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Annual Report 2011
Swiss Re Life & Health Australia Limited
New Zealand Branch

Offices

Auckland
188 Quay Street

Telephone:	64 9 363 2700
Facsimile:	64 9 363 2727

Sydney
363 George Street

Telephone:	61 2 8295 9500
Facsimile:	61 2 8295 9803

Statement of Comprehensive Income for the year ended 31 December 2011

in thousands of New Zealand dollars	Notes	2011	2010
Revenue			
Premium revenue from life insurance contracts		53,863	53,066
Premium revenue ceded to reinsurers		(8,776)	(8,628)
Net premium revenue		**45,087**	**44,438**
Investment revenue	6	12,388	4,520
Other revenue	7	279	568
Net revenue		**57,754**	**49,526**
Expenses			
Claims expenses on life insurance contracts	8	51,418	43,027
Claims recovered from reinsurers		(9,554)	(8,445)
Net claims expense		**41,864**	**34,582**
Increase in net life insurance liabilities		5,667	4,595
Other expenses	9	7,644	8,659
Net claims and expenses		**55,175**	**47,836**
Net profit before tax		**2,579**	**1,690**
Income tax expense	10	(154)	(255)
Net profit after tax	5	**2,425**	**1,435**

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Balance sheet as at 31 December 2011

in thousands of New Zealand dollars	Notes	2011	2010
Assets			
Cash and cash equivalents		12,620	8,072
Deposits	11	29,850	10,460
Debt securities	11	106,768	113,004
Receivables	12	13,909	16,195
Life investment contract assets		-	53
Other assets	13	2,605	2,759
Total assets		**165,752**	**150,543**
Liabilities			
Creditors	14	20,190	13,073
Life insurance contract liabilities assumed under reinsurance	15	66,273	60,977
Life insurance contract liabilities ceded under reinsurance	15	1,625	1,254
Total liabilities		**88,088**	**75,304**
Net assets		**77,664**	**75,239**
Equity			
Retained earnings		77,664	75,239
Total equity		**77,664**	**75,239**

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

Statement of Changes in Equity for the year ended 31 December 2011

in thousands of New Zealand dollars	Notes	2011	2010
Total equity at the beginning of the year		75,239	73,804
Net profit after tax		2,425	1,435
Total equity at the end of the year		**77,664**	**75,239**

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

Total equity comprises of retained earnings.

These financial statements, comprising the balance sheet, statement of comprehensive income, 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

27 March 2012

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 significant 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 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.

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 contact 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 statement of comprehensive income. 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 sheet as a reduction in policy liabilities and are amortised through the statement of comprehensive income 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 that 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.

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 statement of comprehensive income. 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 statement of comprehensive income.

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.

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 2011. The actuarial report, prepared by Mr A Bhalerao, Bec, FIAA, and dated 27 March 2012 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 as premiums are received.

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 2011 2.47% to 4.35% (2010: 3.49% to 6.37%)

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 28% (2010: 30%) has been assumed.

(iv) Inflation rates

Allowance for future inflation: 3.0% (2010: 3.0%)

The assumed inflation rate has been based on the current inflation rate, the outlook for inflation over the term of the liabilities and market implied inflation rates relative to the assumed earning rates. The expense inflation rate is 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 3.20% to 5.12% (2010: 2.95% to 4.72%)

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

(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 (2010: 70% - 90% of IA 95-97m)
Females	71% - 91% of IA 95-97f (2010: 67% - 91% of IA 95-97f)

Morbidity

Incidence	between 65% - 130% (2010: 65% - 120%) of IAD 89 - 93 morbidity table
Termination	between 43% - 145% (2010: 40% - 145%) 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: 3.0% – 25% (2010: 3.0% – 25%)

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

(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 (2010: 0.11%).

Effects of changes in actuarial assumptions from 31 December 2010 to 31 December 2011

in thousands of New Zealand dollars	**Effect on Net Profit Margins Increase/ (decrease)**	**Effect on Net Policy Liabilities Increase/ (decrease)**
Assumption Change		
Discount rates	7,898	7,669
Expense	(1,629)	447
Mortality	(2,301)	-
Morbidity	(3,809)	593
Other	-	(279)
Discontinuance	6,661	39
Total effect of changes	**6,820**	**8,468**
Amount at 31 December 2011 under old assumptions	54,282	59,430
Amount reported	**61,102**	**67,898**

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	A decrease in the rate of interest would: (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. The overall impact on profit and shareholder's 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.
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 for 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		66,273	149,238	77,664
Risk free bonds rates	+1% -1%	(4,258) 4,521	(3,994) 4,177	190 (248)
Mortality	+10% -10%	6 -	- -	(4) -
Disability claims incidence	+10% -10%	2,508 (2,508)	- -	(1,806) 1,806
Disability claims termination	+10% -10%	(6,242) 7,307	- -	4,495 (5,261)

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		67,898	149,238	77,664
Risk free bonds rates	+1%	(4,311)	(3,994)	228
	-1%	4,587	4,177	(295)
Mortality	+10%	6	-	(4)
	-10%	-	-	-
Disability claims incidence	+10%	2,508	2,508	774
	-10%	(2,508)	(2,508)	(774)
Disability claims termination	+10%	(6,242)	(6,242)	(1,926)
	-10%	7,307	7,307	2,255

(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 Audit and Risk 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 is 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: Pricing is subject to an internal review and sign-off process to ensure that appropriate methodology and assumptions have been used. Pricing bases include 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.

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 derivative use requires management pre approval. 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 government fixed interest securities. 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	2011	2010

5 Analysis of profit

Components of profit related to movement in life insurance contracts:		
Planned margins of revenues over expenses released	5,806	5,376
Difference between actual and assumed experience	485	(5,271)
Change in valuation methods and assumptions	(7,504)	(499)
Capitalisation of expected future losses	(1,410)	(2,496)
Retrocession recovery relating to loss recognition	1,410	2,496
Other components:		
Investment earnings on assets in excess of policy liabilities	3,705	1,742
Life investment contracts profit (loss)	(67)	87
Net profit after tax	**2,425**	**1,435**

6 Investment revenue

Revenue derived from:		
Debt securities and deposits	6,661	5,339
Realised and unrealised gains (losses)	5,727	(819)
Total investment revenue	**12,388**	**4,520**

7 Other revenue

Interest on cash and cash equivalents	279	504
Fee income	-	64
	279	**568**

8 Claims expenses on life insurance contracts

Death and disability claims	48,678	43,021
Maturities and surrenders	2,740	6
	51,418	**43,027**

in thousands of New Zealand dollars	2011	2010

9 Other expenses

	2011	2010
Policy acquisition expenses	2,156	2,244
Policy maintenance expenses	5,197	6,315
Investment management expenses	238	100
Other expenses	53	-
	7,644	**8,659**

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.

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.

	2011	2010
Reconciliation between net profit before tax and tax expense		
Net profit before tax	2,579	1,690
Tax at the standard rate of 28% (2010: 30%)	722	507
Tax effect of non-assessable income	(568)	(92)
Over provision from previous year	-	(160)
Tax charge for the year	**154**	**255**
Current income tax asset (liability)		
Opening balance	2,534	2,289
Over provision from previous year	-	160
Current income tax expense	(249)	(415)
Tax paid during current year	-	500
Closing balance	**2,285**	**2,534**
Deferred tax asset		
Opening balance	225	225
Net increase in the current year	95	-
Closing balance	**320**	**225**
Income tax expense		
Current income tax	249	415
Under /(over) provision from previous year	-	(160)
Movement in deferred tax balances	(95)	-
Income tax expense	**154**	**255**
Imputation credit account		
Balance brought forward	25,046	24,588
Tax payments	-	500
Prior year adjustments	-	(42)
	25,046	**25,046**
Policyholder base losses		
Balance brought forward	-	61,977
Adjustment from prior year final return	-	171
Current year losses (profits)	-	-
Forfeiture due to change in basis	-	**(62,148)**
Balance carried forward	-	-

in thousands of New Zealand dollars — 2011 — 2010

11 Investments

	2011	2010
Funds on deposit	29,850	10,460
Debt security investments: NZ government	106,768	113,004
Total investment assets	**136,618**	**123,464**

The Branch has deposited with the Public Trustee of New Zealand $500,000 (2010: $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:	2011	2010
Under 1 year	29,850	61,319
1 to 2 years	10,509	-
2 to 3 years	-	11,592
3 to 4 years	33,085	-
4 to 5 years	19,972	10,467
Greater than 5 years	43,202	40,086
	136,618	**123,464**

12 Receivables

	2011	2010
Outstanding premiums	9,086	8,009
Reinsurance claims receivable	1,187	4,459
Amounts due from related parties	2,873	2,145
Investment income accrued and receivable	763	1,582
	13,909	**16,195**

13 Other assets

	2011	2010
Tax prepaid	2,285	2,534
Deferred tax asset	320	225
	2,605	**2,759**

14 Creditors

	2011	2010
Reinsurance claims payable	12,290	9,314
Amounts due to cedants and retrocessionaires	4,187	2,267
Amounts due to related parties	3,701	1,483
Other creditors	12	9
	20,190	**13,073**

15 Policy liabilities

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

	2011	2010
Liabilities assumed under reinsurance		
Opening balance at 1 January	60,977	56,725
Net increase reflected in the income statement	5,296	4,252
Closing balance at 31 December	**66,273**	**60,977**
Liabilities ceded under reinsurance		
Opening balance at 1 January	1,254	911
Net increase reflected in the income statement	371	343
Closing balance at 31 December	**1,625**	**1,254**
Net policy liabilities at 31 December	**67,898**	**62,231**

in thousands of New Zealand dollars	2011	2010

15 **Policy Liabilities (continued)**

15(b) **Components of net life insurance contract liabilities**

Future policy benefits	546,533	448,383
Future expenses	58,305	49,065
Planned margins of future revenues over expenses	61,102	56,614
Future charges for acquisition costs	(31,160)	(35,352)
Balance of future revenues	(566,882)	(456,479)
Total net life insurance contract liabilities	**67,898**	**62,231**

16 **Equity retained for solvency purposes**

Equity of shareholders	77,664	75,239
Less equity retained for solvency purposes	(13,493)	(14,123)
Equity net of solvency requirements	**64,171**	**61,116**

17 **Related party disclosures**

Controlling entities

The immediate controlling entity is Swiss Re Australia Ltd, a company incorporated in Australia. The controlling entity of Swiss Re Australia Ltd is Swiss Reinsurance Company Ltd, a company incorporated in Switzerland. The ultimate controlling entity is Swiss Re 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 controlling entity – Swiss Reinsurance Company Ltd		
Outward reinsurance expense	6,366	5,742
Reinsurance recoveries	(6,862)	(6,424)
Net reinsurance recoveries	**(496)**	**(682)**
Management and other expenses		
Ultimate Controlling entity – Swiss Re Ltd	266	-
Controlling entity – Swiss Reinsurance Company Ltd	467	1,070
Entity under common control	226	-
	959	**1,070**
Investment management expense		
Controlling entity	185	93

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 Swiss Re Life & Health Australia Limited New Zealand Branch ("New Zealand Branch") on pages 1 to 15, which comprise the balance sheet as at 31 December 2011, the statement of comprehensive income and statement of changes in equity for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements
The New Zealand Branch's Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of 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 New Zealand Branch's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the New Zealand Branch'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.

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

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

(i) comply with generally accepted accounting practice in New Zealand; and

(ii) give a true and fair view of the financial position of the New Zealand Branch as at 31 December 2011, and its financial performance for the year then ended.

Restriction on Distribution or Use
This report is made solely to the New Zealand Branch's Directors, as a body. Our audit work has been undertaken so that we might state to the New Zealand Branch's Directors 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 New Zealand Branch's Directors, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants

I, Scott K Fergusson, am currently a member of The Institute of Chartered Accountants in Australia and my membership number is 88036.

PricewaterhouseCoopers was the audit firm appointed to undertake the audit of Swiss Re Life & Health Limited New Zealand Branch for the year ended 31 December 2011. I was responsible for the execution of the audit and delivery of our firm's auditors' report. The audit work was completed on 27 March 2012 and an unqualified opinion was issued.

SK Fergusson
Partner

Sydney
27 March 2012

Swiss Re

Annual Report 2011

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

Annual Report for the year ended 31 December 2011
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, B Comm, LLB, FAICD, FCPA	Chairman
M Senkevics, BE	Chief Executive Officer
D P Fox, BA, FIA, FIAA, MAICD	
M R Parker, FCII	
P J Twyman, BSc, MBA, FAICD	

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 2011 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, M R Parker, M Senkevics , P J Twyman.

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 2011.

Review of operations

The Company has continued to grow across all target areas and we have achieved substantial in-force premium growth during the year. Operational highlights included:

- Continued expansion of our Group portfolio with successes on large industry and corporate schemes.
- Selected growth of our retail (advisor) portfolio and engagement with a new treaty client in this area.
- Success in the direct segment with new distributor relationships and the launch of new products into our existing direct arrangements.

We have also continued to seek new opportunities in capital management and longevity and have an excellent pipeline of prospects.

The Board and Management sincerely thank our team of highly skilled and talented employees for their contribution to the strong result.

Operating result

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

in thousands of Australian dollars	2011	2010
Gross insurance premium revenue	871,701	729,587
Investment and other revenue	102,021	55,606
Net profit before income tax	34,233	24,437
Income tax expense	(9,823)	(2,253)
Net profit after income tax	**24,410**	**22,184**

Premium revenue has increased by 19.5% (2010: 15.5% increase). The Company has written significant volumes of new business across both group and retail lines of business.

Net investment revenues increased by $43.6m compared to the previous year. This has largely been driven by mark-to-market gains on the debt security portfolio of +$50.6m (2010: $9.1m), reflecting the changing interest rate environment in 2011. The Company's equity portfolio delivered a mark-to-market adjustment of -$5.4m (2010: -$0.8m), which was in line with returns on the ASX200 index.

Profit before tax increased by $9.8m compared to the previous year, largely driven by improved mortality experience.

Financial position

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

in thousands of Australian dollars	2011	2010
Total assets	1,478,217	1,246,031
Total liabilities	1,157,156	949,389
Net assets	**321,061**	**296,642**

The Company continues to maintain a well capitalised balance sheet with net assets in excess of 72% of the solvency requirement.

Outlook for the future

The current market uncertainty as well as pending regulatory reforms are creating challenges for all financial services companies in Australia. A key change is APRA's LAGIC reforms, which are timetabled for implementation on 1 January 2013 and will impact the capital position of many of our clients. Due to the Company's strong financial position, we are in an excellent position to support our clients with capital solutions. Continuing to build our team and develop our staff to respond to these changes is an important element of our strategy and will continue to be a focus in 2012. This will serve to underpin our strong client franchise which continues to be the cornerstone of our business.

Dividend

There were no dividends declared or paid on ordinary shares during 2011.

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 Re 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.

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, 27 March 2012

Auditor's Independence Declaration

As lead auditor for the audit of Swiss Re Life & Health Australia Limited for the year ended 31 December 2011, 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 during the year.

SK Fergusson
Partner
PricewaterhouseCoopers

Sydney
27 March 2012

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Statement of Comprehensive Income for the year ended 31 December 2011

in thousands of Australian dollars	Notes	2011	2010
Revenue			
Premium revenue from life insurance contracts		871,701	729,587
Premium revenue ceded to reinsurers		(317,287)	(262,615)
Net premium revenue		**554,414**	**466,972**
Investment revenue	6	97,379	53,790
Other revenue	7	4,642	1,816
Net revenue		**656,435**	**522,578**
Expenses			
Claims expense on life insurance contracts	8	529,788	488,805
Claims recovered from reinsurers		(307,722)	(268,007)
Net claims expense		**222,066**	**220,798**
Increase in net life insurance contract liabilities		223,778	141,052
Other expenses	9	176,358	136,291
Net claims and expenses		**622,202**	**498,141**
Net profit before tax		34,233	24,437
Income tax expense	11	(9,823)	(2,253)
Net profit after tax	**5**	**24,410**	**22,184**
Other comprehensive income			
Net movement in foreign currency translation reserve		9	(2,968)
Income tax relating to other comprehensive income		-	-
Total comprehensive income for the year		**24,419**	**19,216**

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

Balance Sheet as at 31 December 2011

in thousands of Australian dollars	Notes	2011	2010
Assets			
Cash and cash equivalents		97,294	43,123
Deposits	12	45,332	55,681
Debt securities	12	1,099,536	956,743
Equity securities	12	29,952	35,350
Receivables	13	189,428	141,834
Life investment contract assets		-	40
Other assets	14	13,373	10,913
Deferred tax assets	11	3,302	2,347
Total assets		**1,478,217**	**1,246,031**
Liabilities			
Creditors	15	109,490	105,851
Life insurance contract liabilities assumed under reinsurance	16	1,007,766	802,019
Life insurance contract liabilities ceded under reinsurance	16	39,900	21,995
Life investment contract liabilities		-	19,524
Total liabilities		**1,157,156**	**949,389**
Net assets		**321,061**	**296,642**
Equity			
Contributed equity	18	155,000	155,000
Foreign currency translation reserve		(6,040)	(6,049)
Retained earnings		172,101	147,691
Total equity		**321,061**	**296,642**

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

Statement of Changes in Equity for the year ended 31 December 2011

in thousands of Australian dollars	Notes	Contributed Equity	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
Balance at 1 January 2011		**155,000**	**(6,049)**	**147,691**	**296,642**
Net profit after tax	5	-	-	24,410	24,410
Other comprehensive income		-	9	-	9
Dividends paid		-	-	-	-
Balance at 31 December 2011		**155,000**	**(6,040)**	**172,101**	**321,061**

in thousands of Australian dollars	Notes	Contributed Equity	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
Balance at 1 January 2010		**155,000**	**(3,081)**	**150,507**	**302,426**
Net profit after tax	5	-	-	22,184	22,184
Other comprehensive income		-	(2,968)	-	(2,968)
Dividends paid		-	-	(25,000)	(25,000)
Balance at 31 December 2010		**155,000**	**(6,049)**	**147,691**	**296,642**

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 2011

in thousands of Australian dollars	Notes	2011	2010
Cash flows from operating activities:			
Premiums received		829,361	656,017
Retrocession premiums paid		(309,938)	(272,450)
Interest received		54,076	44,599
Dividends received		1,393	1,071
Other income received		1,215	426
Claim payments and other expense payments		(711,113)	(618,883)
Retrocession recoveries received		302,581	259,666
Life investment contract net (payments)/contributions		(18,189)	1,374
Income tax paid net		(13,231)	(24,244)
Net cash provided by operating activities	**23**	**136,155**	**47,576**
Cash flows from investing activities:			
Net payments to acquire investments		(81,974)	(6,809)
Net cash used in investing activities		**(81,974)**	**(6,809)**
Cash flows from financing activities:			
Dividend paid		-	(25,000)
Net cash used in financing activities		-	**(25,000)**
Net increase in cash held		**54,181**	**15,767**
Cash at the beginning of financial year		43,123	27,580
Effect of foreign exchange rate changes		(10)	(224)
Cash at the end of financial year		**97,294**	**43,123**

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.

The financial statements of Swiss Re Life & Health Australia Limited also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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 the shareholders' fund of the Company. The operations within the statutory fund comprise the reinsurance of life insurance contracts and life investment contracts.

b) **Principles for life insurance business**

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

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.

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.

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 controlling entity (refer note 21).

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.

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 2011. We have considered all amendments and the relevant standards are;

- AASB 9 Financial Instruments and revised AASB 9 Financial Instruments (applicable to annual reporting periods beginning on or after 1 January 2015)
- AASB 13 Fair Value Measurement (applicable to annual reporting periods beginning on or after 1 January 2013)
- AASB 1054 Australian Additional Disclosures (applicable to annual reporting periods beginning on or after 1 July 2011)
- AASB 2011-9 Amendments to Australian Accounting Standards –Presentation of Items of Other Comprehensive Income (applicable to annual reporting periods beginning on or after 1 July 2012).

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.

Retrocessionaries' share of life insurance contract liabilities is also computed using the above methods.

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

An actuarial report on policy liabilities and solvency reserves as at 31 December 2011 has been prepared by the Appointed Actuary, Mr A Bhalerao, BEc, FIAA and dated 27 March 2012. 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:	***Method:***
Traditional non-participating life & disability business; Group life and salary continuance insurance; Single premium business with income benefits; Medical expenses; and 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; and 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 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 2011 for Australia 3.16% to 4.25% (2010: 4.97% to 5.77%) or New Zealand 2.47% to 4.35% (2010: 3.49% to 6.37%), 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.

3 Actuarial methods and assumptions (continued)

(iii) Inflation rates

Allowance for future inflation:	– Australia	3.0%	(2010: 3.0%)
	– New Zealand	3.0%	(2010: 3.0%)

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 0.48% to 8.83% (2010: 0.44% to 8.14%)

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

(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 (2010: 64%-90% of IA95-97m) and 95%-450% of ALT90-92 for non traditional sales channels (2010: 100%-450% of ALT90-92)
Females:	58%-91% of IA95-97f for traditional sales channels (2010: 58%-91% of IA95-97f) and 115%-440% of ALT90-92 for non traditional sales channels (2010: 115%-440% of ALT90-92)

Morbidity

Incidence	between 65% -220 % (2010: 65% - 230%) of IAD 89 – 93 morbidity table
Termination	between 35% - 145% (2010: 32% - 145%) 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% (2010: 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 (2010: 0.11%).

3 Actuarial methods and assumptions (continued)

in thousands of Australian dollars	Effect on Net Profit Margins Increase/ (Decrease)	Effect on Net Policy Liabilities * Increase/ (Decrease)
Assumption Change		
Discount rates	41,501	61,253
Expense	(11,832)	2,695
Mortality	(2,154)	-
Morbidity	(5,000)	12,905
Other	226	(11,827)
Discontinuance rates	22,373	186
Total effect of changes	**45,114**	**65,212**
Amount at 31 December 2011 under old assumptions	291,196	982,454
Amount reported	**336,310**	**1,047,666**

* Effect on Policy liabilities includes liabilities of both life insurance contracts and life investment contracts (as set out in note17).

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	A decrease in the rate of interest would: (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. The overall impact on profit and shareholders' 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.
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				
		1,007,766	1,272,114	321,061
ASX 200	+10%	-	2,995	2,097
	-10%	-	(2,995)	(2,097)
Risk free bonds rates	+1%	(35,167)	(39,421)	(2,974)
	-1%	39,813	42,043	1,556
Mortality	+10%	6,774	-	(4,742)
	-10%	-	-	-
Disability claims incidence	+10%	27,096	-	(19,005)
	-10%	(19,947)	-	14,001
Disability claims termination	+10%	(47,700)	-	33,486
	-10%	55,430	-	(38,913)
Net				
		1,047,666	1,272,114	321,061
ASX 200	+10%	-	2,995	2,097
	-10%	-	(2,995)	(2,097)
Risk free bonds rates	+1%	(38,680)	(39,421)	(514)
	-1%	44,030	42,043	(1,397)
Mortality	+10%	6,759	-	(4,731)
	-10%	-	-	-
Disability claims incidence	+10%	27,096	27,096	8,145
	-10%	(19,947)	(19,947)	(6,000)
Disability claims termination	+10%	(47,700)	(47,700)	(14,352)
	-10%	55,430	55,430	16,677

(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.

4 Risk management policies & 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 Audit and Risk 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 is 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: 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 derivative use requires management pre-approval. 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 cxlaims 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 Australian dollars	2011	2010

5 **Components of profit**

Components of profit related to movement in life insurance contracts:		
Planned margins of revenues over expenses released	39,148	37,827
Difference between actual and assumed experience	(28,205)	(25,519)
Capitalisation of expected future losses	(11,591)	(4,429)
Retrocession recovery relating to loss recognition	11,591	4,429
	10,943	**12,308**
Other components:		
Investment earnings on assets in excess of policy liabilities	10,566	9,120
Life investment contracts (loss) profit	2,542	350
Profit from Shareholders' fund	359	406
Net profit after tax	**24,410**	**22,184**

6 **Investment revenue**

Revenue derived from:		
Equity securities	1,393	1,071
Debt securities and deposits	50,763	44,442
	52,156	**45,513**
Realised and unrealised gains (losses) derived from:		
Equity securities	(5,397)	(785)
Debt securities and deposits	50,620	9,062
	45,223	**8,277**
Total investment revenue	**97,379**	**53,790**

7 **Other revenue**

Interest on cash and cash equivalents	3,427	1,390
Fee income from life investment contracts	1,215	426
	4,642	**1,816**

8 **Claims expense on life insurance contracts**

Death and disability claims	527,397	486,816
Maturities, surrenders and terminations	2,391	1,989
Claims expenses on life insurance contracts	**529,788**	**488,805**

9 **Other expenses**

Comprises the following expenses:		
Policy acquisition expenses		
Commission	40,310	64,462
Other	5,484	3,791
Policy maintenance expenses		
Commission	106,078	47,968
Other	22,651	19,357
Investment management expenses	1,835	713
	176,358	**136,291**

10 **Auditors' remuneration**

Amounts received or due and receivable by auditors of the Company, including non-recoverable GST, for:		
Audit of the financial statements	445	487
	445	**487**

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 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 28% (2010: 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	2011	2010
Reconciliation between net profit before tax and tax expense		
Net profit before tax	34,233	24,437
Tax at the Australian standard tax rate of 30% (2010:30%)	10,270	7,331
Difference in New Zealand tax rate	(37)	-
Tax effect of non-assessable income	(90)	(4,833)
Tax offset for franked dividends	(240)	(363)
(Over)/under provision from previous year	(80)	118
Tax charge for the year	**9,823**	**2,253**
Income tax expense		
Current tax expense	10,857	368
Deferred tax	(954)	1,767
(Over)/under provision from previous year	(80)	118
Total tax expense	**9,823**	**2,253**
Current income tax asset (liability)		
Opening balance	10,913	(12,739)
Foreign exchange adjustment	6	(106)
Over/(under) provision from previous years	80	(118)
Current component of income tax expense	(10,857)	(368)
Tax refunds received during current year	(8,982)	(119)
Tax paid during current year	22,213	24,363
Closing balance	**13,373**	**10,913**

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

Analysis of deferred tax assets		
Amounts recognised in income:		
Unrealised investment gains	(3,976)	(5,467)
Reinsurance balances	6,804	4,680
Tax losses	-	2,273
Other	474	861
Net deferred tax assets	**3,302**	**2,347**

in thousands of Australian dollars	2011	2010

12 **Investments**

Deposits	**45,332**	**55,681**
Equities held indirectly by unit trusts (Level 1)	**29,952**	**35,350**
Debt securities:		
National government (Level 2)	965,768	856,034
Private sector (Level 2)	133,768	100,709
	1,099,536	**956,743**
Total investment assets	**1,174,820**	**1,047,774**
Balance maturing within 12 months	410,441	350,270

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)

Equities have fair values that meet the definition of Level 1. National government debt securities and private sector debt securities have fair values that meet the definition of Level 2. There were no transfers between the different levels of fair value hierarchy during the year. The classification of the comparatives of national government debt securities has been changed to align with Swiss Re group disclosures.

13 **Receivables**

Outstanding premiums	167,021	124,682
Reinsurance claims receivable	15,703	10,561
Investment income accrued and receivable	6,704	6,591
	189,428	**141,834**

14 **Other assets**

Tax amounts paid in advance (Refer to note 11)	13,373	10,913

15 **Creditors**

Reinsurance claims payable	90,296	94,101
Amounts due to cedants and retrocessionaires	13,796	11,400
Amounts due to related parties	5,295	343
Other creditors	103	7
	109,490	**105,851**

in thousands of Australian dollars	2011	2010

16 **Life insurance contract liabilities**

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

	2011	2010
Liabilities assumed under reinsurance		
Opening balance at 1 January	802,019	666,584
Net increase reflected in the income statement	205,876	138,206
Foreign exchange adjustment	(129)	(2,771)
Closing balance at 31 December	**1,007,766**	**802,019**
Liabilities ceded under reinsurance		
Opening balance at 1 January	21,995	19,202
Net increase reflected in the income statement	17,903	2,846
Foreign exchange adjustment	2	(53)
Closing balance at 31 December	**39,900**	**21,995**
Net life insurance contract liabilities at 31 December	**1,047,666**	**824,014**

16(b) **Components of net life insurance contract liabilities**

	2011	2010
Future policy benefits	3,902,913	2,962,113
Future expenses	993,148	771,106
Planned margins of future revenues over expenses	336,310	266,069
Future charges for acquisition costs	(286,237)	(263,445)
Balance of future revenues	(3,898,468)	(2,911,829)
Total net life insurance contract liabilities	**1,047,666**	**824,014**
Future policy benefits expected to be realised within 12 months	600,744	481,740

17 **Regulatory Reporting**

17(a) **Policyholder liabilities**

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

	2011	2010
Net life insurance contract liabilities (note 16)	1,047,666	824,014
Life investment contract liabilities	-	19,524
Life investment contract assets	-	(40)
Net policyholder liabilities	**1,047,666**	**843,498**

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

in thousands of Australian dollars	2011	2010

17 Regulatory Reporting (continued)

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.*

	2011	2010
Solvency requirement of the statutory fund	1,357,218	1,132,921
Solvency reserve included above	152,858	70,239
Assets available for solvency, comprised of:		
Deficit of net policy liabilities over minimum termination value	(44,229)	(111,912)
Net assets of the statutory fund	307,734	283,674
	263,505	**171,762**
Coverage of solvency reserve	1.72 times	2.45 times

18 Contributed equity

	2011	2010
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.

19 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
2011			
Premium revenue from life insurance contracts	831,100	40,601	871,701
Segment net profit before tax	32,360	1,873	34,233
Segment total assets	1,354,910	123,307	1,478,217
2010			
Premium revenue from life insurance contracts	688,426	41,161	729,587
Segment net profit before tax	23,647	790	24,437
Segment total assets	1,131,303	114,728	1,246,031

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
2011		
Premium revenue from life insurance contracts	871,701	-
Total revenue	655,923	512
Net profit before tax	33,721	512
Net profit after tax	24,051	359
Total assets	1,464,890	13,327
Net assets	307,734	13,327
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

20 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, M R Parker, P J Twyman.

Executive: M Senkevics

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	2011	2010
Wages, bonuses and other short-term benefits	1,992	1,789
Post employment benefits	68	77
Long term benefits	136	101
Termination Payments [1]	61	-
Share based payments	202	7
Total	**2,459**	**1,974**

[1] Termination payments are statutory entitlements on resignation

21 **Related party disclosures**

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

in thousands of Australian dollars	2011	2010
Retrocession contracts with controlling entity – Swiss Reinsurance Company Ltd		
Outwards reinsurance expense	315,487	260,332
Commission	(495)	(718)
Reinsurance recoveries	(305,644)	(266,357)
Movement in life insurance contract liabilities	17,622	2,552
Net reinsurance (recovery) expense	**26,970**	**(4,191)**
Management and other expenses		
Ultimate Controlling entity – Swiss Re Ltd	2,738	-
Controlling entity [1] – Swiss Reinsurance Company Ltd	22,901	21,314
Entity under common control	2,169	1,631
	27,808	**22,945**
Investment management expense		
Controlling entity	1,696	676
	1,696	**676**

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

[2] The Company has no employees. Included in this amount is a recharge for day to day operating activities provided by Swiss Reinsurance Company Ltd.

22 **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 2011 had no open derivative financial instrument contracts (2010: 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:

22 Financial instruments disclosure (continued)

in thousands of Australian dollars	Floating interest rate	Fixed interest: 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
2011									
Assets									
Cash	97,294	-	-	-	-	-	-	-	97,294
Receivables	-	-	-	-	-	-	-	189,428	189,428
Investments	45,332	309,227	110,458	171,633	117,596	125,550	265,072	29,952	1,174,820
Life investment contracts	-								
Total financial assets	**142,626**	**309,227**	**110,458**	**171,633**	**117,596**	**125,550**	**265,072**	**219,381**	**1,461,542**
Weighted average interest rate %	3.59%	4.20%	6.06%	6.15%	4.85%	5.20%	4.13%		
Liabilities									
Accounts payable	-	-	-	-	-	-	-	(19,195)	(19,195)
Life investment contracts	-	-	-	-	-	-	-	-	-
Total financial liabilities	-	-	-	-	-	-	-	**(19,195)**	**(19,195)**
Weighted average interest rate %									
Net financial assets	**142,626**	**309,227**	**110,458**	**171,633**	**117,596**	**125,550**	**265,072**	**200,186**	**1,442,347**
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**

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

22 Financial instruments disclosure (continued)

in thousands of Australian dollars

	2011	2010
Reconciliation of net financial assets to net assets per balance sheet		
Net financial assets	1,442,347	1,201,497
Net liabilities arising under reinsurance arrangements	(1,137,961)	(918,115)
Other assets	16,675	13,260
Net assets	**321,061**	**296,642**

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	946,403	898,977
AA	215,263	124,545
A	64,208	14,913
BBB	16,288	17,112
Total	**1,242,162**	**1,055,547**

Current investment assets	410,441	350,270
Non-current investment assets	831,721	705,277
Total	**1,242,162**	**1,055,547**

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.

Currency Risk

The Company operates in Australia and New Zealand. Assets are held in original currency to match the expected reinsurance contract liabilities. A residual foreign exchange translation exposure results from net assets of the New Zealand branch. A 10% strengthening of the Australian dollar against the New Zealand dollar would decrease equity by $5.9m (2010: $5.7m). A 10% weakening of the Australian dollar against the New Zealand dollar would have had the equal but opposite effect to these amounts.

23 Cash flow information

in thousands of Australian dollars	2011	2010
Reconciliation of net profit after tax to net cash provided by operating activities		
Net profit after tax	**24,410**	**22,184**
Add (less) items classified as investing activities:		
Profit on sale of investments	(6,402)	(2,608)
Unrealised gains on investments	(38,821)	(5,669)
Add non cash items:		
Increase in deferred tax	955	1,767
Net cash provided by operating activities before change in assets and liabilities	**(19,858)**	**15,674**
Change in assets and liabilities excluding impact of foreign exchange revaluation:		
(Increase) / decrease in receivables	(49,460)	(82,931)
Increase / (decrease) in net life insurance contract liabilities	223,777	141,052
Decrease / (increase) in life investment contract assets	40	2,405
(Decrease) / increase in life investment contract liabilities	(19,524)	(1,357)
(Increase) / decrease in other assets	(2,460)	(9,061)
(Decrease) / increase in creditors	3,640	(3,615)
(Decrease) / increase in provisions	-	(14,591)
Net cash provided by operating activities	**136,155**	**47,576**

24 Events occurring after balance date

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

25 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.

26 Contingencies

There are no contingent liabilities or assets to be reported.

Directors' Declaration

In the directors' opinion:

(a) The financial statements and notes set out on pages 10 to 29 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 2011 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, 27 March 2012

Appointed Actuary's Statement

In my opinion:

(a) the financial statements for the year ended 31 December 2011 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, 27 March 2012

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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 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

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
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

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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 2011 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.

PricewaterhouseCoopers

PricewaterhouseCoopers

SK Fergusson
Partner

Sydney
27 March 2012