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## **Annual Report 2013**

**Swiss Re Life & Health Australia Limited  
New Zealand Branch**

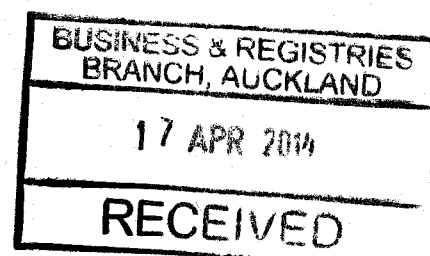
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# Statement of Comprehensive Income for the year ended 31 December 2013

in thousands of New Zealand dollars	Notes	2013	2012*
<b>Revenue</b>			
Premium revenue from life insurance contracts		74,700	56,403
Premium revenue ceded to reinsurers		(8,665)	(6,735)
<b>Net premium revenue</b>		<b>66,035</b>	<b>49,668</b>
Investment revenue	6	(237)	4,366
Other revenue	7	348	263
<b>Net revenue</b>		<b>66,146</b>	<b>54,297</b>
<b>Expenses</b>			
Claims expenses on life insurance contracts	8	48,599	44,053
Claims recovered from reinsurers		(8,046)	(8,343)
<b>Net claims expense</b>		<b>40,553</b>	<b>35,710</b>
Decrease in net life insurance liabilities	15(a)	(95,987)	(5,041)
Other expenses	9	107,788	9,092
<b>Net claims and expenses</b>		<b>52,354</b>	<b>39,761</b>
<b>Net profit before tax</b>		<b>13,792</b>	<b>14,536</b>
Income tax expense	10	(3,699)	(6,861)
<b>Net profit after tax</b>	5	<b>10,093</b>	<b>7,675</b>

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

\* Some balances in the comparatives have been restated. Refer to Note 2 for further information.

## Balance Sheet as at 31 December 2013

in thousands of New Zealand dollars	Notes	2013	2012*
<b>Assets</b>			
Cash and cash equivalents		12,653	13,628
Deposits	11	1,070	3,074
Debt securities	11	105,749	137,406
Receivables	12	31,773	14,476
Life insurance contract liabilities ceded under reinsurance	15	241	582
Other assets	13	78	2,407
<b>Total assets</b>		<b>151,564</b>	<b>171,573</b>
<b>Liabilities</b>			
Creditors	14	23,325	16,132
Life insurance contract liabilities assumed under reinsurance	15	(10,995)	63,439
Deferred tax liabilities	10	7,802	6,663
<b>Total liabilities</b>		<b>20,132</b>	<b>86,234</b>
<b>Net assets</b>		<b>131,432</b>	<b>85,339</b>
<b>Equity</b>			
Retained earnings		131,432	85,339
<b>Total equity</b>		<b>131,432</b>	<b>85,339</b>

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

\* Some balances in the comparatives have been restated. Refer to Note 2 for further information.

## Statement of Changes in Equity for the year ended 31 December 2013

in thousands of New Zealand dollars	Notes	2013	2012*
Total equity at the beginning of the year		85,339	77,664
Net profit after tax		10,093	7,675
Transfer from Australian head office		36,000	-
<b>Total equity at the end of the year</b>		<b>131,432</b>	<b>85,339</b>

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

Total equity comprises of retained earnings.

\* Some balances in the comparatives have been restated. Refer to Note 2 for further information.

# Cash Flow Statement for the year ended 31 December 2013

in thousands of New Zealand dollars	Notes	2013	2012
<b>Cash flows from operating activities:</b>			
Premiums received		63,438	54,415
Retrocession premiums paid		(6,904)	(9,901)
Interest received		6,185	6,394
Claim payments and other expense payments		(129,062)	(54,037)
Retrocession recoveries received		1,371	10,249
Income tax paid		(230)	-
<b>Net cash provided by operating activities</b>	<b>20</b>	<b>(65,202)</b>	<b>7,120</b>
<b>Cash flows from investing activities:</b>			
Net proceeds from/(payments to acquire) investments		28,227	(6,112)
<b>Net cash used in investing activities</b>		<b>28,227</b>	<b>(6,112)</b>
<b>Cash flows from financing activities:</b>			
Transfer from Australian head office		36,000	-
<b>Net cash provided by financing activities</b>		<b>36,000</b>	<b>-</b>
<b>Net (decrease)/increase in cash held</b>		<b>(975)</b>	<b>1,008</b>
Cash at the beginning of financial year		13,628	12,620
<b>Cash at the end of financial year</b>		<b>12,653</b>	<b>13,628</b>

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 2014

# Notes to the Financial Statements

## 31 December 2013

### 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.

## Notes to the Financial Statements

### 31 December 2013

#### f) Life investment contracts

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

Revenue in respect of life investment contracts is classified as fee income and disclosed in other income. Fees are recognised as earned when the services under the contract have been performed. There are no life investment contracts in force at balance date.

#### 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.

## Notes to the Financial Statements

### 31 December 2013

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

#### o) Changes in accounting policy and transition

The Company had to change some of its accounting policies as a result of new and revised accounting standards which became effective for the annual reporting period commencing on 1 July 2013. The affected policies are: Determining fair value – AASB 13 *Fair Value Measurement*.

AASB 13 *Fair Value Measurement* aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Australian Accounting Standards. The standard does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other Australian Accounting Standards. Life insurance contracts as defined by AASB 1038 *Life Insurance Contracts* are excluded from the scope of AASB 13. The change in accounting policy did not have a material impact on the company's results or financial position.



## Notes to the Financial Statements

### 31 December 2013

#### 2 Critical accounting judgements, estimates & errors

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities of the Branch. 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.

##### ***Correction of error in accounting for premium revenue in the prior period***

It was identified in the current year that there was an error in a premium estimate in 2012. The error has been corrected by restating each of the affected financial statement line items for the prior period. Net assets have decreased by \$635,000 arising from a decrease in premium receivable of \$882,000 and an increase in current tax asset of \$247,000. Profit after tax has decreased by \$635,000 arising from a decrease in premium revenue of \$882,000 and a decrease in income tax expense of \$247,000. Comparatives in relevant note disclosures have been restated where appropriate.

# Notes to the Financial Statements

## 31 December 2013

### 3 Actuarial methods and assumptions

#### Regulatory reporting

The effective date of the actuarial report on the policyholder liabilities and solvency reserves is 31 December 2013. The actuarial report, prepared by Mr Andrew Mead, Bec, FIAA, and dated 27 March 2014 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.

Swiss Re Life and Health Australia Ltd was granted a licence in New Zealand by the Reserve Bank of New Zealand in 2013. As part of this a section 59 exemption from compliance with the solvency standard for Life Insurance Business (under the Insurance Prudential Supervision Act 2010) was granted. The solvency position of the Company has therefore been calculated in accordance with Life Prudential Standard (LPS 110) 'Capital Adequacy' as issued by the Australian Prudential Regulation Authority (APRA).

#### 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:*

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

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

Group life and salary continuance insurance

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

#### *Method:*

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

Accumulation

Projection method, using cash flows for all individual policies.

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

## Notes to the Financial Statements

### 31 December 2013

#### 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 2013 ranging from 3.22% to 5.28% (2012: 2.57% to 3.84%)

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% (2012: 28%) has been assumed.

##### (iv) Inflation rates

Allowance for future inflation: 3.0% (2012: 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 3.75% to 6.0% (2012: 3.0% to 4.8% )

Expenses have been assumed at levels consistent with the planned expenses in 2014.

##### (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 (2012: 67% - 90% of IA 95-97m)
Females	71% - 91% of IA 95-97f (2012: 71% - 91% of IA 95-97f)

###### Morbidity

Incidence	between 67% - 145% (2012: 67% - 145%) of IAD 89 - 93 morbidity table
Termination	between 45% - 145% (2012: 45% - 150%) 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.

## Notes to the Financial Statements

### 31 December 2013

#### (vii) Discontinuance rates

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

Range of rates: 5.0% – 25% (2012: 4.0% – 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 (2012: 0.11%).

### Effects of changes in actuarial assumptions from 31 December 2012 to 31 December 2013

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)
<b>Assumption Change</b>		
Discount rates	(7,621)	(4,273)
Expense	(28,502)	5,579
Mortality	-	-
Morbidity	(5,273)	1,652
Other	-	-
Discontinuance rates	(1,662)	243
<b>Total effect of changes</b>	<b>(43,058)</b>	<b>3,201</b>
Amount at 31 December 2012 under old assumptions	200,433	(14,436)
<b>Amount reported</b>	<b>157,375</b>	<b>(11,235)</b>

#### Sensitivity analysis

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

Variable	Impact of movement in underlying variable
Interest Rate Risk	<p>A decrease in the rate of interest would:</p> <ul style="list-style-type: none"> <li>(i) decrease the investment income from the Company's floating rate interest bearing securities;</li> <li>(ii) have a positive impact on the value of the Company's investments.</li> </ul> <p>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.</p>

# Notes to the Financial Statements

## 31 December 2013

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 <sup>(1)</sup>	Profit after tax & Equity
<b>Gross</b>				
		10,995	119,472	131,432
Risk free bonds rates	+1%	(3,358)	(2,847)	368
	-1%	4,215	3,050	(839)
Mortality	+10%	1,991	-	(1,434)
	-10%	-	-	-
Disability claims incidence	+10%	6,175	-	(4,446)
	-10%	(6,175)	-	4,446
Disability claims termination	+10%	(7,224)	-	5,201
	-10%	8,602	-	(6,194)
in thousands of New Zealand dollars	Change in Variable	Policyholder Liabilities	Investment Assets <sup>(1)</sup>	Profit after tax & Equity
<b>Net</b>				
		11,236	119,472	131,432
Risk free bonds rates	+1%	(3,358)	(2,847)	368
	-1%	4,215	3,050	(839)
Mortality	+10%	1,991	-	(1,434)
	-10%	-	-	-
Disability claims incidence	+10%	6,175	6,175	-
	-10%	(6,175)	(6,175)	-
Disability claims termination	+10%	(7,224)	(7,224)	-
	-10%	8,602	8,602	-

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

## Notes to the Financial Statements

### 31 December 2013

#### 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 Board 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 underwriting standards 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. Terms of Trade set out the costing framework, including assumptions, for products in a specific market in line with overarching Chief Pricing Office standards on economic costing and pricing. 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 Prudential Regulation Authority (LPS 110 *Capital Adequacy Standard*) requires a company to maintain sufficient capital to withstand a number of asset and liability shock scenarios. The Company maintains a target level of capital in excess of the minimum requirement which further mitigates risk exposures.

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

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

**Asset management:** The Company maintains an investment portfolio to support policyholder liabilities. Investment guidelines are in place that set clear parameters for the selection of assets, with respect to the types of assets that are permitted, the amount of the portfolio that can be committed to a particular asset class or counterparty and the amount of liquidity that needs to be maintained. 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 AA rated 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.

# Notes to the Financial Statements

## 31 December 2013

in thousands of New Zealand dollars

2013

2012

### 5 Components of profit

<b>Components of profit related to movement in life insurance contracts:</b>		
Planned margins of revenues over expenses released	4,546	2,941
Difference between actual and assumed experience	5,236	5,552
Change in valuation methods and assumptions	4,305	(2,290)
Capitalisation of expected future losses	(3,651)	(415)
Retrocession recovery relating to loss recognition	-	415
<b>Other components:</b>		
Investment earnings on assets in excess of policy liabilities	(343)	1,472
<b>Net profit after tax</b>	<b>10,093</b>	<b>7,675</b>

### 6 Investment revenue

Revenue derived from:		
Debt securities and deposits	5,198	6,616
Realised and unrealised losses	(5,435)	(2,250)
<b>Total investment (expense)/revenue</b>	<b>(237)</b>	<b>4,366</b>

### 7 Other revenue

Interest on cash and cash equivalents	348	263
	<b>348</b>	<b>263</b>

### 8 Claims expense on life insurance contracts

Death and disability claims	48,582	44,646
Maturities and surrenders	17	(593)
	<b>48,599</b>	<b>44,053</b>

### 9 Other expenses

Policy acquisition expenses	94,167	2,142
Policy maintenance expenses	13,411	6,785
Investment management expenses	210	165
	<b>107,788</b>	<b>9,092</b>

Acquisition and maintenance expenses include commissions. During 2013 the Company entered into a significant new treaty.

Audit fees are paid outside the New Zealand branch.

## Notes to the Financial Statements

### 31 December 2013

#### 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.

in thousands of New Zealand dollars	2013	2012
<b>Reconciliation between net profit before tax and tax expense</b>		
Net profit before tax	13,792	14,536
Tax at the standard rate of 28% (2012: 28%)	3,862	4,070
Tax effect of non-assessable income	(713)	(2,926)
Under/(Over) provision from previous year	550	(1,266)
Deferred tax liability on New Zealand acquisition costs <sup>(1)</sup>	-	6,983
<b>Tax charge for the year</b>	<b>3,699</b>	<b>6,861</b>
<b>Current income tax asset</b>		
Opening balance	2,407	2,285
(Under)/Over provision from previous year	(440)	1,266
Current income tax expense	(2,120)	(1,144)
Tax paid during current year	231	-
<b>Closing income tax asset</b>	<b>78</b>	<b>2,407</b>
<b>Analysis of deferred tax liability</b>		
Reinsurance balances	210	320
Deferred tax liability on New Zealand acquisition costs <sup>(1)</sup>	(8,012)	(6,983)
<b>Closing deferred tax liability</b>	<b>(7,802)</b>	<b>(6,663)</b>
<b>Income tax expense</b>		
Current income tax	2,120	1,144
Under/(Over) provision from previous year	550	(1,266)
Movement in deferred tax balances	1,029	6,983
<b>Income tax expense</b>	<b>3,699</b>	<b>6,861</b>
<b>Imputation credit account</b>	<b>25,277</b>	<b>25,046</b>

<sup>(1)</sup> In the prior year, a deferred tax liability was raised to reflect the temporary difference associated with the timing of the deduction for acquisition costs in New Zealand. The future tax liability for such business was implicit within the associated policy liability. In the prior year, the recognition of the deferred tax liability resulted in a corresponding reduction in policy liabilities.



## Notes to the Financial Statements

### 31 December 2013

in thousands of New Zealand dollars

2013

2012

#### 11 Investments

Funds on deposit	1,070	3,074
Debt security investments: NZ government (Level 2)	105,749	137,406
<b>Total investment assets</b>	<b>106,819</b>	<b>140,480</b>

The Company has no assets that meet the definition of Level 1 or Level 3.

Historically, the Branch had deposited with the Public Trustee of New Zealand \$500,000 of Government Securities which were held as security on behalf of the Branch's policyholders and form part of the Life Fund of the Branch. Following granting of the Branch's licence in the current year, in accordance with the Insurance (Prudential Supervision) Act 2010, this deposit was returned to the branch by the Public Trustee.

#### 12 Receivables

Outstanding premiums	22,335	11,074
Reinsurance claims receivable	6,786	1,752
Amounts due from related parties	2,043	402
Investment income accrued and receivable	609	1,248
	<b>31,773</b>	<b>14,476</b>

#### 13 Other assets

Tax prepaid	78	2,407
	<b>78</b>	<b>2,407</b>

#### 14 Creditors

Reinsurance claims payable	12,873	11,201
Amounts due to cedants and retrocessionaires	723	1,798
Amounts due to related parties	9,495	2,924
Other creditors	234	209
	<b>23,325</b>	<b>16,132</b>

# Notes to the Financial Statements

## 31 December 2013

in thousands of New Zealand dollars

2013

2012

### 15 Policyholder liabilities

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

<b>Liabilities assumed under reinsurance</b>		
Opening balance at 1 January	63,439	66,273
Portfolio transfer	21,894	-
Net decrease reflected in the income statement	(96,328)	(2,834)
<b>Closing balance at 31 December</b>	<b>(10,995)</b>	<b>63,439</b>
<b>Liabilities ceded under reinsurance</b>		
Opening balance at 1 January	(582)	1,625
Net increase/(decrease) reflected in the income statement	341	(2,207)
<b>Closing balance at 31 December</b>	<b>(241)</b>	<b>(582)</b>
<b>Net policyholder liabilities at 31 December</b>	<b>(11,236)</b>	<b>62,857</b>

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

Future policy benefits	1,095,284	652,577
Future expenses	139,856	67,857
Planned margins of future revenues over expenses	157,375	86,416
Future charges for acquisition costs	(139,167)	(33,970)
Balance of future revenues	(1,264,584)	(710,023)
<b>Total net life insurance contract liabilities</b>	<b>(11,236)</b>	<b>62,857</b>

## Notes to the Financial Statements

### 31 December 2013

#### 16 Solvency

In accordance with section 59 of the Insurance Prudential Supervision Act 2010, Swiss Re Life & Health Australia Limited is exempt from compliance with the solvency standard for Life Insurance Business. The solvency position of the Company has been calculated in accordance with Life Prudential Standard (LPS) 110 'Capital Adequacy' as issued by the Australian Prudential Regulation Authority (APRA). LPS 110 prescribes the minimum capital requirement for each statutory fund and the minimum level of assets required to be held in each statutory fund.

The figures in the table below represent the ratio of the assets available for capital over the minimum regulatory capital requirement for the reinsurance statutory fund of Swiss Re Life & Health Australia Limited, of which the New Zealand Branch is a subset.

2013 Total

in thousands of New Zealand dollars

Net Assets	1,026,466
Regulatory adjustment applied in calculation of Tier 1 capital	(314,114)
<b>Tier 1 Capital:</b>	
Common Equity Tier 1 Capital	630,810
Additional Tier 1 Capital	81,542
Tier 2 Capital	-
<b>(a) Capital Base</b>	<b>712,352</b>
<b>Prescribed capital amount comprises:</b>	
Insurance Risk	306,519
Asset Risk	32,054
Asset Concentration Risk	-
Operational Risk	44,828
Aggregation Benefit	(24,071)
Combined scenario adjustment	136,726
<b>(b) Prescribed capital amount</b>	<b>496,056</b>
Capital in excess of prescribed capital	216,296
Amount = (a)-(b)	
Capital adequacy multiple (%)=(a)/(b)	144%

In 2013 the Australian Prudential Regulation Authority (APRA) introduced changes to its regulatory framework through Life and General Insurance Capital Implications (LAGIC). The solvency coverage of Swiss Re Life & Health Australia Limited at 31 December 2013 was 2.83 under the previous regulatory framework. The coverage/solvency ratios of the current and prior financial periods are not comparable.

## Notes to the Financial Statements

### 31 December 2013

#### 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, P J Twyman, M Ojeisekhoba, M Babbage

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: 4 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 7 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	2013	2012
Wages, bonuses and other short-term benefits	2,409	2,147
Post employment benefits	175	87
Long term benefits	166	50
Termination payments <sup>(1)</sup>	65	-
Share based payments	15	-
<b>Total</b>	<b>2,830</b>	<b>2,284</b>

<sup>(1)</sup> 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.

# Notes to the Financial Statements

## 31 December 2013

### 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	2013	2012
<b>Retrocession contracts with controlling entity – Swiss Reinsurance Company Ltd</b>		
Outwards reinsurance expense	8,665	5,530
Reinsurance recoveries	(6,488)	(5,128)
<b>Net reinsurance expense</b>	<b>2,177</b>	<b>402</b>
<b>Management and other expenses</b>		
Ultimate controlling entity – Swiss Re Ltd	486	406
Controlling entity – Swiss Reinsurance Company Ltd	1,392	196
Entity under common control	183	162
	<b>2,061</b>	<b>764</b>
<b>Investment management expense</b>		
Controlling entity	138	145

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 2013 had no open derivative financial instrument contracts (2012: nil).

#### Interest rate risk

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

**Notes to the Financial Statements**  
**31 December 2013**

**19 Financial instruments disclosure (continued)**

in thousands of New Zealand dollars	Floating interest rate	1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 years	Non <sup>(1)</sup> interest bearing	Total
<b>2013</b>									
<b>Assets</b>									
Cash	12,653	-	-	-	-	-	-	-	12,653
Receivables	-	-	-	-	-	-	-	31,773	31,773
Investments	1,070	32,879	25,350	7,991	10,418	-	29,111	-	106,819
<b>Total financial assets</b>	<b>13,723</b>	<b>32,879</b>	<b>25,350</b>	<b>7,991</b>	<b>10,418</b>	<b>-</b>	<b>29,111</b>	<b>31,773</b>	<b>151,245</b>
Weighted average interest rate %	2.50%	2.50%	6.0%	4.50%	6.0%	-	5.13%		
<b>Liabilities</b>									
Accounts payable	-	-	-	-	-	-	-	(10,453)	(10,453)
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(10,453)</b>	<b>(10,453)</b>
Weighted average interest rate %									
<b>Net financial assets</b>	<b>13,724</b>	<b>32,879</b>	<b>25,350</b>	<b>7,991</b>	<b>10,418</b>	<b>-</b>	<b>29,111</b>	<b>21,320</b>	<b>140,792</b>
<b>2012</b>									
<b>Assets</b>									
Cash	13,628	-	-	-	-	-	-	-	13,628
Receivables	-	-	-	-	-	-	-	14,476	14,476
Investments	3,074	52,774	-	45,968	-	11,067	27,597	-	140,480
<b>Total financial assets</b>	<b>16,702</b>	<b>52,774</b>	<b>-</b>	<b>45,968</b>	<b>-</b>	<b>11,067</b>	<b>27,597</b>	<b>14,476</b>	<b>168,584</b>
Weighted average interest rate %	2.50%	4.42%	-	5.36%	-	6.00%	5.52%		
<b>Liabilities</b>									
Accounts payable	-	-	-	-	-	-	-	(4,931)	(4,931)
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,931)</b>	<b>(4,931)</b>
Weighted average interest rate %									
<b>Net financial assets</b>	<b>16,702</b>	<b>52,774</b>	<b>-</b>	<b>45,968</b>	<b>-</b>	<b>11,067</b>	<b>27,597</b>	<b>9,545</b>	<b>163,653</b>

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

# Notes to the Financial Statements

## 31 December 2013

### 19 Financial instruments disclosure (continued)

in thousands of New Zealand dollars

2013

2012

Reconciliation of net financial assets to net assets per balance sheet		
Net financial assets	140,792	163,653
Net liabilities arising under reinsurance arrangements	(1,636)	(74,057)
Other assets/(liabilities)	(7,724)	(4,257)
<b>Net assets</b>	<b>131,432</b>	<b>85,339</b>

#### 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)	1,070	3,074
Debt security investments (AA)	105,749	137,406
<b>Total</b>	<b>106,819</b>	<b>140,480</b>

#### 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.

**Notes to the Financial Statements**  
**31 December 2013**

**20 Cash flow information**

in thousands of New Zealand dollars

2013

2012

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

<b>Net profit after tax</b>	<b>10,093</b>	<b>7,675</b>
<b>Add (less) items classified as investing activities:</b>		
Profit on sale of investments	(1,568)	(844)
Unrealised losses on investments	7,002	3,094
<b>Net cash provided by operating activities before change in assets and liabilities</b>	<b>15,527</b>	<b>9,925</b>
<b>Change in assets and liabilities excluding impact of foreign exchange revaluation:</b>		
Increase / (decrease) in deferred tax liability	1,139	6,983
(Increase) / decrease in receivables	(17,050)	(814)
Increase / (decrease) in net life insurance contract liabilities	(74,093)	(5,041)
Decrease / (increase) in other assets	2,082	125
(Decrease) / increase in creditors	7,193	(4,058)
<b>Net cash provided by operating activities</b>	<b>(65,202)</b>	<b>7,120</b>

**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.





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

## ***Report on the Financial Statements***

We have audited the financial statements of Swiss Re Life & Health Australia Limited New Zealand Branch ("the Branch") on pages 1 to 23, which comprise the balance sheet as at 31 December 2013, the statement of comprehensive income and statement of changes in equity and cash flow statement for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

## ***Directors' Responsibility for the Financial Statements***

The Directors of the 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 Branch.

---

**PricewaterhouseCoopers, ABN 52 780 433 757**

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### ***Opinion***

In our opinion, the financial statements on pages 1 to 23:

- (i) comply with generally accepted accounting practice in New Zealand; and
- (ii) give a true and fair view of the financial position of the Branch as at 31 December 2013, and its financial performance and cash flows for the year then ended.

### ***Restriction on Use of our Report***

This report is made solely to the Directors of the Branch, as a body. Our audit work has been undertaken so that we might state to the Directors of the 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 Branch, as a body, for our audit work, for this report or for the opinions we have formed.

A handwritten signature in black ink, appearing to read '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 2013. 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 2014 and an unqualified opinion was issued.

A handwritten signature in black ink, appearing to read 'SK Fergusson'.

SK Fergusson  
Partner

Sydney  
27 March 2014



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Chief Financial Officer  
Swiss Re Life & Health Australia Limited  
363 George Street  
Sydney NSW 2000  
Australia

27 March 2014

*Private and confidential*

## Swiss Re Life & Health Australia Limited – New Zealand Branch Appointed Actuary's Report as at 31 December 2013

This report is an Appointed Actuary's Report for Swiss Re Life and Health Australia Limited (SRLHA) detailing the review of actuarial information in the financial statements for the New Zealand branch business. This review is required under Section 77 of the Insurance (Prudential Supervision) Act 2010 of New Zealand (the 'Act').

This report has been prepared by Andrew Mead, Fellow of the Institute of Actuaries of Australia, and a consulting actuary and partner of Ernst & Young, in my capacity as the Appointed Actuary of SRLHA. I was appointed to the role of Appointed Actuary of SRLHA on 23 December 2013.

The date of the review is 31 December 2013.

The scope of my review is to opine on whether:

- The relevant actuarial information contained in the financial statements has been included appropriately.
- The relevant actuarial information used in the preparation of the financial statements has been used appropriately.
- The licensed insurer, SRLHA, is maintaining a solvency margin in accordance with the Section 59 exemption whereby it is required to comply with regulatory requirements in Australia.
- The Statutory Fund 2 of SRLHA, which contains the New Zealand business, is maintaining a solvency margin in accordance with the Section 59 exemption whereby it is required to comply with regulatory requirements in Australia.

The relevant actuarial information is specified in section 4.1.1 of the attachment to SRLHA's insurance licence from the Reserve Bank of New Zealand, dated 2 May 2013 (the 'licence') and includes the following items relating to the profit reporting:



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Appointed Actuary's Report  
Swiss Re Life & Health Australia Limited

Table 1: Summary of the New Zealand actuarial information used in preparation of the accounts (\$'000s of New Zealand dollars)	
	31 December 2013
<b>Assets</b>	
Reinsurance assets	30,932
<b>Liabilities</b>	
Policy liabilities	(11,236)
Incurred But Not Reported (IBNR)	35,888
Outstanding Claims reserve	12,644
Deferred tax assets	7,802
Deferred Acquisition Costs (DAC) or Deferred Fee Revenue	0
Unvested policyholder benefits liability	0

Note that the above is net of the retrocession agreement with Swiss Re Group

Section 4.1.1 (f) of the licence also requires a review of any other information deemed relevant by the Appointed Actuary to the profit or solvency reporting. The solvency requirement of the New Zealand business is prepared in line with the Australian requirements, in accordance with the Section 59 exemption, and these are detailed in APRA's Prudential Standards LPS 100: Solvency and LPS 110: Capital Adequacy. The financial statements report the full capital position of SRLHA's Statutory Fund 2, which contains the New Zealand business. Table 2 below summarises these results.

Table 2: Summary of the solvency reporting information for Statutory Fund 2 (\$'000s of New Zealand dollars)	
	31 December 2013
<b>Net Assets</b>	1,026,466
Regulatory adjustment applied in calculation of Tier 1 capital	(314,114)
<b>Tier 1 capital:</b>	
Common Equity Tier 1 Capital	630,810
Additional Tier 1 Capital	81,542
<b>Tier 2 Capital</b>	-
<b>(a) Capital Base</b>	712,352
<b>Prescribed Capital Amount comprises:</b>	
Insurance Risk	306,519
Asset Risk	32,054
Asset Concentration Risk	-
Operational Risk	44,828
Aggregation benefit	(24,071)
Combined scenario adjustment	136,726
<b>(b) Prescribed Capital Amount</b>	496,056
<b>Capital in excess of Prescribed Capital Amount = (a)-(b)</b>	216,296
<b>Capital adequacy multiple (%)=(a)/(b)</b>	144%

In conducting my review of the above actuarial information used in the profit and solvency reporting, I have:



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Appointed Actuary's Report  
Swiss Re Life & Health Australia Limited

- Reviewed that the financial statements contain the same results, as those I have determined and recommended to the SRLHA Board, of the valuation of the policy liabilities of SRLHA, which includes the New Zealand business, in accordance with APRA's Prudential Standard LPS 340: Valuation of Policy Liabilities.
- Reviewed that the financial statements contain the same results, as those I have determined and recommended to the SRLHA Board, of the calculation of the solvency and capital adequacy requirements of SRLHA, which includes the solvency requirement for the New Zealand business, in accordance with APRA's Prudential Standards LPS 100: Solvency, and LPS 110: Capital Adequacy.

The processes of valuing SRLHA's policy liabilities and calculating the solvency requirements for the New Zealand business require a number assumptions which impact the future premium income, claim payments, expenses and others items of cashflow. These assumptions are, by nature, uncertain and require judgement using past experience and future expected trends, with reference to the requirements of the above Prudential Standards. The information I have been supplied by SRLHA has been sufficient to set assumptions which, in aggregate, reflect the uncertainty of the SRLHA business and are compliant with the required Prudential Standards. As these assumptions are used for the calculation of policy liabilities and solvency requirement, I am satisfied that the actuarial information in the financial statements is consistent with the requirements of paragraph 77 (4).

The limitations of the my review are detailed in the reliances and limitations at the end of the report.

Also, as required by Section 78 (d) of the Act, I confirm that other than being the Appointed Actuary for SRLHA for which Ernst & Young receives professional fees in return for services provided, I have no other relationships with, or interests in, SRLHA.

In my opinion and from an actuarial perspective:

- The actuarial information contained in the financial statements (as detailed above) has been appropriately included.
- The actuarial information used in preparation of the financial statements has been used appropriately.
- The entity, SRLHA, is maintaining a solvency margin as at 31 December 2013 in accordance with the Section 59 exemption whereby it is required to comply with regulatory requirements in Australia.
- Statutory Fund 2 of SRLHA, which contains the New Zealand business, is maintaining a solvency margin as at 31 December 2013 in accordance with the Section 59 exemption whereby it is required to comply with regulatory requirements in Australia.

Andrew Mead  
Partner, Ernst & Young  
Appointed Actuary  
Swiss Re Life & Health Australia Limited

## Reliances and limitations

This report is subject to the following reliances, limitations and disclaimers:

- In providing my advice and representations, I have relied upon data and information supplied by SRLHA, both written and verbal, including, but not limited to:
  - Audited accounts of SRLHA for the period ended 31 December 2013.
  - Valuation of assets as at 31 December 2013.
  - Checking and reconciliation processes employed by SRLHA staff on the underlying policy and accounting data used in determining the policy liabilities.
  - Experience investigation results and analyses for the main drivers of SRLHA's business.
  - Information on the investment portfolio of SRLHA as at 31 December 2013.
  - Tax calculations for year ended at 31 December 2013.
  - Details of the retrocession arrangements in place and how they are administered.
- The report is designed to be read in its entirety. I am available to explain any matter presented in this report and I assume the user of the report will seek my explanation for any matter in question.
- This report has been written for use by SRLHA in order for SRLHA to meet the requirements of its licence to carry on insurance business in New Zealand and may be relied upon only by you for this purpose. The report is confidential and distribution or disclosure of the report, or the opinion and conclusion contained therein, to other parties apart from SRLHA, is expressly prohibited without Ernst & Young's prior written consent, and is subject to Ernst & Young providing a copy of the report in its entirety to each party and each party agreeing to be bound by these conditions and any other condition included in the written consent. The report and its conclusions must not be included in any document in full text or otherwise to be circulated to third parties, without Ernst & Young's prior written approval. A copy of this Report may be provided to the Reserve Bank of New Zealand.
- We disclaim all liability to any other party for all costs, loss, damage and liability that the other party may suffer or incur arising from or relating to or in any way connected with the contents of this report, the provision of this report to the other party or the reliance upon this report by the other party.

## Annual Report 2013

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

BUSINESS & REGISTRIES  
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## **Annual Report for the year ended 31 December 2013**

**Swiss Re Life & Health Australia Limited**

**ABN 74 000 218 306**

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

### **Offices**

#### **Sydney**

363 George Street

(Registered Office)

Telephone:

61 2 8295 9500

Facsimile:

61 2 8295 9803

#### **Auckland**

188 Quay Street

Telephone:

64 9 363 2700

Facsimile:

64 9 363 2727

### **Board of Directors**

D M Gonski, AC, BComm, LLB, FAICD, FCPA

M Senkevics, BE

M Babbage, BAppSc, MComm, GAICD

D P Fox, BA, FIA, FIAA, GAICD

M I Ojeisekhoba, BSc, MSc

P J Twyman, BSc, MBA, FAICD

Chairman

Chief Executive Officer



## Directors' Report

The Directors present their report together with the financial statements of Swiss Re Life & Health Australia Limited (the Company) for the year ended 31 December 2013.

The Directors of the Company who have been in office through the year and up to the date of this report are:

D P Fox, D M Gonski, M Senkevics, P J Twyman, M Ojeisekhoba, M Babbage

### 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 \$675m of share capital was issued to Swiss Re Australia Ltd. This share capital supported new business opportunities and strengthened the Company's capital base which had been impacted by reserve strengthening.

The Company also made an application to the Australian Prudential Regulatory Authority (APRA) to restructure its statutory fund during the year. The purpose of the restructure was to separate the current statutory fund into separate statutory funds including respectively the reinsurance business and the non-reinsurance business of the Company, with an effective date of 31 December 2013.

### Review of operations

2013 proved to be the most challenging year for the Life Insurance sector in recent memory. Elevated claims rates driven by a broad range of factors and increasing lapse experience have severely impacted industry profitability and this has been felt in a pronounced fashion in the reinsurance market.

Swiss Re Life & Health Australia Limited has not been immune to these issues which is reflected in our FY 2013 result of an after tax loss of \$137.3m. The result reflects the recent trends, particularly in Group Life Insurance, which saw significant reserve strengthening on Swiss Re's Group Risk portfolio.

As noted above, our parent provided immediate capital to support these impairments, maintaining a strong level of capitalization for the Company. The Company had a capital adequacy multiple of 145% as at 31 December 2013. This places Swiss Re Life & Health Australia Limited in a very strong position to support our existing claims liabilities as well as to underpin the sustainable growth of our clients into the future.

In a difficult year there have been a number of positive developments for the business including our selective expansion into the retail sector and our support for a capital based transaction for a major client. These successful transactions represented a steadfast focus on our strategy to diversify our portfolio by growing in Retail business as well as providing reinsurance capital support for our clients.

On 19<sup>th</sup> December 2013, Swiss Re celebrated its 150 year anniversary and this remarkable milestone continues to be celebrated in the major cities around the world with our Sydney event being held on 17<sup>th</sup> March 2014. Reinsurance is a long term proposition and 150 years of history and reinforces that our business is one of longevity.

Finally, on behalf of the Board of Swiss Re Life & Health Australia, we would like to acknowledge and thank the Swiss Re Australia team for their hard work and valuable contribution in dealing with the challenges of 2013.

## Directors' Report

### Operating result

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

in thousands of Australian dollars	2013	2012
Gross insurance premium revenue	1,206,281	960,833
Investment and other revenue	39,543	84,758
Net (loss)/profit before income tax	(241,997)	93,753
Income tax benefit/(expense)	104,640	(33,237)
<b>Net (loss)/profit after income tax</b>	<b>(137,357)</b>	<b>60,516</b>

Premium revenue has increased by 25.5% (2012: 10.2% increase). The Company has written significant volumes of new business across both group and retail lines of business.

Net investment revenues decreased by \$45.2m compared to the previous year. This has largely been driven by mark-to-market losses on the debt security portfolio of -\$25.7m (2012: +\$18.4m), reflecting changes in interest rates in 2013. The Company's equity portfolio delivered a mark-to-market adjustment of \$5.0m (2012: \$4.4m), which was in line with returns on the ASX200 index.

Loss before tax of -\$241.9m has been driven by significant reserve strengthening on group life business during the year. This strengthening reflects the industry wide issues experienced in recent quarters.

### Financial position

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

in thousands of Australian dollars	2013	2012
Total assets	2,978,499	1,851,074
Total liabilities	1,994,534	1,416,913
<b>Net assets</b>	<b>983,965</b>	<b>434,161</b>

The Company had a capital adequacy multiple of 145% as at 31 December 2013.

### Outlook for the future

Swiss Re operates in all major segments of the Life Insurance market in Australia including Group Risk, Retail (Individual Advice) and Direct. Our strategy also focuses on providing Swiss Re's clients with transactional solutions offering reinsurance capital - creating alternatives to traditional equity or debt capital.

The life insurance sector in Australia and New Zealand is undergoing major cyclical change and structural reform which is impacting profitability across the market. Group Risk insurance, in particular, has witnessed substantial losses, through an increase in claims frequency partially facilitated by the involvement of plaintiff lawyers. The Retail segment has also been impacted by increased claims and poor lapse experience.

As we look to the future, it's clear that the Group Risk market is embarking on a major round of change with price increases, benefit change and other notable shifts already underway. Swiss Re has invested heavily in understanding and adjusting to these changes and will continue with this project into 2014. There is no question that the Group Insurance offering provides a valuable social solution to the working population and their families and as a result we are working with our clients to build a sustainable offering which offers value to the membership of Superannuation Funds.

## Directors' Report

Aside from Group Insurance, there are a number of Government and Regulatory changes on the horizon, which will play out in 2014. These include the introduction of FOFA, the continuing roll-out of My Super and the continuation of regulatory reform including an increased focus on risk culture,

Given these substantial issues, our strategy has required a review which takes account of the shifts in the market and their subsequent impact on profitability. Our strategic imperatives include:

- Group Risk – review, understand and influence market change
- Retail and Direct – selectively engage with clients on opportunities
- Transactions – support clients with capital solutions

### Dividend

There were no dividends declared or paid on ordinary shares during 2013 (2012: nil).

### Events subsequent to balance date

Other than as mentioned elsewhere in this report, there has not arisen between balance date and the date of this report any item, transaction or event of a material and unusual nature likely to 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.

## Directors' Report

### 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 2014



## Auditor's Independence Declaration

As lead auditor for the audit of Swiss Re Life & Health Australia Limited for the year ended 31 December 2013, 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.

A handwritten signature in black ink, appearing to read 'S K Fergusson'.

S K Fergusson  
Partner  
PricewaterhouseCoopers

Sydney  
27 March 2014

## Statement of Comprehensive Income for the year ended 31 December 2013

in thousands of Australian dollars	Notes	2013	2012
<b>Revenue</b>			
Premium revenue from life insurance contracts		1,206,281	960,833
Premium revenue ceded to reinsurers		(424,011)	(351,832)
Net premium revenue		<b>782,270</b>	<b>609,001</b>
Investment revenue	6	34,127	78,241
Other revenue	7	5,416	6,517
<b>Net revenue</b>		<b>821,813</b>	<b>693,759</b>
<b>Expenses</b>			
Claims expense on life insurance contracts	8	693,194	549,296
Claims recovered from reinsurers		(517,920)	(322,545)
Net claims expense		<b>175,274</b>	<b>226,751</b>
Increase in net life insurance contract liabilities	16(a)	581,007	195,878
Other expenses	9	307,529	177,377
<b>Net claims and expenses</b>		<b>1,063,810</b>	<b>600,006</b>
<b>Net (loss)/profit before tax</b>		<b>(241,997)</b>	<b>93,753</b>
Income tax credit/(expense)	11	104,640	(33,237)
<b>Net (loss)/profit after tax</b>	<b>5</b>	<b>(137,357)</b>	<b>60,516</b>
<b>Other comprehensive income</b>			
Net movement in foreign currency translation reserve		12,161	2,584
Income tax relating to other comprehensive income		-	-
<b>Total comprehensive (loss)/income for the year</b>		<b>(125,196)</b>	<b>63,100</b>

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

## Balance Sheet as at 31 December 2013

in thousands of Australian dollars

	Notes	2013	2012
<b>Assets</b>			
Cash and cash equivalents		543,572	110,767
Deposits	12	41,028	51,818
Debt securities	12	1,896,360	1,448,682
Equity securities	12	39,440	34,399
Receivables	13	348,213	201,678
Other assets	14	70	1,716
Deferred tax assets	11	109,816	2,014
<b>Total assets</b>		<b>2,978,499</b>	<b>1,851,074</b>
<b>Liabilities</b>			
Creditors	15	136,453	139,348
Provisions	18	-	26,423
Life insurance contract liabilities assumed under reinsurance	16	1,826,147	1,224,419
Life insurance contract liabilities ceded under reinsurance	16	24,758	21,428
Deferred tax liabilities	11	7,176	5,295
<b>Total liabilities</b>		<b>1,994,534</b>	<b>1,416,913</b>
<b>Net assets</b>		<b>983,965</b>	<b>434,161</b>
<b>Equity</b>			
Contributed equity	19	880,000	205,000
Foreign currency translation reserve		8,705	(3,456)
Retained earnings		95,260	232,617
<b>Total equity</b>		<b>983,965</b>	<b>434,161</b>

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

## Statement of Changes in Equity for the year ended 31 December 2013

in thousands of Australian dollars	Notes	Contributed Equity	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
<b>Balance at 1 January 2013</b>		<b>205,000</b>	<b>(3,456)</b>	<b>232,617</b>	<b>434,161</b>
Net loss after tax	5	-	-	(137,357)	(137,357)
Other comprehensive income		-	12,161	-	12,161
Dividends paid		-	-	-	-
Issue of ordinary shares	19	675,000	-	-	675,000
Redemption of preference shares	19	-	-	-	-
<b>Balance at 31 December 2013</b>		<b>880,000</b>	<b>8,705</b>	<b>95,260</b>	<b>983,965</b>

in thousands of Australian dollars	Notes	Contributed Equity	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
<b>Balance at 1 January 2012</b>		<b>155,000</b>	<b>(6,040)</b>	<b>172,101</b>	<b>321,061</b>
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)
<b>Balance at 31 December 2012</b>		<b>205,000</b>	<b>(3,456)</b>	<b>232,617</b>	<b>434,161</b>

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 2013

in thousands of Australian dollars	Notes	2013	2012
<b>Cash flows from operating activities:</b>			
Premiums received		1,116,545	940,040
Retrocession premiums paid		(403,438)	(358,805)
Interest received		56,820	56,742
Dividends received		1,240	2,633
Claim payments and other expense payments		(967,911)	(729,944)
Retrocession recoveries received		463,272	333,645
Income tax (paid)/refund net		(26,634)	11,444
<b>Net cash provided by operating activities</b>	<b>24</b>	<b>239,894</b>	<b>255,755</b>
<b>Cash flows from investing activities:</b>			
Net payments to acquire investments		(482,124)	(292,286)
<b>Net cash used in investing activities</b>		<b>(482,124)</b>	<b>(292,286)</b>
<b>Cash flows from financing activities:</b>			
Issue of ordinary share capital		675,000	120,000
Redemption of preference shares		-	(70,000)
<b>Net cash provided by financing activities</b>		<b>675,000</b>	<b>50,000</b>
<b>Net increase in cash held</b>		<b>432,770</b>	<b>13,469</b>
Cash at the beginning of financial year		110,767	97,294
Effect of foreign exchange rate changes		35	4
<b>Cash at the end of financial year</b>		<b>543,572</b>	<b>110,767</b>

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

# Notes to the Financial Statements

## 31 December 2013

### 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 statutory funds in accordance with the requirements of the Life Insurance Act 1995. This report presents the operation of the statutory funds in aggregate with the shareholders fund of the Company. The operations within the statutory funds comprise the insurance and reinsurance of life insurance 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 340 *Valuation of Policy Liabilities*.

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

## Notes to the Financial Statements

### 31 December 2013

#### 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. There are no life investment contracts in force at balance date.

#### 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 340 *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.

## Notes to the Financial Statements

### 31 December 2013

#### j) Assets backing life insurance and life investment contracts

The Company has determined that all investment assets held within its statutory funds 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.

## Notes to the Financial Statements

### 31 December 2013

#### 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 2013. 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 2017)
- AASB 2012-3 Amendments to Australian Accounting Standard – Offsetting Financial Assets and Financial Liabilities (effective 1 January 2014)
- AASB 2013-3 Amendments to AASB 136 Recoverable Amount Disclosures for Non-Financial Assets (effective 1 January 2014)

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.

#### r) Changes in accounting policy and transition

The Company had to change some of its accounting policies as a result of new and revised accounting standards which became effective for the annual reporting period commencing on 1 July 2013. The affected policies are: Determining fair value – AASB 13 *Fair Value Measurement*.

AASB 13 *Fair Value Measurement* aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Australian Accounting Standards. The standard does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other Australian Accounting Standards. Life insurance contracts as defined by AASB 1038 *Life Insurance Contracts* are excluded from the scope of AASB 13. The change in accounting policy did not have a material impact on the company's results or financial position.

## 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.

## Notes to the Financial Statements

### 31 December 2013

#### *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 2013 has been prepared by the Appointed Actuary, Mr Andrew Mead, BEc, FIAA and dated 27 March 2014. 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 340 *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:

<b><i>Product Group:</i></b>	<b><i>Method:</i></b>
Traditional non-participating life & disability business; 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; and Group life and salary continuance insurance	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 2013 for Australia 2.51% to 5.18% (2012: 2.68% to 4.17%) or New Zealand 3.22% to 5.28% (2012: 2.57% to 3.84%), depending on the currency in which the liabilities are denominated.

# Notes to the Financial Statements

## 31 December 2013

### 3 Actuarial methods and assumptions (continued)

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.

#### (iii) Inflation rates

Allowance for future inflation:	- Australia	3.0%	(2012: 3.0%)
	- New Zealand	3.0%	(2012: 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 6.0% (2012: 0.45% to 8.28%)

Expenses have been assumed at levels consistent with the planned expenses in 2014.

#### (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 (2012: 62%-90% of IA95-97m) and 83%-420% of ALT90-92 for non traditional sales channels (2012: 88%-443% of ALT90-92)
Females:	62%-91% of IA95-97f for traditional sales channels (2012: 62%-91% of IA95-97f) and 102%-411% of ALT90-92 for non traditional sales channels (2012: 108%-433% of ALT90-92)

##### Morbidity

Incidence	between 67% -200 % (2012: 67% -200 %) of IAD 89 - 93 morbidity table
Termination	between 42% - 145% (2012: 40% - 150% ) 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      5.0% - 55% (2012: 4.0% - 40%)

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

# Notes to the Financial Statements

## 31 December 2013

### 3 Actuarial methods and assumptions (continued)

#### (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 (2012: 0.11%).

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)
<b>Assumption Change</b>		
Discount rates	(35,430)	(39,810)
Expense	(110,272)	14,964
Mortality	19,158	7,500
Morbidity	(8,248)	262,826
Discontinuance rates	(57,589)	(625)
<b>Total effect of changes</b>	<b>(192,381)</b>	<b>244,855</b>
Amount at 31 December 2013 under old assumptions	583,865	1,606,048
<b>Amount reported</b>	<b>391,484</b>	<b>1,850,903</b>

#### Sensitivity analysis

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

Variable	Impact of movement in underlying variable
Interest Rate Risk	<p>A decrease in the rate of interest would:</p> <ul style="list-style-type: none"> <li>(i) decrease the investment income from the Company's floating rate interest bearing securities;</li> <li>(ii) have a positive impact on the value of the Company's investments.</li> </ul> <p>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.</p>
Mortality rates	For insurance contracts providing death benefits, increased mortality rates would lead to higher levels of claims occurring sooner than anticipated, increasing associated claims cost and therefore reducing profit and shareholder equity.
Morbidity rates	The cost of health-related claims depends on both the incidence of policyholders becoming ill and the duration which they remain ill. Higher than expected incidence or duration would increase claim costs, reducing profit and shareholders equity.
Discontinuance	An increase in discontinuance rates at earlier durations of life insurance contracts usually has a negative effect on performance and net assets. However, due to the interplay between the factors, there is not always an adverse outcome from an increase in discontinuance rates. The impact also depends on factors such as the type of contract.



# Notes to the Financial Statements

## 31 December 2013

### 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 <sup>(1)</sup>	Profit after tax / Equity
<b>Gross</b>				
		1,826,147	2,520,400	983,965
ASX 200	+10%	-	3,944	2,761
	-10%	-	(3,944)	(2,761)
Risk free bonds rates	+1%	(24,802)	(33,003)	(5,741)
	-1%	24,553	29,106	3,187
Mortality	+10%	22,957	-	(16,070)
	-10%	-	-	-
Disability claims incidence	+10%	37,635	-	(26,344)
	-10%	(21,092)	-	14,764
Disability claims termination	+10%	(48,444)	-	33,911
	-10%	55,813	-	(39,069)
<b>Net</b>				
		1,850,905	2,520,400	983,965
ASX 200	+10%	-	3,944	2,761
	-10%	-	(3,944)	(2,761)
Risk free bonds rates	+1%	(28,311)	(33,003)	(3,285)
	-1%	28,731	29,106	262
Mortality	+10%	21,020	-	(14,714)
	-10%	-	-	-
Disability claims incidence	+10%	37,635	37,635	-
	-10%	(21,092)	(21,092)	-
Disability claims termination	+10%	(48,444)	(48,444)	-
	-10%	55,813	55,813	-

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

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

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

## Notes to the Financial Statements

### 31 December 2013

#### 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 Board 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 underwriting standards 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. Terms of Trade set out the costing framework, including assumptions, for products in a specific market in line with overarching Chief Pricing Office standards on economic costing and pricing. 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. As a result of the very poor experience in 2013 for group risk business, the Company established a new monitoring process in 2014 for large group schemes, to provide earlier indications of the emerging experience.

**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 (LPS 110 *Capital Adequacy Standard*) requires a company to maintain sufficient capital to withstand a number of asset and liability shock scenarios. The Company maintains a target level of capital in excess of the minimum requirement which further mitigates risk exposures.

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

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

**Asset management:** The Company maintains an investment portfolio to support policyholder liabilities. Investment guidelines are in place that set clear parameters for the selection of assets, with respect to the types of assets that are permitted, the amount of the portfolio that can be committed to a particular asset class or counterparty and the amount of liquidity that needs to be maintained. 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.

# Notes to the Financial Statements

## 31 December 2013

in thousands of Australian dollars

2013

2012

### 5 Components of profit

#### Components of profit related to movement in life insurance contracts:

Planned margins of revenues over expenses released	29,232	23,106
Difference between actual and assumed experience	(172,603)	29,575
Reversal/(capitalisation) of expected future losses	(2,314)	11,056
Retrocession recovery/(payment) relating to loss recognition	2,314	(11,056)
	<b>(143,371)</b>	<b>52,681</b>

#### Other components:

Investment earnings on assets in excess of policy liabilities	5,746	7,476
Profit from Shareholders' fund	268	359

<b>Net (loss)/profit after tax</b>	<b>(137,357)</b>	<b>60,516</b>
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### 6 Investment revenue

#### Revenue derived from:

Equity securities	1,240	2,633
Debt securities and deposits	53,555	52,781
	<b>54,795</b>	<b>55,414</b>

#### Realised and unrealised gains (losses) derived from:

Equity securities	5,041	4,446
Debt securities and deposits	(25,709)	18,381
	<b>(20,668)</b>	<b>22,827</b>

<b>Total investment revenue</b>	<b>34,127</b>	<b>78,241</b>
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### 7 Other revenue

Interest on cash and cedant balances	5,416	6,517
	<b>5,416</b>	<b>6,517</b>

### 8 Claims expense on life insurance contracts

Death and disability claims	692,853	554,332
Maturities, surrenders and terminations	341	(5,036)
<b>Claims expense on life insurance contracts</b>	<b>693,194</b>	<b>549,296</b>

### 9 Other expenses

#### Comprises the following expenses:

Policy acquisition expenses		
Commission <sup>(1)</sup>	97,022	28,030
Other	8,857	5,733
Policy maintenance expenses		
Commission	157,136	118,247
Other	42,436	23,867
Investment management expenses	2,078	1,500
	<b>307,529</b>	<b>177,377</b>

<sup>(1)</sup> Includes commission on a large treaty entered into in 2013.

### 10 Auditors' remuneration

Amounts received or due and receivable by auditors of the Company, including non-recoverable GST, for:

Audit of the financial statements	446	443
	<b>446</b>	<b>443</b>

# Notes to the Financial Statements

## 31 December 2013

### 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% (2012: 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	2013	2012
<b>Reconciliation between net (loss)/profit before tax and tax expense</b>		
Net (loss)/profit before tax	(241,997)	93,753
Tax at the Australian standard tax rate of 30% (2012:30%)	(72,599)	28,126
Difference in New Zealand tax rate	(238)	(244)
Tax effect of non-assessable income	(32,094)	779
Tax offset for franked dividends	(173)	(157)
Under/(Over) provision from previous year	464	(816)
Deferred tax liability on New Zealand acquisition costs <sup>(2)</sup>	-	5,549
<b>Tax (benefit)/charge for the year</b>	<b>(104,640)</b>	<b>33,237</b>
<b>Income tax expense</b>		
Current tax expense	1,769	27,520
Deferred tax (benefit)/expense	(106,873)	6,533
Under/(Over) provision from previous year	464	(816)
<b>Total tax (benefit)/expense</b>	<b>(104,640)</b>	<b>33,237</b>
<b>Current income tax (liability) asset</b>		
Opening balance	(24,707)	13,373
Foreign exchange adjustment	300	68
(Under)/Over provision from previous year	(371)	816
Current component of income tax expense	(1,769)	(27,520)
Tax refunds received during current year	(6,637)	(11,444)
Tax paid during current year	33,254	-
<b>Closing balance</b>	<b>70</b>	<b>(24,707)</b>

The closing balance is disclosed as tax amounts paid in advance (refer note 14).

## Notes to the Financial Statements

### 31 December 2013

in thousands of Australian dollars

2013

2012

#### 11 Income Tax (continued)

<b>Analysis of deferred tax asset</b>		
Amounts recognised in income:		
Unrealised investment gains	(1,325)	(2,651)
Reinsurance balances	2,295	4,665
Tax losses <sup>(3)</sup>	108,846	-
<b>Closing deferred tax asset<sup>(1)</sup></b>	<b>109,816</b>	<b>2,014</b>
<b>Analysis of deferred tax liability</b>		
Amounts recognised in income:		
Reinsurance balances	193	254
Deferred tax liability on New Zealand acquisition costs <sup>(2)</sup>	(7,369)	(5,549)
<b>Closing deferred tax liability<sup>(1)</sup></b>	<b>(7,176)</b>	<b>(5,295)</b>

<sup>(1)</sup> The closing balances are disclosed as a separate deferred tax asset and deferred tax liability on the balance sheet to reflect jurisdictional allocation.

<sup>(2)</sup> In the prior year, a deferred tax liability was raised to reflect the temporary difference associated with the timing of the deduction for acquisition costs in New Zealand. The future tax liability for such business was implicit within the associated life insurance contract liability. In the prior year, the recognition of the deferred tax liability resulted in a corresponding reduction in policy liabilities.

<sup>(3)</sup> A deferred tax asset has been booked in respect of current year losses. The recoverability of this loss has been assessed in the context of *AASB 112 Income Taxes*. It has been determined that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

#### 12 Investments

Deposits	41,028	51,818
Equities held indirectly by unit trusts (Level 1)	39,440	34,399
Debt securities:		
National government (Level 2)	1,576,903	1,299,821
Private sector (Level 2)	319,457	148,861
	<b>1,896,360</b>	<b>1,448,682</b>
<b>Total investment assets</b>	<b>1,976,828</b>	<b>1,534,899</b>
Balance maturing within 12 months	1,246,867	785,672

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.

The Company has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period.

There were no transfers between levels 1 and 2 for recurring fair value measurements during the year. The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

# Notes to the Financial Statements

## 31 December 2013

	in thousands of Australian dollars	2013	2012
<b>13</b>	<b>Receivables</b>		
	Outstanding premiums	277,551	187,815
	Amounts due from cedants and retrocessionaires	6,813	3,957
	Amounts due from related parties	52,438	646
	Investment income accrued and receivable	11,411	9,260
		<b>348,213</b>	<b>201,678</b>
<b>14</b>	<b>Other assets</b>		
	Tax amounts paid in advance (Refer to note 11)	70	1,716
<b>15</b>	<b>Creditors</b>		
	Reinsurance claims payable	99,849	87,198
	Amounts due to cedants and retrocessionaires	12,197	9,552
	Amounts due to related parties	23,139	2,566
	Settlements on debt securities	-	39,752
	Other creditors	1,268	280
		<b>136,453</b>	<b>139,348</b>
<b>16</b>	<b>Life insurance contract liabilities</b>		
<b>16(a)</b>	<b>Reconciliation of movements in life insurance contract liabilities</b>		
	<b>Liabilities assumed under reinsurance</b>		
	Opening balance at 1 January	1,224,419	1,007,766
	Net increase reflected in the income statement	577,642	214,362
	Portfolio transfer	20,138	-
	Foreign exchange adjustment	3,948	2,291
	Closing balance at 31 December	<b>1,826,147</b>	<b>1,224,419</b>
	<b>Liabilities ceded under reinsurance</b>		
	Opening balance at 1 January	21,428	39,900
	Net increase/(decrease) reflected in the income statement	3,365	(18,484)
	Foreign exchange adjustment	(35)	12
	Closing balance at 31 December	<b>24,758</b>	<b>21,428</b>
	<b>Net life insurance contract liabilities at 31 December</b>	<b>1,850,905</b>	<b>1,245,847</b>
<b>16(b)</b>	<b>Components of net life insurance contract liabilities</b>		
	Future policy benefits	5,647,641	4,566,824
	Future expenses	1,059,447	1,047,386
	Planned margins of future revenues over expenses	391,483	441,719
	Future charges for acquisition costs	(406,398)	(289,425)
	Balance of future revenues	(4,841,268)	(4,520,657)
	<b>Total net life insurance contract liabilities</b>	<b>1,850,905</b>	<b>1,245,847</b>
	Future policy benefits expected to be realised within 12 months	910,570	641,840

## Notes to the Financial Statements

### 31 December 2013

#### 17 Solvency

Under the Life Insurance Act 1995 (the Life Act) life insurers are required to hold reserves in excess of policyholder liabilities. These additional reserves are necessary to support the life insurer's capital requirements under its business plan and to provide a cushion against adverse experience in managing long term risks. The Australian Prudential Regulation Authority (APRA) has issued Life Prudential Standard (LPS) 110 'Capital Adequacy' for determining the level of capital reserves. LPS 110 prescribes the minimum capital requirement for each statutory fund and the minimum level of assets required to be held in each statutory fund.

The figures in the table below represent the ratio for each statutory fund of the assets available for capital over the minimum regulatory capital requirement.

2013	SRLHA Statutory Fund <sup>(1)</sup>	SRLHA Statutory Fund No.2 <sup>(1)</sup>	Total
in thousands of Australian dollars			
Net Assets	25,901	944,112	970,013
Regulatory adjustment applied in calculation of Tier 1 capital	(2,633)	(288,912)	(291,545)
Tier 1 Capital:			
Common Equity Tier 1 Capital	23,268	580,200	603,468
Additional Tier 1 Capital	-	75,000	75,000
Tier 2 Capital	-	-	-
<b>(a) Capital Base</b>	<b>23,268</b>	<b>655,200</b>	<b>678,468</b>
Prescribed capital amount comprises:			
Insurance Risk	7,975	281,927	289,902
Asset Risk	288	29,482	29,770
Asset Concentration Risk	-	-	-
Operational Risk	1,217	41,231	42,448
Aggregation Benefit	(225)	(22,140)	(22,365)
Combined scenario adjustment	3,444	125,756	129,200
<b>(b) Prescribed capital amount</b>	<b>12,699</b>	<b>456,256</b>	<b>468,955</b>
Capital in excess of prescribed capital amount = (a)-(b)	10,569	198,944	209,513
Capital adequacy multiple (%)=(a)/(b)	183%	144%	145%

In 2013 the Australian Prudential Regulation Authority (APRA) introduced changes to its regulatory framework through Life and General Insurance Capital Implications (LAGIC). The solvency coverage of the Company at 31 December 2013 was 2.83 under the previous regulatory framework. The coverage/solvency ratios of the current and prior financial periods are not comparable.

<sup>(1)</sup>Swiss Re Life and Health Australia Limited has been abbreviated to SRLHA.

## Notes to the Financial Statements

### 31 December 2013

in thousands of Australian dollars

2013

2012

#### 18 Provisions

Income Tax (Refer to note 11)	-	26,423
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#### 19 Contributed Equity

##### Share capital

26,326,053 Ordinary shares (2012: 5,070,000)	805,000	130,000
75,000 Redeemable preference shares (2012: 75,000)	75,000	75,000
	<b>880,000</b>	<b>205,000</b>

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 the Company issued 21,256,053 ordinary shares to Swiss Re Australia Ltd for a consideration of \$675m. This share capital supported new business opportunities and strengthened the Company's capital base which had been impacted by reserve strengthening.



# Notes to the Financial Statements

## 31 December 2013

### 20 Segment information

#### Primary – Business segments

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

#### Secondary – Geographic segments

Australia                      Overseas                      Total

in thousands of Australian dollars

#### 2013

Premium revenue from life insurance contracts	1,143,709	62,572	1,206,281
Segment net (loss)/profit before tax	(253,914)	11,917	(241,997)
Segment total assets	2,846,358	132,141	2,978,499

#### 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

#### Disaggregated information by fund

During the year, the Company made an application to the Australian Prudential Regulatory Authority (APRA) to restructure its statutory fund. The purpose of the restructure was to separate the current statutory fund into separate statutory funds reflecting respectively the reinsurance business and the non-reinsurance business of the Company, with an effective date of 31 December 2013. The disaggregated financial statements of the two Statutory Funds and Shareholder's fund can be summarised as follows;

Statutory                      Statutory                      Shareholder's

Fund 1                      Fund 2                      Fund

in thousands of Australian dollars

#### 2013

Premium revenue from life insurance contracts	-	1,206,281	-
Total revenue	-	821,430	383
Net (loss)/profit before tax	-	(242,380)	383
Net (loss)/profit after tax	-	(137,625)	268
Total assets	56,135	2,908,410	13,954
Net assets	25,901	944,110	13,954

#### 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

## Notes to the Financial Statements

### 31 December 2013

#### 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, P J Twyman, M Ojeisekhoba, M Babbage  
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: 4 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 7 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	2013	2012
Wages, bonuses and other short-term benefits	2,024	1,706
Post employment benefits	147	69
Long term benefits	140	40
Termination payments <sup>(1)</sup>	55	-
Share based payments	12	-
<b>Total</b>	<b>2,378</b>	<b>1,815</b>

<sup>(1)</sup> Termination payments are statutory entitlements on resignation

## Notes to the Financial Statements

### 31 December 2013

#### 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	2013	2012
<b>Retrocession contracts with controlling entity – Swiss Reinsurance Company Ltd</b>		
Outwards reinsurance expense	424,010	350,891
Commission recoveries	(2,293)	(683)
Reinsurance recoveries	(516,286)	(320,049)
Movement in life insurance contract liabilities	3,377	(17,248)
<b>Net reinsurance (recovery)/expense</b>	<b>(91,192)</b>	<b>12,911</b>
<b>Management and other expenses</b>		
Ultimate Controlling entity – Swiss Re Ltd	6,506	5,357
Controlling entity <sup>(1)</sup> – Swiss Reinsurance Company Ltd	41,754	22,424
Entity under common control	2,227	1,854
	<b>50,487</b>	<b>29,635</b>
<b>Investment management expense</b>		
Controlling entity	1,825	1,420
	<b>1,825</b>	<b>1,420</b>
<b>Contributed equity transactions with immediate controlling entity – Swiss Re Australia Ltd</b>		
Issue of share capital	675,000	120,000
Redemption of preference shares	-	(70,000)
	<b>675,000</b>	<b>50,000</b>

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

<sup>(1)</sup> 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 2013 had no open derivative financial instrument contracts (2012: nil).

##### Interest rate risk

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

**Notes to the Financial Statements**  
**31 December 2013**

**23 Financial instruments disclosure (continued)**

in thousands of Australian dollars	Floating interest rate	1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 years	Non <sup>(1)</sup> interest bearing	Total
<b>2013</b>									
<b>Assets</b>									
Cash	543,572	-	-	-	-	-	-	-	543,572
Receivables	-	-	-	-	-	-	-	348,213	348,213
Investments	41,028	1,205,839	183,108	115,674	85,481	10,469	295,789	39,440	1,976,828
<b>Total financial assets</b>	<b>584,600</b>	<b>1,205,839</b>	<b>183,108</b>	<b>115,674</b>	<b>85,481</b>	<b>10,469</b>	<b>295,789</b>	<b>387,653</b>	<b>2,868,613</b>
Weighted average interest rate %	2.44%	3.69%	5.39%	5.87%	4.58%	4.68%	3.35%		
<b>Liabilities</b>									
Accounts payable	-	-	-	-	-	-	-	(36,489)	(36,489)
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(36,489)</b>	<b>(36,489)</b>
Weighted average interest rate %									
<b>Net financial assets</b>	<b>584,600</b>	<b>1,205,839</b>	<b>183,108</b>	<b>115,674</b>	<b>85,481</b>	<b>10,469</b>	<b>295,789</b>	<b>351,164</b>	<b>2,832,124</b>
<b>2012</b>									
<b>Assets</b>									
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
<b>Total financial assets</b>	<b>162,585</b>	<b>652,490</b>	<b>72,192</b>	<b>215,071</b>	<b>121,408</b>	<b>70,706</b>	<b>316,815</b>	<b>236,077</b>	<b>1,847,344</b>
Weighted average interest rate %	2.64%	3.06%	5.01%	4.71%	5.53%	5.12%	4.06%		
<b>Liabilities</b>									
Accounts payable	-	-	-	-	-	-	-	(52,149)	(52,149)
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(52,149)</b>	<b>(52,149)</b>
Weighted average interest rate %									
<b>Net financial assets</b>	<b>162,585</b>	<b>652,490</b>	<b>72,192</b>	<b>215,071</b>	<b>121,408</b>	<b>70,706</b>	<b>316,815</b>	<b>183,928</b>	<b>1,795,195</b>

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

# Notes to the Financial Statements

## 31 December 2013

### 23 Financial instruments disclosure (continued)

in thousands of Australian dollars

2013

2012

Reconciliation of net financial assets to net assets per balance sheet		
Net financial assets	2,832,124	1,795,195
Net liabilities arising under reinsurance arrangements	(1,950,754)	(1,333,045)
Other assets/(liabilities)	102,595	(27,989)
<b>Net assets</b>	<b>983,965</b>	<b>434,161</b>

#### 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	1,411,049	1,261,677
AA	881,936	245,773
A	163,539	84,740
BBB	24,436	19,077
<b>Total</b>	<b>2,480,960</b>	<b>1,611,267</b>
Current investment assets	1,790,439	785,672
Non-current investment assets	690,521	825,595
<b>Total</b>	<b>2,480,960</b>	<b>1,611,267</b>

#### 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 \$12.1m (2012: \$6.8m). A 10% weakening of the Australian dollar against the New Zealand dollar would have had the equal but opposite effect to these amounts.

## Notes to the Financial Statements

### 31 December 2013

#### 24 Cash flow information

in thousands of Australian dollars

2013

2012

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

Net (loss)/profit after tax	(137,357)	60,516
Add (less) items classified as investing activities:		
Profit on sale of investments	(9,730)	(24,653)
Unrealised losses on investments	30,398	1,826
<b>Net cash provided by operating activities before change in assets and liabilities</b>	<b>(116,689)</b>	<b>37,689</b>
Change in assets and liabilities excluding impact of foreign exchange revaluation:		
(Increase) / decrease in deferred tax	(106,781)	6,533
(Increase) / decrease in receivables	(146,535)	(12,354)
Increase / (decrease) in net life insurance contract liabilities	601,146	195,878
Decrease / (increase) in other assets	1,646	11,657
(Decrease) / increase in creditors	33,530	(10,071)
Increase / (decrease) in provisions	(26,423)	26,423
<b>Net cash provided by operating activities</b>	<b>239,894</b>	<b>255,755</b>

#### 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 11 to 31 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 2013 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 2014



## **Independent auditor's report to the members 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 2013, 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(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation 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.

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*.





*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 2013 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*.
- (b) the company's financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a).

A handwritten signature in cursive script, likely representing a PricewaterhouseCoopers representative.

PricewaterhouseCoopers

A handwritten signature in cursive script, likely representing S K Fergusson.

S K Fergusson  
Partner

Sydney  
27 March 2014