RGA Reinsurance Company of Australia Limited New Zealand Branch

Annual Financial Report for the year ended 31 December 2018

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

Company number: 3658254

Table of Contents

All amounts are reported in New Zealand Dollars unless stated otherwise.

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2018

	Note	2018 $'000	2017 $'000
Revenue			
Premium revenue from reinsurance contracts		111,788	92,609
Outward reinsurance expense		(10,211)	(8,437)
Net insurance premium revenue		101,577	84,172
Investment income	5(a)	6,093	7,699
Other income	5(b)	1,351	1,538
Net Revenue		**109,021**	**93,409**
Claims and expenses			
Claims expense from reinsurance contracts		89,794	60,782
Reinsurance recoveries		(8,554)	(2,975)
Net claims expense		81,240	57,807
Movement in gross insurance contract liabilities	14(a)	51,240	9,199
Movement in gross insurance contract liabilities ceded	14(a)	(5,996)	(996)
Policy acquisition costs	7	6,094	6,176
Other operating expenses	7	13,470	12,465
Net claims and expenses		**146,048**	**84,651**
Net (loss)/profit before related income tax expense		**(37,027)**	**8,758**
Income tax benefit/(expense)	8	1,705	(1,038)
Net (loss)/profit for the year	6	**(35,322)**	**7,720**
Other comprehensive income for the year		-	-
Total comprehensive (expenditure)/income for the year		**(35,322)**	**7,720**

Net (loss)/profit for the year and other comprehensive (expenditure)/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 2018

	Note	2018 $'000	2017 $'000
Assets			
Cash and cash equivalents	20(a)	37,132	20,420
Investments	10(a)	149,360	126,336
Premiums receivable	9	10,652	14,897
Other receivables	9	4,930	2,726
Gross insurance contract liabilities ceded	14(a)	13,216	7,220
Total assets		**215,290**	**171,599**
Liabilities			
Outstanding claims	12	31,933	21,752
Payables	13	3,397	5,421
Gross insurance contract liabilities assumed	14(a)	89,478	38,238
Deferred tax liability	11	2,079	4,487
Total liabilities		**126,887**	**69,898**
Net assets		**88,403**	**101,701**
Equity			
Capital reserves	15/19	15,782	15,782
Entities under common control reserve	19	76,646	76,646
(Accumulated losses)/Retained earnings	19	(4,025)	9,273
Total equity attributable to the members of RGA Reinsurance Company of Australia Limited	19	**88,403**	**101,701**

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 2018

	Capital Reserves $'000	Entities under common control reserve $'000	Retained earnings/ (Accumulated losses) $'000	Total $'000
Balance at 1 January 2017	**15,782**	**76,646**	**14,413**	**106,841**
Net profit for the year	-	-	7,720	7,720
Transfer to Australian shareholder fund	-	-	(12,860)	(12,860)
Balance at 31 December 2017	**15,782**	**76,646**	**9,273**	**101,701**
Net loss for the year	-	-	(35,322)	(35,322)
Transfer from Australian statutory fund	-	-	22,024	22,024
Balance at 31 December 2018	**15,782**	**76,646**	**(4,025)**	**88,403**

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

Statement of Cash Flows
for the year ended 31 December 2018

	Note	2018 $'000	2017 $'000
Cash flows from operating activities			
Premium received		116,032	88,807
Retrocession premium paid		(8,266)	(8,360)
Allowances paid		(13,149)	(9,730)
Retrocession allowances received		1,393	1,507
Claims paid		(79,613)	(60,916)
Retrocession recoveries received		4,579	1,295
Interest received		5,766	5,937
Payments to suppliers and employees		(8,528)	(8,671)
Income tax paid		(610)	-
Net cash generated from operating activities	20(b)	**17,604**	**9,869**
Cash flows from investing activities			
Proceeds from sale of investments		27,370	31,264
Purchase of investments		(50,286)	(37,170)
Net cash used in investing activities		**(22,916)**	**(5,906)**
Cash flows from financing activities			
Transfer from/(to) Australian shareholder fund		22,024	(12,860)
Net cash generated from/(used in) financing activities		**22,024**	**(12,860)**
Net increase/(decrease) in cash and cash equivalents		**16,712**	**(8,897)**
Cash at the beginning of the financial year		20,420	29,317
Cash at the end of the financial year	20(a)	**37,132**	**20,420**

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

Notes to the Financial Statements

Notes to the Financial Statements

1 Summary of significant accounting policies

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 2018. 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. RGAA is a FMC reporting entity under Part 7 of the Financial Market Conduct Act 2013 and it is 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 has been prepared in accordance with New Zealand (NZ) generally accepted accounting practice (NZ GAAP). These financial statements comply with International Financial Reporting Standards and New Zealand International Financial Reporting Standards.

The financial report was authorised for issue by the Directors on 8 March 2019.

(b) Adoption of new and revised accounting standards

In the current year, a number of new and revised Standards and Interpretations issued by the External Reporting Board (the XRB) became effective for accounting periods beginning on or after 1 January 2018. The application of these new and revised Standards has not resulted in any changes in accounting policy or changes in disclosures other than the following Standard:

NZ IFRS 9 Financial Instruments

In the current year, the Branch has applied NZ IFRS 9 Financial Instruments (NZ IFRS 9) and the related consequential amendments to other NZ IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. NZ IFRS 9 replaces NZ IAS 39 Financial Instruments: Recognition and Measurement (NZ IAS 39), and makes changes to the classification and measurement of financial instruments, introduces a new expected loss model when recognising expected credit losses (ECL) on financial assets, and also introduces new general hedge accounting requirements.

The Branch applied NZ IFRS 9 prospectively, with an initial application date of 1 January 2018.

From a classification perspective, the impact to the Branch was minimal as the majority of the Branch's financial instruments continue to be classified as measured at fair value through profit or loss. Financial instruments which were previously classified as loans and receivables are now classified as amortised cost.

In relation to the impairment of financial assets classified as amortised cost, NZ IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under NZ IAS 39. The expected credit loss model requires the Branch to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised. The change from an incurred credit loss model to an expected credit loss model has had no impact on the Branch's financial instruments classified as amortised cost.

The application of NZ IFRS 9 has had no impact on the classification and measurement of the Branch's financial liabilities. The financial liabilities will continue to be classified as amortised cost. The Branch does not enter into hedging contracts.

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

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

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

Title	Operative Date
NZ IFRS 17 – Insurance Contracts	1 January 2021

NZ IFRS 17 – Insurance Contracts

In August 2017, the XRB issued NZ IFRS 17 Insurance Contracts (NZ IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, NZ IFRS 17 will replace NZ IFRS 4 - Insurance Contracts (NZ IFRS 4).

NZ IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. However, the International Accounting Standards Board voted on 14 November 2018 to propose a one-year deferral of the effective date of IFRS 17 Insurance Contracts (IFRS 17), the international equivalent of NZ IFRS 17, to 1 January 2022. This proposed deferral is subject to public consultation in 2019. The potential effect of NZ IFRS 17 on the Branch's financial statements has not yet been determined.

(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 complying with NZ GAAP, 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.

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

(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. Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, critical illness 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.

(f) Revenue recognition

Revenue is recognised for the major business activities as follows:

Premium revenue

Premiums are recognised as revenue on an accrual basis.

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 Profit or Loss.

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, using the effective interest rate method.

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 deferred at the balance date.

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

(h) Claims expense

Claims expense from reinsurance contracts relates to life insurance contracts (providing services and bearing risks including income protection business) and is treated as an expense. 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 Profit or Loss.

(j) Basis of expense apportionments for insurance products

Expenses are incurred in relation to the acquisition and maintenance of life insurance contracts.

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 spent, number of 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.

Notes to the Financial Statements

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 Profit or Loss and exclude interest. 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 any loss allowance. 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.

(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. The Branch recognises a loss allowance for expected credit losses ("ECL") on receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the receivables.

The Branch recognises lifetime ECL for receivables. The expected credit losses are estimated using a provision matrix based on the Branch's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

(o) 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.

1 Summary of significant accounting policies (continued)

(p) 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 Profit or Loss over the expected duration of the relevant policies.

(q) Life insurance contract liabilities

Life insurance contract liabilities are usually 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 Profit or Loss reflects the planned release of this margin.

However, the life insurance contract liabilities of the Branch 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.

Gross insurance contract liabilities ceded are recognised on the same basis as gross insurance contract liabilities assumed, where applicable.

(r) 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 Profit or Loss.

(s) 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 with a related company and recoverability of these and other such assets is not considered to be impaired by any counterparty or credit risk.

Notes to the Financial Statements

3 Actuarial assumptions and methods

The effective date of the Financial Condition Report (containing the insurance contract liabilities, capital adequacy position and solvency requirement) is 31 December 2018. The Financial Condition Report was prepared by the Appointed Actuary, Mr Daniel Antioch (FIAA), and dated 8 March 2019. The Financial Condition Report indicated that Mr Antioch 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 NZ IFRS 4 Appendix C - *Life Insurance Entities* and the standards issued by the New Zealand Society of Actuaries.

Insurance contract liabilities of the Branch have been calculated under an accumulation approach, where the value of the unrecouped portion of acquisition expenses to be recovered from future income has been explicitly allowed for as a reduction in the 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

Assumptions below apply to all related product groups unless otherwise stated.

(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:

- 1.7% to 2.7% pa (2017: 1.8% to 3.2%) for individual and group business

Discount rates adopted are gross of tax. A deduction from these rates of 0.23% (2017: 0.23%) was made for investment expenses.

(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.

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	**2018**	**2017**
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 gender 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 were assumed to be a range of percentage adjustments applied to the ADI 07-11 industry table.

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

(vi) Rates of discontinuance

Future rates of discontinuance for the major classes of lump sum business are assumed in aggregate to be between 4.8% and 64.1% (2017: 4.8% and 64.1%) 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 3.9% and 31.4% (2017: 3.9% and 31.4%) 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 (decrease)/increase 2018	2017
Discount rates		
Individual business	412	2,011
Group business	-	-
Mortality and morbidity		
Individual business	(1,956)	4,794
Group business	-	-
Discontinuance rates	-	-
Total	**(1,544)**	**6,805**

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 shareholders' equity.
Interest rate risk	A reduction/increase in interest rates would result in an increase/reduction in the life insurance contract liabilities, although this would be partly or wholly offset by increases/decreases 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.

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) 2018 $'000	Equity at 31 December 2018 $'000
Balance per financial statements		**(35,322)**	**88,403**
Change in balance as a result of permanent change in variables:			
Worsening of future mortality and morbidity claim costs	10%	(55,644)	(55,644)
Worsening of discontinuance rate	20%	3,728	3,728
Improvement in discontinuance rate	(20%)	(17,188)	(17,188)
Increase in discount rate	1%	527	527
Reduction in discount rate	(1%)	(1,905)	(1,905)
Increase in future maintenance expenses	10%	(4,720)	(4,720)
Increase in future inflation rate	1%	17,236	17,236

	Change in variable %	Profit/(Loss) 2017 $'000	Equity at 31 December 2017 $'000
Balance per financial statements		**7,720**	**101,701**
Change in balance as a result of permanent change in variables:			
Worsening of future mortality and morbidity claim costs	10%	(39,692)	(39,692)
Worsening of discontinuance rate	20%	(6,260)	(6,260)
Improvement in discontinuance rate	(20%)	-	-
Increase in discount rate	1%	(6,315)	(6,315)
Reduction in discount rate	(1%)	883	883
Increase in future maintenance expenses	10%	-	-
Increase in future inflation rate	1%	(1,305)	(1,305)

4 Risk and capital management policies and procedures

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

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

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

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, credit risk and duration risk. Additional disclosures on financial instruments and associated risks are to be found in Note 21.

Insurance risks are controlled through the use of underwriting procedures, premium rate reviews (where permissible), policy charges and sufficient reinsurance arrangements. Controls are also maintained over claims management practices to ensure correct and timely payment of insurance claims.

Compliance risk and operational risk are monitored by management. 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.

(b) Strategy for managing insurance risk

Portfolio of risks

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

Risk strategy

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

4 Risk and capital management policies and procedures (continued)

(c) *Methods to monitor and assess insurance risk exposures*

Pricing oversight

All pricing is subject to an internal review and sign-off process in relation to methodology and assumptions. Pricing bases include appropriate return on capital targets.

Experience analysis

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

Asset management

RGAA maintains an investment portfolio to support policyholder liabilities. All non-cash investment assets of the Branch are market traded. All fixed interest securities are of investment grade and within RGAA's investment policies. The Investment Committee sets the investment policies and mandates. These are reviewed by the Investment Committee on a regular basis.

Management reporting

RGAA reports and monitors its financial and operational results on a regular basis. The results are summarised to give an overall view of RGAA's performance. The process undertaken and controls over the process are reviewed by the Board Audit Committee and/or Board Risk Committee (on behalf of the Board) on a regular basis. Additionally, a periodic review of the management reporting process is performed by RGAA's internal auditors.

(d) *Methods to limit or transfer insurance risk exposures*

Reinsurance

To limit its exposure, RGAA has its own reinsurance programme (commonly referred to as retrocession) in place. RGAA primarily retrocedes business to RGA Reinsurance Company Limited in St Louis, Missouri, USA ("RGA Re"), a related entity. During the year, the retrocession contracts with RGA Re were assigned and transferred by novation to RGA Global Reinsurance Company Ltd (RGA Global), a related entity.

Underwriting procedures

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

Claims management

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

4 Risk and capital management policies and procedures (continued)

(d) Methods to limit or transfer insurance risk exposures (continued)

Asset and liability management techniques

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

(e) Terms and conditions of insurance contracts

The nature of the terms of the reinsurance contracts written by RGAA is such that certain external variables can be identified on which related cash flows for claims payments depend. The table below provides an overview of the key variables upon which the amount of related cash flows are dependent.

Type of contract:	Non-participating life reinsurance contracts with fixed and guaranteed terms.
Details of contract workings:	Guaranteed benefits payable on death, ill health or disability that are fixed and guaranteed and not at the discretion of the issuer.
Nature of compensation for claims:	Benefits, defined by the reinsurance contract, are determined by the contract and are not directly affected by the performance of underlying assets or, except in relation to experience refunds on certain reinsurance contracts, the performance of the contracts as a whole.
Key variables that affect the timing and uncertainty of future cash flows:	Mortality, morbidity, interest rates, discontinuance rates and expenses.

Notes to the Financial Statements

5 Revenue

(a) Investment income

	2018 $'000	2017 $'000
Interest Income:		
Bank deposits	299	329
Investments at fair value through profit or loss	5,685	5,596
Net realised and unrealised investment gains	109	1,774
Total investment income	**6,093**	**7,699**

(b) Other income

	2018 $'000	2017 $'000
Retrocession allowances	1,351	1,538
Total other income	**1,351**	**1,538**

6 Net (loss)/profit for the year

	2018 $'000	2017 $'000
Net (loss)/profit after income tax arose from:		
Planned margins of revenues over expenses released	3,945	4,090
Difference between actual and assumed experience	700	7,195
Effects of changes to underlying assumptions	1,544	(6,805)
Loss recognition	(44,773)	-
Investment earnings on assets in excess of insurance contract liabilities	1,557	4,278
Income tax benefit/(expense)	1,705	(1,038)
Net (loss)/profit for the year	**(35,322)**	**7,720**

7 Operating expenses

	2018 $'000	2017 $'000
Policy acquisition costs		
Allowances	2,657	3,430
Other acquisition costs	3,437	2,746
Total policy acquisition costs	**6,094**	**6,176**
Other operating expenses		
Allowances	7,744	7,444
Other maintenance costs	5,409	4,727
Investment management fees	317	294
Total other operatingexpenses	**13,470**	**12,465**

Notes to the Financial Statements

8 Income tax benefit/(expense)

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

	2018 $'000	2017 $'000
Net (loss)/profit before related income tax expense	**(37,027)**	**8,758**
Prima facie tax on net profit/(loss) at 28% (2017: 28%)	10,369	(2,452)
Tax effect of:		
- Non-assessable income	634	1,326
- Non-deductible expenses	(11,693)	(439)
- Under provision in prior year	(610)	-
- Loss offset(1)	3,005	527
Total income tax benefit/(expense) attributable to operating profit	**1,705**	**(1,038)**
Income tax benefit/(expense) comprises:		
Current tax:		
- Current year	(93)	-
- Prior year	(610)	-
Deferred tax:		
- Temporary differences	2,408	(1,038)
Total income tax benefit/(expense) attributable to operating profit	**1,705**	**(1,038)**

(1) During the year the branch has utilised tax losses of the New Zealand branch of RGA Reinsurance Company ('RGA Re') of $10.732m (2017: $1.881m). The New Zealand Branch of RGA Re and the Branch group for tax purposes.

Notes to the Financial Statements

9 Receivables

	2018 $'000	2017 $'000
Total premiums receivable[1]	**10,652**	**14,897**
Other receivables[1]	9	16
Related parties[1]	3,011	1,017
Accrued investment income	1,910	1,693
Total other receivables	**4,930**	**2,726**
Total receivables	**15,582**	**17,623**
Expected to be realised within 12 months	**15,582**	**17,623**

(1) The credit period for trade receivables and balances due from related parties is generally 30 to 90 days. The trade receivable balance includes no receivables (gross of allowances) which are greater than 90 days past due at the reporting date (2017: nil).

10 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

10 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	2018 $'000 Total	2018 $'000 Level 1	2018 $'000 Level 2	2018 $'000 Level 3
Interest bearing securities:				
- National Governments[1]	57,669	-	57,669	-
- Public Sector[2]	29,169	-	29,169	-
- Private Sector	62,522	-	62,522	-
Total investments at fair value through profit or loss	**149,360**	**-**	**149,360**	**-**

Financial assets at fair value	2017 $'000 Total	2017 $'000 Level 1	2017 $'000 Level 2	2017 $'000 Level 3
Interest bearing securities:				
- National Governments[1]	30,369	-	30,369	-
- Public Sector[2]	29,419	-	29,419	-
- Private Sector	66,548	-	66,548	-
Total investments at fair value through profit or loss	**126,336**	**-**	**126,336**	**-**

(1) National governments include any government or government guaranteed securities.

(2) Public sector includes local authorities and Supranational issuers.

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

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 all other financial assets and financial liabilities recognised in the financial statements approximate their fair value and are categorized as Level 3 within the fair value hierarchy.

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

Notes to the Financial Statements

11 Deferred tax

	Balance 1-Jan-2017	Recognised in 2017 in profit or loss	Balance 31-Dec-2017	Recognised in 2018 in profit or loss	Balance 31-Dec-2018
	$'000	$'000	$'000	$'000	$'000
Deferred tax liability					
Deferred acquisition cost	3,449	1,038	4,487	(2,408)	2,079
Deferred tax liability	**3,449**	**1,038**	**4,487**	**(2,408)**	**2,079**
Deferred tax liability	**(3,449)**	**(1,038)**	**(4,487)**	**2,408**	**(2,079)**

12 Outstanding claims

	2018 $'000	2017 $'000
Total outstanding claims(1)	31,933	21,752
Expected to be realised within 12 months	**31,933**	**21,752**

(1) Outstanding claims includes amounts in respect of claims which have been notified prior to balance date and, are fully assessed and awaiting payment or, 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.

13 Payables

	2018 $'000	2017 $'000
Assumed allowances payable(1)	1,752	4,500
Accounts payable(1)	924	238
Related parties(1)	721	683
Total payables	**3,397**	**5,421**
Expected to be realised within 12 months	**3,397**	**5,421**

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

Notes to the Financial Statements

14 Insurance contract liabilities

(a) Reconciliation of movements in insurance contract liabilities

	2018 $'000	2017 $'000
Insurance contract liabilities		
Gross insurance contract liabilities at 1 January	38,238	29,039
Increase in insurance contract liabilities reflected in the Profit or Loss	51,240	9,199
Gross insurance contract liabilities assumed at 31 December	**89,478**	**38,238**
Liabilities ceded under reinsurance		
Opening balance at 1 January	7,220	6,224
Increase in reinsurance assets reflected in the Profit or Loss	5,996	996
Gross insurance contract liabilities ceded under reinsurance at 31 December	**13,216**	**7,220**
Net insurance contract liabilities at 31 December	**76,262**	**31,018**
Made up as:		
Expected to be realised within 12 months	16,907	21,763
Expected to be realised in more than 12 months	59,355	9,255
	76,262	**31,018**

(b) Components of net life insurance contract liabilities

	2018 $'000	2017 $'000
Future policy benefits	116,840	114,845
Future charges for acquisition costs	(27,362)	(76,607)
Gross insurance contract liabilities	**89,478**	**38,238**
Future gross policy benefits ceded	(13,591)	(7,871)
Future charges for acquisition costs ceded	375	651
Gross insurance contract liabilities ceded	**(13,216)**	**(7,220)**
Net life insurance contract liabilities	**76,262**	**31,018**

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 ("the Act") to carry on insurance business in New Zealand. The licence includes an exemption under Section 59 of the Act allowing the Company to calculate and report the solvency position for the Branch in accordance with the regulatory requirements of its home jurisdiction.

The Company is required to satisfy Solvency and Capital Adequacy requirements set by Australian Prudential Regulation Authority ('APRA') and capital is allocated by RGAA to the Branch in order to satisfy these requirements

The following requirements for capital adequacy and solvency set by APRA pursuant to the Australian Life Insurance Act 1995 ('Life Act') (Life Prudential Standard (LPS) 110 'Capital Adequacy' and Life Prudential Standard (LPS) 100 'Solvency Standard') are provided for the Branch in accordance with the terms and conditions of the licence issued by the Reserve Bank of New Zealand.

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	**2018 $'000**	**2017 $'000**
Common Equity Tier 1 Capital	75,080	37,923
Regulatory adjustments applied in the calculation of Common Equity Tier 1 Capital	*13,978*	*63,778*
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	75,080	37,923
(b) Prescribed capital amount	46,272	18,800
Capital in excess of prescribed capital amount = (a) – (b)	**28,808**	**19,123**
Capital adequacy multiple = (a)/(b)	**162%**	**202%**

Notes to the Financial Statements

14 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)	**2018 $'000**	**2017 $'000**
Capital Base comprises:		
(a) Net assets after applying any regulatory adjustments	75,080	37,923
Regulatory adjustments applied to net assets	*13,978*	*63,778*
(b) Tier 2 Capital	-	-
Regulatory adjustment applied in calculation of Tier 2 capital	-	-
Capital Base (a) + (b)	**75,080**	**37,923**
Prescribed capital amount comprises:		
Insurance risk	32,526	12,336
Asset risk	6,208	5,530
Asset concentration risk	-	-
Operational risk	2,041	2,031
Aggregation benefit	(4,423)	(3,373)
Combined scenario adjustment	9,920	2,276
Prescribed capital amount	**46,272**	**18,800**

(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 throughout the year.

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

The assets of the Branch are held within Statutory Fund 2 of RGAA. Assets 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 distribution of retained profits in accordance with the terms of the Life Act.

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

	2018 $'000	**2017 $'000**
Reported net policy liability	76,262	31,018
Plus: Variations in valuation of DAC assets	-	-
Plus: Change in the use of the discount rate	-	-
Life Act amount	**76,262**	**31,018**

Notes to the Financial Statements

15 Capital reserves

	2018 $'000	2017 $'000
Head office account:		
Balance at the beginning of the year	15,782	15,782
Transfer to head office during the year	-	-
Balance at end of year	**15,782**	**15,782**

16 Auditor's remuneration

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

	2018 $'000	2017 $'000
Amounts received or due and receivable by the auditor for:		
Audit services - Audit of financial statements	121	124
Total auditor's remuneration	**121**	**124**

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 (Chairman of the Board and Investment Committee)

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

Elana Rubin

Non-Executive Director

Alain P. Neemeh

Executive Director

Mark A. Stewart (Managing Director)

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 2018.

	Board Audit Committee	Board Risk Committee	Investment Committee	Board Remuneration Committee
Ian A. Pollard[1]	X	X	X	X
Mark E. Turner[2]	X	X	X	X
Elana Rubin	X	X	X	X
Alain P. Neemeh	-	-	-	-
Mark A. Stewart	-	-	X	-

(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:

	2018 $'000	2017 $'000
Short-term employee benefits	638	495
Post-employment benefits	42	37
Other long term benefits	4	-
Share based payments	194	85
Total	**878**	**617**

Key management personnel compensation is paid by the Branch's immediate parent RGA Australian Holdings Pty Limited ('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 18.

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.

Notes to the Financial Statements

18 Related party transactions (continued)

(b) Transactions with related parties

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

	2018 $'000	2017 $'000
Retrocession contracts with RGA Global Reinsurance Company Ltd ('RGA Global')[1]/ RGA Reinsurance Company ('RGA Re'), both subsidiaries of RGA Inc.:		
Outward reinsurance expense	10,211	8,437
Retrocession allowances	(1,351)	(1,538)
Reinsurance claims recoveries	(8,554)	(2,975)
Movement in ceded insurance contract liabilities	(5,996)	(996)
Net reinsurance (income)/expense	**(5,690)**	**2,928**
Amount owed by RGA Re	**-**	**1,017**
Amount owed by RGA Global	**3,011**	**-**
Management charges, other expenses and tax related items:		
- RGAH	5,762	4,546
- RGAA	703	-
- RGA Re	403	397
- RGA Enterprise Services Co ("RGA Enterprise")	1,081	941
- Other subsidiaries of RGA Inc.	388	441
Net management charges, other expenses and tax related items	**8,337**	**6,325**
Amount owed to RGAH	**(435)**	**(430)**
Amount owed to RGAA	**(93)**	**-**
Amount owed to other related parties	**(239)**	**(209)**
Investment management services fee expense:		
- RGA Enterprise	**282**	**269**
Amount owed to RGA Enterprise	**(48)**	**(44)**

(1) During the year, the retrocession contracts with RGA Re were assigned and transferred by novation to RGA Global.

* The Branch regularly settles balances associated with related party transactions. Intercompany balances are at no interest and are payable within 30 days of the invoice date.

(c) New Zealand tax losses

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

Notes to the Financial Statements

19 Summary of shareholder interests

	2018 $'000	2017 $'000
<u>**(Accumulated Losses)/Retained Profits**</u>		
Net (loss)/profit after income tax	(35,322)	7,720
Shareholders retained profits at beginning of year	9,273	14,413
Transfer from/(to) Australian shareholder fund	22,024	(12,860)
(Accumulated Losses)/Retained profits at end of year	**(4,025)**	**9,273**
<u>**Capital**</u>		
(Accumulated Losses)/Retained profits at end of year	(4,025)	9,273
Capital reserve	15,782	15,782
Entities under common control reserve	76,646	76,646
Life Act shareholders' equity	**88,403**	**101,701**

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, net of overdrafts. 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:

	2018 $'000	2017 $'000
Cash at bank	1,590	1,537
Deposits held at call	35,542	18,883
Total cash and cash equivalents	**37,132**	**20,420**

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

	2018 $'000	2017 $'000
Net (loss)/profit for the year	**(35,322)**	**7,720**
Adjustments for non-cash and investing activities:		
Increase in investment values	(109)	(1,774)
Change in assets and liabilities during the financial year:		
Decrease/(Increase) in premiums receivable	4,245	(3,804)
Increase in other receivables	(2,204)	(1,024)
Increase in insurance contract liabilities ceded	(5,996)	(996)
Increase/(decrease) in outstanding claims	10,182	(133)
Decrease in payables	(2,024)	(357)
Increase in insurance contract liabilities assumed	51,240	9,199
(Decrease)/Increase in deferred tax liability	(2,408)	1,038
Net cash generated from operating activities	**17,604**	**9,869**

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

Throughout 2018, the Branch held no derivative financial instrument contracts (2017: nil).

Notes to the Financial Statements

21 Financial risk management (continued)

(a) *Interest rate risk*

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

	Variable rate 1 year or less	Fixed interest 1 year or less	Fixed interest over 1 year up to 5	Fixed interest over 5 years	Non-interest bearing 1 year or less	Total	Weighted average interest rate
	2018	2018	2018	2018	2018	2018	2018
	$'000	$'000	$'000	$'000	$'000	$'000	%
Financial assets							
Cash and cash equivalents	37,132	-	-	-	-	**37,132**	1.75
Receivables and outstanding premiums	-	-	-	-	15,582	**15,582**	-
Investments	-	33,844	76,352	39,164	-	**149,360**	2.68
Total	**37,132**	**33,844**	**76,352**	**39,164**	**15,582**	**202,074**	
Financial liabilities							
Outstanding claims	-	-	-	-	31,933	**31,933**	
Payables	-	-	-	-	3,397	**3,397**	
Total	**-**	**-**	**-**	**-**	**35,330**	**35,330**	

	Variable rate 1 year or less	Fixed interest 1 year or less	Fixed interest over 1 year up to 5	Fixed interest over 5 years	Non-interest bearing 1 year or less	Total	Weighted average interest rate
	2017	2017	2017	2017	2017	2017	2017
	$'000	$'000	$'000	$'000	$'000	$'000	%
Financial assets							
Cash and cash equivalents	20,420	-	-	-	-	**20,420**	1.75
Receivables and outstanding premiums	-	-	-	-	17,623	**17,623**	-
Investments	-	17,131	73,600	35,605	-	**126,336**	3.08
Total	**20,420**	**17,131**	**73,600**	**35,605**	**17,623**	**164,379**	
Financial liabilities							
Outstanding claims	-	-	-	-	21,752	**21,752**	
Payables	-	-	-	-	5,421	**5,421**	
Total	**-**	**-**	**-**	**-**	**27,173**	**27,173**	

Notes to the Financial Statements

21 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 $2.3 million (2017: $2.1m). A corresponding decrease of 0.5% would increase net profit and equity by $2.3 million (2017: $2.1m). 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 21(a) summarises the maturity profile of the Branch's financial assets and liabilities.

(d) Market risk

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

All non-cash investment assets are market traded. All fixed interest securities are of investment grade and within RGAA's investment policies. The Investment Committee sets the investment policies and mandates. These are reviewed by the Investment Committee on a regular basis.

(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.

Notes to the Financial Statements

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 NZ IAS 37.

23 Events subsequent to reporting date

There are 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 37:

(i) comply with New Zealand generally accepted accounting practice and present fairly the financial position of the Branch as at 31 December 2018 and 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 *Companies Act 1993, Financial Reporting Act 2013* and *Financial Markets Conduct Act 2013.*

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 2018.

Signed in accordance with a resolution of the Directors:

Ian A. Pollard
Chairman

Mark A. Stewart
Managing Director

Dated at Sydney this 8th day of March 2019

Deloitte.

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

Opinion

We have audited the financial statements of RGA Reinsurance Company of Australia Limited - New Zealand Branch (the "Branch") which comprise the statement of financial position as at 31 December 2018, and the statement of financial performance, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 1 to 37.

In our opinion, the accompanying financial statements present fairly, in all material respects, the Branch's financial position as at 31 December 2018 and it's financial performance and it's cash flows for the year then ended in accordance with New Zealand International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Branch in accordance with the ethical requirements of Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board (the Code) that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with the Code.

Other than in our capacity as auditor, we have no relationship with or interests in the branch, except that partners and employees of our firm deal with the branch on normal terms within the ordinary course of trading activities of the business of the branch.

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

Responsibilities of the Directors for the Financial Statements

The Directors of the Branch are responsible on behalf of the Branch for the preparation and fair presentation of the financial statements in accordance with New Zealand International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS), and for such internal control as the Directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible on behalf of the Branch for assessing the ability of the Branch to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Branch or to cease operations, or has no realistic alternative but to do so.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Key Audit Matter</th><th>How the scope of our audit responded to the Key Audit Matter</th></tr>
<tr><td>Actuarial Valuations

As at 31 December 2018 the Branch's gross insurance contract liabilities assumed were $NZ89,478,000 calculated on the basis of recognised actuarial assumptions and methods, as disclosed in note 3.

Significant management judgement is involved, including assumptions that have been identified as having high estimation uncertainty and include:
• Appropriateness of assumptions used in the valuations, especially in respect of the branch experience vs market experience;
• Recognition and amortisation of deferred acquisition costs;
• Appropriateness of allowances for discretions and professional judgement;
• Completeness and accuracy of data used for the valuation models; and
• Appropriateness of the assumptions supporting the capital estimates.</td><td>In conjunction with our actuarial specialists our procedures included, but were not limited to:
• Considering the appropriateness of the valuation methodology, valuation processes and valuation models with respect to actuarial standards;
• Comparing valuation assumptions (interest rates, lapse rates, mortality, morbidity, terminations and expense ratios) to the results of experience studies or other sources of assumptions for reasonableness;
• Discussing with Appointed Actuary and Management and reviewing documentation of model integrity checks, technical reviews, peer reviews and other documented data checks produced by the Branch;
• Reviewing the rationale and impact of the basis changes and model changes during the year; and
• Reviewing management's assessment of the recoverability of deferred acquisition costs.</td></tr>
<tr><td>Premium accrual

As at 31 December 2018 the Branch's carrying amount of the premium accrual was $NZ16,207,000.

Management estimates a portion of the premium accrual by using one of three methods, applied on a case by case basis. As a result there is a risk that an inappropriate methodology given the type of business is not approved or a methodology applied that was not approved by management.</td><td>Our procedures included, but were not limited to:
• Developing an expectation of the premium accrual using an average of premium income recorded for the year and prorated as necessary;
• Obtaining the premiums due listings and reviewing a sample for the reasonableness of estimation methodology;
• Performing data validation testing on the data used for the calculation of the accrual, which included the months outstanding and the premium receipts;
• Recalculating the accrual based on the period outstanding, frequency of premium paid and the past premium receipts.
• Comparing the recalculated premium receivables to the premium accrual calculated by the client;
• Assessing appropriateness and accuracy of management adjustments made to the premium accrual on a sample basis; and
• Investigating any material differences above threshold.</td></tr>
</table>

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Branch's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Max Rt Murray

Max Murray
Partner
Chartered Accountant
Sydney, 8 March 2019