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Swiss Re



Financial Statements

Swiss Re Life & Health Australia Limited
New Zealand Branch

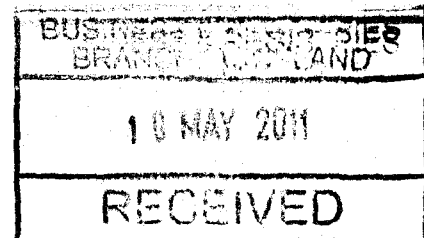
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Income statement for the year ended 31 December 2010

in thousands of New Zealand dollars

Notes

2010

2009

Revenue

Premium revenue from life insurance contracts		53,066	50,599
Premium revenue ceded to reinsurers		(8,628)	(8,564)
Net premium revenue		44,438	42,035
Investment revenue	6	4,520	4,548
Other revenue	7	568	1,320
Net revenue		49,526	47,903

Expenses

Claims expenses on life insurance contracts	8	43,027	43,185
Claims recovered from reinsurers		(8,445)	(7,701)
Net claims expense		34,582	35,484
Increase (decrease) in net life insurance liabilities		4,595	(13,140)
Other expenses	9	8,659	11,474
Net claims and expenses		47,836	33,818
Net profit before tax		1,690	14,085
Income tax expense	10	(255)	(885)
Net profit after tax	5	1,435	13,200

The above income statement should be read in conjunction with the accompanying notes.

Balance sheet as at 31 December 2010

in thousands of New Zealand dollars	Notes	2010	2009
Assets			
Cash and cash equivalents		8,072	4,780
Deposits	11	10,460	51,499
Debt securities	11	113,004	71,433
Receivables	12	16,195	11,110
Life investment contract assets		53	3,022
Other assets	13	2,759	2,514
Total assets		150,543	144,358
Liabilities			
Creditors	14	13,073	12,918
Life insurance contract liabilities assumed under reinsurance	15	60,977	56,725
Life insurance contract liabilities ceded under reinsurance	15	1,254	911
Total liabilities		75,304	70,554
Net assets		75,239	73,804
Equity			
Retained earnings		75,239	73,804
Total equity		75,239	73,804

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of Changes in Equity for the year ended 31 December 2010

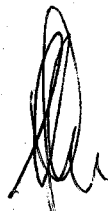
in thousands of New Zealand dollars	Notes	2010	2009
Total equity at the beginning of the year		73,804	60,604
Net profit after tax		1,435	13,200
Total equity at the end of the year		75,239	73,804

The above statement of changes in equity should be read in conjunction with the accompanying notes.

These financial statements, comprising the balance sheet, income statement, statement of changes in equity and accompanying notes are signed for and on behalf of the Directors by:



David M Gonski
Chairman



Mark Senkevics
Chief Executive Officer
and Director

17 March 2011

Notes to the Financial Statements

1 Summary of significant accounting policies

a) Basis of preparation

The reporting entity is the New Zealand Branch of Swiss Re Life & Health Australia Limited, a company incorporated in Australia.

The financial report is prepared in accordance with Generally Accepted Accounting Practice in New Zealand. They comply with the New Zealand equivalents to International Financial Reporting standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993.

The Branch is a qualifying entity under the Framework for Differential Reporting. The criteria which establish this are that the entity does not have public accountability and all of its owners are members of the entity's governing body.

The differential reporting exemptions in the following New Zealand equivalents to International Accounting Standards have been applied:

NZ IAS 1	Presentation of Financial Statements
NZ IAS 7	Cash Flow Statements
NZ IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
NZ IAS 12	Income Taxes
NZ IAS 18	Revenue
NZ IAS 24	Related Party Disclosures
NZ IAS 32	Financial Instruments: Disclosure and Presentation

b) Principles for life insurance business

Contracts that involve the acceptance of significant insurance risk are accounted for as life insurance contracts. 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. Life insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness.

Contracts that do not meet the definition of a life insurance contract, as they do not involve the acceptance of insurance risk, are classified as life investment contracts. The cash flows under these contracts give rise to either a financial asset or financial liability and generate a fee income for the Company, either from the services provided under the contract or administration of assets held by the Company.

Contracts that include both insurance and investment elements are separated into insurance and investment components that are accounted for separately, but only where these elements can be reliably separated and measured.

All policy contracts are non investment linked and no contracts are related to investment linked policies or shareholder investments.

c) Revenue from life insurance contracts

Revenue in respect of life insurance contracts is classified as premium revenue. Premiums with a regular due date are recognised as revenue on the due date, and premiums with no due date are recognised as revenue on a cash received basis.

d) Claims expense on life insurance contracts

Claims incurred in respect of life insurance contracts are treated as an expense, and are recognised when the liability to the cedant under the reinsurance contract has been established.

e) 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 income statement reflects the planned release of this margin.

Life insurance contract liabilities are ordinarily determined using a projection method, whereby estimates of policy cash flows (premiums, benefits, expenses and profit margins to be released in future periods) are projected into the future. The policy liability is calculated as the net present value of these projected cash flows using best estimate assumptions about the future.

Notes to the Financial Statements

e) Life insurance contract liabilities (cont)

An accumulation method, valuing liabilities at the accumulated benefits available to policyowners, may be used if it produces results that are not materially different from those produced by a projection method.

Further details of the methods used and assumptions made in valuing liabilities are set out in note 3.

f) Life investment contracts

Life investment contracts are accounted for as financial instruments, giving rise to a financial asset or financial liability based on the present value of future cash flows expected under the terms of the contract.

Revenue in respect of life investment contracts is classified as fee income and disclosed in other income. Fees are recognised as earned when the services under the contract have been performed.

g) Apportionment of expenses

Expenses are attributed to particular business lines, at either a class of business or product level, for the purpose of determining product profitability and as a basis for assessing future expense assumptions used in determining future margins (refer 1(e) above).

Expenses that are directly attributable to the sale and maintenance of a life insurance contract are allocated directly to the relevant expense class of business or product.

Where expenses are not directly attributable they are apportioned based on detailed expense analysis, having regard to the objective in incurring each expense and the outcome achieved. The apportionment is consistent with the basis prescribed for regulatory reporting in accordance with the Actuarial Professional Standard No.3 "Determination of Life Insurance Policy Liabilities" (PS3).

Costs incurred within the statutory fund are classified as:

Acquisition costs – the fixed and variable costs of acquiring new business, including commissions and similar distribution costs and costs of accepting, issuing and initially recording policies;

Investment management costs – include the costs involved with buying and selling investments and the ongoing management costs of an investment portfolio.

Maintenance costs – all other expenses are considered to be incurred to administer existing life insurance and life investment contracts.

h) Acquisition costs

Life insurance contracts

The actual acquisition costs incurred are recorded in the income statement. The proportion of life acquisition costs not recovered by specific charges received from the policyholder at inception are deferred provided that these amounts are recoverable from future profit margins. The deferred amounts are recognised in the balance sheets as a reduction in policy liabilities and are amortised through the income statement over the expected duration of the relevant policies.

Life investment contracts

The variable component of commissions on new business is deferred and recognised in the balance sheet as deferred acquisition costs. These deferred costs are amortised as the Company recognises the revenue to which those costs relate. All other acquisition costs are expensed as incurred.

No deferred acquisition costs on life investment contracts are currently recognised.

i) Investment revenue

Investment revenue includes:

- (i) Interest from investment assets is brought to account using the effective interest rate method,
- (ii) Profits or losses realised on the disposal of investment assets; and
- (iii) The change in value of investment assets that are held on a 'fair value through profit or loss' basis.

Notes to the Financial Statements

j) Assets backing life insurance and life investment contracts

The Company has determined that all investment assets held within its statutory fund are assets backing policy liabilities.

Financial assets are classified at fair value through profit or loss. Initial recognition is at cost and subsequent measurement is at fair value. Unrealised profits and losses on subsequent measurement to fair value are recognised in the income statement. Fair value is determined as follows:

- Cash accounts and short term deposits are valued at the amounts deposited;
- Fixed interest securities, and other market traded securities are valued at the price the instrument could be sold into an active market, which is usually represented by the latest bid price for such an instrument. Where active market data is not available, the valuation is determined with reference to broker quotes, cashflow modeling or other valuation techniques commonly used by market participants for the same or similar assets and which are considered to be appropriate estimates of prices that would be reasonable in active market situations.
- Receivables are carried at book value, which is the best estimate of fair value, as they are settled within a short period.

k) Assets not backing life insurance and life investment contracts

Financial assets which do not back life insurance or life investment liabilities, are designated at fair value through profit or loss as the entity is managed on a fair value basis.

l) Receivables

Receivables include outstanding premiums and other amounts due to the company under reinsurance contracts. Amounts are shown net of any reduction for impairment or uncollectability. Any such reduction is recognised through the income statement.

m) Cash and cash equivalents

Cash includes cash on hand and in banks, and money market investments readily convertible to cash, held to meet the Company's operational cash requirements.

n) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and adjusted for unused tax losses.

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 those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and assessable temporary differences to measure the deferred tax asset or liability. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

o) Comparative figures

Comparative figures have been prepared on the current disclosure basis.

Notes to the Financial Statements

2 Critical Accounting judgements & estimates

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. These judgements are based on factors such as historical experience and expectations of future trends and events that are believed to be reasonable under the circumstances. Estimates and assumptions are continually evaluated.

The areas where critical accounting judgements and estimates are applied are noted below.

Liabilities for life insurance contracts

Liabilities for life insurance contracts are computed using statistical or mathematical methods, which are expected to give approximately the same results as if an individual liability was calculated for each contract. 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.

The key factors that affect the estimation of these liabilities are:

- data supplied by ceding companies in relation to the underlying policies being reinsured;
- historic and expected future mortality and morbidity experience;
- discontinuance experience, which affects the Company's ability to recover acquisition costs over the lives of the contracts;
- the cost of providing benefits and administering these insurance contracts; and
- the discount rate applied to calculate the present value of future benefits.

In addition, factors such as regulation, inflation, taxes, investment market conditions and general economic conditions affect the assumptions selected in the calculation of these liabilities.

Specific details of actuarial methods and assumptions are set out in note 3.

Premium receivable from life insurance contracts

Premiums for inwards reinsurance business include estimates for renewal premiums that are based on historical information, the active status of the policy, the sum assured and the premium renewal date. Estimates are required as the amount of reinsurance is dependent on the underlying contract between the cedant and their policyholder and there is typically a delay in the transfer of this information to the reinsurer. Subsequent premium receipts may be less than, or greater than, the estimates recorded at balance date. The estimation process is periodically reviewed, including comparison of estimates to subsequent receipts, to ensure that it provides a reasonable basis.

3 Actuarial methods and assumptions

Regulatory reporting

The effective date of the actuarial report on the policyholder liabilities and solvency reserves is 31 December 2010. The actuarial report, prepared by Mr A Bhalerao, Bec, FIAA, and dated 17 March 2011 indicates that he is satisfied as to the accuracy of the data upon which policyholder liabilities have been determined.

Policyholder liabilities are measured in accordance with the Actuarial Professional Standard No.3 "Determination of Life Insurance Policy Liabilities" (PS3) which prescribes the margin on services (MoS) basis.

Equity retained as solvency reserves (refer note 16) has been calculated in accordance with the Life Insurance Company Prudential Reserving Guidance Note issued by the New Zealand Society of Actuaries.

Actuarial methods

Policy liabilities in these financial statements have been determined in accordance with applicable accounting standards and in accordance with relevant actuarial guidance. Policy liabilities have been calculated in a way which allows for the systematic release of planned margins as services are provided to policyholders and premiums received.

Notes to the Financial Statements

Methods adopted for each of the major product groups:

Product Group:	Method:
Traditional non-participating life & disability business; Group life and salary continuance insurance; Single premium business with income benefits; Medical expenses; Term insurance	Projection method, using cash flows from sample policies and applying results to the total product group
Traditional non-participating life & disability business – Coinsurance on original terms	Accumulation
Conventional whole of life and endowment business; Single premium business with lump-sum benefits	Projection method, using cash flows for all individual policies.
Annuities	Projection method, using present value of future payments due.

Where contracts can be unbundled and a separate financial instrument element can be identified, this component is valued as a life investment contract.

Valuation assumptions

(i) Profit carriers

Claims are used as the profit carrier for all major product groups in order to achieve the systematic release of planned margins.

(ii) Discount rates

Risk-free rate of return, gross basis: This has been based on the New Zealand Commonwealth Government bond yield curve as at 31 December 2010 (3.49% to 6.37%) (2009: 4.09% to 6.46%)

Rates used for disability products are gross of tax.

Rates used for all other products are adjusted for tax.

(iii) Rates of taxation

It has been assumed that future income will be taxed consistently with current tax legislation and a tax rate of 30% (2009: 30%) has been assumed.

(iv) Inflation rates

Allowance for future inflation: 3.0% (2009: 2.7%)

The assumed inflation rates have been based on current inflation rates, the outlook for inflation over the term of the liabilities and market implied inflation rates relative to the assumed earning rates. Expense inflation rates are consistent with these assumptions.

(v) Future maintenance expenses

Allowance for future maintenance expenses has been made on the basis that expense loadings (before future inflation impacts) cover maintenance expenses. Expense loadings vary according to product type, and are expressed as a % of annual premium:

Range of expense loadings 2.95% to 4.72% (2009: 3.2% - 5.12%)

Expenses have been assumed at levels consistent with the planned expenses in 2011.

Notes to the Financial Statements

(vi) Mortality and Morbidity

Mortality and morbidity rates for risk products which vary by sex, age, smoking status and occupation have been based on the Company's own experience and relevant industry studies. The range of rates used in the current year is:

Mortality

Males	70% - 90% of IA 95-97m (2009: 73% - 90% of IA 95-97m)
Females	67% - 91% of IA 95-97f (2009: 67% - 91% of IA 95-97f)

Morbidity

Incidence	between 65% - 120% (2009: 65% - 100%) of IAD 89 - 93 morbidity table
Termination	between 40% - 145% (2009: 35% - 130%) of IAD 89 - 93 morbidity table

Appropriate base tables are chosen for the type of product written. Investigations into the actual experience of the Company over the proceeding 5 years are performed annually, and the results of these investigations are considered in determining adjustments to the base tables to reflect best estimate experience.

(vii) Discontinuance rates

Future rates of discontinuance which vary by product type are assumed to be in the order of:

Range of rates: 3% - 25% (2009: 3% - 25%)

Investigations into the actual experience of the company over the proceeding 5 years are performed annually and used to determine the appropriate discontinuance rate.

(viii) Surrender values

Surrender value bases used by the cedants are assumed to apply to the future.

(ix) Investment expenses

Future investment management expenses are based on the rates agreed with the investment manager, which vary by class of asset and average 0.11% of assets (2009: 0.11%).

Effects of changes in actuarial assumptions from 31 December 2009 to 31 December 2010

in thousands of New Zealand dollars	Effect on Profit Margins Increase/ (decrease)	Effect on Policy Liabilities Increase/ (decrease)
Assumption Change		
Discount rates	491	578
Expense	1,772	(300)
Mortality	9,114	-
Morbidity	(1,640)	919
Other	(543)	-
Discontinuance	3,233	(3)
Total effect of changes	12,427	1,194
Amount at 31 December 2009 under old assumptions	44,187	60,984
Amount reported	56,614	62,178

Notes to the Financial Statements

Sensitivity analysis

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

Variable	Impact of movement in underlying variable
Interest Rate Risk	<p>A decrease in the rate of interest would:</p> <ul style="list-style-type: none"> (i) decrease the investment income from the Company's floating rate interest bearing securities; (ii) have a positive impact on the value of the Company's investments. <p>The overall impact on profit and shareholder equity depends on the impact on asset values, as described above, relative to the impact on the discount rate used to value policy liabilities, which for the most part are valued using a risk-free discount rate that may not be matched by the asset portfolio.</p>
Mortality rates	For insurance contracts, providing death benefits, increased mortality rates would lead to higher levels of claims occurring sooner than anticipated, increasing associated claims cost and therefore reducing profit and shareholder equity
Morbidity rates	The cost of health-related claims depends on both the incidence of policyholders becoming ill and the duration which they remain ill. Higher than expected incidence and duration would increase claim costs, reducing profit and shareholder's equity.
Discontinuance	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. The impact also depends on factors such as the type of contract.

The table below illustrates how permanent changes in key variables would impact the reported financial position at balance date of the company through the value of its assets and liabilities and through changed valuation assumptions.

The impact of these variables on other assets and liabilities on the balance sheet is not material.

in thousands of New Zealand dollars	Change in Variable	Policyholder Liabilities	Investment Assets ⁽¹⁾	Profit after tax & Equity
Gross				
Policyholder liabilities		60,924	137,416	75,239
Risk free bonds rates	+1%	(3,238)	(3,440)	(142)
	-1%	3,700	3,668	23
Mortality	+10%	-	-	-
	-10%	-	-	-
Disability claims incidence	+10%	2,961	-	(2,073)
	-10%	(2,961)	-	2,073
Disability claims termination	+10%	(6,231)	-	4,362
	-10%	7,427	-	(5,199)

Notes to the Financial Statements

Actuarial methods and assumptions (continued)

in thousands of New Zealand dollars	Change in Variable	Policyholder Liabilities	Investment Assets ⁽¹⁾	Profit after tax & Equity
Net				
Policyholder liabilities		62,178	137,416	75,239
Risk free bonds rates	+1%	(3,269)	(3,440)	(120)
	-1%	3,735	3,668	(47)
Mortality	+10%	-	-	-
	-10%	-	-	-
Disability claims incidence	+10%	2,961	2,961	888
	-10%	(2,961)	(2,961)	(888)
Disability claims termination	+10%	(6,231)	(6,231)	(1,869)
	-10%	7,427	7,427	2,228

(1) Investment Assets includes cash and cash equivalents, deposits and debt securities

4 Risk management policies and procedures

The Company is subject to a range of financial, insurance and operational risks that have the potential to affect its financial condition and its future operating results. These risks are usual for the nature of the business conducted by the company, and are accepted as part of the process of producing value for the shareholder. The objective of the Company's risk management procedures is to ensure that these risks are properly managed.

The Company has in place a system of controls and a process for regularly assessing these controls. The Company also has a process in place for regularly reporting to the Board Audit Committee on the effectiveness of these controls as well as reporting on the financial and capital position of the Company.

In relation to insurance risks, the key processes for managing risk are:

Spread of risks: The Company maintains an exposure to a range of mortality and morbidity risks with a spread of population characteristics (age, sex, etc). For group policies where there is potential for risks to be concentrated by geography the aggregate exposure monitored against set limits.

Underwriting procedures: A process exists for setting and reviewing underwriting authorities. Individual underwriting decisions are supported by a policies and procedures manual and, if necessary, by obtaining medical opinion. Underwriting decisions are regularly monitored and reviewed. Where authority is delegated to cedants, the Company has processes in place for auditing the underwriting processes used.

Claims management: Procedures exist for the verification, assessment and payment of claims. Income protection claims are monitored on a monthly basis and individual case management procedures determined on a case-by-case basis. Where authority is delegated to cedants, the Company has processes in place for auditing the claims assessment processes used.

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

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

Reinsurance program: The Company uses reinsurance to manage large risks, either by volume or volatility, and peak exposures, eg catastrophe cover.

Capital position: The minimum capital requirement set by the Australian regulator requires a company to maintain sufficient capital to withstand a number of asset and liability shock scenarios. The Company maintains a target level of capital in excess of the minimum requirement which further mitigates risk exposures.

Notes to the Financial Statements

4 Risk management policies and procedures (continued)

In relation to financial and operational risks, the key processes for managing risk are:

Operational risk management: The Company has in place a system for identifying operational risks and regularly reviewing and reporting on the effectiveness of the controls used to mitigate these risks.

Asset management: The Company maintains an investment portfolio to support policyholder liabilities. Investment guidelines are in place that set clear parameters for the selection of assets, with respect to the types of assets that are permitted, the amount of the portfolio that can be committed to a particular asset class or counterparty, the amount of liquidity that needs to be maintained and the circumstances in which the use of derivatives is permitted. The investment manager receives a liability profile from the company and asset performance is benchmarked against a portfolio of risk free assets matched to the value and duration of the liabilities.

The company receives premiums and commits to paying claims in the future. As such, the investment strategy is focused on secure assets that provide for the long term cash requirements of the company. Assets selected are predominantly AAA-rated fixed interest securities and market traded equities. The asset selection is performed with reference to the duration of the underlying insurance liabilities and this operates to minimise the interest rate exposure. Notwithstanding the rating of the company's assets the company's performance is exposed to market risk and credit risk and the resultant impact on the valuation of assets. This exposure remains unhedged, however as the company is holding the assets to meet long-term payment obligations and does not have significant short term liquidity requirements these assets do not need to be realised at current values.

in thousands of New Zealand dollars

2010

2009

5 Analysis of profit

Components of profit related to movement in life insurance contracts:

Planned margins of revenues over expenses released	5,376	5,234
Difference between actual and assumed experience	(5,271)	996
Change in valuation methods and assumptions	(499)	5,053
Reversal (capitalisation) of expected future losses	(2,496)	(81)
Retrocession recovery (payment) relating to loss recognition	2,496	81

Other components:

Investment earnings on assets in excess of policy liabilities	1,742	1,268
Life investment contracts profit	87	649

Net profit after tax

1,435

13,200

6 Investment revenue

Revenue derived from:

Debt securities and deposits	5,339	6,422
Realised and unrealised losses	(819)	(1,874)
Total investment revenue	4,520	4,548

7 Other revenue

Interest on cash and cash equivalents	504	294
Fee income	64	1,026
	568	1,320

8 Gross claims paid

Death and disability claims	43,021	43,185
Maturities and surrenders	6	-
	43,027	43,185

Notes to the Financial Statements

in thousands of New Zealand dollars

2010

2009

9 Other expenses

Policy acquisition expenses	2,244	5,573
Policy maintenance expenses	6,315	5,783
Investment management expenses	100	118
	8,659	11,474

Acquisition and maintenance expenses include commissions.

Audit fees are paid outside the New Zealand branch.

10 Income tax

Income tax has been determined in accordance with the taxes applicable to each product in accordance with the Income Tax Act 2007.

Changes to the life insurance regime have been introduced in the current year. In principle two tax bases are maintained: the shareholder base where tax is calculated on taxable income accruing to the company; and the policyholder base which assesses investment income accruing to the policyholder. Policyholder losses under the former basis are not available to carry forward into the new regime.

For Accident and Health business the taxable income is generally consistent with the determination of accounting profit.

Reconciliation between net profit before tax and tax expense		
Net profit before tax	1,690	14,085
Tax at the standard rate of 30% (2009: 30%)	507	4,226
Tax effect of non-assessable income	(92)	(3,357)
Under/(over) provision from previous year	(160)	16
Tax charge for the year	255	885
Current income tax asset (liability)		
Opening balance	2,289	3,060
(Under)/over provision from previous year	160	(16)
Current income tax expense	(415)	(869)
Tax paid during current year	500	114
Closing balance	2,534	2,289
Deferred tax asset		
Opening balance	225	225
Net increase (decrease) in the current year	-	-
Closing balance	225	225
Income tax expense		
Current income tax	415	869
Under/(over) provision from previous year	(160)	16
Movement in deferred tax balances	-	-
Income tax expense	255	885
Imputation credit account		
Balance brought forward	24,588	24,205
Tax payments	500	114
Prior year adjustments	(42)	269
	25,046	24,588
Policyholder base losses		
Balance brought forward	61,977	54,325
Adjustment from prior year final return	171	779
Current year losses (profits)	-	6,873
Forfeiture due to change in basis	(62,148)	-
Balance carried forward	-	61,977

Notes to the Financial Statements

in thousands of New Zealand dollars		2010	2009
11	Investments		
	Funds on deposit	10,460	51,499
	Debt security investments: NZ government	113,004	71,433
	Total investment assets	123,464	122,932
The Branch has deposited with the Public Trustee of New Zealand \$500,000 (2009: \$500,000) of Government Securities which are held as security on behalf of the Branch's policyholders and form part of the Life Fund of the Branch.			
	Maturity Analysis:		
	Under 1 year	61,319	51,499
	1 to 2 years	-	30,117
	2 to 3 years	11,592	-
	3 to 4 years	-	11,475
	4 to 5 years	10,467	-
	Greater than 5 years	40,086	29,841
		123,464	122,932
12	Receivables		
	Outstanding premiums	8,009	7,510
	Reinsurance claims receivable	4,459	3,000
	Amounts due from related parties	2,145	-
	Investment income accrued and receivable	1,582	600
		16,195	11,110
13	Other assets		
	Tax prepaid	2,534	2,289
	Deferred tax asset	225	225
		2,759	2,514
14	Creditors		
	Reinsurance claims payable	9,314	9,964
	Amounts due to cedants and retrocessionaires	2,267	816
	Amounts due to related parties	1,483	1,925
	Other creditors	9	213
		13,073	12,918
15	Policy liabilities		
15(a)	Reconciliation of movements in life insurance contract liabilities		
	Liabilities assumed under reinsurance		
	Opening balance at 1 January	56,725	68,930
	Net decrease reflected in the income statement	4,252	(12,205)
	Closing balance at 31 December	60,977	56,725
	Liabilities ceded under reinsurance		
	Opening balance at 1 January	911	1,846
	Net increase reflected in the income statement	343	(935)
	Closing balance at 31 December	1,254	911
	Net policy liabilities at 31 December	62,231	57,636

Notes to the Financial Statements

in thousands of New Zealand dollars

2010

2009

15 Policy Liabilities (continued)

15(b) Components of net life insurance contract liabilities

Future policy benefits	448,383	433,239
Future expenses	49,065	48,714
Planned margins of future revenues over expenses	56,614	45,705
Future charges for acquisition costs	(35,352)	(34,878)
Balance of future revenues	(456,479)	(435,144)
Total net life insurance contract liabilities	62,231	57,636

16 Equity retained for solvency purposes

Equity of shareholders	75,239	73,804
Less equity retained for solvency purposes	(14,123)	(16,517)
Equity net of solvency requirements	61,116	57,287

17 Related party disclosures

Controlling entities

The immediate controlling entity is Swiss Re Australia Ltd, a company incorporated in Australia. The ultimate controlling entity is Swiss Reinsurance Company Ltd, a company incorporated in Switzerland.

Related party transactions

During the year the Branch conducted the following transactions, in its normal course of business, with related parties:

Retrocession contracts with ultimate controlling entity		
Outward reinsurance expense	5,742	6,387
Reinsurance recoveries	(6,424)	(4,902)
Net reinsurance expense (recovery)	(682)	1,485
Management and other expenses		
Ultimate controlling entity	1,070	768
Investment management expense		
Ultimate controlling entity	93	118

The related party balance sheet balances are disclosed in the relevant notes to the balance sheet.

18 Contingent losses and gains

At balance date the Directors are not aware of any contingent losses or gains which should be provided for in the financial statements.

19 Events occurring after balance date

There have been no events subsequent to balance date which have a material effect on the financial statements.

20 Capital expenditure commitments

At balance date the Branch has not entered into any contracts for capital expenditure which have not been provided for in the financial statements.



Independent Auditors' Report to the Directors of Swiss Re Life & Health Australia Limited – New Zealand Branch

Report on the Financial Statements

We have audited the financial statements of the New Zealand operations of Swiss Re Life & Health Australia Limited (New Zealand Branch) on pages 1 to 15, which comprise the Balance Sheet as at 31 December 2010, Income Statement and Statement of Changes in Equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The Company's Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that present fairly the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Other than in our capacity as auditors we have no relationship with, or interests in, the New Zealand Branch.

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Liability limited by a scheme approved under Professional Standards Legislation.



Opinion

In our opinion, the financial statements on pages 1 to 15

- (i) comply with generally accepted accounting practice in New Zealand; and
- (ii) present fairly, in all material effects, the financial position of the New Zealand Branch as at 31 December 2010, and its financial performance for the year ended on that date.

Restriction on Distribution or Use

This report is made solely to the Company's Directors, as a body. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company's Directors, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants

Sydney

I, Kim G Smith, am currently a member of Institute of Chartered Accountants in Australia and my membership number is 78863.

PricewaterhouseCoopers was the audit firm appointed to undertake the audit of Swiss Re Life & Health Australia Limited – New Zealand Branch for the year ended 31 December 2010. I was responsible for the execution of the audit and delivery of our firm's auditors' report. The audit work was completed on 17 March 2011 and an unqualified opinion was issued

K G Smith
Partner

Sydney
17 March 2011

Swiss Re



Annual Report 2010

Swiss Re Life & Health Australia Limited
ABN 74 000 218 306

Annual Report for the year ended 31 December 2010

Swiss Re Life & Health Australia Limited

ABN 74 000 218 306

Swiss Re Life & Health Australia Limited is a company limited by shares, incorporated and domiciled in Australia

Offices

Sydney

363 George Street (Registered Office)

Telephone: 61 2 8295 9500

Facsimile: 61 2 8295 9803

Auckland

188 Quay Street

Telephone: 64 9 363 2700

Facsimile: 64 9 363 2727

Board of Directors

D M Gonski, AC, LLB, FAICD, FCPA

M Senkevics, BE, B Comm

D P Fox, BA, FIA, FIAA, MAICD

M R Parker, FCII

P J Twyman, BSc, MBA, FAICD

Chairman

Chief Executive Officer

Directors' Report

The Directors present their report together with the financial statements of Swiss Re Life & Health Australia Limited (the Company) for the year ended 31 December 2010 and the Auditor's Report.

The Directors of the Company in office at the date of this report are:

D P Fox, D M Gonski (chairman appointed 1 January 2011), M R Parker, M Senkevics (appointed 1 June 2010), P J Twyman.

During the year Dr H M Nugent resigned as chairman (effective 13 August 2010) and R Higginbotham resigned as Director (effective 1 June 2010).

Options

No Director or Officer of the Company is eligible for, or holds options over, unissued shares or interests in Swiss Re Life & Health Australia Limited.

Principal activity

The principal activity of the Company during the course of the financial year remained unchanged and was the transaction of life and disability reinsurance business.

Significant changes in the state of affairs

No significant changes in the state of affairs have occurred during 2010.

Review of operations

The company has continued to grow across all target areas and we have witnessed substantial in-force premium growth year on year. This growth has come from existing clients as well as new channels, a trend we expect to continue in 2011. While reporting a profit in 2010, we have experienced higher than expected mortality and individual disability income experience on our older blocks of business, resulting in a reduced return compared to 2009. Our staff have continued to do an exceptional job in ensuring that our clients receive the highest level of service from Swiss Re.

The key operating indicators for the Company can be summarised as follows:

in thousands of Australian dollars	2010	2009
Gross insurance premium revenue	729,587	631,523
Investment and other revenue	55,606	45,526
Net profit (loss) before income tax	24,437	120,306
Income tax (expense) benefit	(2,253)	(33,553)
Net profit (loss) after income tax	22,184	86,753

Premium revenue has increased by 15.5% (2009: 33.0% increase). The Company has written significant volumes of new business, particularly group salary continuance and individual life lump-sum business.

Net investment revenues increased by \$10.3m compared to the previous year. This has largely been driven by mark-to-market gains on the debt security portfolio of +\$9.1m (2009: -\$31.6m), reflecting a more stable interest rate environment in 2010. The Company's equity portfolio delivered a mark-to-market adjustment of -\$0.8m (2009: +\$31.5m), which was in line with returns on the ASX200 index.

Although profit margins released during 2010 were \$37.8m (2009: \$28.3m) before tax, there was a reduction in profit, largely driven by adverse mortality experience and disability claims incidence.

Directors' Report

Financial position

At balance date, the financial position of the Company can be summarised as follows:

in thousands of Australian dollars	2010	2009
Total assets	1,246,031	1,133,150
Total liabilities	949,389	830,724
Net assets	296,642	302,426

The Company continues to maintain a well capitalised balance sheet with net assets in excess of 145% of the solvency requirement.

Outlook for the future

We continue to strive to be the reinsurer of choice in Australia across all of our business segments. We have in place strategies to grow the Swiss Re business in our traditional marketplace and to expand into new products and distribution. As in previous years, we will be maintaining our focus on the development of our staff, through training and on the job experience. This will build upon the strong client franchise that has been and will continue to be the cornerstone of our business.

Dividend

The Directors declared and paid dividends totalling \$25m (\$64.10 per share) on ordinary shares during 2010.

Events subsequent to balance date

Other than as mentioned elsewhere in this report, there has not arisen between balance date and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the operations of the Company, the results of those operations or the state of affairs in subsequent years.

Corporate governance

The Company is committed to meeting the highest standards of Corporate Governance in all its operations. Compliance with this principle means the upholding of appropriate legal, regulatory and ethical standards. This is achieved through a Group-wide Code of Conduct that expresses the Swiss Re Group's core principles and values and provides guidance on their application in all business conduct stipulating the behavioural requirements expected of everyone in the Swiss Re Group, including Directors and employees.

Indemnification and insurance of officers

Pursuant to the Constitution, the Company indemnifies any Director or Officer of the Company against any liability to third parties incurred in or arising out of the business of the Company unless the liability was incurred through dishonesty, lack of good faith or breach of duty. The ultimate chief entity, Swiss Reinsurance Company Ltd, has also given an undertaking to indemnify any Director or Officer against all expenses, judgements, fines and amounts actually and reasonably incurred in settlement of any action, suit or proceedings brought against them.

Rounding off of amounts

The Company is of the kind referred to in Class Order 98/0100 issued by the Australian Securities and Investments Commission, relating to the rounding off of amounts. Amounts in this report and the accompanying financial statements have been rounded off to the nearest thousand dollars in accordance with that class order.

Directors' Report

Staff

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

Environmental regulations

The Company has assessed whether there are any particular or significant environmental regulations which apply to it and has determined that there are none.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

Auditors

PricewaterhouseCoopers continue in office in accordance with section 327 of the *Corporation Act 2001*.

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



David M Gonski
Chairman



Mark Senkevics
Chief Executive Officer
and Director

Sydney, 17 March 2011



Auditor's Independence Declaration

As lead auditor for the audit of Swiss Re Life & Health Australia Limited (the company) for the year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Swiss Re Life & Health Australia Limited (the company) during the period.

A handwritten signature in black ink, appearing to read 'K. G. Smith'.

K G Smith
Partner
PricewaterhouseCoopers

Sydney
17 March 2011

Income Statement for the year ended 31 December 2010

In thousands of Australian dollars	Notes	2010	2009
Revenue			
Premium revenue from life insurance contracts		729,587	631,523
Premium revenue ceded to reinsurers		(262,615)	(208,875)
Net premium revenue		466,972	422,648
Investment revenue	6	53,790	43,465
Other revenue	7	1,816	2,061
Net revenue		522,578	468,174
Expenses			
Claims expense on life insurance contracts	8	488,805	416,241
Claims recovered from reinsurers		(268,007)	(187,766)
Net claims expense		220,798	228,475
Increase (Decrease) in net life insurance contract liabilities		141,052	(25,247)
Other expenses	9	136,291	144,640
Net claims and expenses		498,141	347,868
Net profit (loss) before tax		24,437	120,306
Income tax (expense) benefit	11	(2,253)	(33,553)
Net profit (loss) after tax	5	22,184	86,753

The above income statement should be read in conjunction with the accompanying notes.

Statement of Comprehensive Income for the year ended 31 December 2010

In thousands of Australian dollars	2010	2009
Net profit (loss) after tax	22,184	86,753
Net movement in foreign currency translation reserve	(2,968)	(1,577)
Income tax relating to components of other comprehensive income	-	-
Other comprehensive income for the year, net of tax	(2,968)	(1,577)
Total comprehensive income for the year	19,216	85,176

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Balance Sheet as at 31 December 2010

in thousands of Australian dollars	Notes	2010	2009
Assets			
Cash and cash equivalents		43,123	27,580
Deposits	12	55,681	118,439
Debt securities	12	956,743	883,883
Equity securities	12	35,350	36,135
Receivables	13	141,834	58,690
Life investment contract assets		40	2,445
Other assets	14	10,913	1,852
Deferred tax assets	11	2,347	4,126
Total assets		1,246,031	1,133,150
Liabilities			
Creditors	15	105,851	109,466
Provisions	18	-	14,591
Life insurance contract liabilities assumed under reinsurance	16	802,019	666,584
Life insurance contract liabilities ceded under reinsurance	16	21,995	19,202
Life investment contract liabilities		19,524	20,881
Total liabilities		949,389	830,724
Net assets		296,642	302,426
Equity			
Contributed equity	19	155,000	155,000
Foreign currency translation reserve		(6,049)	(3,081)
Retained earnings		147,691	150,507
Total equity		296,642	302,426

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of Changes in Equity for the year ended 31 December 2010

in thousands of Australian dollars	Notes	2010	2009
Total equity at the beginning of the year		302,426	227,250
Net profit (loss) after tax	5	22,184	86,753
Foreign currency translation movements		(2,968)	(1,577)
Dividend paid		(25,000)	(10,000)
Total equity at the end of year		296,642	302,426

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Cash Flow Statement for the year ended 31 December 2010

in thousands of Australian dollars	Notes	2010	2009
Cash flows from operating activities:			
Premiums received		656,017	641,349
Retrocession premiums paid		(272,450)	(213,941)
Interest received		44,599	46,933
Dividends received		1,071	2,090
Other income received		426	1,024
Claim payments and other expense payments		(618,883)	(557,504)
Retrocession recoveries received		259,666	194,370
Life investment contract net contributions		1,374	1,362
Income tax refund (paid) net		(24,244)	3,851
Net cash provided by operating activities	24	47,576	119,534
Cash flows from investing activities:			
Net payments to acquire investments		(6,809)	(110,123)
Net cash used in investing activities		(6,809)	(110,123)
Cash flows from financing activities:			
Dividend paid		(25,000)	(10,000)
Net cash used in financing activities		(25,000)	(10,000)
Net increase (decrease) in cash held		15,767	(589)
Cash at the beginning of financial year		27,580	28,357
Effect of foreign exchange rate changes		(224)	(188)
Cash at the end of financial year		43,123	27,580

The above cash flow statement should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

1 Summary of significant accounting policies

a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, and the Corporations Act 2001.

Compliance with the Australian Accounting Standards ensures that the financial report of the Company, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

The life insurance operations of the Company are administered through a statutory fund in accordance with the requirements of the Life Insurance Act 1995. This report presents the operation of the statutory fund in aggregate with other business conducted by the Company. The operations within the statutory fund comprise the reinsurance of life insurance contracts and life investment contracts.

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

b) Principles for life insurance business

Contracts that involve the acceptance of significant insurance risk are accounted for as life insurance contracts. 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" (AASB 1038 *Life Insurance Contracts*). Life insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness.

Contracts that do not meet the definition of a life insurance contract, as they do not involve the acceptance of insurance risk, are classified as life investment contracts. The cash flows under these contracts give rise to either a financial asset or financial liability and generate a fee income for the Company, either from the services provided under the contract or administration of assets held by the company.

Contracts that include both insurance and investment elements are separated into insurance and investment components that are accounted for separately, but only where these elements can be reliably separated and measured.

c) Revenue from life insurance contracts

Revenue in respect of life insurance contracts is classified as premium revenue. For contracts with a regular renewal date, premiums are recognised as revenue on the renewal date, and for contracts with no renewal date premiums are recognised as revenue on a cash received basis.

d) Claims expense on life insurance contracts

Claims incurred in respect of life insurance contracts are treated as an expense, and are recognised when the liability to the cedant under the reinsurance contract has been established.

e) 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 income statement reflects the planned release of this margin.

Life insurance contract liabilities are ordinarily determined using a projection method, whereby estimates of policy cash flows (premiums, benefits, expenses and profit margins to be released in future periods) are projected into the future. The policy liability is calculated as the net present value of these projected cash flows using best estimate assumptions about the future.

An accumulation method, valuing liabilities at the accumulated benefits available to policyholders, may be used if it produces results that are not materially different from those produced by a projection method.

The valuation of life insurance contract liabilities is consistent with the basis prescribed for regulatory reporting in accordance with Prudential Standard LPS 1.04 *Valuation of Policy Liabilities*.

Further details of the methods used and assumptions made in valuing liabilities are set out in note 3.

Notes to the Financial Statements

f) Life investment contracts

Life investment contracts are accounted for as financial instruments, giving rise to a financial asset or financial liability based on the present value of future cash flows expected under the terms of the contract.

Revenue in respect of life investment contracts is classified as fee income and disclosed in other revenue. Fees are recognised as earned when the services under the contract have been performed.

g) Apportionment of expenses

Expenses are attributed to particular business lines, at either a class of business or product level, for the purpose of determining product profitability and as a basis for assessing future expense assumptions used in determining future margins (refer 1(e) above).

Expenses that are directly attributable to the sale and maintenance of a life insurance contract are allocated directly to the relevant expense class of business or product.

Where expenses are not directly attributable, they are apportioned based on detailed expense analysis, having regard to the objective in incurring each expense and the outcome achieved. The apportionment is consistent with the basis prescribed for regulatory reporting in accordance with Prudential Standard LPS 1.04 *Valuation of Policy Liabilities*.

Costs incurred within the statutory fund are classified as:

Acquisition costs – the fixed and variable costs of acquiring new business, including commissions and similar distribution costs and costs of accepting, issuing and initially recording policies;

Investment management costs – include the costs involved with buying and selling investments and the ongoing management costs of an investment portfolio; or

Maintenance costs – all other expenses are considered to be incurred to administer existing life insurance and life investment contracts.

h) Acquisition costs

Life insurance contracts

The actual acquisition costs incurred are recorded in the income statement. The proportion of life acquisition costs not recovered by specific charges received from the policyholder at inception is deferred provided that these amounts are recoverable from future profit margins. The deferred amounts are recognised in the balance sheet as a reduction in policy liabilities and are amortised through the income statement over the expected duration of the relevant policies.

Life investment contracts

The variable component of commissions on new business is deferred and recognised in the balance sheet as deferred acquisition costs. These deferred costs are amortised as the Company recognises the revenue to which those costs relate. All other acquisition costs are expensed as incurred.

No deferred acquisition costs on life investment contracts are currently recognised.

i) Investment revenue

Investment revenue includes:

- (i) Interest, recognised using the effective interest rate method;
- (ii) Dividends, recognised on an entitlement basis when the securities trade 'ex-div';
- (iii) Profits or losses realised on the disposal of investment assets; and
- (iv) The change in value of investment assets that are held on a 'fair value through profit or loss' basis.

Notes to the Financial Statements

j) Assets backing life insurance and life investment contracts

The Company has determined that all investment assets held within its statutory fund are assets backing policy liabilities.

Financial assets are classified at fair value through profit or loss. Initial recognition is at cost and subsequent measurement is at fair value. Unrealised profits and losses on subsequent measurement to fair value are recognised in the income statement. Fair value is determined as follows:

- Cash accounts and short term deposits are valued at the amounts deposited;
- Shares, fixed interest securities, and other market traded securities are valued at the price the instrument could be sold into an active market, which is usually represented by the latest bid price for such an instrument. Where active market data is not available, the valuation is determined with reference to broker quotes, cashflow modeling or other valuation techniques commonly used by market participants for the same or similar assets and which are considered to be appropriate estimates of prices that would be reasonable in active market situations.
- Receivables are carried at book value, which is the best estimate of fair value, as they are generally settled within less than 12 months.

k) Assets not backing life insurance and life investment contracts

Financial assets which do not back life insurance or life investment liabilities, are designated at fair value through profit or loss as the entity is managed on a fair value basis.

l) Receivables

Receivables include outstanding premiums and other amounts due to the company under reinsurance contracts. Amounts are shown net of any reduction for impairment or uncollectability. Any such reduction is recognised through the income statement.

m) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks, and money market investments readily convertible to cash, held to meet the Company's operational cash requirements.

n) Employee entitlements

The Company has no employees and as such all activities are performed by employees of Swiss Reinsurance Company Ltd (Australia Branch). All employee entitlement costs are included within the management expenses charged from the ultimate controlling entity (refer note 22).

o) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on prevailing income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and adjusted for unused tax losses.

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 those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and assessable temporary differences to measure the deferred tax asset or liability. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

p) Foreign currency translation

The Company's New Zealand Branch has a functional currency (New Zealand dollars) different from the currency in which the financial statements are presented. The translation into these financial statements is as follows:

- assets and liabilities are translated at the exchange rates of the relevant balance sheet date;
- income and expenses are translated at the exchange rates prevailing on the transaction date or at an average exchange rate, being a reasonable approximation of the cumulative effect of rates prevailing on the transaction dates; and resulting exchange differences are recognised as a separate component of equity.

Notes to the Financial Statements

q) Australian Accounting Standards issued but not yet effective

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting period ending 31 December 2010. When applied in future periods, these issued or amended standards are not expected to have a material impact on the company's results or financial position, however they may have an impact on disclosure only.

2

Critical accounting judgements & estimates

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. These judgements are based on factors such as historical experience and expectations of future trends and events that are believed to be reasonable under the circumstances. Estimates and assumptions are continually evaluated.

The areas where critical accounting judgements and estimates are applied are noted below.

Liabilities for life insurance contracts

Liabilities for life insurance contracts are computed using statistical or mathematical methods, which are expected to give approximately the same results as if an individual liability was calculated for each contract. 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.

The key factors that affect the estimation of these liabilities are:

- data supplied by ceding companies in relation to the underlying policies being reinsured;
- historic and expected future mortality and morbidity experience;
- discontinuance experience, which affects the Company's ability to recover acquisition costs over the lives of the contracts;
- the cost of providing benefits and administering these insurance contracts; and
- the discount rate applied to calculate the present value of future benefits.

In addition, factors such as regulation, inflation, taxes, investment market conditions and general economic conditions affect the assumptions selected in the calculation of these liabilities.

Specific details of actuarial methods and assumptions are set out in note 3.

Fair value of assets

Fair value is defined as the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. The fair value of the company's investment assets are classified as:-

- (a) Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities
- (b) Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices), and
- (c) Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Premium receivable from life insurance contracts

Premiums for inwards reinsurance business include estimates for renewal premiums that are based on historical information, the active status of the policy, the sum assured and the premium renewal date. Estimates are required as the amount of reinsurance is dependent on the underlying contract between the cedant and their policyholder and there is typically a delay in the transfer of this information to the reinsurer. Subsequent premium receipts may be less than, or greater than, the estimates recorded at balance date. The estimation process is periodically reviewed, including comparison of estimates to subsequent receipts, to ensure that it provides a reasonable basis.

Notes to the Financial Statements

3 Actuarial methods and assumptions

Regulatory reporting

An actuarial report on policy liabilities and solvency reserves as at 31 December 2010 has been prepared by the Appointed Actuary, Mr A Bhalerao, BEc, FIAA and dated 17 March 2011. This report indicates that he is satisfied as to the accuracy of the data upon which policy liabilities have been determined for the purposes of reporting under the Life Insurance Act 1995.

The policy liabilities in the Appointed Actuary's report have been calculated in accordance with Prudential Standard LPS 1.04 *Valuation of Policy Liabilities* issued by the Australian Prudential Regulation Authority. Differences in the presentation requirements for regulatory reporting and those adopted in this report are outlined at Note 17.

Actuarial methods

Policy liabilities in these financial statements have been determined in accordance with applicable accounting standards and in accordance with relevant actuarial guidance. Policy liabilities have been calculated in a way which allows for the systematic release of planned margins as services are provided to policyholders and premiums received.

Methods adopted for each of the major product groups:

Product Group:

Traditional non-participating life & disability business;
Group life and salary continuance insurance;
Single premium business with income benefits;
Medical expenses; and
Term insurance

Traditional non-participating life & disability business – Coinsurance on original terms

Conventional whole of life and endowment business; and
Single premium business with lump-sum benefits

Annuities

Method:

Projection method, using cash flows from sample policies and applying results to the total product group

Accumulation

Projection method, using cash flows for all individual policies.

Projection method, using present value of future payments and premiums due.

Where contracts can be unbundled and a separate financial instrument element can be identified, this component is valued as a life investment contract.

Valuation assumptions

(i) Profit carriers

Claims are used as the profit carrier for all major product groups in order to achieve the systematic release of planned margins.

(ii) Discount rates

Risk free rate of return, gross basis: This has been based on using the Commonwealth Government bond yield curve as at 31 December 2010 for Australia 4.97% to 5.77% (2009: 4.37% to 6.01%) or New Zealand 3.49% to 6.37% (2009: 4.09%-6.46%), depending on the currency in which the liabilities are denominated.

Gross of tax rates are used for:

- Australian products where the risk component of premium is taxed
- New Zealand disability products.

Net of tax rates are used for all other products.

Notes to the Financial Statements

3 Actuarial methods and assumptions (continued)

(iii) Inflation rates

Allowance for future inflation:	- Australia	3.0%	(2009: 2.7%)
	- New Zealand	3.0%	(2009: 2.7%)

The assumed inflation rates have been based on current inflation rates, the outlook for inflation over the term of the liabilities and market implied inflation rates relative to the assumed earning rates. Expense inflation rates are based on these assumptions.

(iv) Future maintenance expenses

Allowance for future maintenance expenses has been made on the basis that expense loadings (before future inflation impacts) cover maintenance expenses. Expense loadings vary according to product type, and are expressed as a % of annual premium:

Range of expense loadings 0.44% to 8.14% (2009: 0.48% to 8.33%)

Expenses have been assumed at levels consistent with the planned expenses in 2010.

(v) Mortality and Morbidity

Mortality and morbidity rates for risk products which vary by sex, age, smoking status and occupation have been based on the Company's own experience and relevant industry studies. The range of rates used in the current year is:

Mortality

Males: 64%-90% of IA95-97m for traditional sales channels (2009: 64%-90% of IA95-97m) and 100%-450% of ALT90-92 for non traditional sales channels (2009: 100%-450% of ALT90-92)

Females: 58%-91% of IA95-97f for traditional sales channels (2009: 58%-91% of IA95-97f) and 115%-440% of ALT90-92 for non traditional sales channels (2009: 115%-440% of ALT90-92)

Morbidity

Incidence between 65% - 230% (2009: 65% - 210%) of IAD 89 - 93 morbidity table

Termination between 32% - 145% (2009: 32% - 130%) of IAD 89 - 93 morbidity table

Appropriate base tables are chosen for the type of product written. Investigations into the actual experience of the Company over the preceding 5 years are performed annually, and the results of these investigations are considered in determining adjustments to the base tables to reflect best estimate experience.

(vi) Discontinuance rates

Future rates of discontinuance which vary by product type are assumed to be in the order of:

Range of rates 3.0% - 26.5% (2009: 3.0% - 26.5%)

Investigations into the actual experience of the Company over the preceding 5 years are performed annually and used to determine the appropriate discontinuance rate.

(vii) Surrender values

Surrender value bases used by the cedants are assumed to apply to the future.

(viii) Investment expenses

Future investment management expenses are based on the rates agreed with the investment manager, which vary by class of asset and average 0.11% of assets (2009: 0.11%).

Notes to the Financial Statements

3 Actuarial methods and assumptions (continued)

in thousands of Australian dollars

	Effect on Profit Margins Increase/ (Decrease)	Effect on Policy Liabilities * Increase/ (Decrease)
Assumption Change		
Discount rates	2,429	4,056
Expense	8,471	(2,141)
Mortality	(18,040)	-
Morbidity	(1,332)	5,699
Other	(2,313)	-
Discontinuance rates	13,998	(2)
Total effect of changes	3,213	7,612
Amount at 31 December 2010 under old assumptions	262,856	835,886
Amount reported	266,069	843,498

* Effect on Policy liabilities includes liabilities of both life insurance contracts and life investment contracts (as set out in note 17).

Sensitivity analysis

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

Variable	Impact of movement in underlying variable
Interest Rate Risk	<p>A decrease in the rate of interest would:</p> <ul style="list-style-type: none"> (i) decrease the investment income from the Company's floating rate interest bearing securities; (ii) have a positive impact on the value of the Company's investments. <p>The overall impact on profit and shareholder equity depends on the impact on asset values, as described above, relative to the impact on the discount rate used to value policy liabilities, which for the most part are valued using a risk-free discount rate that may not be matched by the asset portfolio.</p>
Mortality rates	For insurance contracts providing death benefits, increased mortality rates would lead to higher levels of claims occurring sooner than anticipated, increasing associated claims cost and therefore reducing profit and shareholder equity.
Morbidity rates	The cost of health-related claims depends on both the incidence of policyholders becoming ill and the duration which they remain ill. Higher than expected incidence or duration would increase claim costs, reducing profit and shareholders equity.
Discontinuance	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. The impact also depends on factors such as the type of contract.

Notes to the Financial Statements

3 Actuarial methods and assumptions (continued)

The table below illustrates how permanent changes in key variables would impact the reported financial position at balance date of the company through the value of its assets and liabilities and through changed valuation assumptions.

The impact of these variables on other assets and liabilities on the balance sheet is not material.

in thousands of Australian dollars	Change in Variable	Policyholder Liabilities	Investment Assets ⁽¹⁾	Profit after tax / Equity
Gross				
		821,503	1,090,897	296,642
ASX 200	+10%	-	3,535	2,475
	-10%	-	(3,535)	(2,475)
Risk free bonds rates	+1%	(28,050)	(30,582)	(1,772)
	-1%	32,284	33,447	814
Mortality	+10%	2,102	-	(1,471)
	-10%	-	-	-
Disability claims incidence	+10%	23,049	-	(16,134)
	-10%	(17,399)	-	12,180
Disability claims termination	+10%	(43,476)	-	30,433
	-10%	50,895	-	(35,627)
Net				
		843,498	1,090,897	296,642
ASX 200	+10%	-	3,535	2,475
	-10%	-	(3,535)	(2,475)
Risk free bonds rates	+1%	(27,970)	(30,582)	(1,828)
	-1%	32,192	33,447	878
Mortality	+10%	2,101	-	(1,471)
	-10%	-	-	-
Disability claims incidence	+10%	23,049	23,049	6,915
	-10%	(17,399)	(17,399)	(5,220)
Disability claims termination	+10%	(43,476)	(43,476)	(13,043)
	-10%	50,895	50,895	15,269

(1) Investment Assets includes cash and cash equivalents, deposits, debt securities and equity securities

In addition to the above sensitivity, financial performance is subject to uncertain timing of future cash flows. The company writes non-participating term life and disability contracts. The benefits payable under these contracts are paid on the occurrence of an event, such as the death or disability of the insured or the maturity of the policy term, and are not at the discretion of the issuer once the conditions have been met. The claim amount is defined by the contract and is not subject to the performance of underlying assets.

Liabilities are estimated based on current assumptions. The timing and amount of the cash flow may be affected by the following: mortality and morbidity experience, investment earnings rates, inflation, discontinuance rates, and maintenance expenses incurred.

Notes to the Financial Statements

4 Risk management policies & procedures

(a) Risk management

The Company is subject to a range of financial, insurance and operational risks that have the potential to affect its financial condition and its future operating results. These risks are usual for the nature of the business conducted by the company, and are accepted as part of the process of producing value for the shareholder. The objective of the Company's risk management procedures is to ensure that these risks are properly managed.

The Company has in place a system of controls and a process for regularly assessing these controls. The Company also has a process in place for regularly reporting to the Board Audit Committee on the effectiveness of these controls as well as reporting on the financial and capital position of the Company.

In relation to insurance risks, the key processes for managing risk are:

Spread of risks: The Company maintains an exposure to a range of mortality and morbidity risks with a spread of population characteristics (age, sex, etc). For group policies where there is potential for risks to be concentrated by geography the aggregate exposure monitored against set limits.

Underwriting procedures: A process exists for setting and reviewing underwriting authorities. Individual underwriting decisions are supported by a policies and procedures manual and, if necessary, by obtaining medical opinion. Underwriting decisions are regularly monitored and reviewed. Where authority is delegated to cedants, the Company has processes in place for auditing the underwriting processes used.

Claims management: Procedures exist for the verification, assessment and payment of claims. Income protection claims are monitored on a monthly basis and individual case management procedures determined on a case-by-case basis. Where authority is delegated to cedants, the Company has processes in place for auditing the claims assessment processes used.

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

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

Reinsurance program: The Company uses reinsurance to manage large risks, either by volume or volatility, and peak exposures, eg catastrophe cover.

Capital position: The minimum capital requirement set by APRA (Actuarial Standard AS 3.04 *Capital Adequacy Standard*) requires a company to maintain sufficient capital to withstand a number of asset and liability shock scenarios. The Company maintains a target level of capital in excess of the minimum requirement which further mitigates risk exposures.

In relation to financial and operational risks, the key processes for managing risk are:

Operational risk management: The Company has in place a system for identifying operational risks and regularly reviewing and reporting on the effectiveness of the controls used to mitigate these risks.

Asset management: The Company maintains an investment portfolio to support policyholder liabilities. Investment guidelines are in place that set clear parameters for the selection of assets, with respect to the types of assets that are permitted, the amount of the portfolio that can be committed to a particular asset class or counterparty, the amount of liquidity that needs to be maintained and the circumstances in which the use of derivatives is permitted. The investment manager receives a liability profile from the company and asset performance is benchmarked against a portfolio of risk free assets matched to the value and duration of the liabilities.

The company receives premiums and commits to paying claims in the future. As such, the investment strategy is focused on secure assets that provide for the long term cash requirements of the company. Assets selected are predominantly AAA-rated fixed interest securities and market traded equities. The asset selection is performed with reference to the duration of the underlying insurance liabilities and this operates to minimise the interest rate exposure. Notwithstanding the rating of the company's assets the company's performance is exposed to market risk and credit risk and the resultant impact on the valuation of assets. This exposure remains unhedged, however as the company is holding the assets to meet long-term payment obligations and does not have significant short term liquidity requirements these assets do not need to be realised at current values.

Notes to the Financial Statements

in thousands of Australian dollars

2010

2009

5 Components of profit

Components of profit related to movement in life insurance contracts:		
Planned margins of revenues over expenses released	37,827	28,261
Difference between actual and assumed experience	(25,519)	55,259
Reversal (capitalisation) of expected future losses	(4,429)	(1,180)
Retrocession recovery (payment) relating to loss recognition	4,429	1,180
	12,308	83,520
Other components:		
Investment earnings on assets in excess of policy liabilities	9,526	3,303
Life investment contracts (loss) profit	350	(70)
Net profit after tax	22,184	86,753

6 Investment revenue

Revenue derived from:		
Equity securities	1,071	2,090
Debt securities and deposits	44,442	41,485
	45,513	43,575
Realised and unrealised gains (losses) derived from:		
Equity securities	(785)	31,549
Debt securities and deposits	9,062	(31,659)
	8,277	(110)
Total investment revenue	53,790	43,465

7 Other revenue

Interest on cash and cash equivalents	1,390	1,028
Fee income from life investment contracts	426	1,024
Sundry income	-	9
	1,816	2,061

8 Claims expense on life insurance contracts

Death and disability claims	486,816	410,619
Maturities, surrenders and terminations	1,989	5,622
Claims expenses on life insurance contracts	488,805	416,241

9 Other expenses

Comprises the following expenses:		
Policy acquisition expenses		
Commission	64,462	68,709
Other	3,791	7,022
Policy maintenance expenses		
Commission	47,968	52,130
Other	19,357	14,832
Investment management expenses	713	1,058
Other expenses	-	889
	136,291	144,640

10 Auditors' remuneration

Amounts received or due and receivable by auditors of the company, including non-recoverable GST, for:		
Audit of the financial statements	487	347
	487	347

Notes to the Financial Statements

11 Income tax

The Company is part of a tax consolidated group, of which Swiss Re Australia Ltd is the head entity. The balance sheet recognises tax assets and liabilities of the company on a stand-alone basis and is settled in accordance with the funding agreement between the entities in the group.

Income tax expense has been determined in accordance with the taxes applicable to each product. In Australia, the risk component of ordinary life and disability business and the fee income from savings type products is generally subject to tax at 30%, while a concessional rate of 15% applies to complying superannuation business.

Where business is subject to tax, premiums, fees and any release of policy liabilities are assessable. Similarly, any claims, acquisition and maintenance expenses and increases in policy liabilities are generally deductible.

In addition, investment income and realised investment gains and other items of income are assessable, and investment expenses and general management expenses are deductible.

In New Zealand, business is subject to tax in accordance with the Income Tax Act 2007 at a rate of 30%.

The movements in the current tax assets and liabilities during the period and the composition of the total income tax expense are as follows:

in thousands of Australian dollars	2010	2009
Reconciliation between net profit before tax and tax expense		
Net profit (loss) before tax	24,437	120,306
Tax at the standard tax rate of 30% (2009:30%)	7,331	36,092
Tax effect of non-deductible expenses (non-assessable income)	(4,833)	(1,988)
Tax offset for franked dividends	(363)	(635)
Under provision from previous year	118	84
Tax charge (benefit) for the year	2,253	33,553
Income tax expense		
Current tax expense	368	28,165
Deferred tax	1,767	5,304
Under provision from previous year	118	84
Total tax expense (benefit)	2,253	33,553
Current income tax asset (liability)		
Opening balance	(12,739)	19,460
Foreign exchange adjustment	(106)	(99)
Under provision from previous years	(118)	(84)
Current component of income tax expense	(368)	(28,165)
Tax refunds received during current year	(119)	(16,894)
Tax paid during current year	24,363	13,043
Closing balance	10,913	(12,739)

The net balance is disclosed as the tax amounts paid in advance (refer note 14) and the provision for income tax (refer note 18).

Analysis of deferred tax assets (liabilities)		
Amounts recognised in income:		
Unrealised investment gains	(5,467)	(3,581)
Reinsurance balances	4,680	7,230
Tax losses	2,273	-
Other	861	477
Net deferred tax assets (liabilities)	2,347	4,126

Notes to the Financial Statements

in thousands of Australian dollars

2010

2009

12 Investments

Deposits	55,681	118,439
Equities held indirectly by unit trusts (Level 1)	35,350	36,135
Debt securities:		
National government (Level 1)	856,034	594,841
Other public sector (Level 2)	-	154,986
Private sector (Level 2)	100,709	134,056
	956,743	883,883
Total investment assets	1,047,774	1,038,457
Balance maturing within 12 months	350,270	524,936

All Equities and National government debt securities have fair values that meet the definition of Level 1. All Other public sector and Private sector debt securities have fair values that meet the Definition of Level 2 (refer to note 2).

13 Receivables

Outstanding premiums	124,682	51,112
Reinsurance claims receivable	10,561	2,220
Investment income accrued and receivable	6,591	5,358
	141,834	58,690

14 Other assets

Tax amounts paid in advance	10,913	1,852
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15 Creditors

Reinsurance claims payable	94,101	87,799
Amounts due to cedants and retrocessionaires	11,400	8,171
Amounts due to related parties	343	13,407
Other creditors	7	89
	105,851	109,466

16 Life insurance contract liabilities

16(a) Reconciliation of movements in life insurance contract liabilities

Liabilities assumed under reinsurance		
Opening balance at 1 January	666,584	688,774
Net increase (decrease) reflected in the income statement	138,206	(20,113)
Foreign exchange adjustment	(2,771)	(2,077)
Closing balance at 31 December	802,019	666,584
Liabilities ceded under reinsurance		
Opening balance at 1 January	19,202	24,399
Net increase (decrease) reflected in the income statement	2,846	(5,134)
Foreign exchange adjustment	(53)	(63)
Closing balance at 31 December	21,995	19,202
Net life insurance contract liabilities at 31 December	824,014	685,786

Notes to the Financial Statements

in thousands of Australian dollars

2010

2009

16 Life insurance contract liabilities (continued)

16(b) Components of net life insurance contract liabilities

Future policy benefits	2,962,113	2,479,536
Future expenses	771,106	679,762
Planned margins of future revenues over expenses	266,069	234,114
Future charges for acquisition costs	(263,445)	(266,433)
Balance of future revenues	(2,911,829)	(2,441,193)
Total net life insurance contract liabilities	824,014	685,786
Future policy benefits expected to be realised within 12 months	481,740	461,130

17 Regulatory Reporting

17(a) Policyholder liabilities

The following items are classified as policyholder liabilities for regulatory reporting purposes

Net life insurance contract liabilities (note 16)	824,014	685,786
Life investment contract liabilities	19,524	20,881
Life investment contract assets	(40)	(2,445)
Net policyholder liabilities	843,498	704,222

The valuation of net liabilities is consistent in statutory reporting and regulatory reporting.

17(b) Solvency

The Company is required to maintain sufficient net assets within the Statutory Fund to provide protection against the impact of fluctuations and unexpected adverse circumstances. The methodology and bases for determining solvency requirements are in accordance with the requirements of Prudential Standard LPS 2.04 *Solvency Standard*.

Solvency requirement of the statutory fund	1,132,921	1,016,529
Solvency reserve included above	70,239	52,820
Assets available for solvency, comprised of:		
Deficit of net policy liabilities over minimum termination value	(111,912)	(133,845)
Net assets of the statutory fund	283,674	289,864
	171,762	156,019
Coverage of solvency reserve	2.45 times	2.95 times

18 Provisions

Income tax	-	14,591
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19 Contributed equity

Share capital		
390,000 Ordinary shares	10,000	10,000
145,000 Redeemable preference shares	145,000	145,000
	155,000	155,000

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. This is subject to the prior entitlements of the redeemable preference shares.

The redeemable preference shares have no voting rights, no fixed dividend entitlement and do not have a fixed redemption date.

Notes to the Financial Statements

20 Segment information

Primary – Business segments

The Company operates in the one business segment of life and disability reinsurance.

Secondary – Geographic segments

in thousands of Australian dollars

	Australia	Overseas	Total
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2010

Premium revenue from life insurance contracts	688,426	41,161	729,587
Segment net profit (loss) before tax	23,647	790	24,437
Segment total assets	1,131,303	114,728	1,246,031

2009

Premium revenue from life insurance contracts	591,482	40,041	631,523
Segment net profit (loss) before tax	109,108	11,198	120,306
Segment total assets	1,016,577	116,573	1,133,150

Disaggregated information by fund

The Company operates one Statutory Fund writing business in Australia and New Zealand. The disaggregated financial statements of the Statutory Fund and Shareholders' Fund can be summarised as follows:

in thousands of Australian dollars

	Statutory Fund	Shareholder's Fund
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2010

Premium revenue from life insurance contracts	729,587	-
Total revenue	521,998	580
Net profit before tax	23,857	580
Net profit after tax	21,778	406
Total assets	1,233,382	12,649
Net assets	283,674	12,968

2009

Premium revenue from life insurance contracts	631,523	-
Total revenue	467,876	298
Net (loss) profit before tax	120,008	298
Net (loss) profit after tax	86,544	209
Total assets	1,120,422	12,728
Net assets	289,864	12,562

Notes to the Financial Statements

21 Key position holders and remuneration

The following persons were directors of the company during the financial year:

Non Executive: D P Fox, D M Gonski (appointed 1 January 2011), Dr H M Nugent (resigned 13 August 2010), M R Parker, P J Twyman.

Executive: Russell Higginbotham (resigned 1 June 2010), M Senkevics (appointed 1 June 2010)

Remuneration of Key Management Personnel

As defined in AASB 124 *Related Party Disclosures*, key management personnel include directors and management positions responsible for planning, directing and controlling the activities of the company.

Remuneration as disclosed in this report comprises:

- Non-executive directors: 3 directors received fees. The remaining non-executive director is not remunerated in his capacity as director of the company but is remunerated for his executive role in related entities outside Australia.
- Executive director and management: The management group comprises 8 persons remunerated by a combination of salary package, including superannuation and salary-sacrificed benefits, bonuses and options. They are also entitled to participate in options over shares offered via employee share schemes. All option entitlements relate to shares in the ultimate controlling entity.

The total remuneration paid to the 11 key position holders was:

in thousands of Australian dollars	2010	2009
Wages, bonuses and other short-term benefits	1,789	1,726
Post employment benefits	77	97
Long term benefits	101	94
Termination payments	-	1,200
Share based payments	7	5
Total	1,974	3,122

Notes to the Financial Statements

22 Related party disclosures

Controlling entities

The immediate controlling entity is Swiss Re Australia Ltd, a company incorporated in Australia. The ultimate controlling entity is Swiss Reinsurance Company Ltd, a company incorporated in Switzerland.

Related party transactions

During the year the Company conducted the following transactions, in its normal course of business, with related parties:

	2010	2009
in thousands of Australian dollars		
Retrocession contracts with ultimate controlling entity		
Outwards reinsurance expense	260,332	207,151
Commission	(718)	(540)
Reinsurance recoveries	(266,357)	(185,520)
Movement in life insurance contract liabilities	2,552	(4,171)
Net reinsurance (recovery) expense	(4,191)	16,920
Management and other expenses		
Ultimate controlling entity ⁽¹⁾	21,314	12,949
Entity under common control	1,631	1,780
	22,945	14,729
Investment management expense		
Ultimate controlling entity	676	980
	676	980

The related party balance sheet balances are disclosed in the relevant notes to the balance sheet.

⁽¹⁾ The Company has no employees. Included in this amount is a recharge for day to day operating activities provided by Swiss Reinsurance Company Ltd.

23 Financial instruments disclosure

Derivative financial instruments

The Company may use derivative instruments in certain circumstances as part of its overall investment strategy and is governed by a risk management statement approved and periodically reviewed by the Board of Directors.

The Company did not use derivative financial instruments during the year and at 31 December 2010 had no open derivative financial instrument contracts (2009: nil).

Interest rate risk

The Company's exposure to interest rate risk and the effective weighted average interest rate by maturity period is set out below:

Notes to the Financial Statements

23 Financial instruments disclosure (continued)

in thousands of Australian dollars	Floating interest rate	1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 years	Non ⁽¹⁾ interest bearing	Total
2010									
Assets									
Cash	43,123	-	-	-	-	-	-	-	43,123
Receivables	-	-	-	-	-	-	-	141,834	141,834
Investments	55,681	302,163	165,968	101,322	138,023	101,973	147,294	35,350	1,047,774
Life investment contracts	-	40	-	-	-	-	-	-	40
Total financial assets	98,804	302,203	165,968	101,322	138,023	101,973	147,294	177,184	1,232,771
Weighted average interest rate %	4.33%	4.96%	5.54%	5.64%	5.96%	4.68%	3.54%		
Liabilities									
Accounts payable	-	-	-	-	-	-	-	(11,750)	(11,750)
Life investment contracts	-	(19,524)	-	-	-	-	-	-	(19,524)
Total financial liabilities	-	(19,524)	-	-	-	-	-	(11,750)	(31,274)
Weighted average interest rate %		4.60%	-	-	-	-	-		
Net financial assets	98,804	282,679	165,968	101,322	138,023	101,973	147,294	165,434	1,201,497
2009									
Assets									
Cash	27,580	-	-	-	-	-	-	-	27,580
Receivables	-	-	-	-	-	-	-	58,690	58,690
Investments	118,439	443,914	27,396	24,615	96,839	39,302	251,817	36,135	1,038,457
Life investment contracts	-	2,445	-	-	-	-	-	-	2,445
Total financial assets	146,019	446,359	27,396	24,615	96,839	39,302	251,817	94,825	1,127,172
Weighted average interest rate %	3.33%	4.14%	6.00%	6.03%	6.10%	5.32%	4.12%		
Liabilities									
Accounts payable	-	-	-	-	-	-	-	(21,667)	(21,667)
Life investment contracts	-	(20,881)	-	-	-	-	-	-	(20,881)
Total financial liabilities	-	(20,881)	-	-	-	-	-	(21,667)	(42,548)
Weighted average interest rate %		3.60%	-	-	-	-	-		
Net financial assets	146,019	425,478	27,396	24,615	96,839	39,302	251,817	73,158	1,084,624

⁽¹⁾ All non interest bearing assets and liabilities are expected to be realised in the next 12 months.

Notes to the Financial Statements

23 Financial instruments disclosure (continued)

2010 2009

in thousands of Australian dollars

Reconciliation of net financial assets to net assets per balance sheet		
Net financial assets	1,201,497	1,084,624
Net liabilities arising under reinsurance arrangements	(918,115)	(773,585)
Other assets	13,260	5,978
Provisions	-	(14,591)
Net assets	296,642	302,426

Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted and meet payment obligations. The majority of investment assets are unsecured. However, the Company seeks to minimise its credit risk by appropriate selection and spread of investment assets. There are no material exposures in respect of other financial assets and financial liabilities.

The following table is a summary of the investment assets credit ratings which includes cash and cash equivalents, deposits and debt securities.

AAA	898,977	805,596
AA	124,545	202,605
A	14,913	4,516
BBB	17,112	17,185
Total	1,055,547	1,029,902

Current investment assets	350,270	524,936
Non-current investment assets	705,277	504,966
Total	1,055,547	1,029,902

Market risk

The Company is required to record its investment assets at fair value, with unrealised movements in market value recognised as income or expense in the period in which they occur. Accordingly the full extent of exposure to market movements is reflected in the statement of financial position. The Company manages market risk by maintaining a balanced portfolio with an appropriate selection spread, and duration of investment assets to support the underlying policy liabilities.

Notes to the Financial Statements

24 Cash flow information

in thousands of Australian dollars

2010

2009

Reconciliation of net profit after tax
to net cash provided by operating activities

Net profit after tax	22,184	86,753
Add (less) items classified as investing activities:		
(Profit) loss on sale of investments	(2,608)	(26,371)
Unrealised (gains) loss on investments	(5,669)	26,481
Add (less) non cash items:		
Increase / (decrease) in deferred tax	1,767	5,304
Net cash provided by operating activities before change in assets and liabilities	15,674	92,167
Change in assets and liabilities excluding impact of foreign exchange revaluation:		
(Increase) / decrease in receivables	(82,931)	21,433
Increase / (decrease) in net life insurance contract liabilities	141,052	(25,247)
Decrease / (increase) in life investment contract assets	2,405	2,579
(Decrease) / increase in life investment contract liabilities	(1,357)	(625)
(Increase) / decrease in other assets	(9,061)	17,608
(Decrease) / increase in creditors	(3,615)	(2,300)
(Decrease) / increase in provisions	(14,591)	13,919
Net cash provided by operating activities	47,576	119,534

25 Events occurring after balance date

There have been no events subsequent to balance date which have a material effect on the financial statements.

26 Capital expenditure commitments

At balance date the Company has not entered into any contracts for capital expenditure which have not been provided for in the financial statements.

Directors' Declaration

In the directors' opinion:


- (a) The financial statements and notes set out on pages 10 to 28 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Company's financial position as at 31 December 2010 and of the performance for the year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the directors.



David M Gonski
Chairman



M Senkevics
Chief Executive Officer
and Director

Sydney, 17 March 2011

Appointed Actuary's Statement

In my opinion:

- (a) the financial statements for the year ended 31 December 2010 have been prepared on the basis that:
 - (i) the value of the policy liabilities and the solvency reserve have been determined using methods and assumptions prescribed in prudential standards issued by the Australian Prudential Regulation Authority; and
 - (ii) the allocation of the profit of the Statutory Fund has been made in accordance with Divisions 5 and 6 of Part 4 of the Life Insurance Act 1995 and the Constitution of the Company.
- (b) Proper records have been kept by the Company to enable the policy liabilities and solvency requirement to be properly determined.



A Bhalerao
Appointed Actuary

Sydney, 17 March 2011



Independent auditor's report to the Directors of Swiss Re Life & Health Australia Limited

Report on the financial report

We have audited the accompanying financial report of Swiss Re Life & Health Australia Limited (the company), which comprises the balance sheet as at 31 December 2010, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Swiss Re Life & Health Australia Limited.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that 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. These Auditing 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 and fair presentation of the financial report 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.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757
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Auditor's opinion

In our opinion:

- (a) the financial report of Swiss Re Life & Health Australia Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 31 December 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the company's financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

A handwritten signature in cursive script, appearing to read 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in cursive script, appearing to read 'K. G. Smith'.

K G Smith
Partner

Sydney
17 March 2011