSA. 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	2012: 2.66% to 3.64% p.a. 2011: 3.89% to 4.39% p.a.
Overseas statutory fund	2012: 2.35% to 3.30% p.a. 2011: 3.56% to 4.14% 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	2012: 2.4% p.a. 2011: 2.7% p.a.
Overseas statutory fund	2012: 2.2% p.a. 2011: 2.2% p.a.

(iii) Future expenses

Future maintenance expenses on 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:

Australian statutory fund	2012: 30% to 90% 2011: 30% to 90%
Overseas statutory fund	2012: 50% to 110% 2011: 50% to 110%

(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 8% - 20% p.a. (2011: 4% - 25% 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 2011 to 31 December 2012

	Effect on net profit margins $'000 Increase/ (decrease)	Effect on net life insurance contract liabilities $'000 Increase/ (decrease)
Assumption category		
Discount rates	-	25,010
Future inflation rates	-	(7,717)
Mortality and morbidity	(1,049)	15,123
Total	**(1,049)**	**32,416**

(c) Processes used to select assumptions

Discount rate
The gross discount rates are derived from gross yields on cash deposits, bank bill swaps and interest rate swaps.

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

Tax
Current tax legislation and rates are assumed to continue unaltered.

Mortality and morbidity
An appropriate base table of mortality or morbidity is chosen for the type of product being written. An investigation into the actual experience of the entity is performed and statistical methods and judgement are used to adjust the rates reflected in the table to a best estimate of mortality or morbidity 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 2012

		Gross (before reinsurance)		**Net (of reinsurance)**		
	Change in variable	**Profit / (loss) 2012 $'000**	**Life insurance contract liabilities $'000**	**Profit / (loss) 2012 $'000**	**Life insurance contract liabilities $'000**	**Equity 2012 $'000**
Balance per accounts		15,652	945,673	38,073	812,151	336,480
Result of change in variables:						
Worsening of mortality/morbidity claim incidence rates	5%	(28,279)	40,381	(566)	28,808	(566)
Worsening of income claim termination rates [(1)]	5%	(31,236)	44,584	5,257	41,417	5,257
Deterioration in unreported claims development [(2)]	5%	(14,279)	20,380	(3,501)	13,413	(3,501)
Increase in fixed interest bond Yields	1%	(1,166)	(36,600)	(2,209)	(33,109)	(2,209)

For the year ended 31 December 2011

	Change in variable	Gross (before reinsurance) Profit / (loss) 2011 $'000	Gross (before reinsurance) Life insurance contract liabilities $'000	Net (of reinsurance) Profit / (loss) 2011 $'000	Net (of reinsurance) Life insurance contract liabilities $'000	Equity 2011 $'000
Balance per accounts		(24,591)	856,786	45,537	741,090	297,281
Result of change in variables:						
Worsening of mortality/morbidity claim incidence rates	5%	(34,119)	48,723	(1,267)	30,736	(1,267)
Worsening of income claim termination rates [1]	5%	(24,454)	34,911	5,105	32,216	5,105
Deterioration in unreported claims development [2]	5%	(12,996)	18,547	(3,179)	13,044	(3,179)
Increase in fixed interest bond Yields	1%	(2,830)	(27,227)	(3,224)	(25,898)	(3,224)

(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 2012 $'000	2011 $'000
Long tailed lump sum benefit claims	11,273	(5,135)
Long tailed income benefit claims	3,438	2,016

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 entity's risk management framework. This framework, which is documented in a formal risk management strategy, is established to identify and manage the risks faced by the entity, to set appropriate risk limits and to monitor risks and controls. The framework operates within the context of the Board's appetite for risk, which is documented in a Risk Appetite Statement.

The risk management framework is 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.

A sub-committee of the Board, the Audit & Risk Committee, is responsible for monitoring the entity's risk management framework and reporting to the Board. The Committee monitors compliance and reviews the adequacy of the framework in relation to the risks faced by the entity. The Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes regular reviews and tests of risk management controls and procedures, the results of which are reported to the Audit & Risk 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 retroceding to reinsurers that have a credit rating of at least A- (Standard & Poor's). Given these high credit ratings, management does not expect a retrocessionaire to fail to meet their 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 no less than 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.

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.

Currency risk

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

(b) Insurance risks

The entity's objective is to satisfactorily manage insurance risks in line with the entity's risk management strategy.

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 a cedant, the entity has a program for auditing the cedant's underwriting processes.

(iii) Claims Management

Strict claims management procedures and controls are in place to ensure the timely payment of claims in accordance with policy conditions. 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 cedants 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 the 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 requirements are measured using regulatory reporting requirements to which the entity is subject.

The entity manages capital requirements by implementing a risk management framework, monitoring capital levels, planning movements in capital in conjunction with the business plan and performing capital forecast and sensitivity analysis over a range of stressed scenarios.

The entity's risk management strategies include a conservative and well matched investment policy and an extensive retrocession program.

As an additional means of managing insurance risk the entity holds capital reserves in excess of 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) Sensitivity to insurance risks

The nature of the terms of the life insurance contracts written is such that certain external variables can be identified on which related cash flows for claim payments depend. The table below provides an overview of the key variables upon which the amount of related cash flows are dependent.

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

5. Disclosure on asset restrictions

Investments held in the 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 (LPS 2.04). 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.

	2012 Australian Statutory Fund $'000	**2012 Overseas Statutory Fund $'000**	**2012 Statutory Funds Total $'000**	**2011 Australian Statutory Fund $'000**	**2011 Overseas Statutory Fund $'000**	**2011 Statutory Funds Total $'000**
Solvency Requirement "A" (1)	1,143,556	45,933	1,189,489	1,016,197	41,886	1,058,083
Represented by:						
- Minimum termination value (2)	1,016,951	31,924	1,048,875	908,811	29,385	938,196
- Other liabilities	64,129	4,661	68,790	61,803	3,154	64,957
- Solvency reserve "B"	62,476	9,348	71,824	45,583	9,347	54,930
	1,143,556	45,933	1,189,489	1,016,197	41,886	1,058,083
Assets available for Solvency Reserve "C"	198,325	22,226	220,551	183,622	19,662	203,284
Determined as:						
- Net assets	293,067	30,688	323,755	257,587	27,107	284,694
- Excess of gross policy liability over minimum termination value	(94,742)	(8,462)	(103,204)	(73,965)	(7,445)	(81,410)
	198,325	22,226	220,551	183,622	19,662	203,284
Solvency reserve % (B/(A-B)) x 100	6%	26%	6%	5%	29%	5%
Coverage of solvency reserve C/B	3.2 times	2.4 times	3.1 times	4.0 times	2.1 times	3.7 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

	2012 $'000	2011 $'000
Life insurance contract premium revenue	718,380	547,325
Other income	123	99
	718,503	547,424

Other income includes the following amounts:

	2012 $'000	2011 $'000
Service fee income	37	26
Car space rental	34	28
Other	52	45
	123	99

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:

	2012 $'000	2011 $'000
Dividend income	513	770
Interest income	53,851	50,907
Net realised gains	19,334	13,363
Net unrealised fair value gains	12,029	23,281
	85,727	88,321

8. Life insurance contract claims expense

	2012 $'000	2011 $'000
Life insurance contract claims	469,110	369,054

9. Other expenses

	2012 $'000	2011 $'000
Policy acquisition costs – life insurance contracts		
- Net *commission*	29,150	24,777
- Other acquisition costs	3,983	3,790
Total policy acquisition costs	33,133	28,567
Policy maintenance costs – life insurance contracts		
- Net commission	138,103	93,468
- Other expenses	17,218	14,695
Total policy maintenance costs	155,321	108,163
Investment management expenses	1,120	918
Total administration expenses	189,574	137,648
Analysis of expenses by nature		
Net commission	167,253	118,245
Depreciation and amortisation expense	580	719
Employee benefits expense	14,640	12,599
Other expenses	7,101	6,085
	189,574	137,648

10. Life insurance contract liabilities

(a) Reconciliation of movement in life insurance contract liabilities

	2012 $'000	2011 $'000
Life insurance contract liabilities		
Gross life insurance contract liabilities at 1 January	856,786	738,464
Exchange adjustment on translation of New Zealand branch	895	51
Change in life insurance contract liabilities reflected in profit and loss	87,992	118,271
Gross life insurance contract liabilities at 31 December	945,673	856,786
Retrocessionaires' share of life insurance contract liabilities		
Retroceded life insurance contract liabilities at 1 January	115,696	96,581
Exchange adjustment on translation of New Zealand branch	5	(1)
Change in retrocessionaires' share of life insurance contract liabilities reflected in profit and loss	17,821	19,116
Retrocessionaires' share of life insurance contract liabilities at 31 December	133,522	115,696
Net life insurance contract liabilities at 31 December	812,151	741,090
Expected to be settled within 12 months	259,050	212,704
Expected to be settled in more than 12 months	553,101	528,386
	812,151	741,090

(b) Components of net life insurance contract liabilities

	2012 $'000	2011 $'000
Best estimate liability		
- Value of future policy benefits	903,564	810,858
- Value of future expenses	20,624	16,156
- Value of unrecouped acquisition expense	(124,222)	(104,361)
Total best estimate liability for life insurance contracts	799,966	722,653
Value of future shareholder profit margins	12,185	18,437
	812,151	741,090

11. Components of profit

	2012 $'000	2011 $'000
Planned margin of revenues over expenses released	9,457	14,728
Difference between actual and assumed experience	20,352	30,244
Change in valuation methods and assumptions	(3,307)	(8,890)
Investment earnings on assets in excess of life insurance Liabilities	11,571	9,455
Profit for the year	38,073	45,537

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

12. Trade and other receivables

	2012 $'000	**2011** $'000
Outstanding premium	63,676	55,225
Investment income accrued and receivable	14,524	12,674
Insurance recoveries due from related parties	20,479	37,321
Other receivables	37	723
Total trade and other receivables	98,716	105,943
Receivables within 12 months	98,716	105,943
Receivables in more than 12 months	-	-
	98,716	105,943

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

13. Financial assets

	2012 $'000	2011 $'000
Financial assets at fair value through profit and loss		
Debt securities		
- National Government	163,220	153,119
- Other public sector	425,741	340,186
- Private sector	428,716	413,844
	1,017,677	907,149
Equity securities	-	17,141
Total financial assets at fair value through profit and loss	1,017,677	924,290
Expected to be realised within 12 months	118,276	122,595
Expected to be realised in more than 12 months	899,401	801,695
	1,017,677	924,290

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

	2012			2011		
	Property	Fixtures, Fittings and Equipment	Total	Property	Fixtures, Fittings and Equipment	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cost						
Balance at 1 Jan	6,900	3,357	10,257	6,800	3,053	9,853
Acquisitions	-	855	855	-	1,158	1,158
Disposals	-	(415)	(415)	-	(854)	(854)
Revaluation	-	-	-	100	-	100
Balance at 31 Dec	6,900	3,797	10,697	6,900	3,357	10,257
Depreciation						
Balance at 1 Jan	-	1,179	1,179	-	1,010	1,010
Depreciation charge for year	-	580	580	-	719	719
Disposals	-	(227)	(227)	-	(550)	(550)
Balance at 31 Dec	-	1,532	1,532	-	1,179	1,179
Carrying Amounts						
At 1 January	6,900	2,178	9,078	6,800	2,043	8,843
At 31 December	6,900	2,265	9,165	6,900	2,178	9,078
Depreciation Rate	0%	1-40%	0-40%	0%	1-40%	0-40%

An independent valuation of the property was carried out on 31 December 2012 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

	2012	2011
	$'000	$'000
Current		
Outstanding life insurance contract claims payable	28,552	16,291
Other payables under life insurance contracts	34,498	41,642
Amounts due to related parties	297	253
Other payables	930	1,235
	64,277	59,421
Payable within 12 months	64,277	59,421
Payable in more than 12 months	-	-
	64,277	59,421

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

	2012 Ordinary Shares $'000	2011 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 (2011: nil).~~

(b) Dividend franking account

	2012 $'000	2011 $'000
30% franking credits available to shareholders of the entity for subsequent financial years.	3,539	3,266

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; and

(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

	2012				2011			
	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	955,792	50,811	11,074	1,017,677	873,991	44,782	5,517	924,290
Other assets	190,513	7,580	4,399	202,492	164,559	7,409	9,938	181,906
Retrocessionaires' share of life insurance contract liabilities	133,101	421	-	133,522	115,686	10	-	115,696
Life insurance contract liabilities assumed under reinsurance	922,210	23,463	-	945,673	834,846	21,940	-	856,786
Other liabilities	64,129	4,661	2,748	71,538	61,803	3,154	2,868	67,825
Retained earnings	293,028	32,384	1,574	326,986	257,587	29,929	1,397	288,913
Premium revenue	692,359	26,021	-	718,380	523,487	23,838	-	547,325
Investment revenue	83,680	1,802	245	85,727	84,722	3,287	312	88,321
Claims expense	(450,368)	(18,742)	-	(469,110)	(352,022)	(17,032)	-	(369,054)
Other operating expenses	(183,878)	(5,690)	(6)	(189,574)	(130,774)	(6,782)	(92)	(137,648)
Operating profit before tax	29,547	2,468	278	32,293	23,493	3,258	241	26,992
Operating profit after tax	35,441	2,455	177	38,073	42,136	3,248	153	45,537

19. Income tax

(a) Rates of taxation

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

Class of Business	2012	2011
Australian business	30%	30%
New Zealand business	28%	28%

(b) Taxation basis

Australia

The principal elements for the calculation of the taxable income for 2012 and 2011 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. Acquisition costs and management expenses.
3. Increase in the value of risk policy liabilities.

New Zealand

New Zealand life insurance business is taxed on risk premiums less claims net of reinsurance, investment income and other income plus changes in risk reserves less allowable deductions. Certain portions of the life insurance business are grandfathered and are taxed on the pre 1 July 2010 basis for a period up to five years.

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

19. Income tax (continued)

(c) Income tax expense

	2012 $'000	2011 $'000
Current tax expense		
Current year	13	10
Adjustment for prior years	-	-
	13	10
Deferred tax (benefit)		
Origination and reversal of temporary differences		
- Current year	(5,773)	(18,288)
- Adjustment for prior years	(20)	(267)
Total income tax (benefit) charged to statement of comprehensive income	(5,780)	(18,545)

Numerical reconciliation between tax expense and pre-tax net profit

	2012	2011
Net profit before tax	32,293	26,992
Prima facie income tax expense calculated at 30% (2011: 30%) on the profit from ordinary activities for the year ended 31 December:	9,688	8,098
Increase in income tax expense due to:		
- Other	(149)	304
(Decrease) in income tax expense due to:		
- Release of deferred tax liability in respect of Section 148 retrocession amounts	(14,559)	(25,703)
- Overprovision from prior year	(20)	(267)
- Recovery of non resident controlled entity tax losses not previously brought to account	(740)	(977)
Income tax (benefit) on pre-tax profit	(5,780)	(18,545)

During 2012 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.

	2012 $'000	2011 $'000
Deferred tax recognised directly in equity		
Relating to revaluation of property	-	30

19. Income tax (continued)

(d) Recognised deferred tax (assets) and liabilities

	Assets		Liabilities		Net	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Property, plant & equipment	-	-	871	871	871	871
Financial assets	-	-	320	479	320	479
Retrocessionaires' share of life insurance contract liabilities	-	-	2,790	909	2,790	909
Employee benefits	(1,568)	(2,104)	-	-	(1,568)	(2,104)
Life insurance contract liabilities	(16,260)	(11,580)	-	-	(16,260)	(11,580)
Other items	(677)	(840)	-	-	(677)	(840)
Tax value of loss carry-forward recognised	(19,578)	(16,044)	-	-	(19,578)	(16,044)
Net tax (assets)/liabilities	(38,083)	(30,568)	3,981	2,259	(34,102)	(28,309)

(e) Movements in temporary differences during the year

	Balance 1 Jan 2012 $'000	Recognised in Income $'000	Recognised in Equity $'000	Balance 31 Dec 2012 $'000
Property, plant & equipment	871	-	-	871
Financial assets	479	(159)	-	320
Retrocessionaires' share of life insurance contract liabilities	909	1,881	-	2,790
Employee benefits	(2,104)	536	-	(1,568)
Life insurance contract liabilities	(11,580)	(4,680)	-	(16,260)
Other items	(840)	163	-	(677)
Tax value of loss carry-forward recognised	(16,044)	(3,534)	-	(19,578)
	(28,309)	(5,793)	-	(34,102)

	Balance 1 Jan 2011 $'000	Recognised in Income $'000	Recognised in Equity $'000	Balance 31 Dec 2011 $'000
Property, plant & equipment	841	-	30	871
Financial assets	411	68	-	479
Retrocessionaires' share of life insurance contract liabilities	733	176	-	909
Employee benefits	(1,662)	(442)	-	(2,104)
Life insurance contract liabilities	(5,670)	(5,910)	-	(11,580)
Other items	(747)	(93)	-	(840)
Tax value of loss carry-forward recognised	(3,690)	(12,354)	-	(16,044)
	(9,784)	(18,555)	30	(28,309)

20. Reconciliation of profit after income tax expense to net cash inflow from operating activities

	2012 $'000	2011 $'000
Profit from ordinary activities after income tax expense	38,073	45,537
Add/(less) items classified as investing/ financing activities:		
(Gain) on sale of investments	(19,334)	(13,363)
Net fair value (gains) on financial assets	(12,029)	(23,281)
Loss on sale of plant & equipment	13	345
Add/(less) non cash movements:		
Depreciation	567	374
Net unrealised foreign exchange loss/(gain)	121	(43)
Net cash inflow from operating activities before change in assets & liabilities	7,411	9,569
Change in assets and liabilities:		
Decrease/(increase) in receivables	7,227	(40,426)
(Increase) in tax assets	(5,793)	(18,525)
Increase in creditors & borrowings	3,189	21,585
Increase in life insurance contract liabilities	87,992	118,271
(Increase) in retrocessionaires' share of life insurance contract liabilities	(17,821)	(19,116)
Increase in tax liabilities	2	1
Net cash inflow from operating activities	82,207	71,359

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:

	2012 $'000	2011 $'000
Cash and Cash Equivalents		
Cash	58,617	37,206
Money market instruments	32,961	67,355
Cash and cash equivalents in the cash flow statement	91,578	104,561

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

21. Financial instrument - fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (as prices) or indirectly (derived from prices).
- Level 3: inputs for the asset that are not based on observable market data.

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

	2012 $'000	2011 $'000
Level 1	401,593	448,654
Level 2	616,084	475,636
Level 3	-	-
	1,017,677	924,290

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:

	2012 $'000	2011 $'000
Cash	58,617	37,206
Investment assets – debt securities	1,017,677	907,149
Trade and other receivables	98,716	105,943
	1,175,010	1,050,298

22. **Financial instrument risks** (continued)

	2012 $'000	2011 $'000
The maximum exposure to credit risk for financial assets at fair value through profit and loss (investment assets - debt securities) at the balance date was by sector:		
Issuing Sector		
Government	163,220	153,119
Semi-Government	182,399	202,916
Semi-Government – Government guaranteed	55,974	75,478
Sovereign supranational	187,368	61,792
Corporate	357,804	287,286
Corporate – Government guaranteed	33,830	54,646
Asset/mortgage backed	4,121	4,557
Money market instruments	32,961	67,355
	1,017,677	907,149

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:

Rating of Issuer		
A1+	32,961	67,355
AAA	581,291	471,248
AA	188,344	194,448
A	168,372	145,527
BBB	46,709	28,571
	1,017,677	907,149

(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:

	2012 $'000	2011 $'000
Investment assets – debt securities	1,017,677	907,149

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

- plus 100 basis points - (decrease) profit and equity by	(39,629)	(33,002)
- minus 100 basis points - increase profit and equity by	42,364	35,165

22. **Financial instrument risks** (continued)

(ii) Equity price risk

At balance date the entity held the following equity price risk sensitive instruments:

	2012 $'000	2011 $'000
Equity securities – unlisted unit trust	-	17,141

A change of 10% in the market values of these securities would increase/(decrease) equity and profit/(loss) by the amounts shown below.

	2012	2011
- 10% increase - increase profit and equity by	-	1,714
- 10% decrease - (decrease) profit and equity by	-	(1,714)

(iii) Currency risk

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

At the balance date the entity's exposure to foreign currency risk was as follows based on notional amounts:	2012	2011
	$'000 NZD	$'000 NZD
Total assets denominated in New Zealand dollars	74,320	68,635
Total liabilities denominated in New Zealand dollars	35,540	32,995

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

	$'000 AUD	$'000 AUD
- Strengthening of the Australian dollar against the NZD will (decrease) equity by	(2,790)	(2,464)
- Strengthening of the Australian dollar against the NZD will (decrease) profits by	(223)	(295)

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 2012	Average Rate 2011	Reporting Date Rate 2012	Reporting Date Rate 2011
NZD 1 = AUD	$0.782	$0.766	$0.791	$0.761

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
2012								
Debt securities at fair value through profit and loss	3.69%	1,017,677	118,276	126,945	127,442	91,705	111,097	442,212
Cash	2.66%	58,617	58,617	-	-	-	-	-
Trade and other receivables	-	98,716	98,716	-	-	-	-	-
Trade and other payables	-	(64,277)	(64,277)	-	-	-	-	-
		1,110,733	211,332	126,945	127,442	91,705	111,097	442,212
2011								
Debt securities at fair value through profit and loss	4.81%	907,149	105,454	84,814	143,884	143,894	93,505	335,598
Cash	3.68%	37,206	37,206	-	-	-	-	-
Trade and other receivables	-	105,943	105,943	-	-	-	-	-
Trade and other payables	-	(59,421)	(59,421)	-	-	-	-	-
		990,877	189,182	84,814	143,884	143,894	93,505	335,598

23. Operating leases

Leases as Lessee

The entity does not have any non-cancellable operating lease agreements (2011: Nil).

24. Employee benefits

	2012 $'000	2011 $'000
Current		
Annual leave liability	1,208	1,061
Non-Current		
Long service leave liability	1,802	1,614
Other long term employee benefit liabilities	1,146	1,435
Net recognised Defined Benefit Plan obligation	1,190	2,903
Total employee benefits	5,346	7,013

(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. Part or all the pension benefit may be converted to an account based pension or with the approval of the plan trustees the pension benefit may be commuted to a lump sum.

The 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 Plans". 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 any cumulative unrecognised actuarial gain or loss to be recognised in the statement of comprehensive income over the expected average remaining working lives of the employees participating in the plan. 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)

	2012 $'000	2011 $'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	17,828	16,390
Current service cost	690	591
Interest cost	627	664
Settlement cost	-	-
Benefits paid	-	-
Actuarial (gains)/losses on obligation	(371)	183
Closing defined benefit obligation	18,774	17,828
Changes in the fair value of plan assets are as follows:		
Opening fair value of plan assets	13,652	13,674
Expected return	1,099	955
Contributions by employer	3,381	595
Benefits paid	-	-
Actuarial losses	(394)	(1,572)
Closing fair value of plan assets	17,738	13,652
The following economic assumptions were adopted for the defined benefit obligation calculation:		
Discount rate	3.50%	4.00%
Salary increases	3.50%	3.50%
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	18,774	17,828
Fair value of plan assets	(17,738)	(13,652)
Accumulated actuarial gains/(losses) not recognised in the statement of financial position	154	(1,273)
Past service cost not recognised in the statement of financial position	-	-
Reimbursement rights recognised	-	-
Other amounts recognised/unrecognised	-	-
Net liability for defined benefit obligation	1,190	2,903

24. Employee benefits (continued)

	2012 $'000	2011 $'000
(d) Net defined benefit expense recognised in the Statement of Comprehensive Income (recognised in Other Expenses)		
Current service costs	690	591
Interest on obligation	627	664
Settlements	-	-
Actuarial losses recognised	1,450	1,350
Expected return on plan assets	(1,099)	(955)
	1,668	1,650

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

(e) Actual return on defined benefit plan assets

	2012 $'000	2011 $'000
Expected return on plan assets – 7% (2011: 7%)	1,099	955
Actuarial loss on plan assets	(394)	(1,572)
Actual return on plan assets	705	(617)

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

	2012 $'000	2011 $'000	2010 $'000	2009 $'000	2008 $'000
Present value of defined benefit obligation	(18,774)	(17,828)	(16,390)	(16,203)	(18,074)
Fair value of plan assets	17,738	13,652	13,674	12,833	11,541
Net benefit (deficit) – non current	(1,036)	(4,176)	(2,716)	(3,370)	(6,533)

(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 2010. 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.

Following a review of the plan's vested benefits at 31 December 2011 and in accordance with the recommendation of the actuary, the entity paid a one-off contribution into the plan of $2,900,000 in May 2012 and reduced the contribution rate to the plan to 15% of members' salaries effective from 1 July 2012.

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:

	2012 $'000	2011 $'000
Fair value of plan assets	17,738	13,652
Accrued benefits per AAS 25	(18,534)	(16,905)
Deficit per AAS 25 funding basis	(796)	(3,253)

(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%
Salary increases	5%
Rate of pension indexation	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 $282,676 to the plan in 2013.

(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 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 $845,366 for the year ended 31 December 2012 (2011: $738,749).

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

	2012 $	2011 $
Audit Services:		
Auditors of the entity – KPMG		
Audit and review of the financial reports	277,313	268,260
Other regulatory audit services	33,500	33,500
	310,813	301,760
Other Services:		
Auditors of the entity – KPMG		
Taxation services	54,500	27,752
Other consulting	103,292	48,158
	157,792	75,910

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.

Non-Executive Independent Directors	Non-Executive Non-Independent Directors	Executive Directors
Mr R.J. Atfield (Chairman)	Mr C. J. Chèvre (Deputy Chairman)	Mr S. Willcock (Managing Director)
Ms E. G. Payne	Dr W. S. Becke	
Mr S. R. Swil	Mr U. Wallin	

Executive Management

Mr Stephen Willcock (Managing Director)
Mr Graeme Campbell (Appointed Actuary)
Mr Thomas Grogan (General Manager- Marketing)
Mr David Tallack (General Manager – Finance and Company Secretary)

In addition to their salaries the entity contributes to post employment benefit plans on behalf of the entity's 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:

	2012 $'000	2011 $'000
Short term employee benefits	2,304	2,353
Post employment benefits	670	610
Other long term benefits	1,136	289
	4,110	3,252

Director related transactions

The entity provides insurance facilities at commercial rates to Avant Insurance Limited of which Mr R. J. Atfield was a director until 31 December 2011.

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. <u>Non Director related parties</u> (continued)

(ii) Investment management services

Talanx Asset Management GmbH, 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:

	2012	2011
	$'000	$'000
Transactions during the year		
Outwards reinsurance expenses	212,372	171,894
Reinsurance recoveries	(210,128)	(206,538)
Other recoveries including commission	(54,854)	(47,534)
Investment management fees	(1,122)	(991)
Creditors – Current		
Amounts due to related parties	297	253
Debtors – Current		
Amounts due from related parties	20,479	37,321

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. <u>Reconciliation of reported results with Life Act results</u>

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.*

31. <u>Events occurring after balance date</u>

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 entity in subsequent financial statements.

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 Ltd (the Company), which comprises the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 31 comprising a summary of significant accounting policies and other explanatory information and the Directors' Declaration.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 1(a), the Directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply 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 of the financial report that gives a true and fair view 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, a true and fair 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, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

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 2012 and of its performance for the year ended on that date; and

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

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

KPMG

KPMG

Andrew Reeves
Partner

Sydney

22 March 2013

Appointed Actuary's Section 78 Report

To the Directors of Hannover Life Re of Australasia Ltd

In respect of the Financial Statements of the New Zealand Branch

31 December 2012

This report is prepared under sections 77 and 78 of the Insurance (Prudential Supervision) Act 2010 (the Act) which requires that a licensed insurer must ensure that the actuarial information contained in, or used in the preparation of, the insurer's financial statements is reviewed by the Appointed Actuary. This report is in respect of the financial statements of the New Zealand Branch of Hannover Life Re of Australasia Ltd (the Branch) for the 12 month period ending on 31 December 2012.

(a) This report has been prepared by Graeme Campbell BEc, MAS, FIAA, FNZSA; Appointed Actuary to Hannover Life Re of Australasia Ltd.

(b) I have undertaken a review of the financial statements of the Branch as required by Section 77 of the Act. My review has been carried out in accordance with the Solvency Standard for Life Insurance Business issued by the Reserve Bank of New Zealand in August 2011 (as modified by the licence conditions of the Branch) (the Life Solvency Standard) and in accordance with the New Zealand Society of Actuaries' Professional Standards.

(c) The actuarial information reviewed was: (a) information relating to the Branch's calculations of premiums, claims, reserves, dividends, insurance and annuity rates, and technical provisions; and (b) information relating to assessments of the probability of uncertain future events occurring and the financial implications for the Branch if those events do occur; and (c) information specified in the Life Solvency Standard as actuarial information for the purposes of this review.

There were no restrictions or limitations placed on my work.

(d) Other than my relationship with the Branch as Appointed Actuary, I am an employee of Hannover Life Re of Australasia Ltd. I do not have any other relationship with, or interest in, the Branch.

(e) I obtained all of the information and explanations that I required.

(f) In my opinion and from an actuarial perspective:
   (i) the actuarial information included in the financial statements of the Branch was appropriately included in those financial statements, and
   (ii) the actuarial information used in the preparation of the financial statements of the Branch was used appropriately.

(g) As at 31 December 2012, the solvency margins that apply to Hannover Life Re of Australasia Ltd and its statutory funds under conditions imposed under section 21(2)(b) and (c) of the Act are the solvency margins calculated in accordance with the Australian equivalent of the Life Solvency Standard. In my opinion and from an actuarial perspective, Hannover Life Re of Australasia Ltd and its statutory funds maintained those solvency margins as at 31 December 2012.

Graeme Campbell

Graeme Campbell
Appointed Actuary
12 March 2012