HANNOVER LIFE RE OF AUSTRALASIA LTD

FINANCIAL STATEMENTS

YEAR ENDED

31 DECEMBER 2016

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ANNUAL FINANCIAL REPORT

Company Particulars

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Directors
P. R. Gaydon, BCom, CA, MAICD, Chairman
C.J. Chèvre, Deputy Chairman
E.G. Payne, BEc(Hons), BLegS, CA, GAICD
S.R. Swil, B Bus Sc, MBA, FIAA, FAICD
U. Wallin
G. Obertopp, Actuary (DAV), Managing Director

Executive
G. Obertopp, Actuary (DAV), Managing Director
G. Campbell, BEc, MAS, FIAA, Appointed Actuary
M. de Villiers, BSc (Hons), MBA, FIAA, Assistant General Manager (Products & Marketing)
D.N. Tallack, BEc, CPA, AGIA, General Manager (Finance) & Company Secretary

Bankers
National Australia Bank Limited

Solicitors
Minter Ellison

Auditors
KPMG

Directors' Report

For the Year Ended 31 December 2016

The Directors have pleasure in presenting their report together with the financial report of the entity for the year ended 31 December 2016 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 Peter Gaydon, BCom, CA, MAICD
Chairman
Independent Non-Executive Director
Age 66

Mr Gaydon was previously employed by the international accounting firm Ernst & Young for over 40 years and was client service partner to a number of insurance companies in Australia. Mr Gaydon was also involved in insurance industry development activity across Asia and was with Ernst & Young in Japan for almost 6 years.
Member of the Board Audit, Board Risk and Board Remuneration Committees.
Appointed Director on 1 July 2016 and Chairman on 1 December 2016.

Mr Rodney John Atfield, FIA, FIAA, FAII
Resigned as Chairman and Independent Non-Executive Director on 1 December 2016
Age 79

Mr Atfield previously held the positions of Managing Director of Mercantile Mutual (now OnePath Group) and Chief Executive Officer of Mercantile Mutual Life and had over 40 years experience in the life insurance and funds management industry. Mr Atfield was also previously a director of APRA.
Served as member of the Board Audit, Board Risk and Board Remuneration Committees.

Mr Claude Jacques Chèvre
Deputy Chairman
Non-Executive Director
Age 49

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

Mr Gerd Obertopp, Actuary (DAV)
Managing Director
Age 55

Mr Obertopp has been in the Reinsurance industry for over 25 years, and has previously been Managing Director of entities in the Hannover Re Group in South Africa and Hong Kong.

Ms Elsa Gene Payne, BEc(Hons), BLegS, CA, GAICD
Independent Non-Executive Director
Age 63

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.
Chair of the Board Audit Committee and member of the Board Risk Committee.
Director since 2010.

Mr Samuel Robert Swil, B Bus Sc, MBA, FIAA, FAICD
Independent Non-Executive Director
Age 66

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 Risk and Board Remuneration Committees and member of the Board Audit Committee.
Director since 2006.

Mr Ulrich Wallin
Non-Executive Director
Age 62

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

Company Secretary

Mr David Tallack BEc CPA AGIA has held the position of Company Secretary for over 10 years. Mr Tallack is a member of Governance Institute of Australia and holds a Graduate Diploma of Applied Corporate Governance.

Directors' meetings

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

Director	Directors' Meetings		Board Audit Committee Meetings		Board Risk Committee Meetings		Board Remuneration Committee	
	A	B	A	B	A	B	A	B
* Mr P Gaydon	2	2	1	1	2	2	-	-
*# Mr R Atfield	3	3	2	2	4	4	1	1
# Mr C Chèvre	3	3	-	-	-	-	-	1
* Ms E Payne	3	3	2	2	4	4	-	-
*# Mr S Swil	3	3	2	2	4	4	1	1
Mr U Wallin	3	3	-	-	-	-	-	-
Mr G Obertopp	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 and Board Risk 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 employers and 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 entity recorded a profit before tax for the 2016 financial year of $21.5m (2015: $2.4m). The increase in profit was primarily due to favourable claims experience on the entity's group business and direct marketed business.

The effective tax charge was substantially higher than the nominal Australian tax rate of 30% due to the overseas retrocession of profits on morbidity business being non-deductible.

The Company experienced losses on its fixed interest portfolios, albeit lower than prior year losses, due to further increases in bond yields. The negative impact of higher bond yields on the entity's fixed interest portfolios was, however, largely offset by the entity's interest rate sensitive policy liabilities.

The total comprehensive income for the 2016 financial year of $4.4m (2015: loss of $1.9m) benefitted from the revaluation of the entity's owner occupied property and a stronger New Zealand dollar.

Significant changes 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

At a meeting of the Board of Directors on 15 March 2017, the Board approved the transfers of retained profits between statutory funds and the Shareholder Fund with an effective date of 31 December 2016.

On 15 March 2017, the Company finalised changes to its outwards reinsurance arrangements with Hannover Rück SE to simplify its existing arrangements by recapturing existing surplus arrangements and restructuring its quota share arrangements with effect from 1 January 2017. The estimated increase in the Company's excess of Capital Base over Prescribed Capital Amount arising from the changes is in the range of $40 million to $60 million.

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 Corporations (Rounding in Financial/Director’s Reports) Instrument 2016/191 and in accordance with that Instrument, 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.

Gaydon.

P. R. Gaydon
Chairman

Sydney
15 March 2017

Corporate Governance Statement

For the Year Ended 31 December 2016

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

Board of Directors

Role of the Board

The Board's primary role is the protection and enhancement of long-term shareholder value.

In addition, the Board, in accordance with the *Life Insurance Act 1995* and the *Insurance (Prudential Supervision) Act 2010* (jointly “the Life Acts”), has a duty to take reasonable care and use due diligence in relation to the interests of the owners and prospective owners of policies referrable to the Statutory Funds of the entity.

To fulfil this role, the Board is responsible for the overall Corporate Governance of the entity including:

- approving the entity's strategic direction;
- establishing goals for management and monitoring the achievement of these goals;
- internal controls and management information systems;
- appraising and monitoring financial and other reporting;
- capital management; and
- risk management.

Composition of the Board

The names of the Directors of the entity are set out in the Directors' Report. The Board currently comprises six Directors (of which three are independent Non-Executive Directors) with a broad range of expertise and experience appropriate to the entity's business and the industry which it operates in. In accordance with the entity's Constitution, Directors must retire after three years, at which time, if they are eligible, they may offer themselves for re-election.

Board Processes

To assist it in the execution of its responsibilities, the Board has established a Board Charter and Board Audit, Risk and Remuneration Committees with their own Charters.

The Board delegates the operation and administration of the entity to the Managing Director who is accountable to the Board.

The full Board currently holds three scheduled meetings each year, plus any other meetings at such other times as may be necessary to address any specific significant matters that may arise. The agenda for meetings include financial reports, technical and investment reports and any legal and statutory matters if required. The Board Book is circulated in advance and Executives are available to be involved in Board discussions.

Recognition and Management of Risk

The Board has established a framework for identifying areas of significant business risk and maintaining appropriate and adequate controls and monitoring procedures, in addition to ensuring compliance with legal and regulatory requirements. The framework is documented in the Board's Risk Management Strategy. The Board is responsible for reviewing and overseeing the Strategy and ensuring the appropriate corporate governance structure.

The Risk Management Strategy operates within the context of the Board's documented risk appetite.

Adequacy of Capital

The Board is responsible for ensuring that the entity, and each statutory fund, has adequate capital to meet its obligations under a wide range of circumstances. The Board has adopted a Target Capital position and an Internal Capital Adequacy Assessment Process (ICAAP) that is documented in the Board's ICAAP Summary Statement.

Board Audit Committee

The responsibilities of the Board Audit Committee (Audit Committee) include reviewing compliance with the entity's accounting policies and internal control framework and the industry's regulatory environment and advising the Board of Directors on the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in the financial report. In addition, the performance of the auditors and the adequacy of the internal audit plans are reviewed by the Audit Committee.

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

The Appointed Auditor, the Managing Director, the Company Secretary and Appointed Actuary are invited to Audit Committee meetings. The Appointed Auditor meets at least once a year with the Audit Committee without management being present.

Board Risk Committee

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

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

The Managing Director, Chief Risk Officer, Company Secretary, Assistant Company Secretary, Appointed Actuary, Senior Corporate Actuary and Appointed Auditor are invited to the Risk Committee meetings.

Board Remuneration Committee

The Board Remuneration Committee (Remuneration Committee) is responsible for conducting regular reviews of the Remuneration Policy, making recommendations to the Board on changes to the Remuneration Policy and making annual recommendations to the Board on the remuneration of the Managing Director, direct reports to the Managing Director and any other person whose activities may, in the Board's opinion, affect the financial soundness of the Company.

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

Remuneration of the Board

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

Fit and Proper Policy

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

Financial supervision

The Life Acts govern the principal activities of the entity and identifies responsibilities of the Board with respect to operations. In addition, the entity is required to comply with the provisions of the *Corporations Act 2001*. The Board seeks to discharge its responsibilities in a number of ways:

- an annual business plan and budget is reviewed and approved by the Board;
- three Board meetings are held to monitor performance against budget and financial benchmarks;
- Directors are responsible for ensuring financial statements that are presented to the parent entity and regulatory bodies are prepared in accordance with Australian Accounting Standard AASB 1038 *Life Insurance Contracts*, the *Financial Sector (Collection of Data) Act 2001* and the *Corporations Act 2001*;
- the entity's Appointed Actuary is responsible for investigating the financial condition of the entity including the valuation of policy liabilities, solvency and capital adequacy requirements in accordance with the standards applied by the Australian Prudential Regulation Authority (APRA) and for providing advice to Executive Management and the Board as required under Prudential Standards and the Life Acts;
- Investment Guidelines are approved by the Board. Investment management decisions in accordance with the requirements of the Guidelines are delegated to an external investment manager in accordance with an Investment Management Agreement; and
- adoption of various policies such as the Risk Appetite Statement, Risk Management Strategy, Target Capital, ICAAP Summary Statement, Remuneration Policy and Fit & Proper Policy.

Ethical standards

Code of Conduct

The Company has adopted a Code of Conduct that requires all managers and employees to act with the utmost integrity and objectivity in their dealings with business partners, regulators, the community and employees, striving at all times to enhance the reputation and performance of the entity.

Conflict of interest

Directors are required to keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the entity. Details of Director related entity transactions with the entity are set out in the notes to the financial report.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Hannover Life Re of Australasia Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2016 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Andrew Reeves
Partner

Sydney
15 March 2017

Statement of Comprehensive Income
For the year ended 31 December 2016

	Note	2016 $'000	2015 $'000
Revenue			
Life insurance contract premium revenue		1,013,097	1,249,441
Outwards reinsurance expense		(525,048)	(735,407)
Net life insurance premium revenue		488,049	514,034
Interest income		77,991	75,225
Net fair value (losses) on financial assets at fair value through profit or loss	7(a)	(18,930)	(28,907)
Other (expenses)/income		(192)	1,008
Total revenue		546,918	561,360
Claims and expenses			
Life insurance contract claims expense		(655,879)	(707,592)
Reinsurance recoveries revenue		558,765	598,328
Net life insurance claims expense		(97,114)	(109,264)
Change in life insurance contract liabilities	8(a)	41,420	(157,836)
Change in reinsurers' share of life insurance contract liabilities	8(a)	(188,285)	(41,208)
		(243,979)	(308,308)
Other expenses	7(b)	(281,445)	(250,692)
Net claims and expenses		(525,424)	(559,000)
Profit before income tax		21,494	2,360
Income tax (expense)/benefit	15(a)	(19,069)	673
Profit for the period attributable to the entity	7(c)	2,425	3,033
Other comprehensive income			
Foreign currency translation reserve movement		756	(600)
Asset revaluation reserve movement		1,700	200
Income tax on asset revaluation reserve movement		(510)	(60)
Defined benefit plan reserve movement		105	(6,320)
Income tax on defined benefit plan reserve movement		(32)	1,896
Total comprehensive income for the period		4,444	(1,851)

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position
As at 31 December 2016

	Note	2016 $'000	2015 $'000
Assets			
Cash		81,715	72,134
Trade and other receivables	9	141,385	148,690
Financial assets at fair value through profit or loss	18	1,857,982	1,747,018
Reinsurers' share of life insurance contract liabilities	8(a)	79,458	267,726
Property, plant and equipment	10	14,142	11,356
Deferred tax assets	15(b)	63,693	79,608
Total assets		2,238,375	2,326,532
Liabilities			
Trade and other payables	11	31,600	85,732
Employee benefits	12	7,167	8,717
Gross life insurance contract liabilities	8(a)	1,715,007	1,755,706
Current tax liability		911	37
Deferred tax liability	15(b)	2,906	-
Total liabilities		1,757,591	1,850,192
Equity			
Contributed equity	13	80,000	80,000
Reserves		63,119	61,100
Retained profits		337,665	335,240
Total equity		480,784	476,340
Total liabilities and equity		2,238,375	2,326,532

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Cash Flows
For the year ended 31 December 2016

	Note	2016 $'000	2015 $'000
Cash flow from operating activities			
Premium received		1,036,475	1,225,261
Policy payments		(676,254)	(713,018)
Retrocession premium paid		(534,054)	(726,359)
Commissions paid		(353,833)	(290,162)
Payments to suppliers and employees		(35,482)	(34,758)
Income tax paid		(11)	(22)
Reinsurance and other recoveries received		624,883	679,593
Interest received		78,375	75,649
Other revenue received		115	851
Net cash inflow from operating activities	16	140,214	217,035
Cash flow from investing activities			
Payments for financial assets		(717,385)	(793,530)
Proceeds from sale of financial assets		588,952	528,436
Payments for property, plant & equipment		(3,264)	(1,792)
Proceeds from sale of property, plant & equipment		912	367
Net cash (outflow) from investing activities		(130,785)	(266,519)
Net increase/(decrease) in cash and cash equivalents		9,429	(49,484)
Cash and cash equivalents at the beginning of the financial year		72,134	121,514
Effects of exchange rate changes on the opening balance of cash and cash equivalents		152	104
Cash and cash equivalents at the end of the financial year	16	81,715	72,134

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Statement of Changes in Equity
For the year ended 31 December 2016

	Share Capital	Translation Reserve	Revaluation Reserve	Defined Benefit Reserve	Other Reserve	Retained Earnings	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2016	80,000	4,433	2,450	(5,783)	60,000	335,240	476,340
Profit for the period	-	-	-	-	-	2,425	2,425
Other comprehensive income							
Foreign currency translation	-	756	-	-	-	-	756
Revaluation of owner occupied property	-	-	1,190	-	-	-	1,190
Revaluation of defined benefit provision	-	-	-	73	-	-	73
Total comprehensive income for the period	-	756	1,190	73	-	2,425	4,444
Balance at 31 December 2016	80,000	5,189	3,640	(5,710)	60,000	337,665	480,784

	Share Capital	Translation Reserve	Revaluation Reserve	Defined Benefit Reserve	Other Reserve	Retained Earnings	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2015	80,000	5,033	2,310	(1,359)	60,000	332,207	478,191
Profit for the period	-	-	-	-		3,033	3,033
Other comprehensive income							
Foreign currency translation	-	(600)	-	-	-	-	(600)
Revaluation of owner occupied property	-	-	140	-	-	-	140
Revaluation of defined benefit provision	-	-	-	(4,424)		-	(4,424)
Total comprehensive income for the period	-	(600)	140	(4,424)	-	3,033	(1,851)
Balance at 31 December 2015	80,000	4,433	2,450	(5,783)	60,000	335,240	476,340

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Contents of the Notes to the Financial Statements

1. Summary of significant accounting policies

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

(a) Basis of presentation

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

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (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 are prepared on a liquidity basis as this provides more reliable and relevant information.

The financial statements were authorised for issue by the Board of Directors on 15 March 2017.

(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 shareholder's 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 of the insurance and reinsurance of individual and group death, total and permanent disability, trauma and income protection business in Australia and New Zealand.

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 shareholder.

(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. 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 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.

Impairment losses are recognised through profit or loss.

(f) Shareholders' fund assets

Financial assets which do not back life insurance liabilities are designated at fair value through profit and loss. 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 set out below.

Expenses are apportioned between statutory funds as follows:

- Expenses directly identifiable to a particular fund are apportioned to that fund;
- All expenses which are staff related are allocated in proportion to the estimated time involved in each fund;
- 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) 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 2017, and have not been applied in preparing this financial report. None of these are expected to have a significant effect on the financial report of the entity, 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 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) 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 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 and this can offset the impact of these factors on profitability from those products. Details of specific actuarial policies and methods are set out in Note 3. Details of gross life insurance contract liabilities are set out in Note 8.

(b) Reinsurers' share of life insurance contract liabilities

Reinsurers' 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 reinsurers' share of life insurance contract liabilities are set out in Note 8.

3. Actuarial assumptions and methods

The effective date of the actuarial report on life insurance contract liabilities and solvency reserves is 31 December 2016. The actuarial report dated 15 March 2017 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 "Life Insurance Contracts", APRA Prudential Standard LPS 340 "Valuation of Policy Liabilities", and the relevant actuarial standards and 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, liabilities were calculated by projecting cash flows on each policy. Otherwise, liabilities were calculated using accumulation 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 determined in accordance with AASB 1038 and APRA Prudential Standard LPS 340. 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 business	2016: 1.76% to 3.05% p.a. 2015: 1.85% to 2.87% p.a.
Overseas business	2016: 1.80% to 3.63% p.a. 2015: 2.54% to 3.46% 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 and the outlook for inflation over the term of the liabilities. The assumed inflation rates are:

Australian business	2016: 2.25% p.a. 2015: 2.5% p.a.
Overseas business	2016: 2.00% p.a. 2015: 2.2% p.a.

(iii) Future expenses

Future maintenance expenses are assumed to be a set percentage of future premium income and claim payments. Future investment expenses have been assumed to be at the same percentage of assets under management as currently applies.

(iv) Rates of taxation

Policy liabilities have been determined on a gross of taxation basis. The rates of taxation that apply to the entity are shown in Note 15.

(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:

Australian business	2016: 50% to 400% of ADI 2007-2011 2015: 50% to 400% of ADI 2007-2011
Overseas business	2016: 80% to 140% of ADI 2007-2011 2015: 100% of ADI 2007-2011

(vi) Rates of discontinuance

Assumed policy discontinuance rates are based on recent actual discontinuance experience. Assumed rates may vary by sub-grouping within a category and vary according to the length of time tranches of business have been in force. Future rates of discontinuance for the major categories of business were assumed to be in the order of 5% - 20% p.a. (2015: 5% - 20% p.a.).

(vii) Surrender values

Surrender values are based on the surrender values included in the life insurance contract liabilities as advised by ceding companies. There has been no change in the basis as compared to previous years.

(b) Effects of changes in actuarial assumptions from 31 December 2015 to 31 December 2016

Assumption category	Effect on net profit margins $'000 Increase/ (decrease)	Effect on net life insurance contract liabilities $'000 Increase/ (decrease)
Discount rates	357	9,828
Future inflation rates	-	(13,509)
Mortality and morbidity	54,552	2,175
Claim expense margins	-	9,514
Total	54,909	8,008

(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. 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.
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 2016

		Gross (before reinsurance)		**Net (of reinsurance)**		
	Change in variable	**Profit / (loss) 2016 $'000**	**Life insurance contract liabilities $'000**	**Profit / (loss) 2016 $'000**	**Life insurance contract liabilities $'000**	**Equity 2016 $'000**
Balance per accounts		95,778	1,715,007	2,425	1,635,549	480,784
Result of change in variables:						
Worsening of mortality/morbidity claim incidence rates	5%	(13,408)	19,154	2,247	17,494	2,247
Worsening of income claim termination rates [1]	5%	(22,816)	32,588	3,824	29,901	3,824
Deterioration in unreported claims development [2]	5%	(26,769)	38,218	(3,215)	29,001	(3,215)
Increase in fixed interest bond Yields	1%	(5,201)	(88,746)	(3,965)	(78,350)	(3,965)

For the year ended 31 December 2015

	Change in variable	Gross (before reinsurance) Profit / (loss) 2015 $'000	Gross (before reinsurance) Life insurance contract liabilities $'000	Net (of reinsurance) Profit / (loss) 2015 $'000	Net (of reinsurance) Life insurance contract liabilities $'000	Equity 2015 $'000
Balance per accounts		107,430	1,755,706	3,033	1,487,980	476,340
Result of change in variables:						
Worsening of mortality/morbidity claim incidence rates	5%	(25,725)	25,725	(8,279)	23,437	(8,279)
Worsening of income claim termination rates (1)	5%	(23,533)	23,533	(3,908)	21,056	(3,908)
Deterioration in unreported claims development (2)	5%	(45,936)	45,936	(12,244)	31,700	(12,241)
Increase in fixed interest bond Yields	1%	5,204	(84,551)	(14,444)	(64,904)	(14,444)

(1) The above analysis is impacted by the interaction of the entity's various reinsurance arrangements and the basis of taxation for each class of business (see Note 15).

(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 non-finalised 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 is as follows:

	Profit/(loss) on claims development before reinsurance 2016 $'000	2015 $'000
Long tailed lump sum benefit claims	45,511	16,010
Long tailed income benefit claims	(4,978)	31,474

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 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 entity's Chief Risk Officer leads and coordinates the entity's key risk management operations.

The Board's ICAAP Summary Statement 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.

The risk management framework is reviewed at least annually and amended as required. 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 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 Committee.

(a) Risks arising from financial instruments

Credit risk

Credit risk is the risk of financial loss to the entity if a customer, outwards reinsurer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the entity's receivables from customers, outwards reinsurance 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 aims to limit its exposure to credit risk by only reinsuring with financial entities with strong credit ratings. All of the entity's outwards reinsurance exposures are to reinsurers that at the valuation date had a credit rating of at least A- (Standard & Poor's). Given these high credit ratings, management does not expect a reinsurer to fail to meet its obligations.

(ii) Investments

The entity's Investment Guidelines, approved by the Board, 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 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 approximately matching the duration of the fixed interest portfolio and the insurance contract liability portfolio.

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

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) Outwards reinsurance

The entity's outwards reinsurance agreements are designed to provide some protection against volatility of profit from claims fluctuations and deteriorating experience and to provide financial support by way of capital relief. Outwards reinsurance treaties are analysed 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 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. The entity has in place a program to assist cedants manage their claim portfolios.

(iv) Pricing

The entity adopts standard pricing processes and controls. In specified circumstances, particularly for large or non-standard risks, advice is provided by the Appointed Actuary specific to that quotation and is considered by the entity.

(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 reinsurance). 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.

(vii) Concentration of insurance risk

The age profile and mix of genders 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.

(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 Prudential Capital Requirements are met. Shareholders can only receive a distribution when the Prudential Capital Requirements are met.

6. Capital requirements

The capital adequacy 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 2016 for each fund have been determined in accordance with LPS 110 as follows:

	Australian Reinsurance Statutory Fund	**Australian Statutory Fund**	**Overseas Statutory Fund**	**Shareholder Fund**	**Total**
	2016 $'000	**2016 $'000**	**2016 $'000**	**2016 $'000**	**2016 $'000**
Capital Base					
Net assets [(1)]	202,992	215,404	23,576	38,812	480,784
Regulatory adjustments to net assets	(59,357)	(108,989)	(6,397)	(1,970)	(176,713)
Tier 2 capital	-	-	-	-	-
Regulatory adjustments to Tier 2 capital	-	-	-	-	-
Intangible Assets	-	-	-	(2,836)	(2,836)
Total Capital Base	143,635	106,415	17,179	34,007	301,236
Prescribed Capital Amount (PCA)					
Insurance risk charge	54,992	43,088	8,187	-	106,267
Asset risk charge	16,845	10,798	1,725	279	29,647
Asset concentration risk charge	-	-	-	-	-
Operational risk charge	27,520	17,376	1,137	-	46,033
Less aggregation benefit	(11,187)	(7,418)	(1,214)	-	(19,819)
Combined stress scenario adjustment	25,993	19,916	-	120	46,029
Total PCA	114,163	83,760	9,834	399	208,156
Capital adequacy multiple (Capital Base/PCA)	1.26	1.27	1.75	85.24	1.45

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

Capital Base and Prescribed Capital Amount at 31 December 2015 for each fund have been determined in accordance with LPS 110 as follows:

	Australian Reinsurance Statutory Fund	Australian Statutory Fund	Overseas Statutory Fund	Shareholder Fund	Total
	2015 $'000	2015 $'000	2015 $'000	2015 $'000	2015 $'000
Capital Base					
Net assets [1]	195,130	224,972	30,454	25,784	476,340
Regulatory adjustments to net assets	(73,878)	(112,020)	(8,519)	(3,007)	(197,424)
Tier 2 capital	-	-	-	-	-
Regulatory adjustments to Tier 2 capital	-	-	-	-	-
Total Capital Base	121,252	112,952	21,935	22,777	278,916
Prescribed Capital Amount (PCA)					
Insurance risk charge	47,330	48,061	11,967	-	107,358
Asset risk charge	15,927	15,113	2,158	120	33,318
Asset concentration risk charge	-	-	-	-	-
Operational risk charge	24,445	21,719	1,090	-	47,254
Less aggregation benefit	(10,386)	(9,988)	(1,548)	-	(21,922)
Combined stress scenario adjustment	22,659	22,794	-	52	45,505
Total PCA	99,975	97,699	13,667	172	211,513
Capital adequacy multiple (Capital Base/PCA)	1.21	1.16	1.60	132.35	1.32

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

On 15 March 2017, the Company finalised changes to its outwards reinsurance arrangements with Hannover Rück SE to simplify its existing arrangements by recapturing existing surplus arrangements and restructuring its quota share arrangements with effect from 1 January 2017. The estimated increase in the Company's excess of Capital Base over Prescribed Capital Amount arising from the changes is in the range of $40 million to $60 million. As the effective date is 1 January 2017 this change has not been incorporated into the capital calculations above.

7. Profit and loss information

	2016 $'000	2015 $'000

(a) Net fair value gains on financial assets at fair value through profit or loss

	2016 $'000	2015 $'000
Net realised gains	4,901	2,306
Net unrealised fair value (losses)	(23,831)	(31,213)
	(18,930)	(28,907)

(b) Other expenses

	2016 $'000	2015 $'000
Policy acquisition costs – life insurance contracts		
- Net commission	49,097	31,917
- Other acquisition costs	2,422	3,981
Total policy acquisition costs	51,519	35,898
Policy maintenance costs – life insurance contracts		
- Net commission	199,171	187,342
- Other expenses	28,712	25,629
Total policy maintenance costs	227,883	212,971
Investment management expenses	2,043	1,823
Total administration expenses	281,445	250,692

(c) Components of profit

	2016 $'000	2015 $'000
Planned margin of revenues over expenses released	3,898	9,398
Difference between actual and assumed experience	(4,748)	(8,570)
Change in valuation methods and assumptions	(7,538)	(2,499)
Investment earnings on assets in excess of life insurance Liabilities	10,813	4,704
Profit for the year	2,425	3,033

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

(d) Defined contribution plans

The entity contributes as a participating employer on a defined contribution basis to the Mercer Superannuation Trust (the default fund) and, where applicable, 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 $1,628,835 for the year ended 31 December 2016 (2015: $1,389,451).

8. Life insurance contract liabilities

(a) Reconciliation of movement in life insurance contract liabilities

	2016 $'000	2015 $'000
Life insurance contract liabilities		
Gross life insurance contract liabilities at 1 January	1,755,706	1,598,357
Exchange adjustment on translation of New Zealand branch	721	(487)
Change in life insurance contract liabilities reflected in profit and loss	(41,420)	157,836
Gross life insurance contract liabilities at 31 December	1,715,007	1,755,706
Reinsurers' share of life insurance contract liabilities		
Retroceded life insurance contract liabilities at 1 January	267,726	308,950
Exchange adjustment on translation of New Zealand branch	17	(16)
Change in reinsurers' share of life insurance contract liabilities reflected in profit and loss	(188,285)	(41,208)
Reinsurers' share of life insurance contract liabilities at 31 December	79,458	267,726
Net life insurance contract liabilities at 31 December	1,635,549	1,487,980
Expected to be settled within 12 months	676,789	506,223
Expected to be settled in more than 12 months	958,760	981,757
	1,635,549	1,487,980

(b) Components of net life insurance contract liabilities

	2016 $'000	2015 $'000
Best estimate liability		
- Value of future policy benefits	1,649,033	1,591,377
- Value of future expenses	46,363	36,699
- Value of unrecouped acquisition expense	(173,540)	(155,168)
Total best estimate liability for life insurance contracts	1,521,856	1,472,908
Value of future shareholder profit margins	113,693	15,072
	1,635,549	1,487,980

9. Trade and other receivables

	2016 $'000	2015 $'000
Outstanding premium	115,277	129,390
Investment income accrued and receivable	16,965	17,232
Insurance recoveries due from related parties	5,183	-
Other receivables	3,960	2,068
Total trade and other receivables	141,385	148,690

All trade and other receivables are current assets. The entity does not have any concerns regarding the collectability of the Outstanding Premium.

The entity's exposure to credit and currency risks related to trade and other receivables is disclosed in Note 18.

10. Property, plant and equipment

	2016			2015		
	Property $'000	Fixtures, Fittings, Equipment and Software $'000	Total $'000	Property $'000	Fixtures, Fittings, Equipment and Software $'000	Total $'000
Cost						
Balance at 1 Jan	8,700	3,563	12,263	8,500	5,182	13,682
Acquisitions	-	3,264	3,264	-	1,791	1,791
Disposals	-	(1,502)	(1,502)	-	(3,410)	(3,410)
Revaluation	1,700	-	1,700	200	-	200
Balance at 31 Dec	10,400	5,325	15,725	8,700	3,563	12,263
Depreciation						
Balance at 1 Jan	-	907	907	-	2,344	2,344
Depreciation charge for year	-	1,238	1,238	-	928	928
Disposals	-	(562)	(562)	-	(2,365)	(2,365)
Balance at 31 Dec	-	1,583	1,583	-	907	907
Carrying Amounts						
At 1 January	8,700	2,656	11,356	8,500	2,838	11,338
At 31 December	10,400	3,742	14,142	8,700	2,656	11,356
Depreciation Rate	0%	1-40%	0-40%	0%	1-40%	0-40%

The entity holds strata title to the property at Level 7, 70 Phillip Street Sydney. An independent valuation of the property was carried out on 31 December 2016 by Mr R Lawrie and Mr N Guo of the firm Jones Lang LaSalle Advisory Services Pty Limited and is based on the open market value of the property. The property was valued at $10.4m (2015: $8.7m). Movements in the valuation of the property are included in Other Comprehensive Income.

11. Trade and other payables

	2016 $'000	2015 $'000
Current		
Outstanding life insurance contract claims payable	5,890	25,737
Other payables under life insurance contracts	24,813	50,362
Amounts due to related parties	93	9,519
Other payables	804	114
	31,600	85,732

All trade and other payables are current liabilities.

The entity's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 18.

12. Employee Benefits

	2016 $'000	2015 $'000
Current liability		
Annual leave liability	1,198	1,262
Non-Current liability		
Long service leave liability	2,005	1,753
Other long term employee benefit liabilities	2,951	3,125
Net defined benefit liability	1,013	2,577
Total employee benefits	7,167	8,717

13. Capital and reserves

(a) Contributed equity

	2016 Ordinary Shares $'000	2015 Ordinary Shares $'000
On issue at 1 January	80,000	80,000
Issued for cash	-	-
On issue at 31 December	80,000	80,000
Number of ordinary shares authorised	100,000,000	100,000,000
Number of ordinary shares issued and fully paid	78,200,002	78,200,002

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.

(d) Defined benefit plan reserve

The reserve relates to the portion of the net defined benefit plan asset/liability that does not flow through profit and loss in accordance with Australian Accounting Standards.

(e) Other reserve

This reserve relates to capital that in addition to contributed equity is not available to be distributed to the shareholder as retained earnings.

14. Disaggregated information of life insurance business by fund

2016					
	Australian Statutory Fund	**Australian Reinsurance Statutory Fund**	**Overseas Statutory Fund**	**Shareholders' Fund**	**Total**
	$'000	$'000	$'000	$'000	$'000
Financial assets	407,886	1,371,764	63,138	15,194	1,857,982
Other assets	78,539	211,307	7,920	36,169	333,935
Reinsurers' share of life insurance contract liabilities	9,426	69,419	613	-	79,458
Life insurance contract liabilities assumed	232,751	1,450,151	32,105	-	1,715,007
Other liabilities	47,696	(653)	15,991	12,551	75,585
Retained earnings	118,689	163,505	18,386	37,085	337,665
Premium revenue	463,154	515,539	34,404	-	1,013,097
Investment revenue	14,363	42,721	1,538	439	59,061
Claims expense	(314,489)	(319,461)	(21,929)	-	(655,879)
Other operating expenses	(218,547)	(57,241)	(5,640)	(17)	(281,445)
Operating profit/(loss) before tax	21,830	(4,825)	4,060	429	21,494
Operating profit/(loss) after tax	5,356	(3,325)	365	29	2,425

Note: The Retained Earnings reported above are after the transfer of retained profits between the Statutory Funds and the Shareholder Fund (refer Note 25 *Events occurring after balance date*).

2015					
	Australian Statutory Fund	**Australian Reinsurance Statutory Fund**	**Overseas Statutory Fund**	**Shareholders' Fund**	**Total**
	$'000	$'000	$'000	$'000	$'000
Financial assets	420,393	1,255,849	61,599	9,177	1,747,018
Other assets	120,747	197,032	8,123	20,503	346,405
Reinsurers' share of life insurance contract liabilities	170,467	96,522	737	-	267,726
Life insurance contract liabilities assumed	419,457	1,307,978	28,271	-	1,755,706
Other liabilities	67,179	46,295	11,733	3,896	129,103
Retained earnings	128,333	156,830	26,021	24,056	335,240
Premium revenue	724,005	494,477	30,959	-	1,249,441
Investment revenue	10,630	32,081	3,205	402	46,318
Claims expense	(405,626)	(280,763)	(21,203)	-	(707,592)
Other operating expenses	(190,014)	(54,181)	(5,796)	(701)	(250,692)
Operating profit before tax	17,807	(19,817)	4,667	(298)	2,360
Operating profit after tax	12,466	(13,872)	4,648	(209)	3,033

15. Income tax

(a) Income tax expense

	2016 $'000	2015 $'000
Current tax expense		
Current year	863	19
Deferred tax expense/(benefit)		
Origination and reversal of temporary differences		
- Current year	15,373	(691)
- Adjustment for prior years	2,833	(1)
Total income tax expense/(benefit) charged to Statement of Comprehensive Income	19,069	(673)

Numerical reconciliation between tax expense and pre-tax net profit

	2016	2015
Net profit before tax	21,494	2,360
Prima facie income tax expense calculated at 30% (2015: 30%) on the profit from ordinary activities for the year ended 31 December:	6,448	708
Increase in income tax expense due to:		
- Under-provision from prior year	2,833	-
- Non-deductible retrocession	10,109	6,244
- Other	37	30
(Decrease) in income tax expense due to:		
- Utilisation of carried forward tax losses	-	(6,255)
- Recovery of non-resident controlled entity tax losses not previously brought to account	(358)	(1,400)
Income tax (benefit)/expense on pre-tax profit	19,069	(673)

During 2016 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 reinsurance on Accident and Disability business.

	2016	2015
Deferred tax recognised directly in equity		
Relating to revaluation of property	510	60
Relating to movement in defined benefit provision	32	(1,896)
	542	(1,836)

15. **Income tax** (continued)

(b) Recognised deferred tax (assets) and liabilities

	Assets		Liabilities		Net Tax Asset	
	2016 $'000	**2015** $'000	**2016** $'000	**2015** $'000	**2016** $'000	**2015** $'000
Property, plant & equipment	1,921	1,411	-	-	1,921	1,411
Employee benefits	(2,150)	(2,614)	-	-	(2,150)	(2,614)
Life insurance contract liabilities	(28,865)	(21,165)	2,906	-	(25,959)	(21,165)
Other items	179	176	-	-	179	176
Tax value of loss carry-forward recognised	(34,778)	(57,416)	-	-	(34,778)	(57,416)
Net tax (assets)/liabilities	(63,693)	(79,608)	2,906	-	(60,787)	(79,608)

(c) Movements in temporary differences during the year

	Balance 1 Jan 2016 $'000	**Recognised in Income** $'000	**Recognised in Equity** $'000	**Balance 31 Dec 2016** $'000
Property, plant & equipment	1,411	-	510	1,921
Employee benefits	(2,614)	432	32	(2,150)
Life insurance contract liabilities	(21,165)	(4,794)	-	(25,959)
Other items	176	3	-	179
Tax value of loss carry-forward recognised	(57,416)	22,638	-	(34,778)
	(79,608)	18,279	542	(60,787)

	Balance 1 Jan 2015 $'000	**Recognised in Income** $'000	**Recognised in Equity** $'000	**Balance 31 Dec 2015** $'000
Property, plant & equipment	1,351	-	60	1,411
Employee benefits	(2,385)	1,667	(1,896)	(2,614)
Life insurance contract liabilities	(24,792)	3,627	-	(21,165)
Other items	104	72	-	176
Tax value of loss carry-forward recognised	(51,359)	(6,057)	-	(57,416)
	(77,081)	(691)	(1,836)	(79,608)

(d) Dividend franking account

	2016 $'000	**2015** $'000
30% franking credits available to shareholders of the entity for subsequent financial years.	3,652	3,652

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.

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

	2016 $'000	**2015** $'000
Profit from ordinary activities after income tax expense	2,425	3,033
Add/(less) items classified as investing/ financing activities:		
(Gain)/Loss on sale of investments	(4,901)	(2,306)
Net fair value loss/(gains) on financial assets	23,831	31,213
Loss on sale of plant & equipment	28	62
Add non cash movements:		
Depreciation	1,238	1,553
Net unrealised foreign exchange loss/(gain)	(153)	114
Net cash inflow from operating activities before change in assets & liabilities	22,468	33,669
Change in assets and liabilities:		
Decrease/(Increase) in receivables	7,305	(17,837)
Decrease/(Increase) in tax assets	15,373	(691)
(Decrease)/Increase in trade and other payables	(55,577)	2,853
(Decrease)/Increase in life insurance contract liabilities	(41,420)	157,836
Decrease in reinsurers' share of life insurance contract liabilities	188,285	41,208
Increase/(Decrease) in tax liabilities	3,780	(3)
Net cash inflow from operating activities	140,214	217,035

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:

	2016 $'000	2015 $'000
Cash and cash equivalents		
Cash	81,715	72,134
Cash and cash equivalents in the cash flow statement	81,715	72,134

The entity's exposures to interest rate risk and sensitivity analysis for financial assets are disclosed in Note 18

17. Fair value hierarchy

The table below analyses assets that are revalued and carried at fair value in the Statement of Financial Position, 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.

	2016 $'000	2015 $'000
Financial Instruments		
Level 1	744,282	629,652
Level 2	1,113,700	1,117,366
Level 3	-	-
	1,857,982	1,747,018
Owner Occupied Property		
Level 2	10,400	8,700

18. 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:

	2016 $'000	**2015** $'000
Cash	81,715	72,134
Investment assets – debt securities	1,857,982	1,747,018
Trade and other receivables	141,385	148,690
	2,081,082	1,967,842

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	418,895	296,706
Semi-Government	263,949	254,361
Semi-Government – Government guaranteed	61,438	78,586
Sovereign supranational	394,730	410,507
Corporate	718,970	706,858
	1,857,982	1,747,018

Expected to be realised within 12 months	224,307	187,584
Expected to be realised in more than 12 months	1,633,675	1,559,434
	1,857,982	1,747,018

	2016 $'000	2015 $'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 rating:		
Rating of Issuer		
AAA	1,060,193	944,829
AA	450,623	454,300
A	285,603	268,005
BBB	61,563	79,884
	1,857,982	1,747,018

(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:

	2016 $'000	2015 $'000
Investment assets – debt securities	1,857,982	1,747,018

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.

	2016 $'000	2015 $'000
- plus 100 basis points - (decrease) profit and equity by	(91,041)	(76,859)
- minus 100 basis points - increase profit and equity by	100,331	83,520

(ii) 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.

	$'000 NZD	$'000 NZD
At the balance date the entity's exposure to foreign currency risk was as follows based on notional amounts:		
Total assets denominated in New Zealand dollars	74,504	75,068
Total liabilities denominated in New Zealand dollars	41,705	34,146

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.	2016 $'000 AUD	2015 $'000 AUD
- Strengthening of the Australian dollar against the NZD will (decrease) equity by	(3,159)	(3,456)
- Strengthening of the Australian dollar against the NZD will (decrease) profits by	(36)	(423)

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		Reporting Date Rate	
	2016	**2015**	**2016**	**2015**
NZD 1 = AUD	$0.938	$0.931	$0.963	$0.940

(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
				2016				
Debt securities at fair value through profit and loss	2.65%	1,857,982	224,307	192,447	128,452	276,656	136,911	899,209
Cash	1.35%	81,715	81,715	-	-	-	-	-
Trade and other receivables	-	141,385	141,385	-	-	-	-	-
Trade and other payables	-	(31,600)	(31,600)	-	-	-	-	-
		2,049,482	415,807	192,447	128,452	276,656	136,911	899,209
				2015				
Debt securities at fair value through profit and loss	4.20%	1,747,018	187,584	206,726	145,987	132,345	263,799	810,576
Cash	2.61%	72,134	72,134	-	-	-	-	-
Trade and other receivables	-	148,690	148,690	-	-	-	-	-
Trade and other payables	-	(85,732)	(85,732)	-	-	-	-	-
		1,882,110	322,676	206,726	145,987	132,345	263,799	810,576

19. Operating leases

Leases as Lessee

Non-cancellable operating leases contracted for but not capitalised in the financial statements:

	2016	**2015**
	$'000	$'000
Payable – minimum lease payments		
- not later than 12 months	297	242
- between 12 months and 5 years	122	359
- greater than 5 years	-	-
Total	419	601

20. Defined Benefit Plan

(a) Plan characteristics

The entity makes contributions to a defined benefit plan (the 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 Plan is a sub account of the Mercer Superannuation Trust (MST). The entity is the Principal Employer of the Plan.

(b) Defined benefit plan obligations and assets

The cost of the defined benefit obligation is recognised in the profit or loss and other comprehensive income (OCI). Member service costs and interest on the net defined benefit plan obligation are recognised in profit or loss. Remeasurements, being actuarial gains and losses, and differences between expected net interest income and the actual return are recognised in OCI.

The defined benefit obligation of the Plan as at 31 December 2016 was $4,882,000 (2015: $6,179,000). The assets of the Plan are invested in unit linked products within MST. The assets of the Plan as at 31 December 2016 were $3,869,000 (2015: $3,602,000). The net defined benefit liability at this date was $ 1,013,000 (2015: $2,577,000).

21. Auditor's remuneration

	2016 $	2015 $
Audit Services:		
Auditors of the entity – KPMG		
Audit and review of the financial reports	320,663	320,663
Other regulatory audit services	32,500	32,500
	353,163	353,163
Other Services:		
Auditors of the entity – KPMG		
Taxation services	33,715	22,000
Other consulting	29,717	111,378
	63,432	133,378

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

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

Non-Executive Independent Directors	Non-Executive Non-Independent Directors	Executive Directors
Mr P. R. Gaydon (appointed 1 July 2016)	Mr C. J. Chèvre (Deputy Chairman)	Gerd Obertopp
Mr R.J. Atfield (resigned 1 December 2016)	Mr U. Wallin	
Ms E. G. Payne		
Mr S. R. Swil		

Executive Management

Mr Gerd Obertopp (Managing Director)
Mr Graeme Campbell (Appointed Actuary)
Ms Moira De Villiers (Assistant General Manager (Products, Marketing & Pricing)
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 Australian resident Non-Executive Directors and Executive Management.

Transactions with key management personnel

The key management personnel compensations included in Other Expense (see Note 7) are as follows:

	2016 $'000	**2015** $'000
Short term employee benefits	3,871	4,050
Post employment benefits	202	374
Other long term benefits	825	934
	4,898	5,358

Director related transactions

Apart from the details disclosed in this note, no Director has entered into a material contract with the entity since the end of the previous financial year, and there were no material contracts involving Directors' interests at year end.

23. Non Director related parties

Investment in controlled entity

The Shareholders' Fund has an investment of $2 in the LRA Superannuation Plan Pty Limited which acted as the Trustee Company of the Hannover Life Re of Australasia Ltd Superannuation Plan up until the transfer of the Plan to the Mercer Super Trust in December 2015.

Related party transactions

The following related party transactions occurred during the financial year.

(i) Reinsurance arrangements with related parties

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

(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:

	2016	2015
	$'000	$'000
Transactions during the year		
Outwards reinsurance expenses	(446,378)	(465,731)
Reinsurance recoveries	418,313	393,951
Other recoveries including commission	2,614	5,789
Investment management fees	1,996	1,758
Creditors – Current		
Amounts due to related parties	94	9,519
Debtors – Current		
Amounts due from related parties	5,183	-

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 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.

24. Reconciliation of reported results with Life Act results

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

25. Events occurring after balance date

At a meeting of the Board of Directors on 15 March 2017, the Board approved the following transfers of retained profits between statutory funds and the Shareholder Fund with an effective date of 31 December 2016. These transfers are reflected in Note 14 Disaggregated information of life insurance business by statutory fund.

Shareholders Fund to Australian Reinsurance Statutory Fund	$ 10,000,000
Australian Statutory Fund to Shareholder Fund	$ 15,000,000
Overseas Statutory Fund to Shareholder Fund	$ 8,000,000

On 15 March 2017, the Company finalised changes to its outwards reinsurance arrangements with Hannover Rück SE to simplify its existing arrangements by recapturing existing surplus arrangements and restructuring its quota share arrangements with effect from 1 January 2017. The estimated increase in the Company's excess of Capital Base over Prescribed Capital Amount arising from the changes is in the range of $40 million to $60 million. As the effective date is 1 January 2017, these changes are not reflected in the financial statements.

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

Directors' Declaration

For the Year Ended 31 December 2016

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 2016 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:

Gaydon.

Peter Gaydon
Chairman

Sydney
15 March 2017

Independent Auditor's Report

To the members of Hannover Life Re of Australasia Ltd

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Hannover Life Re of Australasia Ltd ("the Company").

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Company's financial position as at 31 December 2016 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Statement of financial position as at 31 December 2016
- Statement of comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

Other Information is financial and non-financial information in Hannover Life Re of Australasia Ltd's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. This includes the Directors' Report and the Corporate Governance Statement. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, the auditor does not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Company's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the Audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar3.pdf. This description forms part of our Auditor's Report.

KPMG

KPMG

Andrew Reeves
Partner

Sydney
15 March 2017