RGA Reinsurance Company of Australia Limited New Zealand Branch

Annual Financial Report for the year ended 31 December 2014

Registered Office and Principal Place of Business:
Level 13, Resimac House,
45 Johnston Street,
Wellington 6011

Company number: 3658254

RGA
The security of experience. The power of innovation.

www.rgare.com

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Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2014

	Note	2014 $'000	2013 $'000
Revenue			
Premium revenue from reinsurance contracts		81,250	41,710
Outward reinsurance expense		(7,548)	(9,895)
Net insurance premium revenue		73,702	31,815
Investment income	5(a)	6,161	407
Other income	5(b)	1,391	480
Net Revenue		**81,254**	**32,702**
Claims and expenses			
Claims expense from reinsurance contracts		64,874	21,467
Reinsurance recoveries		(8,011)	(1,084)
Net claims expense		56,863	20,383
Movement in net insurance contract liabilities	14(a)	844	515
Policy acquisition costs	7	4,950	3,943
Operating expenses	7	12,809	5,241
Total claims and expenses		**75,466**	**30,082**
Net profit before related income tax benefit		**5,788**	**2,620**
Income tax (benefit)/expense	9	(1,233)	-
Net profit for the year	6	**7,021**	**2,620**
Other comprehensive income for the year		-	-
Total comprehensive income for the year		**7,021**	**2,620**

Net profit for the year and total other comprehensive income for the year are attributable to members of RGA Reinsurance Company of Australia Limited – New Zealand Branch.

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 2014

	Note	2014 $'000	2013 $'000
Assets			
Cash and cash equivalents	20(a)	10,664	20,334
Investments	11(a)	95,335	83,154
Premiums receivable	10	21,945	19,593
Other receivables	10	5,495	795
Gross insurance contract liabilities ceded	14(a)	6,287	7,042
Deferred tax asset	12	1,233	-
Total assets		**140,959**	**130,918**
Liabilities			
Payables	13	26,712	23,781
Gross insurance contract liabilities assumed	14(a)	12,132	12,043
Total liabilities		**38,844**	**35,824**
Net assets		**102,115**	**95,094**
Equity			
Capital reserves	15	15,782	15,782
Entities under common control reserve	18(d)	76,646	76,646
Retained earnings	19	9,687	2,666
Total equity attributable to the members of RGA Reinsurance Company of Australia Limited	19	**102,115**	**95,094**

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 2014

	Note	Capital Reserves $'000	Entities under common control reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2013		**5,119**	-	**46**	**5,165**
Transfer from head office		10,663	-	-	10,663
Net profit for the year		-	-	2,620	2,620
Entities under common control reserve	18 (d)	-	76,646	-	76,646
Balance at 31 December 2013		**15,782**	**76,646**	**2,666**	**95,094**
Net profit for the year		-	-	7,021	7,021
Balance at 31 December 2014		**15,782**	**76,646**	**9,687**	**102,115**

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

Statement of Cash Flows
for the year ended 31 December 2014

	Note	2014 $'000	2013 $'000
Cash flows from operating activities			
Premium received		78,898	33,965
Retrocession premium paid		(7,231)	(8,524)
Claims paid		(60,788)	(20,697)
Allowances paid		(11,755)	(1,786)
Retrocession allowances received		2,460	220
Retrocession recoveries received		3,350	220
Interest received		4,845	1,589
Payments to suppliers and employees		(8,484)	(2,063)
Net cash generated from operating activities	20 (b)	**1,295**	**2,924**
Cash flows from investing activities			
Proceeds from sale of investments		114,808	20,360
Purchase of investments		(125,773)	(100,499)
Net cash inflow on business combination under common control	18 (d)	-	86,707
Net cash (used in)/generated from investing activities		**(10,965)**	**6,568**
Cash flows from financing activities			
Transfer from head office		-	10,663
Net cash generated from financing activities		**-**	**10,663**
Net (decrease)/increase in cash and cash equivalents		**(9,670)**	**20,155**
Cash at the beginning of the financial period		20,334	179
Cash at the end of the financial year	20 (a)	**10,664**	**20,334**

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

Notes to the Financial Statements

Notes to the Financial Statements

1 Summary of significant accounting policies

Set out below are the significant accounting policies followed in the preparation of the financial report of RGA Reinsurance Company of Australia Limited – New Zealand Branch (the "Branch") for the year ended 31 December 2014. These policies have been consistently applied to all periods presented, unless otherwise stated. The head office of the Branch is RGA Reinsurance Company of Australia Limited ("RGAA"), a company incorporated in Australia and licensed under Section 19 of the Insurance (Prudential Supervision) Act 2010 to carry on insurance business in New Zealand.

The Branch was licensed to carry on insurance business on 24 February 2012. The Branch commenced insurance operations during 2013 and in July 2013, the reinsurance treaties of a related party, RGA Reinsurance Company Limited, including the reinsurance assets and the reinsurance liabilities were transferred into the Branch. Refer Note 18(d) for further details.

(a) *Statement of compliance*

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

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

The financial report was authorised for issue by the Directors on 17 March 2015.

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

In the current year, a number of new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) became effective for accounting periods beginning on or after 1 January 2014. The application of these new and revised Standards has not resulted in any changes in accounting policy or changes in disclosures.

At the date of authorisation of the financial report, the following Standard, relevant to the Branch, was in issue but not yet effective:

	Title	Operative Date
AASB 9	Financial Instruments	1 January 2018

The potential effect of the revised Standard on the Branch's financial statements has not yet been determined.

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

(c) Basis of preparation

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

The financial report is presented in New Zealand Dollars ("NZD"), which is the Branch's functional currency. All amounts are reported in NZD unless otherwise stated.

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

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

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

Judgements made by management in the application of relevant 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.

(d) Principles for life insurance business

The life reinsurance operations of the Branch comprise the selling and administration of life reinsurance contracts. All contracts are non-investment linked business. All business written by the Branch is non-participating and all profits and losses are attributable 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 Branch accounts prospectively from the date the Branch 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 Branch and the amounts at which the assets and liabilities are recorded in the financial statements of the Branch, is recognised directly in equity in the 'entities under common control' reserve.

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

(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 Branch in the preparation of its financial statements. 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 Branch 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.

(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 expense

Claims expense from reinsurance contracts 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 policy 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)

(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 a 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.

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 Branch intends to settle its current tax assets and liabilities on a net basis.

1 Summary of significant accounting policies (continued)

(l) Assets backing insurance contract liabilities

The Branch has determined that all assets held within its Statutory Fund 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;

- 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.

(m) 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 bank overdrafts.

(n) Receivables

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

(o) 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.

(p) 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 Branch 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 Branch prior to that date.

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

(q) Deferred acquisition costs

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 policy 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.

(r) 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 (accumulation approach). The accumulation approach is used as it is considered to produce results that are not materially different from those that would be produced by a projection method. 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.

(s) Foreign currency

Foreign currency transactions are translated 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.

(t) 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 asset or liability 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.

Notes to the Financial Statements

2 Critical accounting estimates and judgements

The Branch makes estimates and assumptions that affect the reported amounts of assets and liabilities as at the end of the year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. 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 Branch'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 Branch has entered into with retrocessionaires are also computed using the above methods where required. These reinsurance contracts are 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 Branch 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 12.

3 Actuarial assumptions and methods

The effective date of the Financial Condition Report (containing the insurance contract liabilities, capital adequacy position and solvency requirement) is 31 December 2014. The Financial Condition Report was prepared by the Appointed Actuary, Mr David Hotchkies (FIAA), and dated 17 March 2015. The Financial Condition Report indicated that Mr Hotchkies was satisfied as to the accuracy of the data upon which insurance contract liabilities have been determined.

(a) Insurance contract liabilities

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").

Insurance contract liabilities of the Branch have been calculated under an accumulation approach, as permitted under LPS 340, 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.

In addition to the insurance contract liabilities calculated under the accumulation approach the insurance contact liabilities were adjusted for a number of reserve items including:

(i) Reserves for incurred but not reported claims,
(ii) Reserves for accumulated experience rebates,
(iii) Reserves for expected future payments on reported disability income claims.

(b) Disclosure of assumptions

(i) Discount rates

The yield curve for 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:

- 3.4% to 3.7% pa (2013: 3.1% to 4.7%) 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, Reserve Bank of New Zealand's inflation targets, and the average duration of the liabilities.

Notes to the Financial Statements

3 Actuarial assumptions and methods (continued)

(b) Disclosure of assumptions (continued)

(iii) Future expenses and indexation

Future maintenance expenses have been assumed at expected ongoing costs attributable to the Branch.

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.

(iv) Rates of taxation

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

Class of business	2014	2013
Ordinary life insurance business	28%	28%
Other business (including accident and disability)	28%	28%

(v) Mortality and morbidity

Lump sum

For 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 Branch's own research and experience.

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

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

Disability

Future disability claims costs are based on the past experience.

(vi) Rates of discontinuance

Future rates of discontinuance for the major classes of lump sum business are assumed in aggregate to be between 6.4% and 62.2% (2013: 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 42.9% (2013: 5.5% and 46.8%) 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)

(c) Effects of changes in actuarial assumptions

	Effect on net insurance contract liabilities $'000 increase/(decrease)	
	2014	**2013**
Discount rates		
Individual business	68	656
Group business	122	(11)
Mortality and morbidity		
Individual business	292	-
Group business	-	-
Discontinuance rates	-	-
Total	**482**	**645**

Figures in the table above are shown before tax.

(d) 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 Branch 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.

Discontinuance

An investigation into the actual experience of the major cedants of the Branch 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.

3 Actuarial assumptions and methods (continued)

(e) Sensitivity analysis

The Branch 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 Branch'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 Branch 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.

Notes to the Financial Statements

3 Actuarial assumptions and methods (continued)

(e) Sensitivity analysis (continued)

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

	Change in variable %	Profit/(Loss) 2014 $'000	Equity at 31 December 2014 $'000
Balance per financial statements		**7,021**	**102,115**
Change in balance as a result of change in variables:			
Worsening of future mortality and morbidity claim costs	10%	(34,804)	(34,804)
Worsening of discontinuance rate	20%	(3,547)	(3,547)
Improvement in discontinuance rate	(20%)	-	-
Increase in discount rate	1%	(2,736)	(2,736)
Reduction in discount rate	(1%)	2,481	2,481
Increase in future maintenance expenses	10%	(16)	(16)
Increase in future inflation rate	1%	(2,691)	(2,691)

	Change in variable %	Profit/(Loss) 2013 $'000	Equity at 31 December 2013 $'000
Balance per financial statements		**2,620**	**95,094**
Change in balance as a result of change in variables:			
Worsening of future mortality and morbidity claim costs	10%	(37,173)	(37,173)
Worsening of discontinuance rate	20%	(1,142)	(1,142)
Improvement in discontinuance rate	(20%)	-	-
Increase in discount rate	1%	(2,816)	(2,816)
Reduction in discount rate	(1%)	2,610	2,610
Increase in future maintenance expenses	10%	-	-
Increase in future inflation rate	1%	(2,414)	(2,414)

4 Risk and capital management policies and procedures

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

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

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

Financial risks are generally monitored and controlled by selecting appropriate assets to back insurance contract liabilities and the use of maximum acceptable limits for other financial risks such as liquidity risk and credit risk. Additional disclosures on financial instruments and associated risks are to be found in Note 21.

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

5 Revenue

(a) Investment income

	2014 $'000	2013 $'000
Interest Income:		
Bank deposits	543	262
Investments at fair value through profit or loss	4,402	2,120
Loss on disposal of investments	(1,218)	(122)
Change in fair value of investments carried at fair value through profit or loss	2,434	(1,853)
Total investment income	**6,161**	**407**

(b) Other income

	2014 $'000	2013 $'000
Retrocession allowances	1,391	463
Other income	-	17
Total other income	**1,391**	**480**

Notes to the Financial Statements

6 Net profit for the year

	2014 $'000	2013 $'000
Net profit after income tax arose from:		
Planned margins of revenues over expenses released	73	552
Difference between actual and assumed experience	501	2,286
Effects of changes to underlying assumptions	(482)	(645)
Loss recognition	-	-
Investment earnings on assets in excess of insurance contract liabilities	5,696	427
Income tax benefit	1,233	-
Net profit for the year	**7,021**	**2,620**

7 Operating expenses

	2014 $'000	2013 $'000
Policy acquisition costs		
Allowances	2,711	1,860
Other acquisition costs	2,239	2,083
Total policy acquisition costs	**4,950**	**3,943**
Other expenses		
Allowances	8,328	3,856
Other maintenance costs	4,442	1,362
Investment management fees	39	23
Total other expenses	**12,809**	**5,241**

8 Dividends

No dividends were declared or paid for the 2014 financial year (2013: nil).

Notes to the Financial Statements

9 Income tax expense

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

	2014 $'000	2013 $'000
Net profit before related income tax expense	**5,788**	**2,620**
Prima facie tax on net profit at 28% (2013: 28%)	1,621	734
Tax effect of:		
Permanent differences	(2,446)	(1,142)
Unused tax losses not recognised as a deferred tax asset	-	408
Underprovision in prior year	(408)	-
Total income tax benefit attributable to operating profit	**(1,233)**	-
Income tax expense comprises:		
Current tax	-	-
Deferred tax:		
Temporary differences	(825)	-
Underprovision in prior year	(408)	-
Total income tax (benefit)/expense attributable to operating profit	**(1,233)**	-

Notes to the Financial Statements

10 Receivables

	2014 $'000	2013 $'000
Total premiums receivable[(1)]	**21,945**	**19,593**
Other receivables		
Accrued investment income	896	795
Related corporations	4,599	-
Total other receivables	**5,495**	**795**
Total receivables	**27,440**	**20,388**
Made up as:		
Receivable within 12 months	27,440	20,322
Receivable in more than 12 months	-	66
	27,440	**20,388**

(1) The credit period for trade receivables and balances due from related corporations is generally 30 to 90 days. The trade receivable balance includes receivables (gross of allowances) of $10.7 million (2013: $9.1 million) which are past due at the reporting date. The Branch believes that these amounts are fully recoverable.

11 Fair value measurement

This note provides information about how the Branch 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 Branch 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

Notes to the Financial Statements

11 Fair value measurement (continued)

(a) Fair value of the Branch'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	2014 $'000 Total	2014 $'000 Level1	2014 $'000 Level 2	2014 $'000 Level 3
Interest bearing securities:				
- National government	47,376	-	47,376	-
- Private sector	47,959	-	47,959	-
Total investments at fair value through profit or loss	**95,335**	**-**	**95,335**	**-**
Receivables:				
- Investment income	896	-	896	-
- Premiums Receivable	21,945	-	-	21,945
Total receivables at fair value through profit or loss	**22,841**	**-**	**896**	**21,945**

Financial assets at fair value	2013 $'000 Total	2013 $'000 Level1	2013 $'000 Level 2	2013 $'000 Level 3
Interest bearing securities:				
- National government	83,154	-	83,154	-
Total investments at fair value through profit or loss	**83,154**	**-**	**83,154**	**-**
Receivables:				
- Investment income	795	-	795	-
- Premiums Receivable	19,593	-	-	19,593
Total receivables at fair value through profit or loss	**20,388**	**-**	**795**	**19,593**

All 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.

Notes to the Financial Statements

11 Fair value measurement (continued)

(b) Fair value of the Branch'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 assets and financial liabilities recognised in the financial statements approximate their fair value.

	2014 $'000 Total Level 3	2013 $'000 Total Level 3
Financial assets (*measured at amortised cost*)		
Receivables:		
Related Corporations	513	-
Financial liabilities (measured at amortised cost)		
Payables:		
- Accounts payable	110	359
- Related corporations	33	1,298
Total Payables	**143**	**1,657**

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

12 Deferred tax asset

	Balance 31-Dec-2013 $'000	Recognised in 2014 in profit or loss $'000	Balance 31-Dec-2014 $'000
Deferred tax asset			
Unused tax losses	-	1,233	1,233
	-	**1,233**	**1,233**

Notes to the Financial Statements

13 Payables

	2014 $'000	2013 $'000
Assumed allowances payable (1)	9,523	9,164
Accounts payable (1)	110	359
Outstanding claims (2)	17,046	12,960
Related corporations	33	1,298
Total payables	**26,712**	**23,781**
Made up as:		
Receivable within 12 months	26,712	23,781
Receivable in more than 12 months	-	-
	26,712	**23,781**

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

Notes to the Financial Statements

14 Insurance contract liabilities

(a) Reconciliation of movements in insurance contract liabilities

		2014 $'000	2013 $'000
Insurance contract liabilities			
Gross insurance contract liabilities at 1 January		12,043	-
Additions on transfer in of the New Zealand business		-	4,486
Increase in insurance contract liabilities reflected in the Statement of Profit or Loss and Other Comprehensive Income	(i)	89	7,557
Gross insurance contract liabilities at 31 December		**12,132**	**12,043**
Liabilities ceded under reinsurance			
Opening balance at 1 January		7,042	-
Increase in reinsurance assets reflected in the Statement of Profit or Loss and Other Comprehensive Income	(ii)	(755)	7,042
Gross insurance contract liabilities ceded under reinsurance at 31 December		**6,287**	**7,042**
Net insurance contract liabilities at 31 December		**5,845**	**5,001**
Made up as:			
Expected to be realised within 12 months		23,226	24,263
Expected to be realised in more than 12 months		(17,381)	(19,262)
		5,845	5,001
Note:			
(i) less (ii) = increase in net insurance contract liabilities as disclosed in the Statement of Profit or Loss and Other Comprehensive Income		**844**	**515**

(b) Components of net life insurance contract liabilities

Future policy benefits	68,005	64,772
Future charges for acquisition costs	(62,160)	(59,771)
Net life insurance contract liabilities	**5,845**	**5,001**

Notes to the Financial Statements

14 Insurance contract liabilities (continued)

(c) Capital adequacy and solvency requirements

RGAA is licensed under Section 19 of the Insurance (Prudential Supervision) Act 2010 to carry on insurance business in New Zealand. The following requirements for capital adequacy and solvency set by APRA pursuant to the Australian Life Insurance Act 1995 (Life Prudential Standard (LPS) 110 'Capital Adequacy' and Life Prudential Standard (LPS) 100 'Solvency Standard') are provided in accordance with the terms and conditions of the licence.

Capital is allocated by RGAA to the Branch in order to satisfy the Solvency and Capital Adequacy requirements set by APRA.

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 RGAA 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.

(i) Capital adequacy

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

Capital adequacy position of the Branch as at 31 December	**2014 $'000**	**2013 $'000**
Common Equity Tier 1 Capital	38,725	35,323
Regulatory adjustments applied in the calculation of Common Equity Tier 1 Capital	*63,390*	*59,771*
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	38,725	35,323
(b) Prescribed capital amount	19,894	21,724
Capital in excess of prescribed capital amount = (a) – (b)	**18,831**	**13,599**
Capital adequacy multiple = (a)/(b)	**195%**	**163%**

Notes to the Financial Statements

14 Insurance contract liabilities (continued)

(c) Capital adequacy and solvency requirements (continued)

Capital adequacy position of the Branch as at 31 December (continued)	**2014 $'000**	**2013 $'000**
Capital Base comprises:		
(a) Net assets after applying any regulatory adjustments	38,725	35,323
Regulatory adjustments applied to net assets	*63,390*	*59,771*
(b) Tier 2 Capital	-	-
Regulatory adjustment applied in calculation of Tier 2 capital	-	-
Capital Base (a)-(b)	**38,725**	**35,323**
Prescribed capital amount comprises:		
Insurance risk	11,131	12,076
Asset risk	5,118	3,065
Asset concentration risk	-	-
Operational risk	2,199	3,124
Aggregation benefit	(3,101)	(2,102)
Combined scenario adjustment	4,547	5,561
Prescribed capital amount	**19,894**	**21,724**

(ii) Solvency

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

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

The investments of the Branch are held within Statutory Fund 2 of RGAA. Investments held within a Statutory Fund 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.

14 Insurance contract liabilities (continued)

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

	2014 $'000	2013 $'000
Reported policy liability	5,845	5,001
Plus: Variations in valuation of DAC assets	-	-
Plus: Change in the use of the discount rate	-	-
Life Act amount	**5,845**	**5,001**

15 Capital reserves

	2014 $'000	2013 $'000
Head office account:		
Balance at the beginning of the year	15,782	5,119
Transfer from head office during the year	-	10,663
Balance at end of year	**15,782**	**15,782**

16 Auditor's remuneration

The Branch's auditor is Deloitte. The auditor's remuneration is paid by the immediate parent entity of RGAA, RGA Australian Holdings Pty Limited (RGAH).

17 Director and key management personnel disclosures

(a) Directors

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

Independent Non-Executive Directors

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 Directors

Mark A. Stewart

Notes to the Financial Statements

17 Director and key management personnel disclosures (continued)

(b) Committee membership

In addition to their membership of the Board of RGAA the following table details other committees of which the directors were members during the year ended 31 December 2014.

	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.

(c) Key management personnel

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

Key management personnel compensation:

	2014 $'000	2013 $'000
Short-term employee benefits	513	647
Post-employment benefits	36	36
Share based payments		
- Current year	54	96
- Over accrual in prior Year	(57)	-
Total	**546**	**779**

All management personnel compensation is paid by RGAH and recharged to the Branch.

18 Related party transactions

(a) *Ultimate parent entity*

The entity is a branch of RGAA. The Australian parent entity is RGAH.

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

(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.

During the year, Mr M.E. Turner became a Director of Macquarie Life Ltd, an entity which has reinsurance arrangements with the Company based on normal commercial terms and conditions.

(c) *Transactions with related parties*

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

(i) RGAH provided management and administrative services for the Branch under an administration agreement. Total management and service fees incurred were $5,606,765 (2013: $3,124,777).

(ii) All outwards reinsurance by the Branch is ceded to RGA Reinsurance Company Limited, St Louis, USA (RGA Re), a subsidiary of RGAA's ultimate parent. The outward reinsurance arrangements are based on normal commercial terms and conditions. As at 31 December 2014 amounts receivable were $4,085,329 (2013: $265,220).

(iii) The Branch also procured insurance related and administrative services and, investment management services from RGA Re under service agreements. Total fees incurred were $413,776 (2013: $116,670).

(iv) The Branch regularly settles balances associated with related party transactions. As at 31 December 2014, total related party receivable were $513,470 (2013: Nil) and total related party payables were $32,780 (2013: $1,297,720).

18 Related party transactions (continued)

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

In July 2013, the reinsurance treaties of the New Zealand Branch of RGA Re, including the reinsurance assets and the reinsurance liabilities, were transferred to the Branch.

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 Branch on the transfer date:

	$'000
Cash	86,707
Premium receivable	11,848
Claims notified	(12,190)
Allowances payable	(5,233)
Insurance contract liabilities	(4,486)
Amount recognised in the 'Entities under common control reserve'	**76,646**

(e) New Zealand tax losses

The New Zealand Branch of RGA Re and the Branch are grouped for tax purposes.

Notes to the Financial Statements

19 Summary of shareholder interests

	2014 $'000	2013 $'000
Retained Profits		
Net profit after income tax	7,021	2,620
Shareholders retained profits at beginning of year	2,666	46
Retained profits at end of year	**9,687**	**2,666**
Capital		
Capital reserves	5,119	5,119
Retained profits at the end of the year	9,687	2,666
Capital transfers to Statutory Funds	10,663	10,663
Entities under common control reserve	76,646	76,646
Life Act shareholders' equity	**102,115**	**95,094**

20 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:

	2014 $'000	2013 $'000
Cash at bank	1,138	7,166
Deposits held at call	9,526	13,168
Total cash and cash equivalents	**10,664**	**20,334**

Notes to the Financial Statements

20 Notes to the Statement of Cash Flows (continued)

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

	2014 $'000	2013 $'000
Net profit for the year	**7,021**	**2,620**
Adjustments for non-cash and investing activities:		
(Increase)/decrease in investment values	(1,216)	1,975
Net cash generated from operating activities before change in assets and liabilities	**5,805**	**4,595**
Change in assets and liabilities during the financial year:		
Increase in premiums receivable	(2,352)	(7,745)
Increase in other receivables	(4,700)	(795)
Decrease/(Increase) in insurance contract liabilities ceded	755	(7,042)
Increase in deferred tax assets	(1,233)	-
Increase in payables	2,931	6,353
Increase in insurance contract liabilities assumed	89	7,558
Net cash generated from operating activities	**1,295**	**2,924**

Notes to the Financial Statements

21 Financial risk management

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

Financial risks are generally monitored and controlled by selecting appropriate assets to back insurance contract liabilities. The Branch 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 2014, the Branch held no derivative financial instrument contracts (2013: nil).

(a) Interest rate risk

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

	Variable rate 1 year or less 2014 $'000	Fixed interest 1 year or less 2014 $'000	Fixed interest over 1 year 2014 $'000	Non-interest bearing 1 year or less 2014 $'000	Non-interest bearing over 1 year 2014 $'000	Total 2014 $'000	Weighted average interest rate 2014 %
Financial assets							
Cash and cash equivalents	10,664	-	-	-	-	**10,664**	3.45
Receivables and outstanding premiums	-	-	-	27,440	-	**27,440**	-
Investments	-	7,881	87,454	-	-	**95,335**	4.40
Total	**10,664**	**7,881**	**87,454**	**27,440**	-	**133,439**	
Financial liabilities							
Payables	-	-	-	**26,712**	-	**26,712**	
Total	-	-	-	**26,712**	-	**26,712**	

Notes to the Financial Statements

21 Financial risk management (continued)

(a) Interest rate risk (continued)

	Variable rate 1 year or less 2013 $'000	Fixed interest 1 year or less 2013 $'000	Fixed interest 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 and cash equivalents	20,334	-	-	-	-	**20,334**	3.20
Receivables and outstanding premiums	-	-	-	20,322	66	**20,388**	-
Investments	-	-	83,154	-	-	**83,154**	3.46
Total	**20,334**	**-**	**83,154**	**20,322**	**66**	**123,876**	
Financial liabilities							
Payables	-	-	-	**23,781**	**-**	**23,781**	
Total	**-**	**-**	**-**	**23,781**	**-**	**23,781**	

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 Branch'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 $2.0 million (2013:$1.7 m). A corresponding decrease of 0.5% would increase net profit and equity by $2.0 million (2013:$1.7 m). A sensitivity of 0.5% per annum has been selected as this is considered reasonable given the current environment for New Zealand interest rates.

(b) Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. The Branch seeks to minimise its credit risk by the appropriate selection of assets. The Branch 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 Branch's maximum exposure to credit risk at balance date is the fair value of financial assets as indicated in the Statement of Financial Position.

21 Financial risk management (continued)

(c) Liquidity risk

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

The table in Note 21(a) summarises the maturity profile of the Branch's financial assets and liabilities. The maturity profile of the insurance contract liabilities is shown in Note 14(a).

(d) Market risk

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

22 Contingencies

The Branch operates in the insurance industry and is subject to legal proceedings in the normal course of business. Legal proceedings can arise where the Branch has a reinsured interest in a dispute between a client and its policyholders; or where there is a direct dispute between the Branch 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 Branch in a dispute, accounting standards allow the Branch not to disclose such information and it is the Branch'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.

23 Events subsequent to reporting date

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

Commencing 1 January 2015, the Branch expects that it will incur higher net operating expenses in relation to insurance-related management and administrative services, and investment management services, from related entities under service agreements.

Directors' declaration

In the opinion of the Directors of RGA Reinsurance Company of Australia Limited ("the Company") the financial statements and notes of the New Zealand Branch (the "Branch"), set out on pages 1 to 36:

(i) comply with Australian generally accepted accounting practice and give a true and fair view of the financial position of the Branch as at 31 December 2014 and of their performance, as represented by the results of their operations and cash flow, for the year ended on that date; and

(ii) have been prepared using the appropriate accounting policies, which have been consistently applied and supported by reasonable estimates and judgements.

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

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

The Directors are pleased to present the financial statements of RGA Reinsurance Company of Australia Limited – New Zealand Branch for the year ended 31 December 2014.

Signed in accordance with a resolution of the Directors:

Ian A. Pollard
Chairman

Mark A. Stewart
Managing Director

Dated at Sydney this 17 day of March 2015

Deloitte.

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

We have audited the financial statements of RGA Reinsurance Company of Australia Limited – New Zealand Branch on pages 1 to 36, which comprise the statement of financial position as at 31 December 2014, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended 31 December 2014, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with Section *205(1) of the Companies Act 1993*. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Board of Directors' Responsibility for the Financial Statements

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

Auditor's Responsibilities

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

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

Deloitte

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

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

Opinion

In our opinion, the financial statements on pages 1 to 36:

- Comply with generally accepted accounting practice in Australia;
- Comply with International Financial Reporting Standards; and
- Give a true and fair view of the financial position of RGA Reinsurance Company of Australia Limited – New Zealand Branch as at 31 December 2014, and its financial performance and its cash flows for the period ended on that date.

Report on Other Legal and Regulatory Requirements

We also report in accordance with section 16 of the Financial Reporting Act 1993.

In relation to our audit of the financial statements for the period ended 31 December 2014:
we have obtained all the information and explanations we have required; and in our opinion proper accounting records have been kept by RGA Reinsurance Company of Australia Limited – New Zealand Branch as far as appears from our examination of those records.

Deloitte Touche Tohmatsu

Chartered Accountants
17 March 2015
Melbourne, Australia