Swiss Re

10061746710

Annual Report 2012
Swiss Re Life & Health Australia Limited
New Zealand Branch

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Statement of Comprehensive Income for the year ended 31 December 2012

in thousands of New Zealand dollars	Notes	2012	2011
Revenue			
Premium revenue from life insurance contracts		57,285	53,863
Premium revenue ceded to reinsurers		(6,735)	(8,776)
Net premium revenue		**50,550**	**45,087**
Investment revenue	6	4,366	12,388
Other revenue	7	263	279
Net revenue		**55,179**	**57,754**
Expenses			
Claims expenses on life insurance contracts	8	44,053	51,418
Claims recovered from reinsurers		(8,343)	(9,554)
Net claims expense		**35,710**	**41,864**
(Decrease)/Increase in net life insurance liabilities	15(a)	(5,041)	5,667
Other expenses	9	9,092	7,644
Net claims and expenses		**39,761**	**55,175**
Net profit before tax		**15,418**	**2,579**
Income tax expense	10	(7,108)	(154)
Net profit after tax	5	**8,310**	**2,425**

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

Balance Sheet as at 31 December 2012

in thousands of New Zealand dollars	Notes	2012	2011
Assets			
Cash and cash equivalents		13,628	12,620
Deposits	11	3,074	29,850
Debt securities	11	137,406	106,768
Receivables	12	15,358	13,909
Life insurance contract liabilities ceded under reinsurance	15	582	-
Other assets	13	2,160	2,605
Total assets		**172,208**	**165,752**
Liabilities			
Creditors	14	16,132	20,190
Life insurance contract liabilities assumed under reinsurance	15	63,439	66,273
Life insurance contract liabilities ceded under reinsurance	15	-	1,625
Deferred tax liabilities	10	6,663	-
Total liabilities		**86,234**	**88,088**
Net assets		**85,974**	**77,664**
Equity			
Retained earnings		85,974	77,664
Total equity		**85,974**	**77,664**

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

Statement of Changes in Equity for the year ended 31 December 2012

in thousands of New Zealand dollars	Notes	2012	2011
Total equity at the beginning of the year		77,664	75,239
Net profit after tax		8,310	2,425
Total equity at the end of the year		**85,974**	**77,664**

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

Total equity comprises of retained earnings.

Cash Flow Statement for the year ended 31 December 2012

in thousands of New Zealand dollars	Notes	2012	2011
Cash flows from operating activities:			
Premiums received		54,415	52,786
Retrocession premiums paid		(9,901)	(4,638)
Interest received		6,394	7,759
Claim payments and other expense payments		(54,037)	(56,083)
Retrocession recoveries received		10,249	12,098
Life investment contract contributions		-	53
Net cash provided by operating activities	**20**	**7,120**	**11,975**
Cash flows from investing activities:			
Net payments to acquire investments		(6,112)	(7,427)
Net cash used in investing activities		**(6,112)**	**(7,427)**
Cash flows from financing activities:		-	-
Net increase in cash held		**1,008**	**4,548**
Cash at the beginning of financial year		12,620	8,072
Cash at the end of financial year		**13,628**	**12,620**

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

These financial statements, comprising the balance sheet, statement of comprehensive income, statement of changes in equity, cash flow statement 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 2013

Notes to the Financial Statements
31 December 2012

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 operations within the branch comprise the reinsurance of life insurance contracts and life investment contracts.

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 Statement of Comprehensive Income 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 policyholder 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 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 policyholder 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 recognized as there are no life investment contracts in force at balance date.

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 policyholder 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.

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 2012. The actuarial report, prepared by Mr A Bhalerao, Bec, FIAA, and dated 27 March 2013 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

Policyholder liabilities in these financial statements have been determined in accordance with applicable accounting standards and in accordance with relevant actuarial guidance. Policyholder 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; 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 the New Zealand Commonwealth Government bond yield curve as at 31 December 2012 ranging from 2.57% to 3.84% (2011: 2.47% to 4.35%)

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% (2011: 28%) has been assumed.

(iv) Inflation rates

Allowance for future inflation: 3.0% (2011: 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 3.0% to 4.8% (2011: 3.20% to 5.12%)

Expenses have been assumed at levels consistent with the planned expenses in 2013.

(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	67% - 90% of IA 95-97m (2011: 70% - 90% of IA 95-97m)
Females	71% - 91% of IA 95-97f (2011: 71% - 91% of IA 95-97f)

Morbidity

Incidence	between 67% - 145% (2011: 65% - 130%) of IAD 89 - 93 morbidity table
Termination	between 45% - 150% (2011: 43% - 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: 4.0% – 25% (2011: 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 (2011: 0.11%).

Effects of changes in actuarial assumptions from 31 December 2011 to 31 December 2012

The table below illustrates the impact of assumption changes on profit margins and policy liabilities.

in thousands of New Zealand dollars	**Effect on Net Profit Margins Increase/ (Decrease)**	**Effect on Net Policy Liabilities Increase/ (Decrease)**
Assumption Change		
Discount rates	2,327	1,815
Expense	1,724	187
Mortality	11,699	-
Morbidity	(63)	1,128
Other	847	160
Discontinuance rates	6,981	(31)
Total effect of changes	**23,515**	**3,259**
Amount at 31 December 2012 under old assumptions	62,900	59,598
Amount reported	**86,415**	**62,857**

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 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.

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		63,439	154,108	85,974
Risk free bonds rates	+1% -1%	(6,946) 4,404	(3,824) 3,999	2,248 (292)
Mortality	+10% -10%	100 -	- -	(72) -
Disability claims incidence	+10% -10%	3,088 (3,088)	- -	(2,223) 2,223
Disability claims termination	+10% -10%	(6,543) 7,789	- -	4,711 (5,608)

Actuarial methods and assumptions (continued)

in thousands of New Zealand dollars	Change in Variable	Policyholder Liabilities	Investment Assets [1]	Profit after tax & Equity
Net				
Policyholder liabilities		62,857	154,108	85,974
Risk free bonds rates	+1%	(6,908)	(3,824)	2,220
	-1%	4,354	3,999	(255)
Mortality	+10%	100	-	(72)
	-10%	-	-	-
Disability claims incidence	+10%	3,088	3,088	865
	-10%	(3,088)	(3,088)	(865)
Disability claims termination	+10%	(6,543)	(6,543)	(1,832)
	-10%	7,789	7,789	2,181

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

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 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	2012	2011

5 **Components of profit**

Components of profit related to movement in life insurance contracts:		
Planned margins of revenues over expenses released	3,576	4,064
Difference between actual and assumed experience	5,552	2,227
Change in valuation methods and assumptions	(2,290)	(7,504)
Capitalisation of expected future losses	(415)	(1,410)
Retrocession recovery relating to loss recognition	415	1,410
Other components:		
Investment earnings on assets in excess of policy liabilities	1,472	3,705
Life investment contracts loss	-	(67)
Net profit after tax	**8,310**	**2,425**

6 **Investment revenue**

Revenue derived from:		
Debt securities and deposits	6,616	6,661
Realised and unrealised (losses)/gains	(2,250)	5,727
Total investment revenue	**4,366**	**12,388**

7 **Other revenue**

Interest on cash and cash equivalents	263	279
	263	**279**

8 **Claims expense on life insurance contracts**

Death and disability claims	44,646	48,678
Maturities and surrenders	(593)	2,740
	44,053	**51,418**

in thousands of New Zealand dollars	2012	2011

9 Other expenses

Policy acquisition expenses	2,142	2,156
Policy maintenance expenses	6,785	5,197
Investment management expenses	165	238
Other expenses	-	53
	9,092	**7,644**

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.

Reconciliation between net profit before tax and tax expense		
Net profit before tax	15,418	2,579
Tax at the standard rate of 28% (2011: 28%)	4,317	722
Tax effect of non-assessable income	(2,926)	(568)
Over provision from previous year	(1,266)	-
Deferred tax liability on New Zealand acquisition costs previously included in life insurance contract liabilities (1)	6,983	-
Tax charge for the year	**7,108**	**154**

Current income tax asset		
Opening balance	2,285	2,534
Over provision from previous year	1,266	-
Current income tax expense	(1,391)	(249)
Tax paid during current year	-	-
Closing balance	**2,160**	**2,285**

Deferred tax asset/(liability)		
Opening balance	320	225
Deferred tax liability on New Zealand acquisition costs previously included in life insurance contract liabilities (1)	(6,983)	95
Closing balance	**(6,663)**	**320**

Income tax expense		
Current income tax	1,391	249
Over provision from previous year	(1,266)	-
Movement in deferred tax balances	6,983	(95)
Income tax expense	**7,108**	**154**

Imputation credit account	25,046	25,046

(1) In the current year a deferred tax liability has been raised to reflect the temporary difference associated with the timing of the deduction for acquisition costs. Historically, the future tax liability for such business was implicit within the associated policy liability. The recognition of the deferred tax liability results in a corresponding reduction in policy liabilities. By adjusting the disclosure in the current period this increases profit before tax by $7.0m. As the deferred tax expense increases correspondingly there is no impact on profit after tax or net assets from this change

in thousands of New Zealand dollars

11 Investments

in thousands of New Zealand dollars	2012	2011
Funds on deposit	3,074	29,850
Debt security investments: NZ government	137,406	106,768
Total investment assets	**140,480**	**136,618**

The Branch has deposited with the Public Trustee of New Zealand $500,000 (2011: $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.

12 Receivables

	2012	2011
Outstanding premiums	11,956	9,086
Reinsurance claims receivable	1,752	1,187
Amounts due from related parties	402	2,873
Investment income accrued and receivable	1,248	763
	15,358	**13,909**

13 Other assets

	2012	2011
Tax prepaid	2,160	2,285
Deferred tax asset	-	320
	2,160	**2,605**

14 Creditors

	2012	2011
Reinsurance claims payable	11,201	12,290
Amounts due to cedants and retrocessionaires	1,798	4,187
Amounts due to related parties	2,924	3,701
Other creditors	209	12
	16,132	**20,190**

in thousands of New Zealand dollars

15 Policyholder liabilities

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

	2012	2011
Liabilities assumed under reinsurance		
Opening balance at 1 January	66,273	60,977
Net increase reflected in the income statement	(2,834)	5,296
Closing balance at 31 December	**63,439**	**66,273**
Liabilities ceded under reinsurance		
Opening balance at 1 January	1,625	1,254
Net increase reflected in the income statement	(2,207)	371
Closing balance at 31 December	**(582)**	**1,625**
Net policyholder liabilities at 31 December	**62,857**	**67,898**

15(b) Components of net life insurance contract liabilities

	2012	2011
Future policy benefits	652,577	546,533
Future expenses	67,857	58,305
Planned margins of future revenues over expenses	86,416	61,102
Future charges for acquisition costs	(33,970)	(31,160)
Balance of future revenues	(710,023)	(566,882)
Total net life insurance contract liabilities	**62,857**	**67,898**

16 Equity retained for solvency purposes

	2012	2011
Equity of shareholders	85,974	77,664
Less equity retained for solvency purposes	(14,357)	(13,493)
Equity net of solvency requirements	**71,617**	**64,171**

17 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 (resigned 17 May 2012), P J Twyman, M Ojeisekhoba (appointed 17 May 2012)

Executive: M Senkevics

Remuneration of Key Management Personnel

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 New Zealand dollars	2012	2011
Wages, bonuses and other short-term benefits	2,147	2,618
Post employment benefits	87	89
Long term benefits	50	179
Termination payments [1]	-	80
Share based payments	-	265
Total	**2,284**	**3,231**

[1] Termination payments are statutory entitlements on resignation

The above table represents the total remuneration paid to key position holders in relation to services performed for all of Swiss Re Life & Health Australia Limited's operations, including the New Zealand branch.

18 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 New Zealand dollars	2012	2011
Retrocession contracts with controlling entity – Swiss Reinsurance Company Ltd		
Outwards reinsurance expense	5,530	6,366
Reinsurance recoveries	(5,128)	(6,862)
Net reinsurance expense (recoveries)	**402**	**(496)**
Management and other expenses		
Ultimate controlling entity – Swiss Re Ltd	406	266
Controlling entity – Swiss Reinsurance Company Ltd	196	467
Entity under common control	162	226
	764	**959**
Investment management expense		
Controlling entity	145	185

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

19 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 2012 had no open derivative financial instrument contracts (2011: 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:

19 Financial instruments disclosure (continued)

in thousands of New Zealand 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
2012									
Assets									
Cash	13,628	-	-	-	-	-	-	-	13,628
Receivables	-	-	-	-	-	-	-	15,358	15,358
Investments	3,074	52,774	-	45,968	-	11,067	27,597	-	140,480
Total financial assets	**16,702**	**52,774**	-	**45,968**	-	**11,067**	**27,597**	**15,358**	**169,466**
Weighted average interest rate %	2.50%	4.42%	-	5.36%	-	6.00%	5.52%		
Liabilities									
Accounts payable	-	-	-	-	-	-	-	(4,931)	(4,931)
Total financial liabilities	-	-	-	-	-	-	-	**(4,931)**	**(4,931)**
Weighted average interest rate %									
Net financial assets	**16,702**	**52,774**	-	**45,968**	-	**11,067**	**27,597**	**10,427**	**164,535**
2011									
Assets									
Cash	12,620	-	-	-	-	-	-	-	12,620
Receivables	-	-	-	-	-	-	-	13,909	13,909
Investments	29,850	-	10,509	33,085	19,972	-	43,202	-	136,618
Total financial assets	**42,470**	-	**10,509**	**33,085**	**19,972**	-	**43,202**	**13,909**	**163,147**
Weighted average interest rate %	2.50%	-	6.50%	6.00%	4.50%	-	6.00%		
Liabilities									
Accounts payable	-	-	-	-	-	-	-	(7,900)	(7,900)
Total financial liabilities	-	-	-	-	-	-	-	**(7,900)**	**(7,900)**
Weighted average interest rate %									
Net financial assets	**42,470**	-	**10,509**	**33,085**	**19,172**	-	**43,202**	**6,009**	**155,247**

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

19 Financial instruments disclosure (continued)

in thousands of New Zealand dollars	2012	2011
Reconciliation of net financial assets to net assets per balance sheet		
Net financial assets	164,535	155,247
Net liabilities arising under reinsurance arrangements	(74,057)	(80,188)
Other assets/(liabilities)	(4,504)	2,605
Net assets	**85,974**	**77,664**

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 deposits and debt securities.

Funds on deposit (A+)	3,074	29,850
Debt security investments (AA)	137,406	106,768
Total	**140,480**	**136,618**

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

Swiss Re Life & Health Australia Limited, New Zealand Branch carries out all its transactions in New Zealand dollars; therefore it has no exposure to foreign exchange risk.

20 Cash flow information

in thousands of New Zealand dollars	2012	2011
Reconciliation of net profit after tax to net cash provided by operating activities		
Net profit after tax	**8,310**	**2,425**
Add (less) items classified as investing activities:		
Profit on sale of investments	(844)	(501)
Unrealised losses/(gains) on investments	3,094	(5,226)
Add non cash items:		
Increase in deferred tax	6,983	(95)
Net cash provided by operating activities before change in assets and liabilities	**17,543**	**(3,397)**
Change in assets and liabilities excluding impact of foreign exchange revaluation:		
(Increase) / decrease in receivables	(1,449)	2,286
Increase / (decrease) in net life insurance contract liabilities	(5,041)	5,667
Decrease / (increase) in life investment contract assets	-	53
Decrease / (increase) in other assets	125	249
(Decrease) / increase in creditors	(4,058)	7,117
Net cash provided by operating activities	**7,120**	**11,975**

21 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.

22 Events occurring after balance date

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

23 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.

Appointed Actuary's Statement

This report has been prepared by the Appointed Actuary of Swiss Re Life & Health Australia Limited (New Zealand Branch), Mr Ashutosh Bhalerao. In my statutory role as Appointed Actuary, I am a salaried employee of SRL&H. In addition I hold shares via the Employee Purchase Plan in Swiss Reinsurance Company, which is listed on the Swiss stock exchange.

I have reviewed the actuarial information contained in the financial statements including the policy liabilities, deferred tax assets and the solvency calculations.

In my opinion:

(i) Proper records have been kept by the Company to enable the policy liabilities and solvency requirement to be properly determined.

(ii) The actuarial information contained in the financial statements has been appropriately included

(iii) The actuarial information used in the preparation of the financial statement has been used appropriately

(iv) The entity is maintaining a solvency margin in accordance with the Section 59 exemption whereby it is required to comply with regulatory requirements in Australia

A Bhalerao
Appointed Actuary

Sydney, 27 March 2013

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 New Zealand Branch ("New Zealand Branch") on pages 1 to 21, which comprise the balance sheet as at 31 December 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Statements
The Directors of the New Zealand Branch 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 auditors consider the internal controls relevant to the 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 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.

Opinion
In our opinion, the financial statements on pages 1 to 21:

(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 2012, and its financial performance for the year then ended.

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Restriction on Distribution or Use

This report is made solely to the Directors of the New Zealand Branch, as a body. Our audit work has been undertaken so that we might state to the Directors of the New Zealand Branch 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 Directors of the New Zealand Branch, 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 2012. 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 2013 and an unqualified opinion was issued.

SK Fergusson
Partner

Sydney
27 March 2013

Swiss Re

Annual Report 2012

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

Annual Report for the year ended 31 December 2012

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
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Board of Directors

D M Gonski, AC, BComm, LLB, FAICD, FCPA	Chairman
M Senkevics, BE	Chief Executive Officer
M Babbage, BAppSc, MComm, GAICD	
D P Fox, BA, FIA, FIAA, GAICD	
M I Ojeisekhoba, BSc, MSc	
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 2012.

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

D P Fox, D M Gonski, M Senkevics , P J Twyman, M Ojeisekhoba (appointed 17 May 2012), M Babbage (appointed 1 January 2013).

M R Parker resigned as a Director on 17 May 2012. The Directors wish to acknowledge and thank Mr Parker for his significant contributions to the success of the Company.

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

During the year an additional $50m of share capital was issued to Swiss Re Australia Ltd to increase the Company's capital base.

Review of operations

2012 proved to be another successful year for the Company with excellent financial results and clear focus on servicing our clients. Some of the key highlights for the year include:

- Ongoing growth of our portfolio of Group Insurance business, with Swiss Re now the leading reinsurer in the segment
- Expansion of our direct business and the release of new products into this growing market
- A focus on balancing our portfolio with selective engagement with our clients in the Individual Advice segment

Swiss Re's staff and management have done an exceptional job in delivering value to our clients while ensuring a strong profit margin for shareholders. The Board wish to express their sincere thanks to the team for their contribution to this excellent result and for living the Swiss Re values.

Operating result

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

in thousands of Australian dollars	2012	2011
Gross insurance premium revenue	960,833	871,701
Investment and other revenue	84,758	102,021
Net profit before income tax	93,753	34,233
Income tax expense	(33,237)	(9,823)
Net profit after income tax	**60,516**	**24,410**

Premium revenue has increased by 10.2% (2011: 19.5% increase). The Company has written significant volumes of new business across both group and retail lines of business.

Net investment revenues decreased by $17.3m compared to the previous year. This has largely been driven by comparatively lower mark-to-market gains on the debt security portfolio of +$18.4m (2011: +$50.6m), reflecting a relatively smaller change in interest rates in 2012. The Company's equity portfolio delivered a mark-to-market adjustment of $4.4m (2011: -$5.4m), which was in line with returns on the ASX200 index.

Profit before tax increased by $59.5m compared to the previous year, largely driven by improved experience on retained business.

Financial position

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

in thousands of Australian dollars	2012	2011
Total assets	1,851,074	1,478,217
Total liabilities	1,416,913	1,157,156
Net assets	**434,161**	**321,061**

The Company continues to maintain a well capitalised balance sheet with net assets in excess of 183% of the solvency requirement as at 31 December 2012.

Outlook for the future

The Life Re/Insurance sector continues to provide ample opportunity for growth with underinsurance still a major feature of the Australian market. Access to policyholders through the various market segments of group and direct will continue to expand and Swiss Re is well positioned to partner with our clients to grow our business.

Profitability of certain segments, particularly disability income insurance, remains a concern and will require significant focus from the industry. Swiss Re is engaging with our clients to address these concerns and to return this important product suite back to profitability.

The ongoing regulatory agenda will also be a focus for the industry and as the LAGIC reforms are bedded down we are in an excellent position to support our clients in respect of their capital needs. Additional reforms such as FOFA and MySuper will potentially stretch the industry's capability and we are working closely with our clients as these developments evolve.

Swiss Re continues to employ and develop highly skilled individuals, which together with the capability of the Swiss Re group, will offer our clients tailored solutions to support their strategic needs.

Dividend

There were no dividends declared or paid on ordinary shares during 2012.

Events subsequent to balance date

Other than Australian Prudential Regulation Authority regulatory changes effective 1 January 2013, as mentioned in note 17 of the financial statements, 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 substantially affect 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 *Corporations 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 2013

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Auditor's Independence Declaration

As lead auditor for the audit of Swiss Re Life & Health Australia Limited for the year ended 31 December 2012, 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 period.

SK Fergusson
PricewaterhouseCoopers

Sydney
27 March 2013

Statement of Comprehensive Income for the year ended 31 December 2012

in thousands of Australian dollars	Notes	2012	2011
Revenue			
Premium revenue from life insurance contracts		960,833	871,701
Premium revenue ceded to reinsurers		(351,832)	(317,287)
Net premium revenue		**609,001**	**554,414**
Investment revenue	6	78,241	97,379
Other revenue	7	6,517	4,642
Net revenue		**693,759**	**656,435**
Expenses			
Claims expense on life insurance contracts	8	549,296	529,788
Claims recovered from reinsurers		(322,545)	(307,722)
Net claims expense		**226,751**	**222,066**
Increase in net life insurance contract liabilities	16(a)	195,878	223,778
Other expenses	9	177,377	176,358
Net claims and expenses		**600,006**	**622,202**
Net profit before tax		93,753	34,233
Income tax expense	11	(33,237)	(9,823)
Net profit after tax	**5**	**60,516**	**24,410**
Other comprehensive income			
Net movement in foreign currency translation reserve		2,584	9
Income tax relating to other comprehensive income		-	-
Total comprehensive income for the year		**63,100**	**24,419**

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

Balance Sheet as at 31 December 2012

in thousands of Australian dollars	Notes	2012	2011
Assets			
Cash and cash equivalents		110,767	97,294
Deposits	12	51,818	45,332
Debt securities	12	1,448,682	1,099,536
Equity securities	12	34,399	29,952
Receivables	13	201,678	189,428
Other assets	14	1,716	13,373
Deferred tax assets	11	2,014	3,302
Total assets		**1,851,074**	**1,478,217**
Liabilities			
Creditors	15	139,348	109,490
Provisions	18	26,423	-
Life insurance contract liabilities assumed under reinsurance	16	1,224,419	1,007,766
Life insurance contract liabilities ceded under reinsurance	16	21,428	39,900
Deferred tax liabilities	11	5,295	-
Total liabilities		**1,416,913**	**1,157,156**
Net assets		**434,161**	**321,061**
Equity			
Contributed equity	19	205,000	155,000
Foreign currency translation reserve		(3,456)	(6,040)
Retained earnings		232,617	172,101
Total equity		**434,161**	**321,061**

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

Statement of Changes in Equity for the year ended 31 December 2012

in thousands of Australian dollars	Notes	Contributed Equity	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
Balance at 1 January 2012		**155,000**	**(6,040)**	**172,101**	**321,061**
Net profit after tax	5	-	-	60,516	60,516
Other comprehensive income		-	2,584	-	2,584
Dividends paid		-	-	-	-
Issue of ordinary shares	19	120,000	-	-	120,000
Redemption of preference shares	19	(70,000)	-	-	(70,000)
Balance at 31 December 2012		**205,000**	**(3,456)**	**232,617**	**434,161**

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**

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 2012

in thousands of Australian dollars	Notes	2012	2011
Cash flows from operating activities:			
Premiums received		940,040	829,361
Retrocession premiums paid		(358,805)	(309,938)
Interest received		56,742	54,076
Dividends received		2,633	1,393
Other income received		-	1,215
Claim payments and other expense payments		(729,944)	(711,113)
Retrocession recoveries received		333,645	302,581
Life investment contract net payments		-	(18,189)
Income tax refund (paid) net		11,444	(13,231)
Net cash provided by operating activities	**24**	**255,755**	**136,155**
Cash flows from investing activities:			
Net payments to acquire investments		(292,286)	(81,974)
Net cash used in investing activities		**(292,286)**	**(81,974)**
Cash flows from financing activities:			
Issue of ordinary share capital		120,000	-
Redemption of preference shares		(70,000)	-
Net cash provided by financing activities		**50,000**	-
Net increase in cash held		**13,469**	**54,181**
Cash at the beginning of financial year		97,294	43,123
Effect of foreign exchange rate changes		4	(10)
Cash at the end of financial year		**110,767**	**97,294**

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

Notes to the Financial Statements
31 December 2012

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 Statement of Comprehensive Income 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 Statement of Comprehensive Income. 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 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 as there are no life investment contracts in force at balance date.

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 Statement of Comprehensive Income. 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 Statement of Comprehensive Income.

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 the Australian branch of Swiss Reinsurance Company Ltd. All employee entitlement costs are included within the management expenses charged from the controlling entity (refer note 22).

o) Income tax

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

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

p) Foreign currency translation

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

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

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 2012. We have considered all amendments and the relevant standards are;

- AASB 9 Financial Instruments (applicable to annual reporting periods beginning on or after 1 January 2015)
- AASB 2011-4 Amendments to Australian Accounting Standards to key management personnel disclosure requirements (applicable to annual reporting periods beginning on or after 1 July 2013)
- AASB 13 Fair Value Measurement (applicable to annual reporting periods beginning on or after 1 January 2013)
- Revised AASB 119 Employee Benefits (applicable to annual reporting periods beginning on or after 1 January 2013)
- AASB 2012-3 and AASB 2012-2 Offsetting Financial Assets and Financial Liabilities (applicable to annual reporting periods beginning on or after 1 July 2014/1 July 2013 respectively)

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 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 2012 has been prepared by the Appointed Actuary, Mr A Bhalerao, BEc, FIAA and dated 27 March 2013. 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.

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 2012 for Australia 2.68% to 4.17% (2011: 3.16% to 4.25%) or New Zealand 2.57% to 3.84% (2011: 2.47% to 4.35%), 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%	(2011: 3.0%)
	– New Zealand	3.0%	(2011: 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 0.45% to 8.28% (2011: 0.48% to 8.83%)

Expenses have been assumed at levels consistent with the planned expenses in 2013.

(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: 62%-90% of IA95-97m for traditional sales channels (2011: 64%-90% of IA95-97m) and 88%-443% of ALT90-92 for non traditional sales channels (2011: 95%-450% of ALT90-92)

Females: 62%-91% of IA95-97f for traditional sales channels (2011: 58%-91% of IA95-97f) and 108%-433% of ALT90-92 for non traditional sales channels (2011: 115%-440% of ALT90-92)

Morbidity

Incidence between 67% -200 % (2011: 65% - 220%) of IAD 89 – 93 morbidity table

Termination between 40% - 150% (2011: 35% - 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 4.0% – 40% (2011: 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 (2011: 0.11%).

3 Actuarial methods and assumptions (continued)

The table below illustrates the impact of assumption changes on profit margins and policy liabilities.

in thousands of Australian dollars	Effect on Net Profit Margins Increase/ (Decrease)	Effect on Net Policy Liabilities Increase/ (Decrease)
Assumption Change		
Discount rates	8,066	11,839
Expense	10,777	1,854
Mortality	37,177	-
Morbidity	(5,257)	(6,210)
Other	392	2,848
Discontinuance rates	24,817	(181)
Total effect of changes	**75,972**	**10,150**
Amount at 31 December 2012 under old assumptions	365,747	1,235,697
Amount reported	**441,719**	**1,245,847**

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.

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				
		1,224,419	1,611,267	434,161
ASX 200	+10%	-	3,440	2,408
	-10%	-	(3,440)	(2,408)
Risk free bonds rates	+1%	(33,681)	(41,690)	(5,606)
	-1%	32,341	43,660	7,923
Mortality	+10%	7,774	-	(5,442)
	-10%	-	-	-
Disability claims incidence	+10%	21,867	-	(15,307)
	-10%	(16,251)	-	11,376
Disability claims termination	+10%	(45,270)	-	31,689
	-10%	52,050	-	(36,435)
Net				
		1,245,847	1,611,267	434,161
ASX 200	+10%	-	3,440	2,408
	-10%	-	(3,440)	(2,408)
Risk free bonds rates	+1%	(37,020)	(41,690)	(3,269)
	-1%	36,320	43,660	5,138
Mortality	+10%	7,756	-	(5,429)
	-10%	-	-	-
Disability claims incidence	+10%	21,867	21,867	6,560
	-10%	(16,251)	(16,251)	(4,875)
Disability claims termination	+10%	(45,270)	(45,270)	(13,581)
	-10%	52,050	52,050	15,615

(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 effective to 31 December 2012*) 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 claims in the future. As such, the investment strategy is focused on secure assets that provide for the long term cash requirements of the Company. Assets selected are predominantly AAA rated fixed interest securities and market traded equities. The asset selection is performed with reference to the duration of the underlying insurance liabilities and this operates to minimise the interest rate exposure. Notwithstanding the rating of the Company's assets, the Company's performance is exposed to market risk and credit risk and the resultant impact on the valuation of assets. This exposure remains unhedged, however, as the Company is holding the assets to meet long-term payment obligations and does not have significant short term liquidity requirements these assets do not need to be realised at current values.

in thousands of Australian dollars	2012	2011

5 Components of profit

Components of profit related to movement in life insurance contracts:		
Planned margins of revenues over expenses released	23,106	21,314
Difference between actual and assumed experience	29,575	(10,371)
Reversal/(capitalisation) of expected future losses	11,056	(11,591)
Retrocession recovery/(payment) relating to loss recognition	(11,056)	11,591
	52,681	**10,943**
Other components:		
Investment earnings on assets in excess of policy liabilities	7,476	10,566
Life investment contracts profit	-	2,542
Profit from Shareholders' fund	359	359
Net profit after tax	**60,516**	**24,410**

6 Investment revenue

Revenue derived from:		
Equity securities	2,633	1,393
Debt securities and deposits	52,781	50,763
	55,414	**52,156**
Realised and unrealised gains (losses) derived from:		
Equity securities	4,446	(5,397)
Debt securities and deposits	18,381	50,620
	22,827	**45,223**
Total investment revenue	**78,241**	**97,379**

7 Other revenue

Interest on cash and cedant balances	6,517	3,427
Fee income from life investment contracts	-	1,215
	6,517	**4,642**

8 Claims expense on life insurance contracts

Death and disability claims	554,332	527,397
Maturities, surrenders and terminations	(5,036)	2,391
Claims expense on life insurance contracts	**549,296**	**529,788**

9 Other expenses

Comprises the following expenses:		
Policy acquisition expenses		
Commission	28,030	40,310
Other	5,733	5,484
Policy maintenance expenses		
Commission	118,247	106,078
Other	23,867	22,651
Investment management expenses	1,500	1,835
	177,377	**176,358**

10 Auditors' remuneration

Amounts received or due and receivable by auditors of the Company, including non-recoverable GST, for:		
Audit of the financial statements	443	445
	443	**445**

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% (2011: 28%).

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	2012	2011
Reconciliation between net profit before tax and tax expense		
Net profit before tax	93,753	34,233
Tax at the Australian standard tax rate of 30% (2011:30%)	28,126	10,270
Difference in New Zealand tax rate	(244)	(37)
Tax effect of non-assessable income	779	(90)
Tax offset for franked dividends	(157)	(240)
Over provision from previous year	(816)	(80)
Deferred tax liability on New Zealand acquisition costs previously included in life insurance contract liabilities[2]	5,549	-
Tax charge for the year	**33,237**	**9,823**
Income tax expense		
Current tax expense	27,520	10,857
Deferred tax	6,533	(954)
Over provision from previous year	(816)	(80)
Total tax expense	**33,237**	**9,823**
Current income tax (liability) asset		
Opening balance	13,373	10,913
Foreign exchange adjustment	68	6
Over provision from previous years	816	80
Current component of income tax expense	(27,520)	(10,857)
Tax refunds received during current year	(11,444)	(8,982)
Tax paid during current year	-	22,213
Closing balance	**(24,707)**	**13,373**

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

in thousands of Australian dollars — 2012 — 2011

11 Income Tax (continued)

	2012	2011
Analysis of deferred tax asset		
Amounts recognised in income:		
Unrealised investment gains	(2,651)	(3,976)
Reinsurance balances	4,665	6,804
Other	-	474
Closing deferred tax asset[1]	**2,014**	**3,302**

	2012	2011
Analysis of deferred tax liability		
Amounts recognised in income:		
Reinsurance balances	254	-
Deferred tax liability on New Zealand acquisition costs previously included in life insurance contract liabilities[2]	(5,549)	-
Closing deferred tax liability[1]	**(5,295)**	-

[1] The closing balances are disclosed as a separate deferred tax asset and deferred tax liability on the balance sheet to reflect jurisdictional allocation.

[2] In the current year a deferred tax liability has been raised to reflect the temporary difference associated with the timing of the deduction for acquisition costs in New Zealand. Historically, the future tax liability for such business was implicit within the associated life insurance contract liability. The recognition of the deferred tax liability results in a corresponding reduction in life insurance contract liabilities. By adjusting the disclosure in the current period this increases profit before tax by $5.5m. As the deferred tax expense increases correspondingly there is no impact on profit after tax or net assets from this change.

12 Investments

	2012	2011
Deposits	**51,818**	**45,332**
Equities held indirectly by unit trusts (Level 1)	**34,399**	**29,952**
Debt securities:		
National government (Level 2)	1,299,821	965,768
Private sector (Level 2)	148,861	133,768
	1,448,682	**1,099,536**
Total investment assets	**1,534,899**	**1,174,820**
Balance maturing within 12 months	785,672	410,441

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.

in thousands of Australian dollars | 2012 | 2011

13 Receivables

	2012	2011
Outstanding premiums	187,815	167,021
Reinsurance claims receivable	4,603	15,703
Investment income accrued and receivable	9,260	6,704
	201,678	**189,428**

14 Other assets

	2012	2011
Tax amounts paid in advance (Refer to note 11)	1,716	13,373

15 Creditors

	2012	2011
Reinsurance claims payable	87,198	90,296
Amounts due to cedants and retrocessionaires	9,552	13,796
Amounts due to related parties	2,566	5,295
Settlements on debt securities	39,752	-
Other creditors	280	103
	139,348	**109,490**

16 Life insurance contract liabilities

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

	2012	2011
Liabilities assumed under reinsurance		
Opening balance at 1 January	1,007,766	802,019
Net increase reflected in the income statement	214,362	205,876
Foreign exchange adjustment	2,291	(129)
Closing balance at 31 December	**1,224,419**	**1,007,766**
Liabilities ceded under reinsurance		
Opening balance at 1 January	39,900	21,995
Net (decrease)/increase reflected in the income statement	(18,484)	17,903
Foreign exchange adjustment	12	2
Closing balance at 31 December	**21,428**	**39,900**
Net life insurance contract liabilities at 31 December	**1,245,847**	**1,047,666**

16(b) Components of net life insurance contract liabilities

	2012	2011
Future policy benefits	4,566,824	3,902,913
Future expenses	1,047,386	993,148
Planned margins of future revenues over expenses	441,719	336,310
Future charges for acquisition costs	(289,425)	(286,237)
Balance of future revenues	(4,520,657)	(3,898,468)
Total net life insurance contract liabilities	**1,245,847**	**1,047,666**
Future policy benefits expected to be realised within 12 months	641,840	600,744

in thousands of Australian dollars	2012	2011

17 Regulatory Reporting

Solvency

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

Solvency requirement of the statutory fund	1,640,411	1,357,218
Solvency reserve included above	109,120	152,858
Assets available for solvency, comprised of:		
Deficit of net policy liabilities over minimum termination value	(111,743)	(44,229)
Net assets of the statutory fund	420,476	307,734
Total amounts available for solvency reserve	**308,733**	**263,505**
Coverage of solvency reserve	2.83 times	1.72 times

From 1 January 2013, the Australian Prudential Regulation Authority has introduced changes to its regulatory framework through its Life and General Insurance Capital (LAGIC) review. The Company has actively managed these changes and is capitalised accordingly from the effective date.

18 Provisions

Income Tax (Refer to note 11)	26,423	-

19 Contributed Equity

Share capital		
5,070,000 Ordinary shares (2011: 390,000)	130,000	10,000
75,000 Redeemable preference shares (2011:145,000)	75,000	145,000
	205,000	**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.

During the year, $70.0m of redeemable preference shares were redeemed and in turn $70.0m of new ordinary shares issued. An additional tranche of $50.0m of new ordinary shares were also issued during the year to increase the Company's capital base.

20 Segment information

Primary – Business segments

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

Secondary – Geographic segments

in thousands of Australian dollars	Australia	Overseas	Total
2012			
Premium revenue from life insurance contracts	916,531	44,302	960,833
Segment net profit before tax	81,531	12,222	93,753
Segment total assets	1,717,000	134,074	1,851,074
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

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
2012		
Premium revenue from life insurance contracts	960,833	-
Total revenue	693,247	512
Net profit before tax	93,241	512
Net profit after tax	60,157	359
Total assets	1,837,388	13,686
Net assets	420,475	13,686
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

21 Key position holders and remuneration

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

Non Executive: D P Fox, D M Gonski, M R Parker (resigned 17 May 2012), P J Twyman, M Ojeisekhoba (appointed 17 May 2012)

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	2012	2011
Wages, bonuses and other short-term benefits	1,706	1,992
Post employment benefits	69	68
Long term benefits	40	136
Termination payments [1]	-	61
Share based payments	-	202
Total	**1,815**	**2,459**

[1] Termination payments are statutory entitlements on resignation

22 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	2012	2011
Retrocession contracts with controlling entity – Swiss Reinsurance Company Ltd		
Outwards reinsurance expense	350,891	315,487
Commission	(683)	(495)
Reinsurance recoveries	(320,049)	(305,644)
Movement in life insurance contract liabilities	(17,248)	17,622
Net reinsurance expense	**12,911**	**26,970**
Management and other expenses		
Ultimate Controlling entity – Swiss Re Ltd	5,357	2,738
Controlling entity [(1)] – Swiss Reinsurance Company Ltd	22,424	22,901
Entity under common control	1,854	2,169
	29,635	**27,808**
Investment management expense		
Controlling entity	1,420	1,696
	1,420	**1,696**
Contributed equity transactions with immediate controlling entity – Swiss Re Australia Ltd		
Issue of share capital	120,000	-
Redemption of preference shares	(70,000)	-
	50,000	-

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

[(1)] The Company has no employees. Included in this amount is a cost allocation for day to day operating activities provided by the Australian Branch of Swiss Reinsurance Company Ltd.

23 Financial instruments disclosure

Derivative financial instruments

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

The Company did not use derivative financial instruments during the year and at 31 December 2012 had no open derivative financial instrument contracts (2011: 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:

23 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
2012									
Assets									
Cash	110,767	-	-	-	-	-	-	-	110,767
Receivables	-	-	-	-	-	-	-	201,678	201,678
Investments	51,818	652,490	72,192	215,071	121,408	70,706	316,815	34,399	1,534,899
Total financial assets	**162,585**	**652,490**	**72,192**	**215,071**	**121,408**	**70,706**	**316,815**	**236,077**	**1,847,344**
Weighted average interest rate %	2.64%	3.06%	5.01%	4.71%	5.53%	5.12%	4.06%		
Liabilities									
Accounts payable	-	-	-	-	-	-	-	(52,149)	(52,149)
Total financial liabilities	-	-	-	-	-	-	-	**(52,149)**	**(52,149)**
Weighted average interest rate %									
Net financial assets	**162,586**	**309,227**	**72,192**	**215,071**	**121,408**	**70,706**	**316,814**	**183,928**	**1,795,195**
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
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)
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**

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

23 Financial instruments disclosure (continued)

in thousands of Australian dollars	2012	2011
Reconciliation of net financial assets to net assets per balance sheet		
Net financial assets	1,795,195	1,442,347
Net liabilities arising under reinsurance arrangements	(1,333,045)	(1,137,961)
Other assets/(liabilities)	(27,989)	16,675
Net assets	**434,161**	**321,061**

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	1,261,677	946,403
AA	245,773	215,263
A	84,740	64,208
BBB	19,077	16,288
Total	**1,611,267**	**1,242,162**

Current investment assets	785,672	410,441
Non-current investment assets	825,595	831,721
Total	**1,611,267**	**1,242,162**

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 $6.8m (2011: $5.9m). A 10% weakening of the Australian dollar against the New Zealand dollar would have had the equal but opposite effect to these amounts.

24 Cash flow information

in thousands of Australian dollars	2012	2011
Reconciliation of net profit after tax to net cash provided by operating activities		
Net profit after tax	**60,516**	**24,410**
Add (less) items classified as investing activities:		
Profit on sale of investments	(24,653)	(6,402)
Unrealised losses/(gains) on investments	1,826	(38,821)
Add non cash items:		
Increase in deferred tax	6,533	955
Net cash provided by operating activities before change in assets and liabilities	**44,222**	**(19,858)**
Change in assets and liabilities excluding impact of foreign exchange revaluation:		
(Increase) / decrease in receivables	(12,354)	(49,460)
Increase / (decrease) in net life insurance contract liabilities	195,878	223,777
Decrease / (increase) in life investment contract assets	-	40
(Decrease) / increase in life investment contract liabilities	-	(19,524)
Decrease / (increase) in other assets	11,657	(2,460)
(Decrease) / increase in creditors	(10,071)	3,640
Increase / (decrease) in provisions	26,423	-
Net cash provided by operating activities	**255,755**	**136,155**

25 Events occurring after balance date

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

26 Capital expenditure commitments

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

27 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 2012 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 2013

Appointed Actuary's Statement

In my opinion:

(a) the financial statements for the year ended 31 December 2012 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 2013

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 2012, 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 DX 77 Sydney Australia
T +61 2 8266 0000 , F +61 2 8266 9999, www.pwc.com

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 2012 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 Ferguson
Partner

Sydney
27 March 2013