Swiss Re

Annual Report 2014

Swiss Re Life & Health Australia Limited
New Zealand Branch

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Statement of Comprehensive Income for the year ended 31 December 2014

in thousands of New Zealand dollars	Notes	2014	2013
Revenue			
Premium revenue from life insurance contracts		105,180	74,700
Premium revenue ceded to reinsurers		(17,596)	(8,665)
Net premium revenue		**87,584**	**66,035**
Investment revenue	6	6,144	(237)
Other revenue	7	394	348
Net revenue		**94,122**	**66,146**
Expenses			
Claims expenses on life insurance contracts	8	58,418	48,599
Claims recovered from reinsurers		(27,549)	(8,046)
Net claims expense		**30,869**	**40,553**
Increase/(decrease) in net life insurance liabilities	15(a)	36,393	(95,987)
Other expenses	9	31,785	107,788
Net claims and expenses		**99,047**	**52,354**
Net profit/(loss) before tax		**(4,925)**	**13,792**
Income tax (expense)/benefit	10	926	(3,699)
Net profit/(loss) after tax	5	**(3,999)**	**10,093**

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

Balance Sheet as at 31 December 2014

in thousands of New Zealand dollars	Notes	2014	2013
Assets			
Cash and cash equivalents	**20(b)**	16,053	13,723
Debt securities	11	112,022	105,749
Receivables	12	43,552	31,773
Life insurance contract liabilities ceded under reinsurance	15	228	241
Other assets	13	6,254	78
Total assets		**178,109**	**151,564**
Liabilities			
Creditors	14	18,868	23,325
Life insurance contract liabilities assumed under reinsurance	15	25,385	(10,995)
Deferred tax liabilities	10	6,423	7,802
Total liabilities		**50,676**	**20,132**
Net assets		**127,433**	**131,432**
Equity			
Retained earnings		127,433	131,432
Total equity		**127,433**	**131,432**

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

Statement of Changes in Equity for the year ended 31 December 2014

in thousands of New Zealand dollars	Notes	2014	2013
Total equity at the beginning of the year		131,432	85,339
Net profit/(loss) after tax		(3,999)	10,093
Transfer from Australian head office		-	36,000
Total equity at the end of the year		**127,433**	**131,432**

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

Total equity comprises of retained earnings.

Cash Flow Statement for the year ended 31 December 2014

in thousands of New Zealand dollars	Notes	2014	2013
Cash flows from operating activities:			
Premiums received		98,644	63,438
Retrocession premiums paid		(11,742)	(6,904)
Interest received		5,021	6,185
Claim payments and other expense payments		(101,990)	(129,062)
Retrocession recoveries received		23,857	1,371
Income tax paid		(6,629)	(230)
Net cash provided by operating activities	**20**	**7,161**	**(65,202)**
Cash flows from investing activities:			
Net payments to acquire/proceeds from investments		(4,831)	26,223
Net cash used in investing activities		**(4,831)**	**26,223**
Cash flows from financing activities:			
Transfer from Australian head office		-	36,000
Net cash provided by financing activities		**-**	**36,000**
Net increase/(decrease) in cash held		**2,330**	**(2,979)**
Cash at the beginning of financial year		13,723	16,702
Cash at the end of financial year		**16,053**	**13,723**

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:

Jillian R Broadbent
Chairman

Mark Senkevics
Chief Executive Officer and Director

28 April 2015

Notes to the Financial Statements
31 December 2014

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 includes 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 and future profit margins using best estimate assumptions about the future.

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

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

f) Life investment contracts

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

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

i) Investment revenue

Investment revenue includes:

(i) Interest from investment assets that is brought to account using the effective interest rate method,

(ii) Profits or losses realised on the disposal of investment assets; and

(iii) The change in value of investment assets that are held on a 'fair value through profit or loss' basis.

j) Assets backing life insurance and life investment contracts

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

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

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

For the purposes of the statement of cash flow, 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) 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) New Zealand Accounting Standards issued but not yet effective

New Zealand 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 2014. We have considered all amendments and the relevant standards are;

- NZ IFRS 9 Financial Instruments (applicable to annual reporting periods beginning on or after 1 January 2018)
- NZ IFRS 15 Revenue from Contracts with Customers (applicable to annual periods beginning on or after 1 January 2017)

When applied in future periods, these issued or amended standards are not expected to have a material impact on the branch's results or financial position, however they have an impact on disclosure only.

2 Critical accounting judgements & estimates

The Company makes estimates and judgments 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 judgements are continually evaluated.

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

Liabilities for life insurance contracts

Liabilities for life insurance contracts are computed using statistical or mathematical methods, which are expected to give approximately the same results as if an individual liability was calculated for each contract. The computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles. The methodology takes into account the risks and uncertainties of the particular classes of life insurance business written.

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

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

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

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

Premium receivable from life insurance contracts

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

3 Actuarial methods and assumptions

The effective date of the actuarial report on the policyholder liabilities and solvency reserves is 31 December 2014. The actuarial report, prepared by Mr Andrew Mead, Bec, FIAA, and dated 30 March 2015 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 and Prudential Standards. Policyholder liabilities have been calculated in a way which allows for the systematic release of planned margins as services are provided to policyholders and as premiums are received.

Methods adopted for each of the major product groups:

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

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 2014 ranging from 3.59% to 4.03% (2013: 3.22% to 5.28%)

Rates used for disability products are gross of tax.

Rates used for all other products are adjusted for tax.

3 **Actuarial methods and assumptions (Continued)**

(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% (2013: 28%) has been assumed.

(iv) Inflation rates

Allowance for future inflation: 2.8% (2013: 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 3.3% to 5.7% (2013: 3.75% to 6.0%)

Expenses have been assumed at levels consistent with the planned expenses in 2015.

(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% - 87% of IA 95-97m (2013: 67% - 90% of IA 95-97m)
Females	71% - 88% of IA 95-97f (2013: 71% - 91% of IA 95-97f)
Morbidity	
Incidence	between 67% - 165% (2013: 67% - 145%) of IAD 89 - 93 morbidity table
Termination	between 31% - 145% (2013: 45% - 145%) of IAD 89 - 93 morbidity table
Morbidity (TPD/Trauma)	
Incidence	between 106% - 200% FSC 2012 TPD/Trauma tables (2013: 2006/2007 Swiss Re valuation tables)

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.

3 **Actuarial methods and assumptions (Continued)**

(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% (2013: 5.0% – 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 (2013: 0.11%).

Effects of changes in actuarial assumptions from 31 December 2013 to 31 December 2014

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

in thousands of New Zealand dollars	**Effect on Net Profit Margins Increase/ (Decrease)**	**Effect on Net Policy Liabilities Increase/ (Decrease)**
Assumption Change		
Discount rates	9,130	8,553
Expense	15,179	(3,251)
Mortality	(98)	-
Morbidity	476	3,260
Other	(173)	(1,270)
Discontinuance rates	(13,567)	-
Total effect of changes	**10,947**	**7,292**
Amount at 31 December 2014 under old assumptions	164,712	17,865
Amount reported	**175,659**	**25,157**

Sensitivity analysis

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

Variable	**Impact of movement in underlying variable**
Interest Rate Risk	A decrease in the rate of interest would: (i) decrease the investment income from the Company's floating rate interest bearing securities; (ii) have a positive impact on the value of the Company's investments. The overall impact on profit and shareholders' equity depends on the impact on asset values, as described above, relative to the impact on the discount rate used to value policy liabilities, which for the most part are valued using a risk-free discount rate that may not be matched by the asset portfolio.

Mortality rates	For insurance contracts providing death benefits, increased mortality rates would lead to higher levels of claims occurring sooner than anticipated, increasing associated claims cost and therefore reducing profit and shareholders' equity.
Morbidity rates	The cost of health-related claims depends on both the incidence of policyholders becoming ill and the duration which they remain ill. Higher than expected incidence or duration would increase claim costs, reducing profit and shareholders' equity.
Discontinuance	An increase in discontinuance rates at earlier durations of life insurance contracts usually has a negative effect on performance and net assets. However, due to the interplay between the factors, there is not always an adverse outcome from an increase in discontinuance rates. The impact also depends on factors such as the type of contract.

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

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

in thousands of New Zealand dollars	Change in Variable	Policyholder Liabilities	Investment Assets (1)	Net Insurance Assets
Gross				
		25,385	128,079	122,598
Risk free bond rates	+1%	(5,702)	(2,762)	2,117
	-1%	5,702	2,930	(1,996)
Disability claims incidence	+10%	5,640	-	(4,061)
	-10%	(5,640)	-	4,061
Disability claims termination	+10%	2,820	-	(2,031)
	-10%	(2,820)	-	2,031

in thousands of New Zealand dollars	Change in Variable	Policyholder Liabilities	Investment Assets (1)	Profit after tax & Equity
Net				
		25,157	128,079	122,598
Risk free bond rates	+1%	(5,702)	(2,762)	2,117
	-1%	5,702	2,930	(1,996)
Disability claims incidence	+10%	5,640	5,640	-
	-10%	(5,640)	(5,640)	-
Disability claims termination	+10%	2,820	2,820	-
	-10%	(2,820)	(2,820)	-

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

4 Risk management policies & procedures

Risk management

The Branch's risk management approach is governed by Swiss Re' s Group Risk Management Standards and APRA's Prudential Standards.

The Risk Management Framework sets out how the Swiss Re Group organises and applies its risk management practices to ensure that all corporate activities are conducted according to the principles outlined in the Group Risk Policy. The Risk Management Framework represents what is also referred to as "Enterprise Risk Management" or "System of Risk Management".

The major elements of Swiss Re's Risk Management Framework are the following:

- The Group Risk Policy which specifies the Risk Mandate and key risk management principles; the Risk Mandate includes the risk tolerance criteria and targets, which are defined at the Group and Business Unit level;
- The fundamental roles for the delegation of risk taking;
- The organisation of risk management functions, specifically Risk Management and Compliance;
- The Risk Control Framework, which defines the standards for risk control tasks that are required to ensure that the Swiss Re Group engages in controlled risk taking.

Group Risk Policy
The main purpose of the Group Risk Policy is for the Swiss Re Limited Board of Directors to articulate the Branch's risk mandate, and the risk management and capital structure principles. The following principles are also reflected in the Swiss Re Life and Health Australia Limited Risk Appetite Statement.

The Branch's risk attitude describes the conditions under which it is willing to engage in risk taking activities as well as the criteria for the control of the operational risks.

- Swiss Re actively takes risk in both insurance and financial markets;
- Risks should only be actively sought if:
  - there is a thorough understanding of how the risks, including all associated financial and reputational risks, can be adequately managed,
  - potential risk accumulations within the overall risk portfolio are understood and can be controlled, and
  - the manner in which they are accepted complies with Swiss Re's Group Code of Conduct and Sustainability Risk Framework;
- The Branch identifies and manages operational risks inherent in its activities. Such risks are to be avoided or mitigated to the extent that it is cost effective to do so, balancing the anticipated costs of the mitigation activities against the corresponding reduction in expected losses, capital costs, and reputational risk;
- The Branch actively manages its risk profile using capital market instruments and retrocession, but avoids being dependent on underwriting capacity supplied by competitors.

Risk tolerance represents the amount of risk that Swiss Re is willing to accept within the constraints imposed by its capital and liquidity resources, its strategy, its risk appetite, and the regulatory and rating agency environment within which it operates.
Swiss Re's risk tolerance is based on the following objectives:

- to protect the shareholders franchise by ensuring that the Group is able to continue to operate the business following an extreme loss event, and
- to maintain capital and liquidity in the business specific entities at pre-agreed respectability levels that are sufficiently attractive from a client perspective, taking into account Group support, and that meet regulatory requirements and expectations.

4 Risk Management policies & procedures (Continued)

Risk appetite is an expression of how the Branch aims to deploy its risk capacity. It specifies the types of risk that the Group wishes to take and for each type the amount to be taken. Within the boundaries imposed by the stated risk attitude and risk tolerance, Swiss Re directs its risk appetite to those business areas that maximize economic value creation, where value is measured in line with the Economic Value Management framework. This framework defines the return needed to compensate Swiss Re for the assumed risks.

An important driver of value creation is capital efficiency. Swiss Re seeks to maximize capital efficiency by diversifying the risks it retains and by transferring risks to the capital markets whenever it is effective to do so. Swiss Re Life and Health Australia Limited defines its risk appetite to ensure management in line with a target capital level for the entity.

Risk Management Principles

The following principles govern risk management across Swiss Re and are applicable to the Branch:

Controlled risk taking	To ensure sustainable value creation Swiss Re is committed to engaging in risk taking in a controlled fashion. As a result, Swiss Re operates within a clearly defined risk mandate and risk control framework. The Risk Control Framework is documented as part of the Group Risk Management Standards and is reflected within the Branch's Risk Management Strategy.
Clear accountability	Swiss Re operates on the principle of delegated authority. Within their delegated authorities, individuals are held accountable for the decisions they take and their incentives are aligned with Swiss Re's overall business objectives. However responsibility for the outcome of these decisions remains with those delegating authority. The Risk Management Framework establishes three fundamental roles in the delegation of risk taking: • The Risk Owner, who establishes a strategy, assumes responsibility for achieving the objectives and maintains ultimate responsibility for the outcomes. • The Risk Taker, who takes steps to achieve this objective within a clearly specified authority delegated by the Risk Owner; it is the duty of each Risk Taker to inform the relevant Risk Controller of all facts relevant for the discharge of their duties; • The Risk Controller, who is tasked by the Risk Owner with the oversight of risk-taking activities to mitigate potential conflicts of interest between Risk Owner and Risk Taker; as part of his fundamental role, the Risk Controller is responsible for escalating to the Risk Owner or a higher level Risk Controller any decision or issue that he or she might be concerned about.
Independent risk controlling function	To avoid conflicts of interest, dedicated specialised units monitor risk origination activities.
Open risk culture	Risk transparency and responsiveness to change are integral to the Branch's risk control process. The Branch has institutionalised processes to facilitate risk management knowledge sharing at all levels. The central goal of risk transparency is to create a culture of mutual trust and to reduce the likelihood of surprises regarding the source and potential magnitude of losses. This goal is achieved through regular dialogue and by establishing timely and appropriate risk reports, which document Swiss Re's risk landscape and loss potentials. Swiss Re aims to establish risk transparency internally and – to the extent that it does not impact Swiss Re's competitive position – externally with shareholders, analysts, rating agencies, and regulators.

4 Risk Management policies & procedures (Continued)

Risk Control Framework
Swiss Re's Risk Control Framework consists of a set of standards to ensure controlled risk taking. These standards set responsibilities for the Risk Taker and the Risk Controller. The Risk Control Framework is comprised of the following key tasks, with each representing a key component of the risk management cycle:

- Risk oversight of planning
- Risk identification
- Risk measurement
- Risk exposure control
- Risk reporting

These tasks are also embedded at the Branch level.To facilitate **risk identification**, Swiss Re maintains a taxonomy of risk factors known as its risk classification. The risk classification also serves as a major organising principle for its risk accumulation control and risk oversight activities. The table below lists Swiss Re's major risk categories, illustrating key risk factors and sources of exposures for each category.

Risk category	Key risk factors	Key sources of risk exposures
Life and health	Mortality Morbidity Longevity Lapse	Life contracts Health contracts Structured reinsurance contracts Contracts with embedded options
Financial	Credit default and migration Equity prices Interest rates Inflation Credit spreads Foreign exchange rates	Credit and surety contracts Structured financial contracts Reinsurance recoverables Investments Guarantees to Swiss Re's pension funds Fund management revenues dependent on equity prices
Funding liquidity	Access to funding liquidity Contingent funding requirements	Sources of cash and collateral
Operational	Incorrect processing of data Business disruption Fraud Outsourcing related incidents	Processes People Systems Infrastructure
Legal	Quality of contract wording Quality of due diligence	Contracts Other documents that result in legal obligations
Compliance	General legal and regulatory requirements (e.g. competition laws; anti-bribery and corruption laws; etc.) Insurance regulations Capital markets regulations	Business activities and operations in various countries Cross-border transactions
Regulatory	Changes in regulatory requirements	Minimum capital requirements Required regulatory reporting
Information security	Data hacking	Client data Financial account information
Political	War Terrorism	L&H mortality
Sustainability	Indirect support of human rights violations Indirect support of anti-personal mine manufacturers	Insurance contracts Investments
Safety and security	Technical malfunction Break-in, intrusion, burglary	Swiss Re personnel Physical plants

4 Risk management policies & procedures (Continued)

The Branch also identifies and manages other types of risk that are not explicitly treated as separate risk categories but rather as perspectives on the entirety of risks that the Branch is exposed to, including strategic, reputational and emerging risks.

Risk measurement consists of measuring the Branch's risk exposures and aggregating these risk exposures in an integrated measure of risk. Risk exposures are potential changes in the value of the Branch's assets and obligations due to changes in risk factors. Risk exposure measurement, therefore, consists of developing models that describe this relationship and thus define the exposure.

Risk exposure control ensures that the Branch carefully controls its risk-taking decisions as well as its total risk accumulations, including the passive risk it is exposed to through its operations.

The Risk Taker takes risk under the authority delegated by the Risk Owner and is subject to the controls set in conjunction with the Risk Controller. To make the delegated authorities and control responsibilities clear, the following risk taking controls should govern all risk taking decisions:

- Capital and liquidity adequacy targets;
- Risk capacity limits; and
- Clearly established authorities and delegations governed by referral triggers.

The principal goals of **risk reporting** are to create internal risk transparency and to meet external disclosure requirements. These goals translate into three objectives:

- Design reports from the perspective of recipients so that they optimally meet their needs
- Provide stakeholders with accurate and timely information about material risk issues in such a way that the recipient can understand the message
- Facilitate informed decision making

Board Oversight

The Board retains ultimate responsibility, oversight and control of the delegated responsibilities and authorities. The Board has delegated responsibilities and authorities to the Audit Committee, the Risk Committee and the Remuneration Committee.

Notes to the Financial Statements
31 December 2014

in thousands of New Zealand dollars	2014	2013

5 Components of profit

Components of profit related to movement in life insurance contracts:		
Planned margins of revenues over expenses released	10,070	4,546
Difference between actual and assumed experience	(5,544)	5,236
Change in valuation methods and assumptions	(12,592)	4,305
Release/(capitalisation) of expected future losses	(3,164)	(3,651)
Retrocession recovery relating to loss recognition	3,164	-
Other components:		
Investment earnings on assets in excess of policy liabilities	4,067	(343)
Net (loss)/profit after tax	**(3,999)**	**10,093**

6 Investment revenue

Revenue derived from:		
Debt securities and deposits	4,702	5,198
Realised and unrealised gains/(losses)	1,442	(5,435)
Total investment revenue/(expense)	**6,144**	**(237)**

7 Other revenue

Interest on cash and cash equivalents	394	348
	394	**348**

8 Claims expense on life insurance contracts

Death and disability claims	58,383	48,582
Maturities and surrenders	35	17
	58,418	**48,599**

9 Other expenses

Policy acquisition expenses	10,125	94,167
Policy maintenance expenses	21,515	13,411
Investment management expenses	145	210
	31,785	**107,788**

Acquisition and maintenance expenses include commissions. During 2013 the Company entered into a significant new treaty, not repeated in 2014.

Audit fees are paid outside the New Zealand branch.

10 Income tax

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

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

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

in thousands of New Zealand dollars	2014	2013
Reconciliation between net profit before tax and tax expense		
Net profit/(loss) before tax	(4,925)	13,792
Tax at the standard rate of 28% (2013: 28%)	(1,379)	3,862
Tax effect of non-assessable income	-	(713)
Under/(over) provision from previous year	453	550
Tax expense/(benefit) for the year	**(926)**	**3,699**
Current income tax asset		
Opening balance	78	2,407
(Under)/over provision from previous year	(453)	(440)
Current income tax expense	-	(2,120)
Tax paid during current year	6,629	231
Closing income tax asset	**6,254**	**78**
Analysis of deferred tax liability		
Reinsurance balances	210	210
Deferred tax liability on New Zealand acquisition costs [1]	(8,903)	(8,012)
Tax losses	2,270	-
Closing deferred tax liability	**(6,423)**	**(7,802)**
Income tax expense		
Current income tax expense/(benefit)	-	2,120
Under/(over) provision from previous year	453	550
Movement in deferred tax balances	(1,379)	1,029
Income tax expense/(benefit)	**(926)**	**3,699**
Imputation credit account	**31,907**	**25,277**
Deferred tax liability		
Opening balance	(7,802)	(6,663)
Reinsurance balances	6,873	(110)
Deferred tax liability on New Zealand acquisition costs	(7,764)	(1,029)
Tax losses	2,270	-
Closing deferred tax liability	**(6,423)**	**(7,802)**
Deferred tax liability expected to be recovered after 12 months	**(6,423)**	**(7,802)**

[1] The deferred tax liability reflects the temporary difference associated with the timing of the deduction for acquisition costs in New Zealand.

in thousands of New Zealand dollars	2014	2013

11

Financial Assets at fair value through profit and loss

Debt security investments: New Zealand government (Level 2)	112,022	105,749
Total	**112,022**	**105,749**

Financial Assets are designated as fair value through profit and loss. The company has no assets that meet the definition of level 1 or level 3

Level 2 assets are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

12 **Receivables**

Outstanding premiums	28,871	22,335
Reinsurance claims receivable	1,732	6,786
Amounts due from related parties	12,265	2,043
Investment income accrued and receivable	684	609
	43,552	**31,773**

13 **Other assets**

Pre-paid taxes	6,254	78
	6,254	**78**

14 **Creditors**

Reinsurance claims payable	6,133	12,873
Amounts due to cedants and retrocessionaires	4,060	723
Amounts due to related parties	8,447	9,495
Other creditors	228	234
	18,868	**23,325**

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

Liabilities assumed under reinsurance		
Opening balance at 1 January	(10,995)	63,439
Portfolio transfer	-	21,894
Net increase/(decrease) reflected in the Statement of Comprehensive Income	36,380	(96,328)
Closing balance at 31 December	**25,385**	**(10,995)**
Liabilities ceded under reinsurance		
Opening balance at 1 January	(241)	(582)
Net increase/(decrease) reflected in the Statement of Comprehensive Income	13	341
Closing balance at 31 December	**(228)**	**(241)**
Net policyholder liabilities at 31 December	25,157	(11,236)

15(b) Components of net life insurance contract liabilities

Future policy benefits	1,078,869	1,095,284
Future expenses	124,375	139,856
Planned margins of future revenues over expenses	175,659	157,375
Future charges for acquisition costs	(101,569)	(139,167)
Balance of future revenues	(1,252,177)	(1,264,584)
Total net life insurance contract liabilities	**25,157**	**(11,236)**

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.

in thousands of New Zealand dollars	2014	2013
Net assets	1,120,342	1,026,466
Regulatory adjustment applied in calculation of tier 1 capital	(241,273)	(314,114)
Tier 1 capital:		
Common equity tier 1 capital	800,458	630,810
Additional tier 1 capital	78,611	81,542
Tier 2 capital	-	
(a) Capital base	**879,069**	**712,352**
Prescribed capital amount comprises:		
Insurance risk	305,768	306,519
Asset risk	33,969	32,054
Asset concentration risk	4,789	-
Operational risk	53,221	44,828
Aggregation benefit	(25,408)	(24,071)
Combined scenario adjustment	134,712	136,726
(b) Prescribed capital amount	**507,051**	**496,056**
Capital in excess of prescribed capital Amount = (a)-(b)	372,018	216,296
Capital adequacy multiple (%)=(a)/(b)	173%	144%

17 Key management personnel and remuneration

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

Non Executive: J R Broadbent, 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: 5 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 14 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 19 key management personnel was:

in thousands of New Zealand dollars	2014	2013
Wages, bonuses and other short-term benefits	1,922	2,409
Post employment benefits	158	175
Long term benefits	108	166
Termination payments [1]	117	65
Share based payments	0	15
Total	**2,305**	**2,830**

[1] Termination payments are statutory entitlements on resignation

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

18 Related party disclosures

Controlling entities

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

Related party transactions

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

in thousands of New Zealand dollars	2014	2013
Retrocession contracts with controlling entity – Swiss Reinsurance Company Ltd		
Outwards reinsurance expense	17,593	8,665
Reinsurance recoveries	(26,167)	(6,488)
Net reinsurance (recovery)/expense	**(8,574)**	**2,177**
Management and other expenses		
Ultimate controlling entity – Swiss Re Ltd	660	486
Controlling entity – Swiss Reinsurance Company Ltd	3,873	1,392
Other related parties	249	183
Net management and other expenses	**4,782**	**2,061**
Investment management expense		
Controlling entity	118	138

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.

The Company did not use derivative financial instruments during the year and at 31 December 2014 had no open derivative financial instrument contracts (2013: nil).

Interest rate risk

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

19 Financial instruments disclosure (continued)

in thousands of New Zealand dollars	Floating interest rate	Fixed interest 1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 years	Non [1] interest bearing	Total
2014									
Assets									
Cash	15,214	-	-	-	-	-	-	-	15,214
Receivables	-	-	-	-	-	-	-	43,552	43,552
Investments	839	54,447	7,902	10,361	10,821	-	28,491	-	112,861
Total financial assets	**16,053**	**54,447**	**7,902**	**10,361**	**10,821**	**-**	**28,491**	**43,552**	**171,627**
Weighted average interest rate %	2.50%	3.76%	4.5%	6.0%	5.0%	-	4.93%	-	-
Liabilities									
Accounts payable	-	-	-	-	-	-	-	(12,735)	(12,735)
Total financial liabilities	-	-	-	-	-	-	-	**(12,735)**	**(12,735)**
Weighted average interest rate %	-	-	-	-	-	-	-		
Net financial assets	**16,053**	**54,447**	**7,902**	**10,361**	**10,821**	**-**	**28,491**	**30,817**	**158,892**
2013									
Assets									
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
Total financial assets	**13,723**	**32,879**	**25,350**	**7,991**	**10,418**	**-**	**29,111**	**31,773**	**151,245**
Weighted average interest rate %	2.50%	2.50%	6.0%	4.50%	6.0%		5.13%	-	-
Liabilities									
Accounts payable	-	-	-	-	-	-	-	(10,453)	(10,453)
Total financial liabilities								**(10,453)**	**10,453)**
Weighted average interest rate %	-	-	-	-	-	-	-		
Net financial assets	**13,724**	**32,879**	**25,350**	**7,991**	**10,418**	**-**	**29,111**	**21,320**	**140,792**

[1] All non interest bearing assets and liabilities are expected to be realised in the next 12 months. Interest Rate risk sensitivity is disclosed in Note 3.

19 Financial instruments disclosure (continued)

in thousands of New Zealand dollars	2014	2013
Reconciliation of net financial assets to net assets per balance sheet		
Net financial assets	158,892	140,792
Net liabilities arising under reinsurance arrangements	(31,290)	(1,636)
Other assets/(liabilities)	(169)	(7,724)
Net assets	**127,433**	**131,432**

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.

AA	77,111	72,871
A	35,750	33,948
Total	**112,861**	**106,819**

Current investment assets	55,285	33,948
Non-current investment assets	57,576	72,871
Total	**112,861**	**106,819**

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 balance sheet. The Company manages market risk by maintaining a balanced portfolio with an appropriate spread selection 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.

Price Risk

The Company's exposure to equity securities price risk arises from investments held by the company and classified in the balance sheet as at fair value through profit or loss. Price risk sensitivity is disclosed in Note 3.

20 Cash flow information

in thousands of New Zealand dollars	2014	2013
Reconciliation of net profit after tax to net cash provided by operating activities		
Net (loss)/profit after tax	**(3,999)**	**10,093**
Add (less) items classified as investing activities:		
Realised gains/(loss) on sale of investments	697	(1,568)
Unrealised (gains)/loss on investments	(2,139)	7,002
Net cash provided by operating activities before change in assets and liabilities	**(5,441)**	**15,527**
Change in assets and liabilities excluding impact of foreign exchange revaluation:		
(Decrease)/increase in deferred tax liability	(1,380)	1,139
(Increase) in receivables	(11,404)	(17,050)
Increase/(decrease) in net life insurance contract liabilities	36,394	(74,093)
(Increase)/decrease in other assets	(6,551)	2,082
(Decrease)/increase in creditors	(4,457)	7,193
Net cash provided by operating activities	**7,161**	**(65,202)**

(b) Cash and cash equivalents

	2014	2013
Cash at bank and in hand	15,214	12,653
Deposits at call	839	1,070
Total	**16,053**	**13,723**

Deposits at call are presented as cash equivalents if they have a maturity of three months or less. Deposits have been reclassified from investments in the prior year in order to more accurately reflect their nature.

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 25, which comprise the balance sheet as at 31 December 2014, 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.

We are independent of the Branch. Other than in our capacity as auditors we have no relationship with, or interests in, the Branch.

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Opinion

In our opinion, the financial statements on pages 1 to 25:

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

(ii) comply with International Financial Reporting Standards ; and

(iii) give a true and fair view of the financial position of the Branch as at 31 December 2014, 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.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants

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

PricewaterhouseCoopers was the audit firm appointed to undertake the audit of Swiss Re Life & Health Australia Limited New Zealand Branch for the year ended 31 December 2014. I was responsible for the execution of the audit and delivery of our firm's auditors' report. The audit work was completed on 28 April 2015 and an unqualified opinion was issued.

S K Fergusson
Partner

Sydney
28 April 2015