HANNOVER LIFE RE OF AUSTRALASIA LTD

NEW ZEALAND BRANCH

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2015

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 2015.

The Board of Directors of Hannover Life Re of Australasia Ltd authorised these financial statements of the Branch on 7 March 2016.

R.J. Atfield
Chairman

G.Obertopp
Managing Director

7 March 2016

Hannover Life Re of Australasia Ltd
New Zealand Branch

Statement of Comprehensive Income
For the Year Ended 31 December 2015

	Note	2015 $'000	2014 $'000
Revenue			
Life insurance contract premium revenue		33,259	27,780
Outwards reinsurance expense		(1,759)	(1,258)
Net life insurance premium revenue		31,500	26,522
Interest and dividend income		3,439	4,026
Net fair value gains/(losses) on financial assets at fair through profit and loss	6(a)	4	(585)
Other income		199	107
Total revenue		35,142	30,070
Claims and expenses			
Life insurance contract claims expense		(22,779)	(22,384)
Reinsurance recoveries revenue		875	313
Net life insurance claims expense		(21,904)	(22,071)
Change in life contract liabilities	7(a)	(1,936)	4,357
Change in reinsurers' share of life insurance contract liabilities	7(a)	(65)	141
		(23,905)	(17,573)
Other expenses	6(b)	(6,224)	(4,841)
Total net claims and expenses		(30,129)	(22,414)
Profit before income tax		5,013	7,656
Income tax expense	12(b)	(20)	(20)
Profit for the period attributable to the branch	6(c)	4,993	7,636
Other comprehensive income		-	-
Total comprehensive income for the period		4,993	7,636

On behalf of the Board of Directors

Director **Director**

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

Hannover Life Re of Australasia Ltd
New Zealand Branch

Statement of Financial Position
As at 31 December 2015

	Note	2015 $'000	2014 $'000
Assets			
Cash		6,591	1,152
Trade and other receivables	8	2,140	2,391
Financial assets at fair value through profit and loss	9	65,553	72,699
Reinsurers' share of life insurance contract liabilities	7(a)	784	849
Total assets		75,068	77,091
Liabilities			
Trade and other payables	10	12,535	12,971
Gross life reinsurance contract liabilities	7(a)	30,085	28,149
Current tax liability		40	42
Total liabilities		42,660	41,162
Net assets		32,408	35,929
Equity			
Retained profits		32,408	35,929
Total equity		32,408	35,929

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

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Director

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Director

Hannover Life Re of Australasia Ltd
New Zealand Branch

Statement of Cash Flows
For the year ended 31 December 2015

	Note	2015 $'000	2014 $'000
Cash flows from operating activities			
Premium received		33,257	27,658
Policy payments		(22,454)	(24,471)
Reinsurance premium paid		(1,731)	(1,183)
Commissions paid		(4,230)	(4,152)
Payments to suppliers and employees		(997)	(2,996)
Income tax (paid)		(22)	(15)
Reinsurance and other recoveries received		1,054	148
Interest & rent received		3,678	4,026
Other revenue received		28	4
Net cash (outflow)/inflow from operating activities	13	8,583	(981)
Cash flows from investing activities			
Payments for financial assets		(30,526)	(7,564)
Proceeds from sale of financial assets		37,675	4,150
		7,149	(3,414)
Cash flow from financing activities			
Transfer of profits to Australian parent entity		(10,293)	-
Net (decrease)/increase in cash and cash equivalents		5,439	(4,395)
Cash and cash equivalents at the beginning of the financial year		1,152	5,547
Cash and cash equivalents at the end of the financial year	13	6,591	1,152

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

Hannover Life Re of Australasia Ltd
New Zealand Branch

Statement of Changes in Equity
For the Year Ended 31 December 2015

	2015 $'000	2014 $'000
Balance at 1 January	35,929	38,736
Profit for the period	4,993	7,636
Other comprehensive income	-	-
Total comprehensive income for the period	4,993	7,636
Transfer to Australian parant entity	(8,514)	(10,443)
Balance at 31 December	32,408	35,929

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

1. Statement of Accounting Policies

The significant policies which have been adopted in the preparation of this financial report are:

(a) Basis of Presentation

The financial statements presented are for the New Zealand branch (the branch) of Hannover Life Re of Australasia Ltd which is registered under the *Companies Act 1993*. The branch is 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 07 March 2016.

(b) Activities of Life Insurance Operations

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

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

All business written by the branch is non-participating and all profits and losses from non-participating business are allocated to the 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. Gains and losses on subsequent measurement to fair value or on sale are recognised through profit or loss. Fair value is determined as follows:

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

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

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

(ii) Impairment Financial Assets

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

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

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

All impairment losses are recognised through profit or loss.

(g) Deferred Acquisition Costs

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

The Appointed Actuary, in determining the life insurance contract liabilities takes account of the deferral of policy acquisition costs and assesses the value and future recovery of these costs. These deferred amounts are recognised in the Statement of Financial Position as a reduction in life insurance contract liabilities and are amortised through the Statement of Comprehensive Income over the period that they are deemed to be recoverable. The impact of this deferral is reflected in “change in life insurance contract liabilities” in the Statement of Comprehensive Income.

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

(h) Expense Recognition and Apportionment

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

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

- All expenses which are staff related are allocated in proportion to the estimated time involved;
- 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) 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 2016, 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 has a mandatory effective date of 1 January 2018 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) mortality and morbidity experience on life insurance products;
(ii) the cost of providing benefits and administering these insurance contracts; and
(iii) discontinuance experience, which affects the branch's ability to recover the cost of acquiring new business over the lives of the contracts.

In addition, factors such as regulation, competition, interest rates, taxes, securities market conditions and general economic conditions affect the level of these liabilities. In some contracts, the branch shares experience on mortality, morbidity and persistency with its customers, 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 7.

(b) Reinsurers' share of life insurance contract liabilities

Reinsurers' share of life insurance contract liabilities are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the branch may not receive amounts due to it and these amounts can be reliably measured. Details of the reinsurers' share of life insurance contract liabilities are set out in Note 7.

3. Actuarial Assumptions and Methods

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

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

(i) provide for the systematic release of planned margins as services are provided to policyholders and premium is received; and

(ii) meet the expected payment of future benefits and expenses.

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

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

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

(i) Level premium business
Where individual policy data was available from the ceding company, liabilities were calculated by projecting cash flows on each policy. Otherwise, liabilities were calculated using accumulating methods.

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

(iii) Other business
Liabilities for all other business were determined using accumulation methods, including allowances for recoverable deferred acquisition expenses.

(a) Disclosure of assumptions

The assumptions used to value life insurance contract liabilities are best estimates of expected future experience in accordance with NZ IFRS 4. The key assumptions are as follows:

(i) Discount rates

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

2.54% to 3.46% p.a. (2015)
3.52% to 3.92% p.a. (2014)

(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. (2015)
2.2% p.a. (2014)

(iii) Future expenses

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

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

(iv) Rates of taxation

Policy liabilities have been determined on a gross of taxation basis. The rates of taxation that apply to the branch are shown in Note 13.

(v) Mortality and morbidity

Assumed claim rates were based on various published tables, primarily those most recently published by the Institute of Actuaries of Australia and the Australian Financial Services Council, adjusted in light of recent industry experience and the entity's own experience. For disability income claims, adjustments were made to the tabular claim termination assumptions based on the entity's own experience, as follows.

Claim termination rates as percentage of tabular termination assumptions:

Claim termination rates as percentage	2015: 100% of ADI 2007-2011
	2014: 30% to 85% of IAD 89-93

(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 16% - 21% p.a. (2014: 16% - 21% 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 2014 to 31 December 2015

	Effect on net profit margins Increase/ (decrease) $'000	Effect on net life insurance contract liabilities Increase/ (decrease) $'000
Assumption category		
Discount rates	35	368
Future inflation rates	-	-
Mortality and morbidity	6	153
Total	41	521

(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 2015

		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		5,783	30,085	4,993	29,301	40,922
Result of change in variables:						
Worsening of mortality/morbidity claim incidence rates	5%	-	-	-	-	-
Worsening of income claim termination rates	5%	(225)	225	(217)	217	(217)
Deterioration in unreported claims development [1]	5%	(827)	827	(797)	797	(797)
Increase in fixed interest bond Yields	1%	(683)	(893)	(692)	(884)	(692)

[1] This relates to the cost of incurred but not reported claims.

For the year ended 31 December 2014

		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		7,778	28,149	7,656	27,300	46,372
Result of change in variables:						
Worsening of mortality/morbidity claim incidence rates	5%	(235)	235	(226)	226	(226)
Worsening of income claim termination rates	5%	(217)	217	(209)	209	(209)
Deterioration in unreported claims development [(1)]	5%	(628)	628	(607)	607	(607)
Increase in fixed interest bond Yields	1%	(669)	(694)	(675)	(687)	(675)

(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	
	2015 $'000	**2014 $'000**
Long tailed lump sum benefit claims	1,308	1,723
Long tailed income benefit claims	4,707	1,734

4. Risk Management Policies and Procedures

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

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

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

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

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

The Board has also adopted an ICAAP Summary Statement which outlines the Internal Capital Adequacy Assessment Process (ICAAP) of the entity. The objectives of the ICAAP are to enable the entity to maintain adequate capital and to meet all regulatory capital requirements on a continuous basis.

(a) Financial Risks

Credit Risk

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

(ii) Investments

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

Liquidity Risk

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

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

Market Risk

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

Interest Rate Risk

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

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

Currency Risk

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

(b) Insurance Risks

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

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

Methods to limit or transfer insurance risk exposures

(i) Reinsurance

The branch has in place a reinsurance program. The program is designed to 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. Reinsurance 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 reinsurance). This information includes the branch's gross and net results which are compared against branch's business plan. The information is reviewed by the Executive Committee on a quarterly basis.

Concentration of insurance risk

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

(c) Sensitivity to insurance risks

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

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

5. Disclosure on Asset Restrictions

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

6. Profit and loss information

(a) Net fair value gains on financial assets at fair value through profit or loss	**2015 $'000**	**2014 $'000**
Fair value gains includes the following amounts:		
Net realised (losses)	(1,925)	(151)
Net unrealised fair value gains/(losses)	1,929	(434)
	4	(585)

(b) Other expenses	**2015 $'000**	**2014 $'000**
Policy acquisition – Life insurance contracts		
- Net commission	1,326	948
- Other acquisition costs	456	460
Total policy acquisition costs	1,782	1,408
Policy maintenance costs – Life insurance contracts		
- Net commission	3,044	2,024
- Other expenses	1,322	1,327
Total policy maintenance costs	4,366	3,351
Investment management expenses	76	82
Total administration expenses	6,224	4,841

	2015 $'000	2014 $'000
(c) Components of Profit		
Planned margin of revenues over expenses released	846	1,289
Difference between actual and assumed experience	4,145	5,945
Change in valuation methods and assumptions	155	-
Investment earnings on assets in excess of life insurance liabilities	(153)	402
Profit for the year	4,993	7,636

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

7. Life Insurance Contract Liabilities

	2015 $'000	2014 $'000
(a) Reconciliation of movement in life insurance contract liabilities		
Life insurance contract liabilities		
Gross life insurance contract liabilities at 1 January	28,149	32,506
Change in life insurance contract liabilities reflected in the Statement of Comprehensive Income	1,936	(4,357)
Gross life insurance contract liabilities at 31 December	30,085	28,149
Reinsurers' share of life insurance contract liabilities		
Reinsured life insurance contract liabilities at 1 January	849	708
Change in reinsurers' share of life insurance contract liabilities reflected in the Statement of Comprehensive Income	(65)	141
Reinsurers' share of life insurance contract liabilities at 31 December	784	849
Net life insurance contract liabilities at 31 December	29,301	27,300
Expected to be settled within 12 months	11,870	13,733
Expected to be settled in more than 12 months	17,431	13,567
	29,301	27,300

	2015 $'000	2014 $'000
(b) Components of net life insurance contract liabilities		
Best estimate liability		
- Future policy benefits	38,245	37,809
- Future expenses	507	485
- Planned margins over future expenses	1,879	897
- Future charges for acquisition expenses	(11,330)	(11,891)
Total net life insurance contract liabilities	29,301	27,300

8. Trade and Other Receivables

	2015 $'000	2014 $'000
Outstanding premium	1,660	1,658
Investment income accrued and receivable	480	721
Other receivables	-	12
	2,140	2,391

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

9. Financial Assets

Financial assets at fair value through profit and loss

	2015 $'000	2014 $'000
Debt securities		
- National Government	32,481	53,813
- Other public sector	27,428	13,915
- Private sector	5,644	4,971
Total financial assets at fair value through profit and loss	65,553	72,699
Expected to be realised within 12 months	502	33,527
Expected to be realised in more than 12 months	65,051	39,172
	65,553	72,699

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

	2015 $'000	2014 $'000

10. Trade and Other Payables

Current

	2015 $'000	2014 $'000
Outstanding life insurance contract claims payable	1,103	779
Amounts due to ceding companies	711	480
Amounts due to related parties	2,161	1,199
Other payables	46	70
Transfer of retained profits to Australian entity	8,514	10,443
	12,535	12,971

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

11. Disaggregated Information of Life Insurance Business

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

12. Income Tax

(a) Taxation Basis

The branch is taxed on risk premiums less claims net of reinsurance, investment income and other income plus changes in risk reserves less allowable deductions. 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% (2014: 28%).

(b) Income Tax Expense

	2015 $'000	**2014 $'000**
Current tax expense		
Current year	20	20

Numerical reconciliation between tax expense and pre-tax net profit

	2015 $'000	2014 $'000
Net profit/(loss) before tax	5,013	7,656
Prima facie income tax expense calculated at 28% (2014: 28%) on the profit from ordinary activities for the year ended 31 December:	1,404	2,144
Decrease in income tax expense due to:		
- Benefit of tax losses recognised in current year	(1,384)	(2,124)
Income tax expense on pre-tax profit	20	20

The branch did not recognise a deferred tax asset in the period of $756,000 due to uncertainty regarding the recoverability of tax losses.

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

	2015 $'000	2014 $'000
Profit/(Loss) from ordinary activities after income tax expense	4,993	7,636
Add/(less) items classified as investing and financing activities:		
Loss on sale of investments	1,925	151
Net fair value (gains)/losses on investments	(1,929)	434
Exchange (gain) on transfer of retained profits to Australian parent entity	(149)	-
Net cash inflow from operating activities before change in assets & liabilities	4,840	8,221
Change in assets and liabilities:		
Decrease/(increase) in receivables	251	(134)
Increase/(decrease) in creditors & borrowings	1,493	(4,575)
Increase/(decrease) in life insurance contract liabilities	1,936	(4,357)
Increase/(decrease) in reinsurers' share of life insurance contract liabilities	65	(141)
(Decrease)/increase in tax liability	(2)	5
Net cash inflow/(outflow) from operating activities	8,583	(981)

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:

	2015 $'000	2014 $'000
Bank balances		
Cash	6,591	1,152
Cash and cash equivalents in the statement of cash flows	6,591	1,152

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

14. Financial Instrument - Fair Value Hierarchy

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

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

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

	2015 $'000	2014 $'000
Level 1	32,481	53,813
Level 2	33,072	18,886
Level 3	-	-
	65,553	72,699

15. Financial Instruments

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

- credit risk
- liquidity risk
- market risk

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

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

(a) Credit risk exposure

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

	2015 $'000	2014 $'000
Cash	6,591	1,152
Financial assets at fair value through profit and loss	65,553	72,699
Trade and other receivables	2,140	2,391
	74,284	76,242

	2015 $'000	2014 $'000
The maximum exposure to credit risk for financial assets at fair value through profit and loss (investment assets - debt securities) at the reporting date was by sector:		
Issuing Sector		
Government	32,481	53,813
Other public sector	27,428	13,915
Corporate	5,644	4,971
Corporate – New Zealand Government guaranteed	-	-
	65,553	72,699
The maximum exposure to credit risk for financial assets at fair value through profit and loss (investment assets - debt securities) at the reporting date was by rating:		
AAA	1,050	6,744
AA	53,994	63,915
A	10,509	2,040
BBB	-	-
	65,553	72,699

(b) Market Risk Sensitivity

The entity has sensitivity to the following market risk:

Interest rate risk

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

	2015 $'000	2014 $'000
Investment assets - debt securities	65,553	72,699

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.

	2015 $'000	2014 $'000
- plus 100 basis points - decrease profit by	(1,575)	(1,365)
- minus 100 basis points - increase profit by	1,631	1,421

(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
2015								
Debt securities at fair value through profit and loss	5.12%	65,553	502	39,779	3,042	6,993	12,586	2,651
Cash	2.45%	6,591	6,591	-	-	-	-	-
Trade and other receivables	-	2,140	2,140	-	-	-	-	-
Trade and other payables	-	(12,535)	(12,535)	-	-	-	-	-
		61,749	(3,302)	39,779	3,042	6,993	12,586	2,651
2014								
Debt securities at fair value through profit and loss	4.58%	72,699	33,527	512	21,422	2,976	6,898	7,364
Cash	1.98%	1,152	1,152	-	-	-	-	-
Trade and other receivables	-	2,391	2,391	-	-	-	-	-
Trade and other payables	-	(12,971)	(12,971)	-	-	-	-	-
		63,271	24,099	512	21,422	2,976	6,898	7,364

(d) Currency risk

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

(e) Fair Values

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

Debt Securities

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

Trade and Other Receivables / Trade and Other Payables

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

16. Contingencies

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

17. Capital Expenditure Commitments

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

18. Directors and Executive Disclosures (Key Management Personnel)

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

19. Capital Requirements

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

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

Capital Base and Prescribed Capital Amount at 31 December 2015 for the branch and the total company, have been determined in accordance with LPS 110 as follows:

	2015 New Zealand branch $NZ'000	**2014 New Zealand branch $NZ'000**	**2015 Total Company $NZ'000**	**2014 Total Company $NZ'000**
Capital Base				
Net Assets [(1)]	32,408	35,929	506,920	499,374
Regulatory adjustments to net assets	(9,065)	(10,508)	(210,099)	(195,653)
Tier 2 capital	-	-	-	-
Regulatory adjustments to Tier 2 capital	-	-	-	-
Total Capital Base	23,343	25,421	296,821	303,721
Prescribed Capital Amount (PCA)				
Insurance risk charge	12,735	11,652	114,250	111,626
Asset risk charge	2,297	2,006	35,458	44,910
Asset concentration risk charge	-	-	-	-
Operational risk charge	1,160	1,134	50,289	46,757
Less aggregation benefit	(1,647)	(1,446)	(23,329)	(27,230)
Combined stress scenario adjustment	-	1	48,426	44,876
Total PCA	14,545	13,347	225,094	220,939
Capital adequacy multiple (Capital Base/PCA)	1.60	1.90	1.32	1.37

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

20. Related Parties

Related party transactions

The following related party transactions occurred during the financial year.

(i) Reinsurance arrangements with related parties

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

(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:

	2015 $'000	2014 $'000
Transactions during the year		
Outwards reinsurance expenses	(1,724)	(1,217)
Reinsurance recoveries	875	307
Other recoveries including commission	119	43
Management fees	(1,647)	(1,662)
Investment management services	(76)	(82)
Creditors – Current		
Amounts due to related parties	10,675	11,642

Parent entities

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

21. Operating Leases

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

22. Employee Benefits

The branch does not employ staff.

23. Events Occurring After Balance Date

At a meeting of the Board of Directors on 7 March 2016, the Board approved the transfer of $8,514,000 retained profits from the branch to the Australian parent entity with an effective date of 31 December 2015.

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

Independent auditor's report

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

Report on the financial statements

We have audited the accompanying financial statements of Hannover Life Re of Australasia Ltd – New Zealand Branch ("the Branch") on pages 1 to 28. The financial statements comprise the statement of financial position as at 31 December 2015, 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.

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

Directors' responsibility for the financial statements

The Directors are responsible on behalf of the Branch for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards, 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 and fair presentation of the financial statements 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.

Opinion

In our opinion, the financial statements on pages 1 to 28 comply with general accepted accounting practice in New Zealand and present fairly, in all material respects, the financial position of Hannover Life Re of Australasia Ltd – New Zealand Branch as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial reporting Standards and International Reporting Standards.

KPMG

KPMG

Sydney
7 March 2016

Hannover Life Re of Australasia Ltd
New Zealand Branch

Life Insurance - Certificate

We certify that the attached is a true and correct copy of the financial statements of the New Zealand Branch of Hannover Life Re of Australasia Ltd for the year ended 31 December 2015.

R.J. ATFIELD
Chairman

G. OBERTOPP
Managing Director