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RGA Reinsurance Company of Australia Limited New Zealand Branch

**Annual Financial Report
for the period 24 February 2012
to 31 December 2012**

**Registered Office and Principal Place of Business:
Level 9, 2-10 Customhouse Quay,
Wellington 6011**

Company number: 3658254



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**Statement of Comprehensive Income
for the period 24 February 2012 to 31 December 2012**

	Notes	2012 \$
Revenue		
Investment income	4	52,119
Net revenue		<u>52,119</u>
Claims and expenses		
Operating expenses	5	5,635
Total claims and expenses		<u>5,635</u>
Net Profit before related income tax expense		46,484
Income tax expense	6	-
Net Profit for the period		<u>46,484</u>
Total comprehensive income for the period		<u><u>46,484</u></u>

The Statement of Comprehensive Income is to be read in conjunction with the Notes to the Financial Statements set out on pages 6 to 16.

Statement of Financial Position as at 31 December 2012

	Notes	2012 \$
Assets		
Cash and cash equivalents	16(a)	179,165
Investments	8	4,989,600
Total assets		5,168,765
Liabilities		
Accrued expenses	9	3,552
Total liabilities		3,552
Net assets		5,165,213
Equity		
Capital reserves	10	5,118,729
Retained earnings	15	46,484
Total equity attributable to members of RGA Reinsurance Company of Australia Limited – New Zealand Branch	15	5,165,213

The Statement of Financial Position is to be read in conjunction with the Notes to the Financial Statements set out on pages 6 to 16.

Statement of Changes in Equity
for the period 24 February 2012 to 31 December 2012

	Note	Capital reserves	Retained Earnings	Total
		\$	\$	\$
Balance at 24 February 2012		-	-	-
Transfer from head office	10	5,118,729	-	5,118,729
Net profit for the period	15	-	46,484	46,484
Balance at 31 December 2012		5,118,729	46,484	5,165,213

The Statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements set out on pages 6 to 16.

Statement of Cash Flows

for the period 24 February 2012 to 31 December 2012

	Notes	2012 \$
Cash flows from operating activities		
Interest received		3,584
Payments to suppliers and employees		(2,083)
Net cash provided by operating activities	15 (b)	<u>1,501</u>
Cash flows from investing activities		
Proceeds from sale of investments		10,000,148
Payments for investments		(14,941,213)
Net cash used in investing activities		<u>(4,941,065)</u>
Cash flows from financing activities		
Transfer from head office	9	5,118,729
Net cash provided by financing activities		<u>5,118,729</u>
Net increase in cash and cash equivalents		179,165
Cash and cash equivalents at the beginning of the financial period		-
Cash and cash equivalents at the end of the financial period	15 (a)	<u><u>179,165</u></u>

The Statement of Cash Flows is to be read in conjunction with the Notes to the Financial Statements set out on pages 6 to 16.

Notes to the Financial Statements

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Notes to the Financial Statements

1 Summary of significant accounting policies

Set out below are the significant accounting policies followed in the preparation of the financial report for RGA Reinsurance Company of Australia Limited – New Zealand Branch (the “Branch”) for the period from 24 February to 31 December 2012. The head office of the Branch is RGA Reinsurance Company of Australia Limited (“RGAA”), a company incorporated in Australia and licensed under Section 19 of the Insurance (Prudential Supervision) Act 2010 to carry on insurance business in New Zealand. The Branch has not written any insurance business to date.

(a) Statement of compliance

This financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (“AASB”).

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (“AIFRS”). Compliance with AIFRS ensures that the financial reporting of the Branch, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (“IFRS”).

The financial report was authorised for issue by the Directors on 8 March 2013.

(b) Adoption of new and revised accounting standards

In the period, the Branch has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has not resulted in material changes to the Branch’s accounting policies.

At the date of authorisation of the financial report, the following Standards and Interpretations, relevant to the Branch, were in issue but not yet effective:

	Title	Operative Date
AASB 9 ⁽¹⁾	Financial Instruments	1 January 2015
AASB 13 ⁽²⁾	Fair Value Measurement	1 January 2013

(1) The potential effect of the revised Standards on the Branch’s financial statements has not yet been determined.

(2) An initial assessment of the financial impact of the standard has been undertaken and it is not expected to have a material impact on the Branch’s financial statements or accounting policies.

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

(c) Basis of preparation

The financial report is prepared in accordance with the fair value basis of accounting unless otherwise stated in the accounting policies below.

The financial report is presented in New Zealand Dollars, which is the Branch's functional currency.

The Branch was incorporated on 16 November 2011 and was granted its licence to carry on insurance business in New Zealand on 24 February 2012. Initial capital was transferred into the Branch subsequent to the insurance licence being granted. The financial report has been prepared for the period from 24 February 2012 to 31 December 2012 and all profit and loss account disclosures in the notes to the financial statements are in respect of this period. As this is the first year of operation there are no comparative balances.

For the purposes of preparing the financial report, the Branch is a for-profit entity.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may vary from estimates. These accounting policies have been consistently applied by the Branch.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the financial report and estimates with a significant risk of material adjustment in the financial year are discussed in Note 2.

(d) Revenue recognition

Interest income

Interest income from financial assets is recognised when it is probable that the economic benefits will flow to the Branch and the amount of revenue can be measured reliably.

(e) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability or asset to the extent that it is unpaid or refundable.

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

(f) Financial assets

Financial assets are designated at fair value through profit and loss. Fair value is determined as follows:

- Cash and cash equivalents are carried at the face value of the amounts deposited or drawn. The carrying amount of cash and cash equivalents approximates to its fair value. For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and deposits held at call with banks;
- Listed fixed interest securities are stated at the bid price of the instrument listed on the relevant exchange. This is taken as their fair value;
- Unlisted fixed interest securities, if held, are recorded at fund managers' valuation. This is taken as their fair value.

2 Critical accounting estimates and judgements

The Branch makes estimates and assumptions that affect the reported amounts of assets and liabilities as at the end of the year. Estimates and judgements 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.

3 Risk and capital management policies and procedures

The financial condition and operating results of the Branch are affected by a number of key risks, including interest rate risk, credit risk, market risk, liquidity risk, compliance risk and operational risk. The objective of the Branch's risk management procedures is to ensure that these risks are properly managed.

(a) Risk management policies and procedures for mitigating financial and non-financial risks

The Branch is covered by the risk management activities of RGAA.

RGAA has in place a process to review its control and risk management framework. It regularly reviews and assesses its risk exposure and the effectiveness of its control framework.

RGAA's objective is to satisfactorily manage the identified risks in line with RGAA's Risk Management Framework. Various procedures are put in place to control and mitigate the risks faced by RGAA depending on the nature of the risk. RGAA's overall risk exposure is monitored by management and by the Board.

Financial risks are generally monitored and controlled by selecting appropriate assets to back insurance contract liabilities and the use of maximum acceptable limits for other financial risks such as liquidity risk and credit risk. Additional disclosures on financial instruments and associated risks are to be found in Note 16.

Compliance risk and operational risk are monitored by management. RGAA has processes in place for regular reporting to the Board Audit and Risk Committee and the Board on the effectiveness of the controls used to mitigate these risks.

Notes to the Financial Statements

4 Revenue (continued)

Investment income

	2012 \$
Interest income:	
Bank deposits	629
Investments at fair value through profit or loss	2,955
Gain on disposal of investments	30,674
Change in fair value of investment carried at fair value through profit or loss	17,861
Total investment income	52,119

5 Operating expenses

	2012 \$
Investment management fees	2,069
Banking fees	580
Other expenses	2,986
Total operating expenses	5,635

Notes to the Financial Statements

6 Income tax expense

The prima facie tax on operating profit differs from the income tax provided in the accounts as follows:

	2012 \$
Operating profit before tax	46,484
Prima facie tax payable at 28%	13,016
<i>Tax effect of:</i>	
Utilisation of Group tax losses ⁽¹⁾	(13,016)
Total income tax expense attributable to operating profit	-
<i>Income tax expense comprises:</i>	
Current tax	-
Deferred tax	-
Total income tax expense attributable to operating profit	-

(1) The Branch is able to utilise prior year tax losses in RGA Reinsurance Company (New Zealand Branch) to offset its current year tax liability.

7 Solvency requirements

These are the amounts required to meet the Solvency Standard pursuant to the *Australian Life Insurance Act 1995* (the "Life Act") to provide protection against the impact of fluctuations and unexpected adverse circumstances on the Branch.

The methodology and bases for determining solvency requirements are in accordance with the requirements of Life Prudential Standard LPS 2.04, Solvency Standard, under section 65 of the Life Act.

As at 31 December 2012, the solvency coverage ratio for the Branch was not determinable as the solvency reserve was zero. The solvency coverage ratio is defined as the assets available to meet the solvency reserve divided by the solvency reserve. The solvency reserve was zero as the Branch has not yet written any insurance business.

Notes to the Financial Statements

8 Investments

The following table presents the fair values of the Branch's investments at 31 December 2012. Fair values have been determined using market information obtained from independent pricing services and the valuation methodologies described below.

Financial assets at fair value through profit or loss:

	Fair value hierarchy			
	2012 \$ Total	2012 \$ Level 1	2012 \$ Level 2	2012 \$ Level 3
Interest bearing securities:				
New Zealand government	4,989,600	-	4,989,600	-
Total investments at fair value through profit and loss	4,989,600	-	4,989,600	-
Made up as (based on maturity):				
Expected to be realised:				
- within 12 months	4,989,600	-	4,989,600	-
- more than 12 months	-	-	-	-
	4,989,600	-	4,989,600	-

All securities are publicly traded with fixed maturity dates.

AASB 7 establishes a fair value hierarchy which requires an entity to maximise the use of observable inputs and minimise the use of unobservable inputs when measuring fair value. The standard describes three levels of input that may be used to measure fair value:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities. The prices are obtained from an exchange, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.
- Level 2 Input other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). These are quoted prices in markets that are not active or market standard valuation methodologies and assumptions with significant inputs that are observable.
- Level 3 Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between the different levels of fair value hierarchy during the year.

Notes to the Financial Statements

9 Accrued expenses

Accrued investment fees
Accrued consulting fees
Total payables

2012
\$
677
2,875
3,552

10 Share capital

Head office account:
Balance at the beginning of the year
Transfer from head office
Balance at end of year

2012
\$
-
5,118,729
5,118,729

11 Auditor's remuneration

The Branch's auditor is Deloitte. The auditor's remuneration is paid by RGA Australian Holdings Pty Limited ("RGAH").

12 Related entities

Ultimate parent entity

The entity is a branch of RGA Reinsurance Company of Australia Limited ("RGAA"). The Australian parent entity is RGA Australian Holdings Pty Limited.

The ultimate parent entity in the RGA Group is Reinsurance Group of America Incorporated ("RGA Inc."), a company incorporated in the United States of America and listed on the New York Stock Exchange.

Notes to the Financial Statements

13 Director and key management personnel disclosures

Directors

The following were Directors of RGAA at any time during the reporting period, and, unless otherwise indicated, were Directors for the entire period:

Independent Non-Executive Directors

William J. Bartlett

Ian A. Pollard

Mark E. Turner

Non-Executive Directors

Allan E. O'Bryant (appointed 19 June 2012)

Paul A. Schuster (appointed 19 June 2012)

Graham S. Watson (resigned 19 June 2012)

A. Greig Woodring

Executive Directors

Pauline J. Blight-Johnston (resigned 15 November 2012)

W. Ian Enright (resigned 19 June 2012)

Mark A. Stewart (appointed 15 November 2012)

Key management personnel

As the Branch has not yet commenced insurance operations, there is deemed to be no compensation attributable to the key management personnel of the Branch.

14 Summary of shareholder interests

	2012 \$
<u>Retained Profits</u>	
Net profit after income tax	46,484
Retained profits at beginning of year	-
Retained profits at end of year	46,484
<u>Capital</u>	
Accumulated profits at the end of the year	46,484
Capital transfer	5,118,729
Life Act shareholders' equity	5,165,213

Notes to the Financial Statements

15 Notes to the Statement of Cash Flows

(a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash includes cash on hand and at bank and deposits held at call with financial institutions readily convertible to known amounts of cash. Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2012 \$
Cash at bank	468
Deposits held at call	178,697
Total cash and cash equivalents	179,165

(b) Reconciliation of net profit after income tax to net cash from operating activities

	2012 \$
Net profit after income tax expense	46,484
<i>Adjustments for non-cash and investing activities:</i>	
Increase in investment values	(48,535)
Net cash used in operating activities before change in assets and liabilities	(2,051)
<i>Change in assets and liabilities during the financial year:</i>	
Increase in accrued expenses	3,552
Net cash provided by operating activities	1,501

Notes to the Financial Statements

16 Financial risk management

The Branch undertakes transactions in a range of financial instruments including cash assets, receivables, payables and fixed income investments. These activities result in exposure to a number of financial risks including market risk, credit risk, operational risk and liquidity risk.

The Branch has developed and implemented risk and capital management policies, which are described in Note 3. The assets are regularly monitored by management to ensure risks such as liquidity risk and credit risk are maintained within acceptable limits.

Throughout 2012, the Branch held no derivative financial instrument contracts.

(a) Interest rate risk

The Company's exposure to interest rate risks and the effective rates for financial assets and financial liabilities at balance date are as follows:

Type	Variable rate 2012 \$	1 year or less 2012 \$	Over 1 year 2012 \$	Non- interest bearing 2012 \$	Total 2012 \$	Weighted average interest rate 2012 %
Financial assets						
Cash at bank	179,165	-	-	-	179,165	0.15
Receivables and outstanding premiums	-	-	-	-	-	-
Investments	-	4,989,600	-	-	4,989,600	2.52
Total						
Financial liabilities						
Accrued expenses	-	-	-	3,552	3,552	
Total	-	-	-	3,552	3,552	

(b) Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. The Branch seeks to minimise its credit risk by the appropriate selection and spread of investment assets. The Branch only invests in fixed income securities with a Standard & Poor's credit rating of A- or higher.

The Branch's maximum exposure to credit risk at balance date is the fair value of financial assets as indicated in the Statement of Financial Position. Other than to the New Zealand government, the Branch has no significant concentration of credit risk.

Notes to the Financial Statements

16 Financial risk management (continued)

(c) *Liquidity risk*

Liquidity risk represents the risk that the Branch will have difficulty in meeting its obligations as they fall due as a result of a lack of cash. The Branch minimises its liquidity risk by appropriate selection of maturity duration for its investments and by monitoring and managing its emerging needs for liquidity.

The table in Note 16 (a) summarises the maturity profile of the Branch's financial assets and liabilities.

(d) *Market risk*

The Branch is required to record its investment assets at fair value, with unrealised movements in market value recognised as income or expense in the period in which they occur. Accordingly, the full extent of exposure to market movements is reflected in the Statement of Financial Position. The Branch manages market risk by investing in investment grade investment assets.

17 Contingencies

There are no contingent liabilities or assets to be reported as defined under AASB 137.

18 Events subsequent to reporting date

A transfer of in-force New Zealand business from a related entity, RGA Reinsurance Company, to the Branch is planned prior to 1 September 2013. This transfer is subject to approval by the Reserve Bank of New Zealand.

No other matters or circumstances have arisen since the end of the financial year which significantly affect or may significantly affect the operations of the Branch, the results of its operations or state of affairs of the Branch in subsequent financial years.

Directors' declaration

In the opinion of the Directors of RGA Reinsurance Company of Australia Limited ("the Company") the financial statements and notes of the New Zealand Branch (the "Branch"), set out on pages 1 to 16:

- (i) comply with Australian generally accepted accounting practice and give a true and fair view of the financial position of the Branch as at 31 December 2012 and the results of operations from 24 February 2012 to 31 December 2012; and
- (ii) have been prepared using the appropriate accounting policies, which have been consistently applied and supported by reasonable estimates and judgements.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Branch and facilitate compliance of the financial statements with the *Financial Reporting Act 1993*.

The Directors consider that they have taken adequate steps to safeguard the assets of the Branch, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide reasonable assurance as to the integrity and reliability of the financial statements.

The Directors are pleased to present the financial statements of RGA Reinsurance Company of Australia Limited – New Zealand Branch for the period 24 February 2012 to 31 December 2012.

Signed in accordance with a resolution of the Directors:



Ian A. Pollard
Chairman



Mark Stewart
Managing Director

Dated at Sydney this 8th day of March 2013



Independent Auditor's Report to the shareholders of RGA Reinsurance Company of Australia Limited – NZ Branch

We have audited the financial statements of RGA Reinsurance Company of Australia Limited – NZ Branch on pages 1 to 17, which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period 24 February 2012 to 31 December 2012, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an 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 company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Board of Directors' Responsibility for the Financial Statements

The Board of Directors are responsible for the preparation of financial statements, in accordance with generally accepted accounting practice in Australia and that give a true and fair view of the matters to which they relate, and for such internal control as the Board of 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 Responsibilities

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 and 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 entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates, as well as the overall 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.

Other than in our capacity as auditor and the provision of taxation advice, we have no relationship with or interests in RGA Reinsurance Company of Australia Limited – NZ Branch.

Deloitte.

Opinion

In our opinion, the financial statements on pages 1 to 17:

- Comply with generally accepted accounting practice in Australia;
- Comply with International Financial Reporting Standards; and
- Give a true and fair view of the financial position of RGA Reinsurance Company of Australia Limited – NZ Branch as at 31 December 2012, and its financial performance and its cash flows for the period ended on that date.

Report on Other Legal and Regulatory Requirements

We also report in accordance with section 16 of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the period ended 31 December 2012:

- we have obtained all the information and explanations we have required; and
- in our opinion proper accounting records have been kept by RGA Reinsurance Company of Australia Limited – NZ Branch as far as appears from our examination of those records.



Chartered Accountants
8 March 2013
Christchurch, New Zealand



RGA Reinsurance Company of Australia Limited

**Annual Financial Report
for the year ended
31 December 2012**

**Registered Office and Principal Place of Business:
Level 23, 225 George Street
Sydney NSW 2000**

ABN 14 072 292 712



The security of experience. The power of innovation.

www.rgare.com

BOARD

Directors

Ian A. Pollard (Chairman of the Board)

Mark E. Turner (Chairman of the Board Audit and Risk Committee)

William J. Bartlett

Pauline J. Blight-Johnston (Managing Director) (resigned 15 November 2012)

W. Ian Enright (resigned 19 June 2012)

Allan E. O'Bryant (appointed 19 June 2012)

Paul A. Schuster (appointed 19 June 2012)

Mark A. Stewart (Managing Director) (appointed 15 November 2012)

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A. Greig Woodring

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Directors' Report

The Directors present their report together with the financial report of RGA Reinsurance Company of Australia Limited ("the Company") for the year ended 31 December 2012, and the auditor's report thereon.

Directors

The Directors of the Company at any time during the financial year and up to the date of this report are:

Ian A. Pollard (Chairman of the Board)

Mark E. Turner (Chairman of the Board Audit and Risk Committee)

William J. Bartlett

Pauline J. Blight-Johnston (Managing Director)

W. Ian Enright

Allan E. O'Bryant

Paul A. Schuster

Mark A. Stewart (Managing Director)

Graham S. Watson

A. Greig Woodring

Secretaries

John W. Appleton (resigned 15 November 2012)

W. Ian Enright (appointed 15 November 2012)

Principal activities

The principal activity of the Company during the course of the financial year was life reinsurance including treaty and facultative underwriting.

There were no significant changes in the nature of the activities of the Company during the year.

Review and results of operations

Despite a highly competitive reinsurance market, the Company maintained its position as one of the leading life reinsurers in Australia. During the year the Company augmented its infrastructure and dedicated resources toward further enhancing client engagement and relationships.

For 2012 the Company's profit after tax amounted to \$35.4 million (2011: \$45.7 million). However, gross of retrocession and tax the Company made a loss of \$25.9 million. The effective tax charge in 2012 and 2011 was less than the Australian company tax rate of 30% due to the Company deriving tax exempt net income from overseas disability retrocessions.

Gross insurance premium was up 2.6% to \$710.0 million (2011: \$692.2 million). The growth was primarily due to increased business volumes for individual business.

During 2012 investment income decreased by 6.4% to \$58.1 million. This is largely due to lower market value gains mainly as a result of a relatively smaller decrease in interest rates in the current year compared with the prior year.

Total claims and expenses increased by 7.9% to \$648.3 million (2011: \$600.7 million). This was largely due to deterioration in both the group and individual claims experience during the year and an increase in policy acquisition costs and other allowances.

Net assets increased by \$35.5 million or 9.4% to \$412.7 million at the end of 2012.

Dividends

No dividends were paid during the 2012 financial year (2011: nil).

Directors' Report

Ultimate parent entity

Reinsurance Group of America, Incorporated ("RGA Inc"), a company incorporated in the United States of America, is the ultimate parent entity of the Company.

State of affairs

During the year, the Company was licensed by the Reserve Bank of New Zealand ("RBNZ") to carry on insurance business in New Zealand. A transfer of in-force business from a related entity, RGA Reinsurance Company Limited, to a new statutory fund, New Zealand Statutory Fund 2 is planned prior to 1 September 2013. This transfer is subject to approval by the RBNZ. No other New Zealand insurance business has been written by the Company to date.

Except for the item mentioned above, there was no significant change in the state of affairs of the Company other than that referred to in the financial statements or notes thereto.

Events subsequent to reporting date

There have been no material or unusual events or transactions between balance date and the date of this report which are likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.

Likely developments

Information as to likely developments in the operations of the Company and the expected results of those operations in subsequent financial years has not been included in this report because the Directors believe that to include such information would likely result in unreasonable prejudice to the Company.

Corporate governance

Corporate governance refers to the way a company is organised, managed and controlled. The Company is committed to meeting appropriate standards of corporate governance in all its operations. Compliance with this principle means the upholding of appropriate legal, regulatory and ethical standards. This is achieved through a group-wide code of conduct that expresses RGA's core principles and values and provides guidance on their application in all business conduct, stipulating the behavioural requirements expected of everyone in the RGA Group, including Directors and employees.

Staff

The Directors wish to record their appreciation of the commitment and dedication of all staff as well as the support of their families.

Indemnification and insurance for directors and officers

Indemnification

The Constitution of the Company provides an indemnification (to the maximum extent permitted by law) in favour of each Director, Secretary or Executive Officer ("Officers") of the Company and previous Officers of the Company and its related bodies corporate, against any liability to third parties (other than related RGA Group companies) incurred by such Officers unless the liability arises out of conduct involving a lack of good faith. The indemnity includes costs or expenses incurred by an Officer in successfully defending proceedings or in connection with an application in which the Court grants relief to the specified persons under *the Corporations Act 2001*. In addition RGA Inc (the controlling entity of the Company) provides a deed of indemnification in favour of independent Directors of the Company except to the extent of indemnity under an insurance policy or where prohibited by statute.

The Company has not, during or since the financial year, indemnified or agreed to indemnify an auditor of the Company or of any related body corporate against a liability incurred as an auditor.

Directors' Report

Indemnification and Insurance for directors and officers (continued)

Insurance premiums


During or since the end of the financial period, RGA Inc has paid or agreed to pay a premium in respect of a contract of insurance insuring Officers (and any persons who are Officers in the future) and employees of the Company against certain liabilities incurred in that capacity. Disclosure of the total amount of the premiums and the nature of the liabilities in respect of such insurance is not permitted by the terms of the policy.

Auditor's independence declaration

Deloitte Touche Tohmatsu has continued in office as the Company's auditor. A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

The amounts contained in this report and the financial statements have been rounded in accordance with the option available to the Company under ASIC Class Order 98/100 dated 10 July 1998. Amounts in the financial report have been rounded to the nearest thousand dollars in accordance with that order, unless otherwise stated. The Company is an entity to which the class order applies.

This report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:



Ian A. Pollard
Chairman



Mark A. Stewart
Managing Director

Dated at Sydney this 8th day of March 2013

The Board of Directors
RGA Reinsurance Company of Australia Limited
Grosvenor Place
Level 23, 225 George Street
SYDNEY NSW 2000

8 March 2013

Dear Board Members

RGA Reinsurance Company of Australia Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of RGA Reinsurance Company of Australia Limited.

As lead audit partner for the audit of the financial statements of RGA Reinsurance Company of Australia Limited for the financial year ended 31 December 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Peter A. Caldwell
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
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Yours sincerely

DELOITTE TOUCHE TOHMATSU

Peter A. Caldwell
Partner
Chartered Accountants

Statement of Comprehensive Income for the year ended 31 December 2012

	Notes	2012 \$'000	2011 \$'000
Revenue			
Premium revenue from reinsurance contracts	5(a)	709,964	692,197
Outward reinsurance expense	5(a)	(201,784)	(168,302)
Net insurance premium revenue		508,180	523,895
Investment income	5(b)	58,149	62,122
Other income	5(c)	105,213	61,381
Net revenue		671,542	647,398
Claims and expenses			
Claims expense from reinsurance contracts	6	487,639	485,288
Reinsurance recoveries	6	(85,146)	(101,656)
Net claims expense		402,493	383,632
Movement in net insurance contract liabilities	15(a)	18,239	42,993
Policy acquisition costs	8	111,636	86,919
Other expenses	8	115,927	87,111
Total claims and expenses		648,295	600,655
Net profit before related income tax expense		23,247	46,743
Income tax (benefit)/expense	10	(12,132)	1,029
Net profit for the year	7	35,379	45,714
Other comprehensive income			
Foreign currency translation reserve movement	23	74	-
Total comprehensive income for the year attributable to members of RGA Reinsurance Company of Australia Limited		35,453	45,714

The Statement of Comprehensive Income is to be read in conjunction with the Notes to the Financial Statements set out on pages 10 to 48.

Statement of Financial Position as at 31 December 2012

	Notes	2012 \$'000	2011 \$'000
Assets			
Cash and cash equivalents	24(a)	40,077	38,096
Investments	12	853,104	802,224
Premiums receivable	11	198,924	139,825
Other receivables	11	64,017	59,364
Gross insurance contract liabilities ceded	15(a)	409,267	354,053
Deferred tax asset	13	8,524	-
Total assets		1,573,913	1,393,562
Liabilities			
Payables	14	373,988	281,838
Gross insurance contract liabilities assumed	15(a)	787,186	731,899
Deferred tax liability	13	-	2,539
Total liabilities		1,161,174	1,016,276
Net assets		412,739	377,286
Equity			
Issued share capital	16	88,250	88,250
Foreign currency translation reserve	23	74	-
Retained earnings	23	324,415	289,036
Total equity attributable to members of RGA Reinsurance Company of Australia Limited	23	412,739	377,286

The Statement of Financial Position is to be read in conjunction with the Notes to the Financial Statements set out on pages 10 to 48.

**Statement of Changes in Equity
for the year ended 31 December 2012**

	Note	Issued Share Capital \$'000	Foreign Currency Translation Reserve \$'000	Retained Earnings \$'000	Total \$'000
Balance at 1 January 2011		88,250	-	243,322	331,572
Net profit for the year		-	-	45,714	45,714
Balance at 31 December 2011		88,250	-	289,036	377,286
Net profit for the year		-	-	35,379	35,379
Foreign currency translation		-	74	-	74
Balance at 31 December 2012		88,250	74	324,415	412,739

The Statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements set out on pages 10 to 48.

Statement of Cash Flows for the year ended 31 December 2012

	Notes	2012 \$'000	2011 \$'000
Cash flows from operating activities			
Premium received		644,082	664,212
Retrocession premium paid		(234,904)	(124,579)
Claims paid		(501,118)	(436,220)
Allowances paid		(131,066)	(139,929)
Retrocession allowances received		98,846	43,916
Retrocession recoveries received		127,838	78,438
Interest received		42,777	39,758
Payments to suppliers and employees		(20,020)	(18,017)
Other cash receipts		12,377	-
Income tax refunded/(paid)		480	(2,228)
Net cash provided by operating activities	24 (b)	39,292	105,351
Cash flows from investing activities			
Proceeds from sale of investments		879,524	1,011,131
Payments for investments		(916,909)	(1,093,940)
Net cash used in investing activities		(37,385)	(82,809)
Net increase in cash and cash equivalents		1,907	22,542
Cash and cash equivalents at the beginning of the financial period		38,096	15,554
Effect of foreign exchange rate changes		74	-
Cash and cash equivalents at the end of the financial year	24 (a)	40,077	38,096

The Statement of Cash Flows is to be read in conjunction with the Notes to the Financial Statements set out on pages 10 to 48.

Notes to the Financial Statements

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Notes to the Financial Statements

1 Summary of significant accounting policies

(a) Statement of compliance

This financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board ("AASB"), the *Corporations Act 2001* and the *Life Insurance Act 1995* ("the Life Act").

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures that the financial reporting of the Company, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ("IFRS").

The financial report was authorised for issue by the Directors on 8 March 2013.

(b) Adoption of new and revised accounting standards

In the current year, the Company has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has not resulted in material changes to the Company's accounting policies.

At the date of authorisation of the financial report, the following Standards and Interpretations, relevant to the Company, were in issue but not yet effective:

	Title	Operative Date
AASB 9 ⁽¹⁾	Financial Instruments	1 January 2015
AASB 13 ⁽²⁾	Fair Value Measurement	1 January 2013

(1) The potential effect of the revised Standards on the Company's financial statements has not yet been determined.

(2) An initial assessment of the financial impact of the standard has been undertaken and it is not expected to have a material impact on the Company's financial statements or accounting policies.

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

(c) *Basis of preparation*

The financial report is presented in Australian dollars, unless otherwise noted.

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

For the purposes of preparing the financial report, the Company is a for-profit entity.

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

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may vary from estimates. These accounting policies have been consistently applied by the Company.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the financial report and estimates with a significant risk of material adjustment in the financial year are discussed in Notes 2 and 3.

The accounting policies set out below have been applied consistently to all periods presented in the financial report.

(d) *Principles for life insurance business*

The life insurance operations of the Company are conducted within Statutory Funds as required by the *Life Insurance Act 1995* and are reported in aggregate with the Shareholders' Fund in the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows of the Company. The life reinsurance operations of the Company comprise the selling and administration of life reinsurance contracts. All contracts are non-investment linked business. All business written by the Company is non-participating and all profits and losses are allocated to the shareholders.

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 effects on the economics of the transaction (AASB 1038 *Life Insurance Contracts*). Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, critical illness event or injury or disability caused by accident or illness.

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

(e) Revenue recognition

Revenue is recognised for the major business activities as follows:

Premium revenue

Premiums with a regular due date are recognised as revenue on an accrual basis. Premiums that do not have a regular due date are recognised as revenue on a cash received basis. All deposit components of receipts under reinsurance contracts are recognised as a change in insurance contract liabilities.

As is customary in the reinsurance business, ceding companies continually update, refine and revise information provided to the reinsurers. Such revised information is used by the Company in the preparation of its financial statements and the financial effects resulting from the incorporation of revised data are reflected in the current year's Statement of Comprehensive Income.

Interest income

Interest income from financial assets is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably.

Other income

Allowances received from reinsurers under retrocession contracts are recorded as other income and recognised in accordance with the pattern of reinsurance services received. Accordingly, a portion of other income may be deferred at the balance date.

(f) Outwards reinsurance expense

Premiums ceded to reinsurers under retrocession contracts are recorded as an outward reinsurance expense and recognised in accordance with the pattern of reinsurance service received. Accordingly, a portion of outwards reinsurance premium may be treated as a prepayment at the balance date. All deposit components of payments made under retrocession contracts are recognised as a change in insurance contract liabilities.

(g) Claims

Claims incurred relate to life insurance contracts (providing services and bearing risks including income protection business) and are treated as expenses. Claims are recognised when the liability to the policyholder under the policy contract has been established, or upon notification of the insured event depending on the type of claim.

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

(h) Policy acquisition costs

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

The proportion of life acquisition costs not recovered by specific charges received from the cedant at inception is deferred, provided that these amounts are recoverable from future profit margins. The deferred amounts are recognised in the Statement of Financial Position as a reduction in insurance contract liabilities and are amortised through the Statement of Comprehensive Income over the expected duration of the relevant policies.

(i) Basis of expense apportionments for insurance products

Expense apportionments have been made as follows:

- Where an item of expense relates directly to a category of business, the expense will be allocated directly to that category of business.
- Where an item of expense does not relate directly to one category of business, the expense will be apportioned between the relevant categories of business on the basis of an appropriate underlying driver. Drivers include time weighted salary, number of full time equivalent (FTE) staff and premium income.

(j) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability or asset to the extent that it is unpaid or refundable.

Current tax payable or receivable balances are recognised as an intercompany receivable or payable to the head entity within the tax-consolidated group, in accordance with the tax funding agreement.

Deferred tax

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on tax rates which are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and assessable temporary differences to measure the deferred tax asset or liability. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

(k) Tax consolidation

Legislation allows groups under a common ultimate parent, comprising Australian parent entities and their Australian resident wholly-owned entities, to elect to consolidate and be treated as a single entity for income tax purposes.

The Company and other related Australian resident entities wholly owned by the ultimate parent entity are eligible to consolidate for tax purposes under this legislation and have elected to be taxed as a single entity. The head entity within the tax-consolidated group for the purposes of the tax consolidation system is RGA Australian Holdings Pty Ltd ("RGAH").

The Company and each of the entities in the tax consolidated group has agreed to settle a tax equivalent amount to or from the head entity, based on the tax position of the entity. Such amounts are reflected in amounts receivable or payable to the other entities in the tax consolidated group.

(l) Foreign currency translation

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at balance date are translated at the rates of exchange ruling on that date. Foreign exchange differences arising on translation are recognised in the Statement of Comprehensive Income.

Assets and liabilities of the Company's New Zealand Statutory Fund 2 are at the rates of exchange ruling at balance date. The revenues and expenses are translated at a weighted average rate for the year. The effect of movements in exchange rates on the translation of the New Zealand Statutory Fund's assets and liabilities is recognised as a separate component of equity.

(m) Assets backing insurance contract liabilities

The Company has determined that all assets held within its Statutory Funds are assets backing insurance contract liabilities.

Financial assets held to back life insurance activities are designated at fair value through profit and loss. Initial recognition and subsequent measurement is at fair value. Unrealised profits and losses on subsequent measurement to fair value are recognised in the Statement of Comprehensive Income. Fair value is determined as follows:

- Cash and cash equivalents and bank overdrafts are carried at the face value of the amounts deposited or drawn. The carrying amount of cash and cash equivalents approximates to its fair value. For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and deposits held at call, net of bank overdrafts;
- Receivables are stated at their cost less impairment losses. This is the best estimate of fair value as they are settled within a short period;
- Listed fixed interest securities are stated at the bid price of the instrument listed on the relevant exchange. This is taken as their fair value;
- Unlisted fixed interest securities, if held, are recorded at fund managers' valuation. This is taken as their fair value.

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

(n) Assets not backing life insurance liabilities

Financial assets which do not back life insurance liabilities are designated at fair value through profit and loss. Fair value is determined as set out in note 1(m) above.

(o) Cash and cash equivalents

Cash and cash equivalents includes cash on hand and at bank and deposits held at call with financial institutions that are readily convertible to known amounts of cash.

(p) Receivables

The collectability of receivables is assessed on an ongoing basis and specific provision is made for any doubtful debts.

(q) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims (including disability claims in the course of payment), reported claims not yet paid, claims that are incurred but not yet reported (IBNR) and unexpired risk liabilities are recognised as a reduction in expense. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries receivable are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims. All deposit components of retrocession recoveries are recognised as a change in insurance contract liabilities.

(r) Outstanding claims liability

The liability for outstanding claims is recorded as part of payables. For claims with a lump sum benefit, the liability for outstanding claims is measured as the sum reinsured on any claim notified to the Company prior to balance date. For claims with a disability income benefit, the liability for outstanding claims is measured as any outstanding amounts payable on or prior to balance date.

(s) Deferred acquisition costs

Insurance contracts

The costs incurred in acquiring specific life insurance contracts include commission payments, underwriting costs and other acquisition costs deferrable under the relevant standards.

The proportion of life acquisition costs not recovered by specific charges received from the cedant at inception is deferred provided that these amounts are recoverable from future profit margins. The deferred amounts are recognised in the Statement of Financial Position as a reduction in insurance contract liabilities and are amortised through the Statement of Comprehensive Income over the expected duration of the relevant policies.

(t) Share based payments

The Company's ultimate holding company, RGA Inc., issues equity settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the shares that will eventually vest and adjusted for the effects of non-market-based vesting conditions. The fair value of non-restricted share options is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on the best estimate, for the effects of non-transferability, exercise restrictions and other factors. The fair value of performance contingent restricted stock is measured using the closing price of the stock at the date of grant.

The amount expensed is in proportion to the services attributable to the Australian operation.

Notes to the Financial Statements

2 Critical accounting estimates and judgements

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities as at the end of the year. Estimates and judgements 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 main areas where critical accounting judgements and estimates are applied are noted below.

(a) Insurance contract liabilities

Insurance contract liabilities for life insurance contracts are computed using statistical or mathematical methods. 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 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:

- mortality and morbidity experience on life insurance products, including enhancements to policyholder benefits;
- discontinuance experience, which affects the Company's ability to recover the cost of acquiring new business over the lives of the contracts;
- data supplied by ceding companies in relation to the underlying policies being reinsured;
- the cost of providing benefits and administering the insurance contracts; and
- the discount rate applied to calculate the present value of future benefits.

In addition, factors such as regulation, inflation, interest rates, taxes, investment market conditions and general economic conditions affect the level of these liabilities. Details of specific actuarial policies and methods are set out in Note 3.

(b) Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are computed using the above methods where required. All reinsurance contracts entered into are with a related company and recoverability of such assets is not considered to be impaired by any counterparty or credit risk.

Notes to the Financial Statements

3 Actuarial assumptions and methods

The effective date of the actuarial report on the insurance contract liabilities and the solvency requirement is 31 December 2012. The actuarial report was prepared by the Appointed Actuary, Mr Andrew Gill (FIAA), and dated 8 March 2013. The actuarial report indicated that Mr Gill was satisfied as to the accuracy of the data upon which insurance contract liabilities have been determined.

The insurance contract liabilities have been determined in accordance with the applicable actuarial and accounting standards. Insurance contract liabilities for life insurance contracts are valued in accordance with AASB 1038 *Life Insurance Contracts* and the Life Prudential Standard LPS 1.04 *Valuation of Policy Liabilities* issued by the Australian Prudential Regulation Authority ("APRA").

(a) *Disclosure of assumptions*

Insurance contract liabilities have been calculated in accordance with relevant actuarial guidance. Insurance contract liabilities have been calculated under an accumulation approach, where the value of the unrecovered portion of acquisition expenses to be recovered from future income has been explicitly allowed for as a reduction in liability using the Acquisition Expense Recovery Component (AERC). The AERC uses premium as the profit carrier.

(i) *Discount rates*

The yield curve for Commonwealth Government Bonds was used as a basis to determine the appropriate discount rate for calculation of the insurance contract liabilities. The ranges of discount rates used are as follows:

- 2.5% to 3.3% pa (2011: 3.00% to 3.90% pa) for individual and group business

Discount rates, as stated above, are gross of tax but net of investment costs.

(ii) *Inflation rates*

The assumed inflation rates are set after considering current market conditions, the Reserve Bank of Australia's inflation targets, the implied real discount rate and the average duration of the liabilities.

(iii) *Future expenses and indexation*

Future maintenance expenses have been assumed at expected ongoing costs incurred within the Company.

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

Benefits and/or premiums under most of the regular premium policies are automatically indexed to inflation.

Notes to the Financial Statements

3 Actuarial assumptions and methods (continued)

(a) Disclosure of assumptions (continued)

(iv) Rates of taxation

Rates of taxation have been assumed in the future to remain at current levels. The rates of taxation applicable to the taxable income of significant classes of business are as follows:

Class of business	2012	2011
Ordinary life insurance business	30%	30%
Other business (including accident and disability)	30%	30%
Shareholders fund	30%	30%

(v) Mortality and morbidity

Lump sum

For individual business:

- future mortality was assumed in aggregate to be a percentage of the mortality table IA95/97;
- future TPD (total and permanent disablement) and trauma rates have been based on tables developed from the Company's own research and experience.

Adjustments are made for factors such as sex and smoking status where applicable.

For group lump sum business, future mortality and TPD assumptions are based on the Company's and industry's overall experience over recent years.

Disability

Future disability claims costs are based on the Company's own past experience.

(vi) Rates of discontinuance

Future rates of discontinuance for the major classes of lump sum business are assumed in aggregate to be between 3.8% and 61.5% (2011: 3.8% and 61.5%) per annum based on age, gender, smoker status, duration, amount at risk, benefit type and treaty type adjustments.

For individual disability income business, the future rates of discontinuance are assumed in aggregate to be between 8.1% and 35.0% (2011: 7.7% and 33.3%) per annum depending on the age, occupation, sex and waiting period of the life insured.

Notes to the Financial Statements

3 Actuarial assumptions and methods (continued)

(b) Effects of changes in actuarial assumptions

Assumption category	Effect on net profit margins \$'000 increase/(decrease)		Effect on net insurance contract liabilities \$'000 increase/(decrease)	
	2012	2011	2012	2011
Discount rates				
Individual business	N/A	N/A	(1,734)	(1,254)
Group business	N/A	N/A	10,731	8,085
Mortality and morbidity				
Individual business	N/A	N/A	-	-
Group business	N/A	N/A	-	-
Discontinuance rates	N/A	N/A	-	-
Total	N/A	N/A	8,997	6,831

Figures in the table above are shown before tax.

(c) Processes used to select assumptions

Discount rate

Benefits under life insurance contracts are discounted for the time value of money using risk-free discount rates based on current observable objective rates that relate to the nature, structure and term of future obligations.

Tax

It is assumed that current tax legislation and tax rates will continue unaltered.

Mortality and morbidity

An appropriate base table of mortality (and morbidity) is chosen or derived from industry or population experience for the type of product being written. An investigation into the actual experience of the major cedants of the Company over recent years is performed and statistical methods are used to adjust the rates reflected in the table to a best estimate of mortality or morbidity for future years. Where data is sufficient to be statistically credible, the statistics generated by the data are generally used without reference to an industry table.

Discontinuance

An investigation into the actual experience of the major cedants of the Company over the recent years is performed and the results compared with existing assumptions for discontinuances. Statistical methods are used to determine the suitability of current assumptions and/or adjust the basis for any trends in the data to arrive at a best estimate of future discontinuance rates.

Notes to the Financial Statements

3 Actuarial assumptions and methods (continued)

(c) Processes used to select assumptions (continued)

Interest rates

The gross interest rates used are the annualised gross yield to redemption of benchmark government securities.

Sensitivity analysis

The Company conducts sensitivity analyses to quantify the exposure to risk of changes in the key underlying variables such as interest rate, security prices, mortality, morbidity and inflation. The valuations included in the reported results and the Company's best estimate of future performances are calculated using certain assumptions about these variables. The movement in any key variable will impact the performance and net assets of the Company and as such represents a risk.

Variable	Impact of movement in underlying variable
Expense risk	An increase in the level or inflationary growth of expenses over assumed levels will decrease profit and shareholder equity.
Interest rate risk	A reduction in interest rates would result in an increase in the life insurance contract liabilities, although this would be offset by increases to the market value of fixed interest investments. The impact on profit and shareholders' equity depends on the relative profiles of assets and liabilities to the extent these are not matched.
Mortality rates	For insurance contracts providing death benefits, greater mortality rates would lead to higher levels of claims occurring sooner than anticipated, increasing associated claims cost and therefore reducing profit and shareholders' equity.
Morbidity rates	The cost of health-related claims depends on both the incidence of policyholders becoming ill and the duration they remain ill. Higher than expected incidence and duration would likely increase claim costs, reducing profit and shareholders' equity.
Discontinuance	The impact of the discontinuance rate assumption depends on a range of factors including the type of contract, the surrender value basis (where applicable) and the duration in force. For example, an increase in discontinuance rates at earlier durations of life insurance contracts usually has a negative effect on performance and net assets. However, due to the interplay between the factors, there is not always an adverse outcome from an increase in discontinuance rates.
Inflation risk	The impact of the inflation rate assumption varies depending on the type of policy. For example an increase in future inflation will increase the cost for disabled lives but will also increase the premium revenue for products that have indexed benefits.

Notes to the Financial Statements

3 Actuarial assumptions and methods (continued)

(c) Processes used to select assumptions (continued)

The table below illustrates how changes in key assumptions regarding future experience would impact the reported profit and equity of the Company (after tax and retrocession).

	Change in variable	Profit / (loss) 2012 \$'000	Equity at 31 December 2012 \$'000
Balance per financial statements		35,379	412,739
<i>Result of change in variables:</i>			
Worsening of future mortality and morbidity claim costs	10%	(79,321)	(79,321)
Worsening of discontinuance rate	20%	(6,472)	(6,472)
Improvement in discontinuance rate	(20%)	-	-
Increase in discount rate	1%	2,398	2,398
Reduction in discount rate	(1%)	(2,782)	(2,782)
Increase in future maintenance expenses	10%	(1,708)	(1,708)
Increase in future inflation rate	1%	(344)	(344)

Notes to the Financial Statements

3 Actuarial assumptions and methods (continued)

(c) Processes used to select assumptions (continued)

	Change in variable	Profit / (loss) 2011 \$'000	Equity at 31 December 2011 \$'000
Balance per financial statements		45,714	377,286
<i>Result of change in variables:</i>			
Worsening of future mortality and morbidity claim costs	10%	(44,318)	(44,318)
Worsening of discontinuance rate	20%	(6,682)	(6,682)
Improvement in discontinuance rate	(20%)	-	-
Increase in discount rate	1%	1,838	1,838
Reduction in discount rate	(1%)	(2,154)	(2,154)
Increase in future maintenance expenses	10%	-	-
Increase in future inflation rate	1%	(126)	(126)

Notes to the Financial Statements

4 Risk and capital management policies and procedures

The financial condition and operating results of the Company are affected by a number of key risks, including interest rate risk, credit risk, market risk, liquidity risk, insurance risk, compliance risk and operational risk. The objective of the Company's risk management procedures is to ensure that these risks are properly managed.

(a) Risk management policies and procedures for mitigating financial and non-financial risks

The Company has in place a process to review its control and risk management framework. It regularly reviews and assesses its risk exposure and the effectiveness of its control framework.

The Company's objective is to satisfactorily manage the identified risks in line with the Company's Risk Management Framework. Various procedures are put in place to control and mitigate the risks faced by the Company depending on the nature of the risk. The Company's overall risk exposure is monitored by management and by the Board.

Financial risks are generally monitored and controlled by selecting appropriate assets to back insurance contract liabilities and the use of maximum acceptable limits for other financial risks such as liquidity risk and credit risk. Additional disclosures on financial instruments and associated risks are to be found in Note 25.

Insurance risks are controlled through the use of underwriting procedures, adequate premium rates, policy charges and sufficient reinsurance arrangements. Tight controls are also maintained over claims management practices to ensure correct and timely payment of insurance claims.

Compliance risk and operational risk are monitored by management. The Company has processes in place for regular reporting to the Board Audit and Risk Committee and the Board on the effectiveness of the controls used to mitigate these risks.

(b) Strategy for managing insurance risk

Portfolio of risks

The Company issues term life and disability reinsurance treaties covering both individual and group business. The Company has a risk strategy which summarises the Company's approach to risk and risk management.

Risk strategy

In compliance with contractual and regulatory requirements, a strategy is in place to ensure that the risks underwritten should not jeopardise the Company's ability to pay benefits and claims when due. The strategy involves the identification of risks by type, impact and likelihood, the implementation processes and controls to mitigate the risks, and continuous monitoring and improvement of the procedures in place to minimise the chance of an adverse compliance or operational risk event occurring. Included in this strategy are the processes and controls over underwriting and product pricing.

Capital position

Capital is allocated by the Company to the Statutory Funds where business is written to ensure that the Solvency and Capital Adequacy requirements set by APRA (Life Prudential Standard LPS 2.04 *Solvency Standard* and Life Prudential Standard LPS 3.04 *Capital Adequacy Standard*) are met. Additional capital is held to provide a buffer above these requirements which allows for further adverse experience and/or additional growth of the business without impacting these regulatory requirements. The Company has a process for monitoring the level of capital and requesting additional capital should the need arise.

Notes to the Financial Statements

4 Risk and capital management policies and procedures (continued)

(c) Methods to monitor and assess insurance risk exposures

Pricing oversight

All pricing is subject to an internal review and sign-off process to ensure that appropriate methodology and assumptions have been used. Pricing bases include appropriate return on capital targets.

Experience analysis

Experience studies are conducted regularly to determine the adequacy of pricing assumptions. The results are used to determine prospective changes in pricing and reserving.

Asset management

The Company maintains an investment portfolio to support policyholder liabilities. All non-cash assets are market traded. All fixed interest securities are of investment grade and within the Company's investment policies. The use of derivative instruments is not permitted. The Investment Committee sets the investment policies and mandates. These are reviewed by the Investment Committee on a regular basis.

Management reporting

The Company reports and monitors its financial and operational results on a regular basis. The results are summarised to give an overall view of the Company's performance, including its gross and net exposure and its spread for product risks. The process undertaken and controls over the process are reviewed by the Board Audit and Risk Committee and the Board on a regular basis. Additionally, an annual review of the management reporting process is performed by the Company's internal auditors.

(d) Methods to limit or transfer insurance risk exposures

Reinsurance

To limit its exposure, the Company has its own reinsurance programme (commonly referred to as retrocession) in place. The Company retrocedes business to RGA Reinsurance Company Limited, a related entity.

Underwriting procedures

Underwriting decisions are put into effect using the underwriting procedures detailed in the Company's underwriting manual. Such procedures include limits to delegated authorities and signing powers. Individual underwriting decisions are supported by the policies and procedures manual and, if necessary, by obtaining a medical opinion. Underwriting decisions are regularly monitored and reviewed. Where authority is delegated to cedants, the Company has processes in place for auditing the underwriting processes used by the ceding company.

Claims management

Procedures exist for the verification, assessment and payment of claims. Income protection claims are monitored on a monthly basis. Strict claims management procedures support the timely and correct payment of claims in accordance with policy and/or treaty conditions. Where authority is delegated to cedants, the Company has processes in place for auditing the claims assessment processes used by the ceding company.

Notes to the Financial Statements

4 Risk and capital management policies and procedures (continued)

Asset and liability management techniques

The Company's investment policy contains objectives and constraints to reflect the short term nature of its liabilities. The compliance of the investment portfolio with the investment policy is monitored regularly. The extent of any asset liability mismatch is also monitored regularly and is allowed for in the Company's prudential reserves.

(e) Terms and conditions of insurance contracts

The nature of the terms of the insurance contracts written is such that certain external variables can be identified on which related cash flows for claims 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:	Non-participating life insurance contracts with fixed and guaranteed terms.
Details of contract workings:	Guaranteed benefits payable on death, ill health or disability that are fixed and guaranteed and not at the discretion of the issuer.
Nature of compensation for claims:	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.
Key variables that affect the timing and uncertainty of future cash flows:	Mortality, morbidity, interest rates, discontinuance rates and expenses.

Notes to the Financial Statements

5 Revenue

(a) Net Insurance Premium revenue

	2012 \$'000		
	Statutory Funds	Shareholders Fund	Total
Premium revenue from reinsurance contracts	709,964	-	709,964
Outward reinsurance expense	(201,784)	-	(201,784)
Net insurance premium received or receivable	508,180	-	508,180

	2011 \$'000		
	Statutory Funds	Shareholders Fund	Total
Premium revenue from reinsurance contracts	692,197	-	692,197
Outward reinsurance expense	(168,302)	-	(168,302)
Net insurance premium received or receivable	523,895	-	523,895

Notes to the Financial Statements

5 Revenue (continued)

(b) Investment income

Interest income:

Bank deposits	1,379	6	-	1,385
Investments at fair value through profit or loss	39,856	3,414	-	43,270
Gain on disposal of investments	8,034	1,882	(1,363)	8,553
Change in fair value of investments carried at fair value through profit or loss	4,615	(1,037)	1,363	4,941
Total investment income	53,884	4,265	-	58,149

2012 \$'000			
Statutory Funds	Shareholders Fund	Eliminations	Total
Bank deposits	6	-	1,385
Investments at fair value through profit or loss	3,414	-	43,270
Gain on disposal of investments	1,882	(1,363)	8,553
Change in fair value of investments carried at fair value through profit or loss	(1,037)	1,363	4,941
53,884	4,265	-	58,149

Interest income:

Bank deposits	1,085	2	-	1,087
Investments at fair value through profit or loss	34,791	3,577	-	38,368
Gain on disposal of investments	8,087	776	-	8,863
Change in fair value of investments carried at fair value through profit or loss	12,815	989	-	13,804
Total investment income	56,778	5,344	-	62,122

2011 \$'000			
Statutory Funds	Shareholders Fund	Eliminations	Total
Bank deposits	2	-	1,087
Investments at fair value through profit or loss	3,577	-	38,368
Gain on disposal of investments	776	-	8,863
Change in fair value of investments carried at fair value through profit or loss	989	-	13,804
56,778	5,344	-	62,122

Notes to the Financial Statements

5 Revenue (continued)

(c) Other income

	2012 \$'000		
	Statutory Funds	Shareholders Fund	Total
Retrocession allowances	91,495	-	91,495
Other treaty income	13,718	-	13,718
Total other income	105,213	-	105,213

	2011 \$'000		
	Statutory Funds	Shareholders Fund	Total
Retrocession allowances	61,381	-	61,381
Other treaty income	-	-	-
Total other income	61,381	-	61,381

6 Claims expense

	2012 \$'000		
	Statutory Funds	Shareholders Fund	Total
Death and disability	487,639	-	487,639
Claims expense paid or payable	487,639	-	487,639
Less:			
Outward reinsurance claims expense received or receivable	(85,146)	-	(85,146)
Net claims expense	402,493	-	402,493

	2011 \$'000		
	Statutory Funds	Shareholders Fund	Total
Death and disability	485,288	-	485,288
Claims expense paid or payable	485,288	-	485,288
Less:			
Outward reinsurance claims expense received or receivable	(101,656)	-	(101,656)
Net claims expense	383,632	-	383,632

Notes to the Financial Statements

7 Net profit for the year

Net profit after income tax arose from:

Planned margins of revenues over expenses released

Difference between actual and assumed experience

Effects of changes to underlying assumptions

Loss recognition

Investment earnings on assets in excess of insurance contract liabilities

Net profit after income tax

2012 \$'000		
Statutory Funds	Shareholders Fund	Total
11,664	-	11,664
(2,302)	-	(2,302)
(6,298)	-	(6,298)
-	-	-
29,005	3,310	32,315
32,069	3,310	35,379

Net profit after income tax arose from:

Planned margins of revenues over expenses released

Difference between actual and assumed experience

Effects of changes to underlying assumptions

Loss recognition

Investment earnings on assets in excess of insurance contract liabilities

Net profit after income tax

2011 \$'000		
Statutory Funds	Shareholders Fund	Total
20,489	-	20,489
8,103	-	8,103
(13,535)	-	(13,535)
-	-	-
26,998	3,659	30,657
42,055	3,659	45,714

Notes to the Financial Statements

8 Operating expenses

	2012 \$'000		
	Statutory Funds	Shareholders Fund	Total
Policy acquisition costs			
Allowances	104,421	-	104,421
Other acquisition costs	7,215	-	7,215
Total Policy acquisition costs	111,636	-	111,636
Other expenses			
Allowances	99,927	-	99,927
Other maintenance costs	14,699	12	14,711
Investment management fees	1,173	116	1,289
Total other expenses	115,799	128	115,927

	2011 \$'000		
	Statutory Funds	Shareholders Fund	Total
Policy acquisition costs			
Allowances	81,647	-	81,647
Other acquisition costs	5,272	-	5,272
Total policy acquisition costs	86,919	-	86,919
Other expenses			
Allowances	73,743	-	73,743
Other maintenance costs	12,290	-	12,290
Investment management fees	968	110	1,078
Total other expenses	87,001	110	87,111

Notes to the Financial Statements

9 Dividends

No dividends were paid for the 2012 financial year (2011: nil).

10 Income tax expense

The prima facie tax on net profit differs from the income tax provided in the accounts as follows:

	2012 \$'000	2011 \$'000
Net profit before related income tax expense	23,247	46,743
Prima facie tax on net profit	6,974	14,023
<i>Tax effect of:</i>		
Permanent differences	(19,106)	(12,994)
Total income tax expense attributable to net profit	(12,132)	1,029
<i>Income tax expense comprises:</i>		
Current tax	(1,069)	(530)
Deferred tax	(11,063)	1,559
Total income tax (credit)/expense attributable to net profit	(12,132)	1,029

Notes to the Financial Statements

11 Receivables

	2012	2011
	\$'000	\$'000
Premiums receivable		
Premiums receivable ⁽¹⁾	198,924	139,825
Total premiums receivable	198,924	139,825
Other receivables		
Accrued investment income	10,790	8,915
Related corporations ⁽¹⁾	53,227	50,449
Total other receivables	64,017	59,364
Total receivables	262,941	199,189
Made up as:		
Receivable within 12 months	262,941	199,189
Receivable in more than 12 months	-	-
	262,941	199,189

- (1) The credit period for trade receivables and balances due from related corporations are generally 30 to 90 days. The trade receivable balance includes receivables (gross of allowances) of \$36.8 million (2011: \$28.0 million) which are past due at the reporting date. The Company believes that these amounts are fully recoverable.

Notes to the Financial Statements

12 Investments

The following table presents the fair values of the Company's investments at 31 December 2012 and 2011. Fair values have been determined using market information obtained from independent pricing services and the valuation methodologies described below.

Financial assets at fair value through profit or loss:

	Fair value hierarchy							
	2012	2012	2012	2012	2011	2011	2011	2011
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Interest bearing securities:								
National government	167,120	-	167,120	-	107,774	-	107,774	-
Other public sector	251,409	-	251,409	-	234,525	-	234,525	-
Private sector	434,575	-	434,575	-	459,925	-	459,925	-
Total investments at fair value through profit and loss	853,104	-	853,104	-	802,224	-	802,224	-
Made up as (based on maturity):								
Expected to be realised:								
– within 12 months	106,480	-	106,480	-	139,801	-	139,801	-
– more than 12 months	746,624	-	746,624	-	662,423	-	662,423	-
	853,104	-	853,104	-	802,224	-	802,224	-

All securities are publicly traded with fixed maturity dates.

AASB 7 establishes a fair value hierarchy which requires an entity to maximise the use of observable inputs and minimise the use of unobservable inputs when measuring fair value. The standard describes three levels of input that may be used to measure fair value:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities. The prices are obtained from an exchange, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.
- Level 2 Input other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). These are quoted prices in markets that are not active or market standard valuation methodologies and assumptions with significant inputs that are observable.
- Level 3 Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between the different levels of fair value hierarchy during the year.

Notes to the Financial Statements

13 Deferred tax

	Balance 1-Jan-2011 \$'000	Recognised in 2011 Income \$'000	Balance 31-Dec-2011 \$'000	Recognised in 2012 Income \$'000	Balance 31-Dec-2012 \$'000
Deferred tax asset					
Investments	1,740	(1,740)	-	-	-
Current year tax benefit deferred	-	2,966	2,966	13,419	16,385
	1,740	1,226	2,966	13,419	16,385
Deferred tax liability					
Investments	-	3,432	3,432	3,047	6,479
Investment income	2,720	(647)	2,073	(691)	1,382
	2,720	2,785	5,505	2,356	7,861
Net deferred tax asset/(liability)	(980)	(1,559)	(2,539)	11,063	8,524

14 Payables

	2012 \$'000	2011 \$'000
Assumed allowances payable ⁽¹⁾	125,227	55,328
Accounts payable ⁽¹⁾	351	327
Claims payable ⁽²⁾	248,011	226,151
Related corporations	399	32
Total payables	373,988	281,838
Made up as:		
Payable within 12 months	373,988	281,838
Payable in more than 12 months	-	-
	373,988	281,838

(1) The Company generally processes trade payables within the agreed credit period of 30 to 90 days.

(2) The Company generally settles claims payable within 30 days of the final assessment date of the claim.

Notes to the Financial Statements

15 Insurance contract liabilities

(a) Reconciliation of movements in insurance contract liabilities

		2012 \$'000	2011 \$'000
Insurance contract liabilities			
Gross insurance contract liabilities at 1 January		731,899	670,532
Liabilities (withdrawn) / assumed during the year		(37,199)	(24,128)
Increase in insurance contract liabilities reflected in the Statement of Comprehensive Income	(i)	92,486	85,495
Gross insurance contract liabilities at 31 December		787,186	731,899
Liabilities ceded under reinsurance			
Opening balance at 1 January		354,053	325,600
Liabilities (withdrawn) / ceded during the year		(19,033)	(14,049)
Increase in reinsurance assets reflected in the Statement of Comprehensive Income	(ii)	74,247	42,502
Closing balance at 31 December		409,267	354,053
Net insurance contract liabilities at 31 December		377,919	377,846
(i) less (ii) = increase in net insurance contract liabilities as disclosed in the Statement of Comprehensive Income		18,239	42,993
Expected to be realised within 12 months		218,775	243,017
Expected to be realised in more than 12 months		159,144	134,829
		377,919	377,846

(b) Components of net life insurance contract liabilities

Future policy benefits	467,692	462,119
Future charges for acquisition costs	(89,773)	(84,273)
Net life insurance contract liabilities	377,919	377,846

Notes to the Financial Statements

15 Insurance contract liabilities (continued)

(c) Solvency requirements of the life statutory fund

These are the amounts required to meet the Solvency Standard pursuant to the Life Act to provide protection against the impact of fluctuations and unexpected adverse circumstances on the Company.

The methodology and bases for determining solvency requirements are in accordance with the requirements of Life Prudential Standard LPS 2.04, Solvency Standard, under section 65 of the Life Act.

As at 31 December 2012 the solvency coverage ratio for the Australian Statutory Fund 1 was 2.77 (2011: 3.01). The solvency coverage ratio for the New Zealand Statutory Fund 2 was not determinable as the solvency reserve for this fund was zero. The solvency coverage ratio is defined as the assets available to meet the solvency reserve divided by the solvency reserve.

(d) Disclosures on asset restrictions, managed assets and trustee activities

Investments held in the Statutory Funds can only be used within the restrictions imposed under the Life Act. The main restrictions are that the assets in a statutory fund can only be used to meet the liabilities and expenses of that statutory fund, to acquire assets to further the business of the statutory fund or as distributions in accordance with the terms of the Life Act.

(e) Reconciliation of reported policy liability with Life Act results

	2012 \$'000	2011 \$'000
Reported policy liability	377,919	377,846
Plus: Variations in valuation of DAC assets	-	-
Plus: Change in the use of the discount rate	-	-
Life Act results	377,919	377,846

Notes to the Financial Statements

16 Share capital

	2012 Number	2011 Number	2012 \$'000	2011 \$'000
Issued and paid-up share capital:				
Ordinary shares	81,249,999	81,249,999	83,250	83,250
Redeemable preference share	1	1	5,000	5,000
Total share capital			88,250	88,250

Share capital is recognised at fair value of consideration received by the Company. There were no shares issued in 2012 and 2011.

Redeemable preference shares have the right to receive dividends (if any) declared on this class of shares. On a winding up or a reduction of capital, redeemable preference shares rank in priority to all other shares in the Company but have no right to participate in the division of any surplus assets or profits of the Company. Each redeemable preference share entitles its holder to one vote, either in person or by proxy, at a meeting of the Company.

Ordinary shares have the right to receive dividends as declared and, in the event of winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number and amounts paid up on shares held. Each ordinary share entitles its holder to one vote, either in person or by proxy, at a meeting of the Company.

17 Auditor's remuneration

The Company's auditor is Deloitte Touche Tohmatsu. The auditors' remuneration is paid by RGAH.

18 Related entities

Ultimate parent entity

The Australian parent entity is RGAH.

The ultimate parent entity in the RGA Group is Reinsurance Group of America Incorporated ("RGA Inc."), a company incorporated in the United States of America and listed on the New York Stock Exchange.

Notes to the Financial Statements

19 Share based payments

RGA Inc. enables its subsidiary operations to offer key members of staff access to equity-based remuneration as part of their employment packages. The types of equity remuneration provided to key staff consist of equity-settled share options and performance contingent units. All expense relating to this is borne by RGAH.

All values disclosed are in US dollars (US\$).

(a) Stock options

In general, options granted under the plan become exercisable over vesting periods ranging from one to five years. Options are generally granted with an exercise price equal to the stock's fair value at the date of grant and expire ten years after the date of grant. The tables shown below relate to employees of RGAH who provide services to the Company and receive these awards from RGA Inc.

	2012		2011	
	Number of options	Weighted average exercise price US\$	Number of options	Weighted average exercise price US\$
Outstanding at the beginning of the year	38,640	47.65	27,271	42.61
Granted during the year	18,629	56.65	12,168	59.74
Lapsed during the year	(1,017)	35.77	-	-
Forfeited during the year	(8,149)	54.45	(799)	59.74
Outstanding at the end of the year	48,103	50.23	38,640	47.65
Exercisable at the end of the year	25,644	47.90	16,611	46.71

The options outstanding at the end of the year have a weighted average remaining contractual life of 7.4 years (2011: 7.6 years). The estimated fair value of each option granted during this period was US\$19.65 (2011: US\$22.73).

These fair values were calculated by RGA Inc., using the Black-Scholes option pricing model. The inputs into the model were as follows:

	2012	2011
Expected life	7 years	7 years
Expected volatility	37.1%	35.0%
Risk free interest rate	1.4%	2.8%
Expected dividend yield	1.3%	0.8%

Notes to the Financial Statements

19 Share based payments (continued)

(b) Performance contingent units

Awards of performance contingent units (PCU) to key employees have been made annually since 2006. The estimated fair value of the PCU's awarded is US\$56.65 per PCU (2011: US\$59.74). These fair values were calculated using the closing price of the stock at the date of grant. Each PCU represents the right to receive from zero to two shares of RGA, Inc. common stock depending on the results of certain performance measures over a three-year period.

	2012		2011	
	Number of PCU's	Weighted average fair value US\$	Number of PCU's	Weighted average fair value US\$
Outstanding at the beginning of the year	12,587	45.02	10,511	41.07
Granted during the year	7,004	56.65	5,383	59.74
Lapsed during the year	(5,286)	32.20	(2,953)	56.03
Forfeited during the year	(2,483)	55.95	(354)	59.74
Transfers in	1,378	55.04	-	-
Outstanding at the end of the year	13,200	55.32	12,587	45.02

Notes to the Financial Statements

20 Director and key management personnel disclosures

(a) Directors

The following were Directors of the Company at any time during the reporting period and, unless otherwise indicated, were Directors for the entire period:

Independent Non-Executive Directors

William J. Bartlett

Ian A. Pollard

Mark E. Turner

Non-Executive Directors

Allan E. O'Bryant (appointed 19 June 2012)

Paul A. Schuster (appointed 19 June 2012)

Graham S. Watson (resigned 19 June 2012)

A. Greig Woodring

Executive Directors

Pauline J. Blight-Johnston (resigned 15 November 2012)

W. Ian Enright (resigned 19 June 2012)

Mark A. Stewart (appointed 15 November 2012)

(b) Committee membership

In addition to their membership of the Board of RGAA the following table details other committees of which the directors were members during the year ended 31 December 2012.

	Board Audit and Risk Committee	Investment Committee	Board Remuneration Committee
William J. Bartlett	X	X	X
Pauline J. Blight-Johnston	-	X	-
W. Ian Enright	-	-	-
Allan E. O'Bryant	-	-	-
Ian A. Pollard ⁽¹⁾	X	X	X
Paul A. Schuster	-	-	-
Mark A. Stewart	-	X	-
Mark E. Turner ⁽²⁾	X	X	X
Graham S. Watson	-	-	X
A. Greig Woodring	-	-	-

(1) Chairman of the Investment Committee.

(2) Chairman of the Board Audit and Risk Committee and the Board Remuneration Committee.

Notes to the Financial Statements

20 Director and key management personnel disclosures (continued)

(c) Key management personnel

The key management personnel are the Directors of the Company and certain executives with the authority and responsibility for planning, directing and controlling the activities of the entity.

Key management personnel compensation:

	2012	2011
	\$'000	\$'000
Short-term employee benefits	2,502	2,402
Post-employment benefits	164	143
Share based payments	364	275
Total	3,030	2,820

All management personnel compensation is paid by RGAH.

21 Related party transactions

(a) Transactions with specified directors and specified executives

Mr W.J. Bartlett is a Director of Suncorp Group Ltd, an entity which has reinsurance arrangements with the Company based on normal commercial terms and conditions. Mr W.J. Bartlett is also a non-executive Director of RGA Inc., the ultimate parent entity.

(b) Transactions with related parties

The Company has a related party relationship with its parent RGAH and, with RGA Inc. and its subsidiaries.

- (i) RGAH provided management and administrative services for the Company including the statutory funds under an administration agreement. Total management and service fees incurred were \$20,234,004 (2011: \$17,506,816).
- (ii) All outwards reinsurance by the Company is ceded to RGA Reinsurance Company, St Louis, USA ('RGA Re'), a subsidiary of the Company's ultimate parent. These outwards reinsurance arrangements are based on normal commercial terms and conditions. As at 31 December 2012 amounts receivable were \$53,226,570 (2011: \$50,448,639).
- (iii) The Company regularly settles balances associated with related party transactions. As at 31 December 2012, total related party receivables were \$4,985,107 (2011: \$2,464,350) and related party payables were \$4,585,607 (2011: \$1,241,250).

Notes to the Financial Statements

22 Disaggregated information

(a) Net assets

	2012 \$'000			
	Australian Statutory Fund 1	NZ Statutory Fund 2	Shareholders Fund	Total
Financial assets	1,137,364	4,112	14,486	1,155,962
Other assets	417,951	-	-	417,951
Total assets	1,555,315	4,112	14,486	1,573,913
Life insurance liabilities	787,186	-	-	787,186
Other liabilities	372,823	3	1,162	373,988
Total liabilities	1,160,009	3	1,162	1,161,174
Net assets	395,306	4,109	13,324	412,739

	2011 \$'000			
	Australian Statutory Fund 1	NZ Statutory Fund 2	Shareholders Fund	Total
Financial assets	972,987	-	66,522	1,039,509
Other assets	354,053	-	-	354,053
Total assets	1,327,040	-	66,522	1,393,562
Life insurance liabilities	731,899	-	-	731,899
Other liabilities	283,869	-	508	284,377
Total liabilities	1,015,768	-	508	1,016,276
Net assets	311,272	-	66,014	377,286

Notes to the Financial Statements

22 Disaggregated information (continued)

(b) Net profit after tax

	2012 \$'000			Total
	Australian Statutory Fund 1	NZ Statutory Fund 2	Shareholders Fund	
Net premium revenue	508,180	-	-	508,180
Investment income	53,844	40	4,265	58,149
Other income	105,213	-	-	105,213
Net revenue	667,237	40	4,265	671,542
Net claims expense	(402,493)	-	-	(402,493)
Change in net insurance contract liabilities	(18,239)	-	-	(18,239)
Policy acquisition costs	(111,636)	-	-	(111,636)
Other expenses	(114,623)	(3)	(12)	(114,638)
Investment management fee	(1,171)	(2)	(116)	(1,289)
Net profit before related income tax expense	19,075	35	4,137	23,247
Income tax benefit/(expense)	12,959	-	(827)	12,132
Net profit for the year	32,034	35	3,310	35,379

The net loss before related income tax expense and gross of retrocession for the Australian Statutory Fund 1 for 2012 was \$25.9m.

	2011 \$'000			Total
	Australian Statutory Fund 1	NZ Statutory Fund 2	Shareholders Fund	
Net premium revenue	523,895	-	-	523,895
Investment income	56,778	-	5,344	62,122
Other income	61,381	-	-	61,381
Net revenue	642,054	-	5,344	647,398
Net claims expense	(383,632)	-	-	(383,632)
Change in net insurance contract liabilities	(42,993)	-	-	(42,993)
Policy acquisition costs	(86,919)	-	-	(86,919)
Other expenses	(86,033)	-	-	(86,033)
Investment management fee	(968)	-	(110)	(1,078)
Net profit before related income tax expense	41,509	-	5,234	46,743
Income tax benefit/(expense)	546	-	(1,575)	(1,029)
Net profit for the year	42,055	-	3,659	45,714

The net profit before related income tax expense and gross of retrocession for the Australian Statutory Fund 1 for 2011 was \$9.5m.

Notes to the Financial Statements

23 Summary of shareholder interests

	2012 \$'000			
	Australian Statutory Fund 1	NZ Statutory Fund 2	Shareholders Fund	Total
<u>Retained Profits</u>				
Net profit after income tax	32,034	35	3,310	35,379
Shareholders retained profits at beginning of year	229,946	-	59,090	289,036
Retained profits at end of year	261,980	35	62,400	324,415
<u>Capital</u>				
Accumulated profits at the end of the year	261,980	35	62,400	324,415
Share capital	-	-	88,250	88,250
Transfers to statutory funds	133,326	4,000	(137,326)	-
<u>Foreign currency reserve</u>				
Opening balance	-	-	-	-
Movement during the year	-	74	-	74
Balance at end of year	-	74	-	74
Life Act shareholders' equity	395,306	4,109	13,324	412,739

	2011 \$'000			
	Australian Statutory Fund 1	NZ Statutory Fund 2	Shareholders Fund	Total
<u>Retained Profits</u>				
Net profit after income tax	42,055	-	3,659	45,714
Shareholders retained profits at beginning of year	187,891	-	55,431	243,322
Retained profits at end of year	229,946	-	59,090	289,036
<u>Capital</u>				
Accumulated profits at the end of the year	229,946	-	59,090	289,036
Share capital	-	-	88,250	88,250
Transfers to statutory funds	81,326	-	(81,326)	-
Life Act shareholders' equity	311,272	-	66,014	377,286

Notes to the Financial Statements

24 Notes to the Statement of Cash Flows

(a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash includes cash on hand and at bank and deposits held at call with financial institutions readily convertible to known amounts of cash. Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2012 \$'000	2011 \$'000
Cash at bank	3,815	12,430
Deposits held at call	36,262	25,666
Total cash and cash equivalents	40,077	38,096

(b) Reconciliation of net profit after income tax to net cash from operating activities

	2012 \$'000	2011 \$'000
Net profit for the year	35,379	45,714
<i>Adjustments for non-cash and investing activities:</i>		
Increase in investment values	(13,494)	(22,667)
Net cash provided by operating activities before change in assets and liabilities	21,885	23,047
<i>Change in assets and liabilities during the financial year:</i>		
Increase in premiums receivable	(59,099)	(27,985)
Increase in other receivables	(4,653)	(11,997)
Increase in insurance contract liabilities ceded	(55,214)	(28,453)
Increase in deferred tax assets	(8,524)	-
Increase in payables	92,149	87,813
(Decrease)/Increase in deferred tax liabilities	(2,539)	1,559
Increase in insurance contract liabilities assumed	55,287	61,367
Net cash provided by operating activities	39,292	105,351

Notes to the Financial Statements

25 Financial risk management

The Company undertakes transactions in a range of financial instruments including cash assets, receivables, payables and fixed income investments. These activities result in exposure to a number of financial risks including market risk, credit risk, operational risk and liquidity risk.

Financial risks are generally monitored and controlled by selecting appropriate assets to back insurance contract liabilities. The Company has developed and implemented risk and capital management policies, which are described in Note 4. The assets are regularly monitored by management to ensure asset and liability mismatching and other risks such as liquidity risk and credit risk are maintained within acceptable limits.

Throughout 2012, the Company held no derivative financial instrument contracts (2011: nil).

(a) Interest rate risk

The Company's financial assets and liabilities and their effective interest rates at balance date are as follows:

Type	Variable rate 2012 \$'000	1 year or less 2012 \$'000	Over 1 year 2012 \$'000	Non-interest bearing 2012 \$'000	Total 2012 \$'000	Weighted average interest rate 2012 %
Financial assets						
Cash at bank	40,077	-	-	-	40,077	3.00
Receivables and outstanding premiums	-	-	-	262,941	262,941	-
Investments	-	106,480	746,624	-	853,104	3.25
Total	40,077	106,480	746,624	262,941	1,156,122	
Financial liabilities						
Payables	-	-	-	373,988	373,988	
Total	-	-	-	373,988	373,988	

Notes to the Financial Statements

25 Financial risk management (continued)

(a) Interest rate risk (continued)

Type	Variable rate	1 year or less	Over 1 year	Non-interest bearing	Total	Weighted average interest rate
	2011	2011	2011	2011	2011	2011
	\$'000	\$'000	\$'000	\$'000	\$'000	%
Financial assets						
Cash at bank	38,096	-	-	-	38,096	4.25
Receivables and outstanding premiums	-	-	-	199,189	199,189	-
Investments	-	139,801	662,423	-	802,224	4.57
Total	38,096	139,801	662,423	199,189	1,039,509	
Financial liabilities						
Payables	-	-	-	281,838	281,838	
Total	-	-	-	281,838	281,838	

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. At the balance date, the Company's exposure to interest rate risk arose primarily from its fixed interest securities.

Ignoring the impact of any corresponding changes in the value of insurance contract liabilities and taxation, an increase in interest rates of 0.5% would decrease net profit and equity by approximately \$9.1 million (2011: \$7.7 million). A corresponding decrease of 0.5% would increase net profit and equity by \$9.8 million (2011: \$8.2 million). A sensitivity of 0.5% per annum has been selected as this is considered reasonable given the current environment for Australian interest rates.

(b) Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. The Company seeks to minimise its credit risk by the appropriate selection and spread of investment assets. The Company only invests in fixed income securities with a Standard & Poor's credit rating of A- or higher. The Company is permitted to hold BBB securities if they have been downgraded to BBB whilst held within the portfolio.

The Company's maximum exposure to credit risk at balance date is the fair value of financial assets as indicated in the Statement of Financial Position.

Notes to the Financial Statements

25 Financial risk management (continued)

(d) *Liquidity risk*

Liquidity risk represents the risk that the Company will have difficulty in meeting its obligations associated with insurance contracts as they fall due as a result of a lack of cash. The Company minimises its liquidity risk by appropriate selection of maturity duration for its investments and by monitoring and managing its emerging needs for liquidity.

The table in Note 25(a) summarises the maturity profile of the company's financial assets and liabilities. The maturity profile of the insurance contract liabilities is shown in note 15(a).

(e) *Market risk*

The Company is required to record its investment assets at fair value, with unrealised movements in market value recognised as income or expense in the period in which they occur. Accordingly, the full extent of exposure to market movements is reflected in the Statement of Financial Position. The Company manages market risk by maintaining a balanced portfolio with a spread of investment assets.

26 Contingencies

There are no contingent liabilities or assets to be reported as defined under AASB 137.

27 Events subsequent to reporting date

No matters or circumstances have arisen since the end of the financial year which significantly affect or may significantly affect the operations of the Company, the results of its operations or state of affairs of the Company in subsequent financial years.

Directors' declaration

In the opinion of the Directors of RGA Reinsurance Company of Australia Limited ("the Company"):

- (a) the financial statements and notes, set out on pages 5 to 48, are in accordance with *the Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of the Company as at 31 December 2012 and of its performance, as represented by the results of its operations and cash flows, for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
 - (iii) adherence to International Financial Reporting Standards issued by the International Accounting Standards Board; 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.

Signed in accordance with a resolution of the Directors made in pursuant to s.295(5) of the *Corporations Act 2001*.



Ian A. Pollard
Chairman



Mark A. Stewart
Managing Director

Dated at Sydney this 8th day of March 2013

Independent Auditor's Report to the Members of RGA Reinsurance Company of Australia Limited

We have audited the accompanying financial report of RGA Reinsurance Company of Australia Limited, which comprises the statement of financial position as at 31 December 2012, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on pages 5 to 49.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of RGA Reinsurance Company of Australia Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of RGA Reinsurance Company of Australia Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 31 December 2012 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.



DELOITTE TOUCHE TOHMATSU



Peter A. Caldwell
Partner
Chartered Accountants
Melbourne, 8 March 2013



7 November 2013

Companies Office
Northern Business Centre
Private Bag 92061
Victoria Street West
Auckland 1142

Appointed Actuary's Report for RGA Reinsurance Company of Australia Limited (NZ Branch) ("RGAA (NZ)")

To whom it may concern,

Under section 78 of the Insurance (Prudential Supervision) Act 2010 (the "Act"), an Appointed Actuary is required to provide a report in respect of their review of the actuarial information used in the preparation of the financial statements of the insurer (as described under section 77 of the Act).

At 31 December 2012, RGAA (NZ) had no life insurance business since the planned transfer of New Zealand business from RGA Reinsurance Company (RGA Re) to RGAA (NZ) was deferred to the 2013 calendar year. The New Zealand statutory fund at 31 December 2012 consisted of NZ\$5.2m of net assets which were invested in cash and fixed interest securities.

Section 77 of the Act specifically lists those items in the financial accounts that would be classified as "actuarial information". Given no insurance business was written into RGA (NZ) before 31 December 2012, these items do not form part of the financial statements for RGA (NZ) for the year ending 31 December 2012 and hence the financial statements do not contain any "actuarial information" as defined under section 77.

Business is now being written into RGAA (NZ) (with the majority of business resulting from the transfer from RGA Re in July 2013). Consequently, the 2013 financial accounts will contain actuarial information and a section 78 report will be required and produced per the Act.

Please feel free to contact me if you have any questions.

Yours Sincerely,

Andrew Gill FIAA FNZSA
Appointed Actuary
RGA Reinsurance Company of Australia Limited

