RGA Reinsurance Company of Australia Limited

Annual Financial Report for the year ended 31 December 2013

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

ABN 14 072 292 712

BOARD

Directors

Ian A. Pollard (Chairman of the Board)

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

William J. Bartlett

Allan E. O'Bryant

Paul A. Schuster

Mark A. Stewart (Managing Director)

A. Greig Woodring

Brendan J. Galligan (Alternate Director)

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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 2013, 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

Allan E. O'Bryant

Paul A. Schuster

Mark A. Stewart (Managing Director)

A. Greig Woodring

Brendan J. Galligan (Alternate Director)

Secretary

W. Ian Enright

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

Key operating indicators for the Company are summarised as follows:

	2013 $'000	**2012 $'000**
Gross premium revenue from insurance contracts	822,204	709,964
Investment income	33,143	58,149
Net (loss) profit for the year after income tax	(72,726)	35,379
Net assets as at the end of the year	452,601	412,739

Gross insurance premium increased during the year by 15.8% (2012: 2.6% increase). This growth was primarily due to increased business volumes from individual business.

Net Investment income decreased by $25.0 million or 43.0% compared to the previous year. This decrease was driven predominantly by mark to market losses of $14.4m (2012: mark to market gains $4.9m) reflecting an increase in yields on fixed income securities from previous lows.

For 2013, the Company recorded a loss after tax for the year of $72.7 million (2012: profit after tax of $35.4 million). This was primarily due to a reserve strengthening following deterioration in claims experience for both group business and, to a lesser extent, individual disability business. Total claims and expenses grew by 21.9% to $790.3 million.

The effective tax charges in 2013 and 2012 were less than the Australian company tax rate of 30% due to the treatment of certain of the Company's reinsurance arrangements under the Income Tax Assessment Act 1997.

Directors' Report

Review and results of operations (continued)

Net assets increased by $39.9 million or 9.7% to $452.6 million at the end of 2013. This largely reflected the transfer in of New Zealand reinsurance business from a related entity, RGA Reinsurance Company Limited and new issues of ordinary shares by the Company to its immediate parent entity, offset by the losses arising during the year as outlined above.

Net assets transferred in for the New Zealand business amounted to $64.9 million. Refer *State of Affairs* below and note 21(e) for further detail.

The new issues of ordinary shares during the year totalled $45.0 million, together with a redemption of $5.0 million of preference shares. Refer note 17 for further detail.

Dividends

No dividends were declared or paid during the 2013 financial year (2012: nil).

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 Reserve Bank of New Zealand ("RBNZ") approved the transfer of the New Zealand reinsurance portfolio from a related entity, RGA Reinsurance Company Limited, to the Company. During July 2013, the reinsurance treaties including the reinsurance assets and the reinsurance liabilities were transferred to the Company's Statutory Fund 2.

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 be likely to 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.

Directors' Report

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.

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.

Rounding of amounts

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 21st day of March 2014

Deloitte.

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

21 March 2014

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 2013, 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

DELOITTE TOUCHE TOHMATSU

Peter A. Caldwell
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Touche Tohmatsu Limited

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2013

	Notes	2013 $'000	2012 $'000
Revenue			
Premium revenue from reinsurance contracts		822,204	709,964
Outward reinsurance expense		(286,145)	(201,784)
Net insurance premium revenue		536,059	508,180
Investment income	5(a)	33,143	58,149
Other income	5(b)	126,256	105,213
Net revenue		**695,458**	**671,542**
Claims and expenses			
Claims expense from reinsurance contracts	6	592,933	487,639
Reinsurance recoveries	6	(180,685)	(85,146)
Net claims expense		412,248	402,493
Movement in net insurance contract liabilities	16(a)	121,903	18,239
Policy acquisition costs	8	115,291	111,636
Other expenses	8	139,551	115,927
Finance costs	9	1,350	-
Total claims and expenses		**790,343**	**648,295**
Net (loss) profit before related income tax expense		**(94,885)**	**23,247**
Income tax (benefit)	11	(22,159)	(12,132)
Net (loss) profit for the year	7	**(72,726)**	**35,379**
Other comprehensive income, net of tax			
Items that may be reclassified to profit or loss:			
Foreign currency translation reserve movement	23	7,639	74
Total other comprehensive income for the year		7,639	74
Total comprehensive income for the year		**(65,087)**	**35,453**

Net (loss) profit for the year and total other comprehensive income for the year are attributable to the members of RGA Reinsurance Company of Australia Limited

The Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the accompanying notes.

Statement of Financial Position
as at 31 December 2013

	Notes	2013 $'000	2012 $'000
Assets			
Cash and cash equivalents	24(a)	113,193	40,077
Investments	13(a)	1,002,553	853,104
Premiums receivable	12	233,565	198,924
Other receivables	12	62,897	64,017
Gross insurance contract liabilities ceded	16(a)	576,638	409,267
Deferred tax asset	14	29,657	8,524
Total assets		**2,018,503**	**1,573,913**
Liabilities			
Payables	15	513,351	373,988
Gross insurance contract liabilities assumed	16(a)	1,052,551	787,186
Total liabilities		**1,565,902**	**1,161,174**
Net assets		**452,601**	**412,739**
Equity			
Issued share capital	17	128,250	88,250
Entities under common control reserve	21(e)	64,949	-
Foreign currency translation reserve	23	7,713	74
Retained earnings	23	251,689	324,415
Total equity attributable to the members of RGA Reinsurance Company of Australia Limited	23	**452,601**	**412,739**

The Statement of Financial Position is to be read in conjunction with the accompanying notes.

Statement of Changes in Equity
for the year ended 31 December 2013

	Note	Issued share capital $'000	Entities under common control reserve $'000	Foreign currency translation reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2012		**88,250**	**-**	**-**	**289,036**	**377,286**
Net profit for the year		-	-	-	35,379	35,379
Entities under common control reserve	21(e)	-	-	-	-	-
Foreign currency translation		-	-	74	-	74
Balance at 31 December 2012		**88,250**	**-**	**74**	**324,415**	**412,739**
Net (loss) for the year		-	-	-	(72,726)	(72,726)
Entities under common control reserve	21(e)	-	64,949	-	-	64,949
Issue of share capital	17	40,000	-	-	-	40,000
Foreign currency translation		-	-	7,639	-	7,639
Balance at 31 December 2013		**128,250**	**64,949**	**7,713**	**251,689**	**452,601**

The Statement of Changes in Equity is to be read in conjunction with the accompanying notes.

Statement of Cash Flows
for the year ended 31 December 2013

	Notes	2013 $'000	2012 $'000
Cash flows from operating activities			
Premium received		797,710	644,082
Retrocession premium paid		(219,100)	(234,904)
Claims paid		(530,401)	(501,118)
Allowances paid		(198,968)	(131,066)
Retrocession allowances received		104,280	98,846
Retrocession recoveries received		140,604	127,838
Interest received		45,680	42,777
Interest charges and fees		(1,350)	-
Payments to suppliers		(27,321)	(20,020)
Other cash receipts		1,347	12,377
Income tax refund received		4,586	480
Net cash provided by operating activities	24 (b)	**117,067**	**39,292**
Cash flows from investing activities			
Sale of investments		429,651	879,524
Purchase of investments		(588,794)	(916,909)
Net cash inflow on transfer between entities under common control	21 (e)	73,476	-
Net cash (used in) investing activities		**(85,667)**	**(37,385)**
Cash flows from financing activities			
Redemption of preference share		(5,000)	-
Issues of ordinary shares		45,000	-
Net cash received from financing activities		**40,000**	-
Net increase in cash and cash equivalents		**71,400**	**1,907**
Cash and cash equivalents at the beginning of the financial period		40,077	38,096
Effect of foreign exchange rate changes		1,716	74
Cash and cash equivalents at the end of the financial year	24 (a)	**113,193**	**40,077**

The Statement of Cash Flows is to be read in conjunction with the accompanying notes.

Notes to the Financial Statements

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 21 March 2014.

(b) Adoption of new and revised accounting standards

In the current year, a number of new and revised Australian Accounting Standards (AASB Standards) became effective for accounting periods beginning on or after 1 January 2013. These include AASB AASB 11 *Joint Arrangements*, AASB 119 *Employee Benefits* (Revised 2011), AASB 13 *Fair Value Measurement*, amendments to AASB 101 *Presentation of Financial Statements* and AASB 12 *Disclosure of Interests in Other Entities*.

The application of these new and amended AASB Standards has not resulted in any changes in accounting policy or changes in disclosures except as set out below.

(i) *Amendments to AASB 101 for Presentation of Items of Other Comprehensive Income*

The Company has applied the amendments to AASB 101 for the presentation of items of other comprehensive income (OCI) for the first time in the current year.

The amendments to AASB 101 introduce a grouping of items presented in OCI. Items that will be reclassified to profit or loss at a future point in time have to be presented separately from items that will not be reclassified. Currently the only item presented in OCI is exchange differences arising on translation of foreign operations. This has been presented as an 'item that may be reclassified subsequently to profit or loss'.

The amendments also introduce new terminology. The 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income'. The amendments affect presentation only and have no impact on the Company's financial position or performance.

(ii) *AASB 13 Fair Value Measurement*

The Company has applied AASB 13 for the first time in the current year.

AASB 13 establishes a single source of guidance for all fair value measurements. AASB 13 does not alter when an entity is required to use fair value, but rather provides guidance on how to measure fair value when fair value is required or permitted by other standards. AASB 13 defines fair value as an exit price. As a result of the guidance in AASB 13, the Company re-assessed its policies for measuring fair values and has determined that the application of AASB 13 has not materially impacted the fair value measurements applied.

AASB 13 also requires additional disclosures. These disclosures are provided in Note 13.

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

(b) Adoption of new and revised accounting standards (continued)

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 1038[2]	Life Insurance Contracts	1 January 2014
AASB 132[2]	Financial Instruments: Presentation	1 January 2014

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

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

(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.

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

(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 Profit or Loss and Other 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.

(e) Business combinations under common control

Business combinations under common control are accounted for in the Company accounts prospectively from the date the Company obtains the ownership interest. Assets and liabilities are recognised at their carrying amounts at the highest level of common control. Any difference between the fair value of the consideration paid by the Company and the amounts at which the assets and liabilities are recorded in the financial statements of the Company, is recognised directly in equity in the 'entities under common control' reserve.

(f) 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 Profit or Loss and Other 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.

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

(g) 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 ceded.

(h) 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 upon notification of the insured event.

(i) 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 Profit or Loss and Other 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 Profit or Loss and Other Comprehensive Income over the expected duration of the relevant policies.

(j) 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.

(k) 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.

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

(k) Income tax (continued)

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 to the extent that it is considered 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.

(l) 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.

(m) 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 Profit or Loss and Other 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 assets and liabilities denominated in New Zealand dollars is recognised as a separate component of equity.

(n) 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 Profit or Loss and Other 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;

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

(n) Assets backing insurance contract liabilities (continued)

- 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.

(o) 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 13.

(p) 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 net of overdrafts.

(q) Receivables

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

(r) 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 ceded.

(s) Outstanding claims liability

The outstanding claims liability is recorded as part of payables. For claims with a lump sum benefit, the outstanding claims liability 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 outstanding claims liability is measured as the monthly benefit multiplied by the number of payments outstanding at the balance date, on any claim notified to the Company prior to that date.

(t) 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 Profit or Loss and Other Comprehensive Income over the expected duration of the relevant policies.

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

(u) Life insurance contract liabilities

Life insurance contract liabilities are recorded using a methodology referred to as 'Margin on Services' (MoS). Under MoS the excess of premium received over claims and expenses ('the margin') is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder ('the service'). The movement in life insurance contract liabilities recognised in the Statement of Profit or Loss and Other Comprehensive Income reflects the planned release of this margin.

The life insurance contract liabilities are measured as the accumulated benefits to policyholders. Further details of the method used and the assumptions made in valuing life insurance contract liabilities are set out in note 3.

The valuation of life insurance contract liabilities is consistent with the basis prescribed for regulatory reporting in accordance with Life Prudential Standard LPS 340 Valuation of Policy Liabilities.

(v) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In those circumstances, the GST is recognised as part of the cost of acquisition of an asset or as part of an item of expense.

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the tax authority is included as part of current assets or liabilities in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

(w) Share based payments

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 and conditional rights are 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, publicly available industry data, interest rates, taxes, investment market conditions and general economic conditions may 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 which the Company has entered into with retrocessionaires are also computed using the above methods where required. The majority of these reinsurance contracts entered into are with a related company and recoverability of these and other such assets is not considered to be impaired by any counterparty or credit risk.

(c) Deferred tax assets

Determining whether deferred tax assets are recognised requires an estimation of future taxable profits against which the assets can be released. This estimation process is based on relevant available information pertaining to the business and the exercise of management judgement.

Recognition therefore involves judgements and estimations regarding the future financial performance of the Company and reflects a prudent regard, where considered appropriate, for the inherent uncertainties associated with making such estimations and judgements in relation to deferred tax assets.

Details of the carrying amount of the deferred tax asset are set out in Note 14.

Notes to the Financial Statements

3 Actuarial assumptions and methods

The effective date of the actuarial report on the insurance contract liabilities, capital adequacy position and solvency requirement is 31 December 2013. The actuarial report was prepared by the Appointed Actuary, Mr Andrew Gill (FIAA, FNZSA), and dated 21 March 2014. 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 340 *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 unrecouped 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 and New Zealand 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:

- Australia: 2.3% to 4.4% pa (2012: 2.5% to 3.3% pa) for individual and group business
- New Zealand: 3.1% to 4.7% pa (2012: n/a) for individual and group business

Discount rates adopted 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 and Reserve Bank of New Zealand's inflation targets, 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.

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:

	Australia		**New Zealand**	
Class of business	**2013**	**2012**	**2013**	**2012**
Ordinary life insurance business	30%	30%	28%	n/a
Other business (including accident and disability)	30%	30%	28%	n/a
Shareholders fund	30%	30%	n/a	n/a

(v) Mortality and morbidity

Lump sum

For Australian individual business:

- future mortality was assumed to be a range of percentage adjustments applied to 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.

For New Zealand individual business:

- future mortality was assumed to be a range of percentage adjustments applied to the NZ04 mortality table;
- 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 in Australia and New Zealand, future mortality and TPD assumptions are based on the Company's and life insurance 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

<u>Australia</u>

Future rates of discontinuance for the major classes of lump sum business are assumed in aggregate to be between 4.5% and 57.5% (2012: 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 4.8% and 46.3% (2012: 8.1% and 35.0%) per annum depending on the age, duration, occupation, sex and waiting period of the life insured.

Notes to the Financial Statements

3 Actuarial assumptions and methods (continued)

(a) Disclosure of assumptions (continued)

(vi) Rates of discontinuance (continued)

New Zealand

Future rates of discontinuance for the major classes of lump sum business are assumed in aggregate to be between 6.2% and 52.2% 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 5.5% and 46.8% per annum depending on the age, duration, occupation, sex and waiting period of the life insured.

(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)	
	2013	**2012**	**2013**	**2012**
Discount rates				
Individual business	n/a	n/a	2,629	(1,734)
Group business	n/a	n/a	514	10,731
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**	**3,143**	**8,997**

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 underwritten. 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 in the table to reflect 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.

3 Actuarial assumptions and methods (continued)

(c) Processes used to select assumptions (continued)

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.

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 may 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 potentially 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.

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 net (loss) profit and equity of the Company (after tax and retrocession).

	Change in variable %	Profit / (loss) 2013 $'000	Equity at 31 December 2013 $'000
Balance per financial statements		(72,726)	452,601
Change in balance as a result of change in variables:			
Worsening of future mortality and morbidity claim costs	10%	(78,933)	(78,933)
Worsening of discontinuance rate	20%	(7,370)	(7,370)
Improvement in discontinuance rate	(20%)	-	-
Increase in discount rate	1%	5,421	5,421
Reduction in discount rate	(1%)	(5,994)	(5,994)
Increase in future maintenance expenses	10%	(3,886)	(3,886)
Increase in future inflation rate	1%	(10,147)	(10,147)

Notes to the Financial Statements

3 Actuarial assumptions and methods (continued)

(c) Processes used to select assumptions (continued)

	Change in variable	Profit / (loss) 2012 $'000	Equity at 31 December 2012 $'000
Balance per financial statements		35,379	412,739
Change in balance as a result of change in variables:			
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

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, assessment of risk level, 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 in order to satisfy the Solvency and Capital Adequacy requirements set by APRA (Life Prudential Standard LPS 100 Solvency Standard and Life Prudential Standard LPS 110 Capital Adequacy Standard). Additional capital is held to provide a buffer above these requirements which allows for further adverse experience and/or additional growth of the business before these regulatory requirements would be impacted. The Directors of the Company monitor the level of capital against this buffer and, also conduct reviews of the level of capital in the context of business strategy and performance, to assist in predicting when additional capital may be required.

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 in relation to methodology and assumptions. Pricing bases include appropriate return on capital targets.

Experience analysis

Experience studies are conducted regularly to determine the adequacy of pricing and reserving 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 investment 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 of 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 primarily 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. 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)

(d) Methods to limit or transfer insurance risk exposures (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) Investment income

	2013 $'000	2012 $'000
Interest income:		
Bank deposits	1,947	1,385
Investments at fair value through profit or loss	47,256	43,270
Gain on disposal of investments	(1,702)	8,553
Change in fair value of investments carried at fair value through profit or loss	(14,358)	4,941
Total investment income	**33,143**	**58,149**

(b) Other income

	2013 $'000	2012 $'000
Retrocession allowances	124,893	91,495
Other treaty income	1,347	13,718
Other income	16	-
Total other income	**126,256**	**105,213**

6 Claims expense

	2013 $'000	2012 $'000
Death and disability	592,933	487,639
Claims expense paid or payable	**592,933**	**487,639**
Less:		
Outward reinsurance claims expense received or receivable	(180,685)	(85,146)
Net claims expense	**412,248**	**402,493**

Notes to the Financial Statements

7 Net (loss) Profit for the year

	2013 $'000	2012 $'000
Net (loss) profit after income tax arose from:		
Planned margins of revenues over expenses released	3,745	11,664
Difference between actual and assumed experience	(75,522)	(2,302)
Effects of changes to underlying assumptions	(2,205)	(6,298)
Loss recognition	(14,936)	-
Investment earnings on assets in excess of insurance contract liabilities	16,192	32,315
Net profit after income tax	**(72,726)**	**35,379**

8 Operating expenses

	2013 $'000	2012 $'000
Policy acquisition costs		
Allowances	108,021	104,421
Other acquisition costs	7,270	7,215
Total Policy acquisition costs	**115,291**	**111,636**
Other expenses		
Allowances	119,010	99,927
Other maintenance costs	19,151	14,711
Investment management fees	1,390	1,289
Total other expenses	**139,551**	**115,927**

9 Finance costs

	2013 $'000	2012 $'000
Finance costs from related parties (*see note 21(d)*)	1,350	-
Total finance costs	**1,350**	**-**

10 Dividends

No dividends were declared or paid for the 2013 financial year (2012: nil).

11 Income tax expense

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

	2013 $'000	2012 $'000
Net (loss) profit before related income tax expense	**(94,885)**	**23,247**
Prima facie tax on net profit at 30% (2012: 30%)	**(28,466)**	**6,974**
Difference in the New Zealand tax rate	(38)	-
Tax effect of:		
Permanent differences	(28,851)	(19, 095)
Utilisation of New Zealand tax losses (*see related parties note 21(f)*)	(537)	(11)
Unused tax losses not recognised as a deferred tax asset	35,733	-
Total income tax benefit attributable to net profit	**(22,159)**	**(12,132)**
Income tax benefit comprises:		
Current tax	(1,026)	(1,069)
Deferred tax	(21,133)	(11,063)
Total income tax benefit attributable to net profit	**(22,159)**	**(12,132)**

Notes to the Financial Statements

12 Receivables

	2013 $'000	2012 $'000
Premiums receivable		
Premiums receivable [(1)]	233,565	198,924
Total premiums receivable	**233,565**	**198,924**
Other receivables		
Accrued investment income	14,272	10,790
Related corporations[(1)]	48,625	53,227
Total other receivables	**62,897**	**64,017**
Total receivables	**296,462**	**262,941**
Made up as:		
Receivable within 12 months	296,332	262,941
Receivable in more than 12 months	130	-
	296,462	**262,941**

(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 $36.1 million (2012: $36.8 million) which are past due at the reporting date. The Company believes that these amounts are fully recoverable.

Notes to the Financial Statements

13 Fair value measurement

This note provides information about how the Company determines fair values of various financial assets and liabilities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at measurement date.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

(a) Fair value of the Company's financial assets that are measured at fair value on a recurring basis

The following financial assets are designated at fair value through profit or loss as they are assets backing insurance contract liabilities. The assets are measured at fair value at the end of each reporting period.

Financial assets at fair value	2013 $'000 Total	2013 $'000 Level 1	2013 $'000 Level 2	2013 $'000 Level 3
Interest bearing securities:				
- National government	101,553	-	101,553	-
- Other public sector	527,725	-	527,725	-
- Private sector	373,275	-	373,275	-
Total investments at fair value through profit or loss	**1,002,553**	**-**	**1,002,553**	**-**
Receivables:				
- Investment income	14,272	-	14,272	-
- Premiums Receivable	233,565	-	-	233,565
- Related corporations	440	-	-	440
Total receivables at fair value through profit or loss	**248,277**	**-**	**14,272**	**234,005**

Notes to the Financial Statements

13 Fair value measurement (Continued)

(a) Fair value of the Company's financial assets that are measured at fair value on a recurring basis (*continued*)

Financial assets at fair value	2012 $'000 Total	2012 $'000 Level 1	2012 $'000 Level 2	2012 $'000 Level 3
Interest bearing securities:				
- National government	167,120	-	167,120	-
- Other public sector	251,409	-	251,409	-
- Private sector	434,575	-	434,575	-
Total investments at fair value through profit or loss	**853,104**	**-**	**853,104**	**-**
Receivables:				
- Investment income	10,790	-	10,790	-
- Premiums Receivable	198,924	-	-	198,924
- Related corporations	-	-	-	-
Total receivables at fair value through profit or loss	**209,714**	-	**10,790**	**198,924**

All interest bearing securities are publicly quoted with fixed maturity dates. Fair values have been determined using quoted bid prices obtained from independent pricing services.

Receivables are measured at amortised cost. The directors consider that the carrying amount of receivables recognised in the financial statements approximate their fair values.

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

(b) Fair value of the Company's financial assets and financial liabilities that are not measured at fair value on a recurring basis but for which fair value disclosures are required

The directors consider that the carrying amount of the following financial liabilities recognised in the financial statements approximates their fair values.

	2013 $000 Total Level 3	2012 $000 Total Level 3
Financial liabilities (*measured at amortised cost*)		
Payables:		
- Accounts payable	790	351
- Related corporations	4,390	399
Total Payables	**5,180**	**750**

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

Notes to the Financial Statements

14 Deferred tax

	Balance 1-Jan-2012 $'000	Recognised in 2012 Profit or Loss $'000	Balance 31-Dec-2012 $'000	Recognised in 2013 Profit or Loss $'000	Balance 31-Dec-2013 $'000
Deferred tax asset					
Accrued expenses	-	-	-	146	146
Insurance related items	-	-	-	6,401	6,401
Current year tax benefit deferred	2,966	13,419	16,385	11,157	27,542
	2,966	**13,419**	**16,385**	**17,704**	**34,089**
Deferred tax liability					
Investments	3,432	3,047	6,479	(2,738)	3,741
Investment income	2,073	(691)	1,382	(691)	691
	5,505	**2,356**	**7,861**	**(3,429)**	**4,432**
Net deferred tax asset/(liability)	**(2,539)**	**11,063**	**8,524**	**21,133**	**29,657**

The Company has unused tax losses in Australia for which no deferred tax assets have been recognised of $35.7 million (2012: $Nil). These losses are available indefinitely for offsetting against future taxable profits.

Notes to the Financial Statements

15 Payables

	2013 $'000	2012 $'000
Assumed allowances payable[(1)]	158,250	125,227
Accounts payable [(1)]	790	351
Outstanding claims [(2)]	349,921	248,011
Related corporations	4,390	399
Total payables	**513,351**	**373,988**
Made up as:		
Payable within 12 months	513,351	373,988
Payable in more than 12 months	-	-
	513,351	**373,988**

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

(2) Outstanding claims includes amounts in respect of claims which have been notified prior to balance date where final assessment of the claim is not yet complete. The Company generally settles claims payable within 30 days of the final assessment date of the claim.

Notes to the Financial Statements

16 Insurance contract liabilities

(a) Reconciliation of movements in insurance contract liabilities

		2013 $'000	2012 $'000
Insurance contract liabilities			
Gross insurance contract liabilities at 1 January		787,186	731,899
Additions on transfer of the New Zealand business		3,801	-
Liabilities (withdrawn) / assumed during the year		(28,800)	(37,199)
Increase in insurance contract liabilities reflected in the Statement of Profit or Loss and Other Comprehensive Income	(i)	290,241	92,486
Foreign exchange adjustment		123	-
Gross insurance contract liabilities at 31 December		**1,052,551**	**787,186**
Liabilities ceded under reinsurance			
Opening balance at 1 January		409,267	354,053
Liabilities (withdrawn) / ceded during the year		(752)	(19,033)
Increase in reinsurance assets reflected in the Statement of Profit or Loss and other Comprehensive Income	(ii)	168,338	74,247
Foreign exchange adjustment		(215)	-
Gross insurance contract liabilities ceded under reinsurance at 31 December		**576,638**	**409,267**
Net insurance contract liabilities at 31 December		**475,913**	**377,919**
Made up as:			
Expected to be realised within 12 months		260,446	218,775
Expected to be realised in more than 12 months		215,467	159,144
		475,913	**377,919**
Note:			
(i) less (ii) = increase in net insurance contract liabilities as disclosed in the Statement of Profit or Loss and Other Comprehensive Income		**121,903**	**18,239**

(b) Components of net life insurance contract liabilities

Future policy benefits	635,547	467,692
Future charges for acquisition costs	(159,634)	(89,773)
Net life insurance contract liabilities	**475,913**	**377,919**

Notes to the Financial Statements

16 Insurance contract liabilities (continued)

(c) Capital adequacy and solvency requirements

(i) Capital adequacy

In accordance with the APRA Life Prudential Standard (LPS) 110 'Capital Adequacy', the capital adequacy position of the Company and each of the funds as at 31 December 2013 is disclosed below.

Capital adequacy position of the Company	**2013 $'000**
Common Equity Tier 1 Capital	252,744
Regulatory adjustments applied in the calculation of Common Equity Tier 1 Capital	199,857
Additional Tier 1 Capital	-
Regulatory adjustments applied in the calculation of Additional Tier 1 Capital	-
Tier 2 Capital	-
Regulatory adjustments applied in the calculation of Tier 2 Capital	-
(a) Capital Base	252,744
(b) Prescribed capital amount	206,660
Capital in excess of prescribed capital amount = (a) – (b)	46,084
Capital adequacy multiple = (a)/(b)	122%

Notes to the Financial Statements

16 Insurance contract liabilities (continued)

(c) Capital adequacy and solvency requirements (continued)

(i) Capital adequacy

Capital adequacy position of the funds	Statutory Fund 1 2013 $'000	Statutory Fund 2 2013 $'000	Shareholder Fund 2013 $'000	Total 2013 $'000
(a) Capital Base	215,705	32,545	4,494	252,744
(b) Prescribed capital amount	186,480	20,017	163	206,660
Capital in excess of prescribed capital amount = (a) – (b)	**29,225**	**12,528**	**4,331**	**46,084**
Capital adequacy multiple = (a)/(b)	**116%**	**163%**	**2757%**	**122%**
Capital Base comprises:				
(a) Net assets after applying any regulatory adjustments	215,705	32,545	4,494	252,744
Regulatory adjustments applied to net assets	144,831	55,073	(47)	199,857
(b) Tier 2 Capital	-	-	-	-
Regulatory adjustment applied in calculation of Tier 2 capital	-	-	-	-
Capital Base (a)-(b)	**215,705**	**32,545**	**4,494**	**252,744**
Prescribed capital amount comprises:				
Insurance risk	-	11,127	-	11,127
Asset risk	47,690	2,824	114	50,628
Asset concentration risk	-	-	-	-
Operational risk	15,794	2,878	-	18,672
Aggregation benefit	-	(1,936)	-	(1,936)
Combined scenario adjustment	122,996	5,124	49	128,169
Prescribed capital amount	**186,480**	**20,017**	**163**	**206,660**

(ii) Solvency

Under Life Prudential Standard (LPS) 100 'Solvency Standard', the solvency requirement for each fund is met if the capital base of the fund exceeds 90% of the fund's prescribed capital amount. This requirement has been met for each fund during the year to 31 December 2013.

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

Investments held in RGAA's 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.

Notes to the Financial Statements

16 Insurance contract liabilities (continued)

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

	2013 $'000	2012 $'000
Reported policy liability	475,913	377,919
Plus: Variations in valuation of DAC assets	-	-
Plus: Change in the use of the discount rate	-	-
Life Act results	**475,913**	**377,846**

17 Share capital

	2013 Number	2012 Number	2013 $'000	2012 $'000
Issued and paid-up share capital:				
Ordinary shares	126,250,000	81,250,000	128,250	83,250
Redeemable preference share	-	1	-	5,000
Total share capital	126,250,000	81,250,001	128,250	88,250

Share capital is recognised at the fair value of consideration received by the Company.

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.

During the year, $5,000,000 of redeemable preference shares were redeemed and in turn $5,000,000 of new ordinary shares were issued. Additional tranches of new ordinary shares totalling $40,000,000 were also issued during the year to increase the Company's capital base. There were no shares issued during 2012.

18 Auditor's remuneration

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

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 conditional rights, and performance contingent units. All expenses relating to this are borne by RGAH.

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

(a) Stock options and conditional rights

In general, options and conditional rights granted under the plan become exercisable over vesting periods ranging from one to five years. Options and conditional rights 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.

	2013		2012	
	Number of options and conditional rights	**Weighted average exercise price US$**	**Number of options and conditional rights**	**Weighted average exercise price US$**
Outstanding at the beginning of the year	48,103	50.23	38,640	47.65
Granted during the year	12,118	58.77	18,629	56.65
Exercised/lapsed during the year	(19,284)	46.59	(1,017)	35.77
Forfeited during the year	(13,927)	51.29	(8,149)	54.45
Outstanding at the end of the year	27,010	56.12	48,103	50.23
Exercisable at the end of the year	12,869	54.03	25,644	47.90

The options and conditional rights outstanding at the end of the year have a weighted average remaining contractual life of 7.7 years (2012: 7.4 years). The estimated fair value of each option and conditional right granted during this period was US$18.58 (2012: US$19.65).

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

	2013	2012
Expected life	7 years	7 years
Expected volatility	35.4%	37.1%
Risk free interest rate	1.4%	1.4%
Expected dividend yield	1.6%	1.3%

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$58.77 per PCU (2012: US$56.65). 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.

	2013		2012	
	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	13,200	55.32	12,587	45.02
Granted during the year	4,231	58.77	7,004	56.65
Exercised / lapsed during the year	(3,166)	47.10	(5,286)	32.20
Forfeited during the year	(5,579)	58.10	(2,483)	55.95
Transfers (out) / in	-	-	1,378	55.04
Outstanding at the end of the year	8,686	58.21	13,200	55.32

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

Ian A. Pollard

Mark E. Turner

William J. Bartlett

Non-Executive Directors

Allan E. O'Bryant

Paul A. Schuster

A. Greig Woodring

Brendan J. Galligan (Alternate)

Executive Director

Mark A. Stewart

(b) Committee membership

In addition to their membership of the Board of the Company the following table details other committees of which the directors were members during the year ended 31 December 2013.

	Board Audit and Risk Committee	Investment Committee	Board Remuneration Committee
William J. Bartlett	X	X	X
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
A. Greig Woodring	-	-	-
Brendan J. Galligan (Alternate)	-	-	-

(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 include certain 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:

	2013	2012
	$'000	**$'000**
Short-term employee benefits	3,510	2,502
Post-employment benefits	194	164
Share based payments	519	364
Total	**4,223**	**3,030**

All management personnel compensation is paid by RGAH.

21 Related party transactions

(a) Ultimate parent entity

The Company's immediate parent entity is RGA Australian Holdings Pty Limited (RGAH). RGAH is incorporated in Australia. The Company is 100% owned by RGAH.

The Company's ultimate parent entity 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.

(b) 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.

(c) Trading transactions with related parties

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

(i) The vast majority of 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 2013 amounts receivable were $48,185,976 (2012: $53,226,570)

(ii) The Company also procured administrative services and investment management services from RGA Re under service agreements. Total fees incurred were $102,820 (2012: $307).

(iii) RGAH provided management and administrative services to the Company under a service agreement. Total management and service fees incurred were $26,033,716 (2012: $20,234,004).

Notes to the Financial Statements

21 Related party transactions (continued)

(c) Trading transactions with related parties (continued)

(iv) The Company regularly settles balances associated with related party transactions. As at 31 December 2013, total related party receivables were $440,000 (2012: $4,985,107) and total related party payables were $4,390,000 (2012: $4,585,607).

(d) Demand guarantee provided by a related party

During 2013, RGA Re applied for, and was issued, a guarantee by an Australian authorised deposit taking institution for the benefit of the Company. In accordance with the terms of the guarantee, a portion of amounts recoverable by the Company under retrocession arrangements with RGA Re are guaranteed to a specified amount and under certain conditions, including non-performance by RGA Re.

Total fees paid by the Company to RGA Re for the benefit of this guarantee were $1,350,000 during 2013 (2012: Nil). As at 31 December, the total amount outstanding to RGA Re was $Nil (2012: $Nil).

(e) Business combination with a related entity under common control

In July 2013, the reinsurance treaties of the New Zealand Branch of RGA Reinsurance Company Limited (RGA Re), including the reinsurance assets and the reinsurance liabilities, were transferred to Statutory Fund 2 of the Company.

As RGA Re is a subsidiary of the Company's ultimate parent entity, RGA Inc. the transfer is a business combination between entities under common control. The difference between cash received on transfer and the amounts at which the reinsurance assets and reinsurance liabilities have been recorded is recognised directly in equity in the 'entities under common control reserve'.

The information in the following table summarises the assets and liabilities recorded by the Company on the transfer date:

	$'000
Cash	73,476
Premium receivable	10,040
Claims notified	(10,330)
Allowances payable	(4,436)
Insurance contract liabilities	(3,801)
Amount recognised in the 'Entities under common control reserve'	**64,949**

Notes to the Financial Statements

21 Director and key management personnel disclosures (continued)

(f) New Zealand tax losses

The New Zealand branch of RGA Re and the New Zealand branch of the Company are grouped for New Zealand tax purposes. Income tax payable of $537,000 (2012: $10,920) in the New Zealand branch of the Company, for the period from the transfer date to 31 December 2013, is offset by tax losses carried forward in the New Zealand branch of RGA Re.

22 Disaggregated information

(a) Net assets

	2013 $'000				
	Statutory Fund 1	Statutory Fund 2	Shareholders Fund	Eliminations	Total
Financial assets	1,292,068	113,894	5,805		1,411,767
Other assets	600,293	6,490	-	(47)	606,736
Total assets	**1,892,361**	**120,384**	**5,805**	**(47)**	**2,018,503**
Life insurance liabilities	1,041,455	11,096	-		1,052,551
Other liabilities	490,370	21,670	1,358	(47)	513,351
Total liabilities	**1,531,825**	**32,766**	**1,358**	**(47)**	**1,565,902**
Net assets	**360,536**	**87,618**	**4,447**	**-**	**452,601**

	2012 $'000				
	Statutory Fund 1	Statutory Fund 2	Shareholders Fund	Eliminations	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**

Notes to the Financial Statements

22 Disaggregated information (continued)

(b) Net (loss) profit after tax

	2013 $'000			
	Statutory Fund 1	Statutory Fund 2	Shareholders Fund	Total
Net premium revenue	508,283	27,776	-	536,059
Investment income	32,622	316	205	33,143
Other income	125,830	426	-	126,256
Net revenue	**666,735**	**28,518**	**205**	**695,458**
Net claims expense	(394,177)	(18,071)	-	(412,248)
Change in net insurance contract liabilities	(121,435)	(468)	-	(121,903)
Policy acquisition costs	(111,931)	(3,360)	-	(115,291)
Other expenses	(133,479)	(4,682)	-	(138,161)
Finance costs	(1,350)	0	-	(1,350)
Investment management fee	(1,345)	(19)	(26)	(1,390)
Net (loss) profit before related income tax expense	**(96,982)**	**1,918**	**179**	**(94,885)**
Income tax benefit/(expense)	22,212	0	(53)	22,159
Net (loss) profit for the year	**(74,770)**	**1,918**	**126**	**(72,726)**

	2012 $'000			
	Statutory Fund 1	Statutory Fund 2	Shareholders Fund	Total
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**

Notes to the Financial Statements

23 Summary of shareholder interests

	2013 $'000			
	Statutory Fund 1	Statutory Fund 2	Shareholders Fund	Total
Retained profits				
Net (loss) profit after income tax	(74,770)	1,918	126	(72,726)
Shareholders retained profits at beginning of year	261,980	35	62,400	324,415
Retained profits at end of year	**187,210**	**1,953**	**62,526**	**251,689**
Capital				
Accumulated profits at the end of the year	187,210	1,953	62,526	251,689
Share capital	-	-	128,250	128,250
Capital transfer to statutory funds	173,326	13,003	(186,329)	-
Entities under common control reserve	-	64,949	-	64,949
Balance at end of year	**360,536**	**79,905**	**4,447**	**444,888**
Foreign currency translation reserve				
Opening balance	-	74	-	74
Movement during the year	-	7,639	-	7,639
Balance at end of year	-	**7,713**	-	**7,713**
Life Act shareholders' equity	**360,536**	**87,618**	**4,447**	**452,601**

	2012 $'000			
	Statutory Fund 1	Statutory Fund 2	Shareholders Fund	Total
Retained profits				
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**
Capital				
Accumulated profits at the end of the year	261,980	35	62,400	324,415
Share capital	-	-	88,250	88,250
Capital transfer to statutory funds	133,326	4,000	(137,326)	-
Foreign currency translation reserve				
Movement during the year	-	74	-	74
Life Act shareholders' equity	**395,306**	**4,109**	**13,324**	**412,739**

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 short term deposits held at call with financial institutions readily convertible to 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:

	2013 $'000	2012 $'000
Cash at bank	11,004	3,815
Deposits held at call	102,189	36,262
Total cash and cash equivalents	**113,193**	**40,077**

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

	2013 $'000	2012 $'000
Net profit for the year	**(72,726)**	**35,379**
Adjustments for non-cash and investing activities:		
Increase)/(decrease) in investment values	16,060	(13,494)
Net cash (used in) provided by operating activities before change in assets and liabilities	**(56,666)**	**21,885**
Change in assets and liabilities excluding impact of foreign exchange revaluation:		
Increase in premiums receivable	(23,150)	(59,099)
Decrease/(increase) in other receivables	2,107	(4,653)
Increase in insurance contract liabilities ceded	(166,670)	(55,214)
Increase in deferred tax assets	(21,133)	(8,524)
Increase in payables	121,906	92,149
Decrease in deferred tax liabilities	-	(2,539)
Increase in insurance contract liabilities assumed	260,673	55,287
Net cash provided by operating activities	**117,067**	**39,292**

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 2013, the Company held no derivative financial instrument contracts (2012: 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 interest rate 1 year or less 2013 $'000	Fixed Interest rate 1 year or less 2013 $'000	Fixed interest rate over 1 year 2013 $'000	Non-interest bearing 1 year or less 2013 $'000	Non-interest bearing over 1 year 2013 $'000	Total 2013 $'000	Weighted average interest rate 2013 %
Financial assets							
Cash at bank	113,193	-	-	-	-	113,193	2. 50
Receivables and outstanding premiums	-	-	-	296,332	130	296,462	
Investments	-	220,026	782,527	-	-	1,002,553	3.46
Total	**113,193**	**220,026**	**782,527**	**295,332**	**130**	**1,412,208**	
Financial liabilities							
Payables	-	-	-	513,351	-	513,351	
Total	**-**	**-**	**-**	**513,351**	**-**	**513,351**	

Notes to the Financial Statements

25 Financial risk management (continued)

(a) *Interest rate risk (continued)*

Type	Variable interest rate 1 year or less 2012 $'000	Fixed Interest rate 1 year or less 2012 $'000	Fixed interest rate over 1 year 2012 $'000	Non-interest bearing 1 year or less 2012 $'000	Non-interest bearing over 1 year	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**	

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 $13.2 million (2012: $9.1 million). A corresponding decrease of 0.5% would increase net profit and equity by $13.2 million (2012: $9.8 million) A sensitivity of 0.5% per annum has been selected as this is considered reasonable given the current environment for Australian and New Zealand 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 assets. The Company currently invests in fixed income and other specified securities, subject to certain issuer limits and restrictions, such that the average long term credit rating of the investment portfolio held within each statutory fund is AA-.

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.

25 Financial risk management (continued)

(c) 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 16(a).

(d) 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.

(e) Foreign currency risk

The Company operates in Australia and New Zealand. Assets are held in original currency to match the expected reinsurance contract liabilities. A residual foreign exchange translation exposure results from net assets of the New Zealand Branch.

As at 31 December 2013, a 10% strengthening of the Australian dollar against the New Zealand dollar would have decreased equity by $8.8 million (2012: $0.4 million). A 10% weakening of the Australian dollar against the New Zealand dollar would have had the equal but opposite effect to these amounts.

The following exchange rates applied during the year:

	Average rate		**Balance date rate**	
	2013	**2012**	**2013**	**2012**
NZD 1 = AUD	$0.8823	$0.7823	$0.9214	$0.7960

26 Contingencies

The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business. Legal proceedings can arise where the Company has a reinsured interest in a dispute between a client and its policyholders; or where there is a direct dispute between the Company and its client.

Where it is determined that the disclosure of information in relation to a contingent liability can be expected to prejudice seriously the position of the Company in a dispute, accounting standards allow the Company not to disclose such information and it is the Company's policy that such information is not disclosed in this note.

There are no other 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 50, 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 2013 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 21st day of March 2014

Deloitte.

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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 2013, the statement of profit and loss and other 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 51.

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.

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Deloitte.

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 2013 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

DELOITTE TOUCHE TOHMATSU

Peter A. Caldwell
Partner
Chartered Accountants
Melbourne, 21 March 2014