

# **RGA Reinsurance Company of Australia Limited New Zealand Branch**

**Annual Financial Report  
for the year ended  
31 December 2015**

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Wellington 6011

Company number: 3658254



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## Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2015

	Note	2015 \$'000	2014 \$'000
<b>Revenue</b>			
Premium revenue from reinsurance contracts		89,766	81,250
Outward reinsurance expense		(8,806)	(7,548)
Net insurance premium revenue		80,960	73,702
Investment income	5(a)	6,556	6,161
Other income	5(b)	727	1,391
<b>Net Revenue</b>		<b>88,243</b>	<b>81,254</b>
<b>Claims and expenses</b>			
Claims expense from reinsurance contracts		62,583	65,398
Reinsurance recoveries		(1,940)	(8,011)
Net claims expense		60,643	57,387
Movement in net insurance contract liabilities	15(a)	4,276	320
Policy acquisition costs	7	6,948	4,950
Operating expenses	7	11,930	12,809
<b>Total claims and expenses</b>		<b>83,797</b>	<b>75,466</b>
<b>Net profit before related income tax expense/(benefit)</b>		<b>4,446</b>	<b>5,788</b>
Income tax expense/(benefit)	9	1,773	(1,233)
<b>Net profit for the year</b>	6	<b>2,673</b>	<b>7,021</b>
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year</b>		<b>2,673</b>	<b>7,021</b>

Net profit for the year and other comprehensive income for the year are attributable to 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 2015**

	Note	2015 \$'000	2014 \$'000
<b>Assets</b>			
Cash and cash equivalents	21(a)	16,576	10,664
Investments	11(a)	105,886	95,335
Premiums receivable	10	21,253	21,945
Other receivables	10	1,626	5,495
Gross insurance contract liabilities ceded	15(a)	6,233	6,287
Deferred tax asset	12	-	1,233
<b>Total assets</b>		<b>151,574</b>	<b>140,959</b>
<b>Liabilities</b>			
Outstanding claims	13	19,399	14,825
Payables	14	8,272	9,666
Gross insurance contract liabilities assumed	15(a)	18,575	14,353
Deferred tax liability	12	540	-
<b>Total liabilities</b>		<b>46,786</b>	<b>38,844</b>
<b>Net assets</b>		<b>104,788</b>	<b>102,115</b>
<b>Equity</b>			
Capital reserves	16	15,782	15,782
Entities under common control reserve	20	76,646	76,646
Retained earnings	20	12,360	9,687
<b>Total equity attributable to the members of RGA Reinsurance Company of Australia Limited</b>	20	<b>104,788</b>	<b>102,115</b>

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 2015**

	<b>Capital Reserves</b>	<b>Entities under common control reserve</b>	<b>Retained earnings</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Balance at 1 January 2014</b>	<b>15,782</b>	<b>76,646</b>	<b>2,666</b>	<b>95,094</b>
Net profit for the year	-	-	7,021	7,021
<b>Balance at 31 December 2014</b>	<b>15,782</b>	<b>76,646</b>	<b>9,687</b>	<b>102,115</b>
Net profit for the year	-	-	2,673	2,673
<b>Balance at 31 December 2015</b>	<b>15,782</b>	<b>76,646</b>	<b>12,360</b>	<b>104,788</b>

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 2015**

	Note	2015 \$'000	2014 \$'000
<b>Cash flows from operating activities</b>			
Premium received		90,458	78,898
Retrocession premium paid		(7,129)	(7,231)
Allowances paid		(15,012)	(11,755)
Retrocession allowances received		853	2,460
Claims paid		(58,004)	(60,788)
Retrocession recoveries received		5,974	3,350
Interest received		4,514	4,845
Payments to suppliers and employees		(6,500)	(8,484)
<b>Net cash generated from operating activities</b>	21 (b)	<b>15,154</b>	<b>1,295</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of investments		12,242	114,808
Purchase of investments		(21,484)	(125,773)
<b>Net cash used in investing activities</b>		<b>(9,242)</b>	<b>(10,965)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>5,912</b>	<b>(9,670)</b>
Cash at the beginning of the financial period		10,664	20,334
<b>Cash at the end of the financial year</b>	21 (a)	<b>16,576</b>	<b>10,664</b>

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

## Notes to the Financial Statements

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# Notes to the Financial Statements

## 1 Summary of significant accounting policies

Set out below are the significant accounting policies followed in the preparation of the financial report of RGA Reinsurance Company of Australia Limited – New Zealand Branch (the “Branch”) for the year ended 31 December 2015. 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.

### (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 2016.

### (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 2015. 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 (including relevant amending standards)	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, 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.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

### **(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.

# 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.

### (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.

# Notes to the Financial Statements

## 1 Summary of significant accounting policies (continued)

### *(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*

For claims with a lump sum benefit, the outstanding claims liability is measured as the expected amount payable on claims notified to the Branch prior to balance date. For claims with a disability income benefit, the outstanding claims liability is measured as the expected amount payable based upon the expected monthly benefit multiplied by the number of payments outstanding at the balance date, on any claim notified to the Branch prior to that date.

### *(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.

## Notes to the Financial Statements

### 1 Summary of significant accounting policies (continued)

#### (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.

### 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.

## Notes to the Financial Statements

### 2 Critical accounting estimates and judgements (continued)

#### *(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 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) Outstanding Claims*

A liability is calculated at year-end for the estimated cost of claims incurred which have been notified to the Branch but not settled at the balance date. In estimating the cost of outstanding claims, the Branch has regard to the sum reinsured, the details of the claim as reported, and information about the cost and likelihood of settling claims with similar characteristics in previous periods.

The liability calculated is gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross amounts.

#### *(d) 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 are set out in Note 12.

## Notes to the Financial Statements

### 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 2015. The Financial Condition Report was prepared by the Appointed Actuary, Mr David Hotchkies (FIAA), and dated 17 March 2016. 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 contract 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:

- 2.9% to 3.4% pa (2014: 3.4% to 3.7%) 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	2015	2014
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% (2014: 6.4% and 62.2%) 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% (2014: 5.5% and 42.9%) per annum depending on the age, gender, duration, occupation 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)	
	2015	2014
<b>Discount rates</b>		
Individual business	208	68
Group business	30	122
<b>Mortality and morbidity</b>		
Individual business	1,215	292
Group business	-	-
Discontinuance rates	-	-
<b>Total</b>	<b>1,453</b>	<b>482</b>

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.

## Notes to the Financial Statements

### 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 longer than expected 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)	Equity at 31
		2015	December
		\$'000	2015
<b>Balance per financial statements</b>		<b>2,673</b>	<b>104,788</b>
<i>Change in balance as a result of permanent change in variables:</i>			
Worsening of future mortality and morbidity claim costs	10%	(31,638)	(31,638)
Worsening of discontinuance rate	20%	(2,254)	(2,254)
Improvement in discontinuance rate	(20%)	-	-
Increase in discount rate	1%	(6,985)	(6,985)
Reduction in discount rate	(1%)	4,971	4,971
Increase in future maintenance expenses	10%	-	-
Increase in future inflation rate	1%	2,445	2,445

	Change in variable %	Profit/(Loss)	Equity at 31
		2014	December
		\$'000	2014
<b>Balance per financial statements</b>		<b>7,021</b>	<b>102,115</b>
<i>Change in balance as a result of permanent change in variables:</i>			
Worsening of future mortality and morbidity claim costs <sup>(1)</sup>	10%	(31,000)	(31,000)
Worsening of discontinuance rate	20%	(3,547)	(3,547)
Improvement in discontinuance rate	(20%)	-	-
Increase in discount rate <sup>(1)</sup>	1%	(6,335)	(6,335)
Reduction in discount rate <sup>(1)</sup>	(1%)	6,297	6,297
Increase in future maintenance expenses	10%	(16)	(16)
Increase in future inflation rate <sup>(1)</sup>	1%	1,701	1,701

(1) These comparative amounts have been re-presented to conform with current year presentation.

## Notes to the Financial Statements

### 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 22.

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

	2015 \$'000	2014 \$'000
Interest Income:		
Bank deposits	458	543
Investments at fair value through profit or loss	4,789	4,402
Loss on disposal of investments	(53)	(1,218)
Change in fair value of investments carried at fair value through profit or loss	1,362	2,434
<b>Total investment income</b>	<b>6,556</b>	<b>6,161</b>

#### (b) Other income

	2015 \$'000	2014 \$'000
Retrocession allowances	692	1,391
Other income	35	-
<b>Total other income</b>	<b>727</b>	<b>1,391</b>

## Notes to the Financial Statements

### 6 Net profit for the year

	2015 \$'000	2014 \$'000
<b>Net profit after income tax arose from:</b>		
Planned margins of revenues over expenses released	3,317	73
Difference between actual and assumed experience	(3,597)	501
Effects of changes to underlying assumptions	(1,453)	(482)
Loss recognition	-	-
Investment earnings on assets in excess of insurance contract liabilities	6,179	5,696
Income tax benefit	(1,773)	1,233
<b>Net profit for the year</b>	<b>2,673</b>	<b>7,021</b>

### 7 Operating expenses

	2015 \$'000	2014 \$'000
<b>Policy acquisition costs</b>		
Allowances	3,470	2,711
Other acquisition costs	3,478	2,239
<b>Total policy acquisition costs</b>	<b>6,948</b>	<b>4,950</b>
<b>Other expenses</b>		
Allowances	7,140	8,328
Other maintenance costs	4,562	4,442
Investment management fees	228	39
<b>Total other expenses</b>	<b>11,930</b>	<b>12,809</b>

### 8 Dividends

No dividends were declared or paid for the 2015 financial year (2014: 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:

	2015 \$'000	2014 \$'000
<b>Net profit before related income tax expense</b>	<b>4,446</b>	<b>5,788</b>
<b>Prima facie tax on net profit at 28% (2014: 28%)</b>	1,245	1,621
Tax effect of:		
Permanent differences	(1,068)	(2,446)
Underprovision in prior year	1,596	(408)
<b>Total income tax expense/(benefit) attributable to operating profit</b>	<b>1,773</b>	<b>(1,233)</b>
<i>Income tax expense comprises:</i>		
Current tax	-	-
Deferred tax:		
Temporary differences	177	(825)
Underprovision in prior year	1,596	(408)
<b>Total income tax expense/(benefit) attributable to operating profit</b>	<b>1,773</b>	<b>(1,233)</b>

### 10 Receivables

	2015 \$'000	2014 \$'000
<b>Total premiums receivable<sup>(1)</sup></b>	<b>21,253</b>	<b>21,945</b>
<b>Other receivables</b>		
Accrued investment income	1,626	896
Related parties	-	4,599
<b>Total other receivables</b>	<b>1,626</b>	<b>5,495</b>
<b>Total receivables</b>	<b>22,879</b>	<b>27,440</b>
Expected to be realised within 12 months	<b>22,879</b>	<b>27,440</b>

(1) The credit period for trade receivables and balances due from related parties is generally 30 to 90 days. The trade receivable balance includes receivables (gross of allowances) of \$6.1 million (2014: \$10.7 million) which are past due at the reporting date. The Branch believes that these amounts are fully recoverable.

## Notes to the Financial Statements

### 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

#### (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.

	2015 \$'000	2015 \$'000	2015 \$'000	2015 \$'000
<b>Financial assets at fair value</b>	<b>Total</b>	<b>Level1</b>	<b>Level 2</b>	<b>Level 3</b>
Interest bearing securities:				
- National government	47,903	-	47,903	-
- Private sector	57,983	-	57,983	-
<b>Total investments at fair value through profit or loss</b>	<b>105,886</b>	<b>-</b>	<b>105,886</b>	<b>-</b>
Receivables:				
- Investment income	1,626	-	1,626	-
- Premiums Receivable	21,253	-	-	21,253
<b>Total receivables at fair value through profit or loss</b>	<b>22,879</b>	<b>-</b>	<b>1,626</b>	<b>21,253</b>

## 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 (continued)

	2014 \$'000 Total	2014 \$'000 Level 1	2014 \$'000 Level 2	2014 \$'000 Level 3
<b>Financial assets at fair value</b>				
Interest bearing securities:				
- National government	47,376	-	47,376	-
- Private sector	47,959	-	47,959	-
<b>Total investments at fair value through profit or loss</b>	<b>95,335</b>	<b>-</b>	<b>95,335</b>	<b>-</b>
Receivables:				
- Investment income	896	-	896	-
- Premiums Receivable	21,945	-	-	21,945
<b>Total receivables at fair value through profit or loss</b>	<b>22,841</b>	<b>-</b>	<b>896</b>	<b>21,945</b>

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.

#### (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.

	2015 \$'000 Total Level 3	2014 \$'000 Total Level 3
<b>Financial assets (measured at amortised cost)</b>		
Receivables:		
Related parties	-	513
<b>Financial liabilities (measured at amortised cost)</b>		
Payables:		
- Accounts payable	541	110
- Related parties	825	33
<b>Total Payables</b>	<b>1,366</b>	<b>143</b>

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



## Notes to the Financial Statements

### 12 Deferred tax

	Balance 1-Jan-2014	Recognised in 2014 in profit or loss	Balance 31-Dec-2014	Recognised in 2015 in profit or loss	Balance 31-Dec-2015
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Deferred tax asset</b>					
Unused tax losses	-	1,233	1,233	677	1,910
	-	1,233	1,233	677	1,910
<b>Deferred tax liability</b>					
Deferred acquisition	-	-	-	2,450	2,450
	-	-	-	2,450	2,450
<b>Net deferred tax asset/(liability)</b>	-	1,233	1,233	(1,773)	(540)

### 13 Outstanding claims

	2015 \$'000	2014 \$'000
Total outstanding claims <sup>(1)</sup>	19,399	14,825
Expected to be realised within 12 months	19,399	14,825

(1) 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.

### 14 Payables

	2015 \$'000	2014 \$'000
Assumed allowances payable <sup>(1)</sup>	5,210	9,523
Accounts payable <sup>(1)</sup>	541	110
Related parties <sup>(1)</sup>	2,521	33
<b>Total payables</b>	<b>8,272</b>	<b>9,666</b>
Expected to be realised within 12 months	8,272	9,666

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

## Notes to the Financial Statements

### 15 Insurance contract liabilities

#### (a) Reconciliation of movements in insurance contract liabilities

		2015 \$'000	2014 \$'000
<b>Insurance contract liabilities</b>			
Gross insurance contract liabilities at 1 January		14,353	14,788
Increase/(decrease) in insurance contract liabilities reflected in the Statement of Profit or Loss and Other Comprehensive Income	(i)	4,222	(435)
<b>Gross insurance contract liabilities at 31 December</b>		<b>18,575</b>	<b>14,353</b>
<b>Liabilities ceded under reinsurance</b>			
Opening balance at 1 January		6,287	7,042
Decrease in reinsurance assets reflected in the Statement of Profit or Loss and Other Comprehensive Income	(ii)	(54)	(755)
<b>Gross insurance contract liabilities ceded under reinsurance at 31 December</b>		<b>6,233</b>	<b>6,287</b>
<b>Net insurance contract liabilities at 31 December</b>		<b>12,342</b>	<b>8,066</b>
Made up as:			
Expected to be realised within 12 months		15,500	34,151
Expected to be realised in more than 12 months		(3,158)	(26,085)
		<b>12,342</b>	<b>8,066</b>
<b>Note:</b>			
<b>(i) less (ii) = increase in net insurance contract liabilities as disclosed in the Statement of Profit or Loss and Other Comprehensive Income</b>		<b>4,276</b>	<b>320</b>

#### (b) Components of net life insurance contract liabilities

Future policy benefits	84,439	70,609
Future charges for acquisition costs	(72,097)	(62,543)
<b>Net life insurance contract liabilities</b>	<b>12,342</b>	<b>8,066</b>

## Notes to the Financial Statements

### 15 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

Common Equity Tier 1 Capital

*Regulatory adjustments applied in the  
calculation of Common Equity Tier 1 Capital*

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

(b) Prescribed capital amount

Capital in excess of prescribed capital amount

= (a) – (b)

Capital adequacy multiple = (a)/(b)

	2015 \$'000	2014 \$'000
Common Equity Tier 1 Capital	43,540	38,725
<i>Regulatory adjustments applied in the calculation of Common Equity Tier 1 Capital</i>	61,248	63,390
Additional Tier 1 Capital	-	-
<i>Regulatory adjustments applied in the calculation of Additional Tier 1 Capital</i>	-	-
Tier 2 Capital	-	-
<i>Regulatory adjustments applied in the calculation of Tier 2 Capital</i>	-	-
(a) Capital Base	43,540	38,725
(b) Prescribed capital amount	16,643	19,894
Capital in excess of prescribed capital amount	26,897	18,831
= (a) – (b)		
Capital adequacy multiple = (a)/(b)	262%	195%

## Notes to the Financial Statements

### 15 Insurance contract liabilities (continued)

#### (c) Capital adequacy and solvency requirements (continued)

##### (i) Capital adequacy (continued)

###### Capital adequacy position of the Branch as at 31 December (continued)

###### Capital Base comprises:

(a) Net assets after applying any regulatory adjustments

*Regulatory adjustments applied to net assets*

(b) Tier 2 Capital

*Regulatory adjustment applied in calculation of Tier 2 capital*

**Capital Base (a) + (b)**

###### Prescribed capital amount comprises:

Insurance risk

Asset risk

Asset concentration risk

Operational risk

Aggregation benefit

Combined scenario adjustment

**Prescribed capital amount**

	2015 \$'000	2014 \$'000
	43,540	38,725
	61,248	63,390
	-	-
	-	-
	<b>43,540</b>	<b>38,725</b>
	8,409	11,131
	5,303	5,118
	-	-
	1,907	2,199
	(2,910)	(3,101)
	3,935	4,547
	<b>16,644</b>	<b>19,894</b>

##### (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.

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

	2015 \$'000	2014 \$'000
Reported policy liability	12,342	8,066
Plus: Variations in valuation of DAC assets	-	-
Plus: Change in the use of the discount rate	-	-
<b>Life Act amount</b>	<b>12,342</b>	<b>8,066</b>

## Notes to the Financial Statements

### 16 Capital reserves

**Head office account:**

Balance at the beginning of the year  
 Transfer from head office during the year  
**Balance at end of year**

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance at the beginning of the year	15,782	15,782
Transfer from head office during the year	-	-
<b>Balance at end of year</b>	<b>15,782</b>	<b>15,782</b>

### 17 Auditor's remuneration

The Branch's auditor is Deloitte. The auditor's remuneration (exclusive of GST) is as follows:

Amounts received or due and receivable by the auditor for:

Audit services

**Total auditor's remuneration**

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Audit services	101	99
<b>Total auditor's remuneration</b>	<b>101</b>	<b>99</b>

### 18 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

A. Greig Woodring

Brendan J. Galligan (Alternate) (resigned effective 17 March 2015)

Paul A. Schuster (resigned effective 31 December 2015)

*Executive Directors*

Mark A. Stewart

## Notes to the Financial Statements

### 18 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 2015.

	Board Audit Committee	Board Risk Committee	Investment Committee	Board Remuneration Committee
William J. Bartlett	X	X	X	X
Allan E. O'Bryant	-	-	-	-
Ian A. Pollard <sup>(1)</sup>	X	X	X	X
Paul A. Schuster	-	-	-	-
Mark A. Stewart	-	-	X	-
Mark E. Turner <sup>(2)</sup>	X	X	X	X
A. Greig Woodring	-	-	-	-
Brendan J. Galligan (Alternate)	-	-	-	-

(1) Chairman of the Investment Committee.

(2) Chairman of the Board Audit Committee, Board Risk Committee and 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:

	2015 \$'000	2014 \$'000
Short-term employee benefits	478	513
Post-employment benefits	32	36
Share based payments		
- Current year	23	54
- Over accrual in prior Year	-	(57)
<b>Total</b>	<b>533</b>	<b>546</b>

Key management personnel compensation is paid by the Branch's immediate parent RGAH or a related service entity, RGA International Division Sydney Office. Key management personnel compensation is recharged to the Branch as part of management charges and other expenses as set out in note 19.

### 19 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.

## Notes to the Financial Statements

### 19 Related party transactions (continued)

#### (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) Transactions with related parties

During the year, the Company entered into the following transactions with related parties.

	2015	2014
	\$	\$
<b>Retrocession contracts with RGA Reinsurance Company ('RGA Re'), a subsidiary of RGA Inc.:</b>		
Outward reinsurance expense	8,805,865	7,547,839
Retrocession allowances	(691,680)	(1,390,605)
Reinsurance claims recoveries	(1,940,216)	(8,011,095)
Movement in ceded insurance contract liabilities	54,071	755,138
<b>Net reinsurance (recovery)/expense</b>	<b>6,228,040</b>	<b>(1,098,723)</b>
<b>Amount owing (to)/from RGA Re</b>	<b>(1,696,013)</b>	<b>4,085,329</b>
<b>Management charges and other expenses<sup>(1)</sup>:</b>		
- RGAH	4,842,544	5,606,765
- RGA Re	1,575,612	413,776
- Other subsidiaries of RGA Inc.	465,141	-
<b>Net management charges and other expenses</b>	<b>6,883,297</b>	<b>6,020,541</b>
<b>Amount owing (to)/from RGAH</b>	<b>(549,974)</b>	<b>509,818</b>
<b>Amount owing to other related parties</b>	<b>(257,131)</b>	<b>(20,929)</b>
<b>Investment management services fee expense<sup>(1)</sup>:</b>		
- RGA Re	196,382	56,276
<b>Amount owing to RGA Re</b>	<b>(18,256)</b>	<b>(7,193)</b>

(1) In 2015, the Branch incurred higher net operating expenses in relation to insurance related management charges and other expenses, and investment management services fee provided by related parties under revised service agreements.

(2) The Branch regularly settles balances associated with related party transactions.

## Notes to the Financial Statements

### 19 Related party transactions (continued)

#### (d) New Zealand tax losses

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

### 20 Summary of shareholder interests

	2015 \$'000	2014 \$'000
<b><u>Retained Profits</u></b>		
Net profit after income tax	2,673	7,021
Shareholders retained profits at beginning of year	9,687	2,666
<b>Retained profits at end of year</b>	<b>12,360</b>	<b>9,687</b>
<b><u>Capital</u></b>		
Retained profits at the end of the year	12,360	9,687
Capital transfers to Statutory Fund	15,782	15,782
Entities under common control reserve	76,646	76,646
<b>Life Act shareholders' equity</b>	<b>104,788</b>	<b>102,115</b>

### 21 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:

	2015 \$'000	2014 \$'000
Cash at bank	573	1,138
Deposits held at call	16,003	9,526
<b>Total cash and cash equivalents</b>	<b>16,576</b>	<b>10,664</b>



## Notes to the Financial Statements

### 21 Notes to the Statement of Cash Flows (continued)

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

	2015 \$'000	2014 \$'000
<b>Net profit for the year</b>	<b>2,673</b>	<b>7,021</b>
<i>Adjustments for non-cash and investing activities:</i>		
(Increase)/decrease in investment values	(1,309)	(1,216)
<i>Change in assets and liabilities during the financial year:</i>		
Decrease/(Increase) in premiums receivable	692	(2,352)
Decrease/(Increase) in other receivables	3,869	(4,700)
Decrease in insurance contract liabilities ceded	54	755
Increase in deferred tax assets	(677)	(1,233)
Increase in outstanding claims	4,574	4,610
Decrease in payables	(1,394)	(1,155)
Increase/(decrease) in insurance contract liabilities assumed	4,222	(435)
Increase in deferred tax liability	2,450	-
<b>Net cash generated from operating activities</b>	<b>15,154</b>	<b>1,295</b>

### 22 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 2015, the Branch held no derivative financial instrument contracts (2014: nil).

## Notes to the Financial Statements

### 22 Financial risk management (continued)

(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	Fixed interest 1 year or less	Fixed interest over 1 year	Non-interest bearing 1 year or less	Total	Weighted average interest rate 2015 %
	2015 \$'000	2015 \$'000	2015 \$'000	2015 \$'000	2015 \$'000	
<b>Financial assets</b>						
Cash and cash equivalents	16,576	-	-	-	16,576	2.50
Receivables and outstanding premiums	-	-	-	22,878	22,878	-
Investments	-	-	105,886	-	105,886	3.92
<b>Total</b>	<b>16,576</b>	<b>-</b>	<b>105,886</b>	<b>22,878</b>	<b>145,340</b>	
<b>Financial liabilities</b>						
Outstanding claims	-	-	-	19,399	19,399	
Payables	-	-	-	8,272	8,272	
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>27,671</b>	<b>27,671</b>	

	Variable rate 1 year or less	Fixed interest 1 year or less	Fixed interest over 1 year	Non-interest bearing 1 year or less	Total	Weighted average interest rate 2014 %
	2014 \$'000	2014 \$'000	2014 \$'000	2014 \$'000	2014 \$'000	
<b>Financial assets</b>						
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
<b>Total</b>	<b>10,664</b>	<b>7,881</b>	<b>87,454</b>	<b>27,440</b>	<b>133,439</b>	
<b>Financial liabilities</b>						
Outstanding claims	-	-	-	14,825	14,825	
Payables	-	-	-	9,666	9,666	
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>24,491</b>	<b>24,491</b>	

## Notes to the Financial Statements

### 22 Financial risk management (continued)

#### (a) *Interest rate risk (continued)*

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 \$1.8 million (2014: \$2.0m). A corresponding decrease of 0.5% would increase net profit and equity by \$1.8 million (2014: \$2.0m). 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 the statutory fund is at least A.

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.

#### (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 22(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 15(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.

#### (e) *Foreign currency risk*

The Branch incurs certain management charges and investment management services fees from related parties that are denominated in currencies other than its functional currency. The Branch lessens its exposure to foreign exchange risk arising on these transactions by regularly settling outstanding balances with related parties.

### 23 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.

## **Notes to the Financial Statements**

### **23 Contingencies (continued)**

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.

### **24 Events subsequent to reporting date**

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

## Directors' Declaration

In the opinion of the Directors of RGA Reinsurance Company of Australia Limited ("the Company") the financial statements and notes of the New Zealand Branch (the "Branch"), set out on pages 1 to 34:

- (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 2015 and of its performance, as represented by the results of its operations and cash flow, for the year ended on that date; and
- (ii) have been prepared using 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 2013* and *Financial Markets Conduct Act 2013* [**Footnote**].

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 2015.

Signed in accordance with a resolution of the Directors:



Ian A. Pollard  
Chairman



Mark A. Stewart  
Managing Director

Dated at Sydney this 17<sup>th</sup> day of March 2016

**Footnote:** The *Financial Markets Conduct Act 2013* requires that RGAA lodge financial statements prepared in accordance with New Zealand (NZ) generally accepted accounting practice (GAAP). The *Financial Markets Conduct (Overseas Registered Banks and Licensed Insurers) Exemption Notice 2015 (Class Exemption)* allows RGAA to lodge financial statements prepared in accordance with Australian GAAP. However, the Class Exemption as it is currently drafted requires RGAA to prepare its NZ branch statements in accordance with NZ GAAP. RGAA has applied to the Financial Markets Authority (FMA) for relief from this requirement. The FMA has advised that it is considering a further amendment to the Class Exemption. The FMA has advised that it is comfortable for RGAA to proceed, in the meantime, to file its NZ branch statements for the year ending 31 December 2015 in accordance with Australian GAAP and, has undertaken to take no action in relation to the lodgement of the financial statements on the basis that the NZ branch statements are not presented in accordance with NZ GAAP. The FMA has also confirmed in writing that the Reserve Bank of New Zealand and Registrar of Companies do not have any objection to this course of action.

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

We have audited the accompanying financial report of RGA Reinsurance Company of Australia Limited – New Zealand Branch, which comprises the statement of financial position as at 31 December 2015, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on pages 1 to 35.

### *Director's Responsibility for the Financial Report*

The directors are responsible for the preparation and fair presentation of a financial report in accordance with Australian Accounting Standards and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of a financial report that 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.

In our opinion:

- (a) the financial report of RGA Reinsurance Company of Australia Limited – New Zealand Branch gives a true and fair view of the company's financial position as at 31 December 2015 and its financial performance for the year then ended in accordance with Australian Accounting Standards; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

*Max R Murray*

Max Murray  
Partner  
Chartered Accountants  
Sydney, 17 March 2016