Swiss Re

Annual Report 2015

Swiss Re Life & Health Australia Limited
New Zealand Branch

Table of Contents

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Statement of Comprehensive Income for the year ended 31 December 2015

in thousands of New Zealand dollars	Notes	2015	2014
Revenue			
Premium revenue from life insurance contracts		113,260	105,180
Premium revenue ceded to reinsurers		(15,378)	(17,596)
Net premium revenue		**97,882**	**87,584**
Investment revenue	5	4,444	6,144
Other revenue	6	844	394
Net revenue		**103,170**	**94,122**
Expenses			
Claims expense on life insurance contracts	7	88,361	58,418
Claims recovered from reinsurers		(24,204)	(27,549)
Net claims expense		**64,157**	**30,869**
Increase in net life insurance contract liabilities	15(a)	4,726	36,393
Other expenses	8	30,132	31,785
Net claims and expenses		**99,015**	**99,047**
Net profit/(loss) before tax		**4,155**	**(4,925)**
Income tax (expense)/benefit	10	(556)	926
Net profit/(loss) after tax	4	**3,599**	**(3,999)**

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

Statement of Financial Position as at 31 December 2015

in thousands of New Zealand dollars	Notes	2015	2014
Assets			
Current assets			
Cash and cash equivalents	21(b)	23,250	16,053
Total current assets		**23,250**	**16,053**
Non-current assets			
Debt securities	11	113,250	112,022
Receivables	12	36,995	43,552
Life insurance contract liabilities ceded under reinsurance	15(a)	3	228
Other assets	13	6,254	6,254
Non-current assets		**156,502**	**162,056**
Total assets		**179,752**	**178,109**
Liabilities			
Non-current liabilities			
Creditors	14	11,854	18,868
Life insurance contract liabilities assumed under reinsurance	15(a)	29,886	25,385
Deferred tax liabilities	10	6,980	6,423
Total liabilities		**48,720**	**50,676**
Net assets		**131,032**	**127,433**
Equity			
Retained earnings	16	131,032	127,433
Total equity		**131,032**	**127,433**

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity for the year ended 31 December 2015

in thousands of New Zealand dollars	Notes	2015	2014
Balance at 1 January		**127,433**	**131,432**
Net profit/(loss) after tax	4	3,599	(3,999)
Balance at 31 December	16	**131,032**	**127,433**

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Total equity comprises of retained earnings.

Statement of Cash Flows for the year ended 31 December 2015

in thousands of New Zealand dollars	Notes	2015	2014
Cash flows from operating activities:			
Premiums received		122,120	98,644
Retrocession premiums paid		(24,476)	(11,742)
Interest received		5,521	5,021
Claim payments		(121,496)	(93,611)
Other expense payments		5,088	(8,379)
Retrocession recoveries received		21,650	23,857
Income tax paid		-	(6,629)
Net cash provided by operating activities	21(a)	**8,407**	**7,161**
Cash flows from investing activities:			
Net investment securities sold/(purchased)		(1,210)	(4,831)
Net cash used in investing activities		**(1,210)**	**(4,831)**
Cash flows from financing activities:			
Issue of ordinary share capital		-	-
Net cash provided by financing activities		-	-
Net increase in cash held		**7,197**	**2,330**
Cash at the beginning of financial year		16,053	13,723
Cash at the end of financial year	21(b)	**23,250**	**16,053**

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

These financial statements, comprising the Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and accompanying notes are signed for and on behalf of the Directors by:

Jillian R Broadbent
Chairman

Mark Senkevics
Chief Executive Officer and Director

29 March 2016

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 Branch 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 2013.

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

The New Zealand Branch of Swiss Re Life & Health Australia Limited, is a for-profit branch for the purpose of preparing the financial statements.

This financial report of the Branch for the year ended 31 December 2015 was authorised for issue by the Board of Directors on 29 March 2016. The directors have the power to amend the financial statements of the Branch.

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 Branch, either from the services provided under the contract or administration of assets held by the Branch.

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) **Assets backing life insurance and life investment contracts**

The Branch has determined that all investment assets including cash, shares, fixed interest securities held within its statutory funds 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

h) **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.

i) 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 Branch 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.

j) 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.

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 Branch 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 Branch'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 2015. 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.

Exposure Draft (ED) 244 Insurance Contracts was issued by the International Accounting Standards Board during 2013 and contained revised proposals regarding the accounting for insurance contracts and investment contracts with discretionary participating features issued by insurers. The proposals will significantly affect all companies that issue insurance contracts, including the recognition of profits and presentation in the statement of comprehensive income. The new proposals add significant complexities and create extra demands on resources, data and modelling systems, and stakeholders need to understand the changes. The effective date of the standard is expected to be approximately three years from the date of publication of the final standard which is expected in 2016. Management is aware of this change and is working on the potential impacts on the Branch as a result of this proposed change. There are no other standards that are not yet effective and that are expected to have a material impact on the Branch in the current or future reporting periods and on foreseeable future transactions.

p) **Trade and other payables**

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

q) **Rounding of amounts**

The Branch is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

r) **Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet. Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

s) **Offsetting**

Assets and liabilities, and income and expenses, must not be offset unless required or permitted by an Australian Accounting Standard.

t) **Currency**

The Branch's functional currency is the New Zealand dollar which is also its presentation currency.

u) **Contributed Equity**

Issued capital

Issued capital in respect of ordinary shares is recognised as the fair value of consideration received by the parent entity. Incremental costs directly attributable to the issue of certain new shares are recognised in equity as a deduction, net of tax, from the proceeds.

2 Critical accounting judgements and estimates

The Branch 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 Branch'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 prudential capital is 31 December 2015. The actuarial report, prepared by Mr Andrew Mead, Bec, FIAA, and dated 14 March 2016 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 Branch 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.

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.

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.

3 Actuarial methods and assumptions (continued)

(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 2015 ranging from 2.59% to 4.22% (2014: 3.59% to 4.03%)

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% (2014: 28%).

(iv) Inflation rates

Allowance for future inflation: 2.8% (2014: 2.8%)

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 5.0% to 9.3% (2014: 3.3% to 5.7%)

Expenses have been assumed at levels consistent with the actual 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 Branch's own experience and relevant industry studies. The range of rates used in the current year is:

Mortality	
Males	87% - 99% of FSC 2012m for traditional and retail lump sum products (2014: 67% - 87% of IA 95-97m)
Females	87% - 96% of FSC 2012f for traditional and retail lump sum products (2014: 71% - 88% of IA 95-97f)
Morbidity	
Incidence	between 67% - 165% (2014: 67% - 165%) of IAD 89 - 93 morbidity table
Termination	between 21% - 140% (2014: 31% - 145%) of IAD 89 - 93 morbidity table

Appropriate base tables are chosen for the type of product written. Investigations into the actual experience of the Branch 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: 8% - 17% (2014: 5% - 25%)

Investigations into the actual experience of the Branch 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 (2014: 0.11%).

Effects of changes in actuarial assumptions from 31 December 2014 to 31 December 2015

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	(10,772)	(5,747)
Expense	(3,654)	2,274
Mortality	6,389	-
Morbidity	(12,580)	13,788
Other	43,906	-
Discontinuance rates	(3,929)	(372)
Total effect of changes	**19,360**	**9,943**
Amount at 31 December 2015 under old assumptions	171,470	28,073
Amount reported at 31 December 2015 under new assumptions	**190,830**	**38,016**

Sensitivity analysis

The Branch 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 Branch'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 Branch 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 Branch's floating rate interest bearing securities; (ii) have a positive impact on the value of the Branch'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. Morbidity includes TPD, Trauma and Disability incidence.
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.
Disability Claims Termination	An increase in termination rates at earlier duration of a disability claim period usually has a positive effect on performance and net assets. Increase in termination rates would reduce claims costs and reserves.

The table below illustrates how permanent changes in key variables would impact the reported financial position at balance date of the Branch 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		29,885	136,497	122,598
Risk free bond rates	1%	(8,936)	(3,194)	4,134
	-1%	8,936	2,202	(4,848)
Disability claims incidence	10%	7,609	-	(5,479)
	-10%	(7,609)	-	5,479
Disability claims termination	10%	(3,576)	-	2,575
	-10%	4,083	-	(2,940)

in thousands of New Zealand dollars	**Change in Variable**	**Policyholder Liabilities**	**Investment Assets [1]**	**Profit after tax & Equity**
Net		29,882	136,497	
Risk free bond rates	1%	(8,936)	(3,194)	4,134
	-1%	8,936	2,202	(4,848)
Disability claims incidence	10%	7,609	7,609	-
	-10%	(7,609)	(7,609)	-
Disability claims termination	10%	(3,576)	(3,576)	-
	-10%	4,083	4,083	-

[1] Investment Assets includes cash and cash equivalents, deposits, debt securities and equity securities

4 Components of profit

in thousands of New Zealand dollars	2015	2014
Components of profit related to movement in life insurance contracts:		
Planned margins of revenues over expenses released	12,193	10,070
Difference between actual and assumed experience	(9,785)	(5,544)
Change in valuation methods and assumptions	(2,227)	(12,592)
Release/(capitalisation) of expected future losses	(15,434)	(3,164)
Retrocession recovery/(payment) relating to loss recognition	15,434	3,164
	181	**(8,066)**
Other components:		
Investment earnings on assets in excess of policy liabilities	3,418	4,067
Net profit/(loss) after tax	**3,599**	**(3,999)**

5 Investment revenue

in thousands of New Zealand dollars	2015	2014
Revenue derived from debt securities and deposits	4,426	4,702
Realised and unrealised gains/(losses) derived from debt securities and deposits	18	1,442
Total investment revenue	**4,444**	**6,144**

6 Other revenue

in thousands of New Zealand dollars	2015	2014
Interest on cash and cedant balances	844	394
Total other revenue	**844**	**394**

7 Claims expense on life insurance contracts

in thousands of New Zealand dollars	2015	2014
Death and disability claims	88,081	58,383
Maturities, surrenders and terminations	280	35
Claims expense on life insurance contracts	**88,361**	**58,418**

8 Other expenses

in thousands of New Zealand dollars	2015	2014
Life insurance contract liabilities		
Policy acquisition expenses		
Commission	10,398	7,919
Operating expenses	2,483	2,206
Policy maintenance expenses		
Commission	13,783	16,827
Operating expenses	3,291	4,688
Investment management expenses	177	145
Total other expenses	**30,132**	**31,785**

9 Auditors' remuneration

The auditors' remuneration for the Branch is disclosed within the financial statements of Swiss Re Life and Health Australia Limited (SRLHA) and paid by SRLHA.

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 ("Act"). Business is subject to income tax at a rate of 28% (2014: 28%) in accordance with the Act.

In principle two tax bases are maintained: the shareholder base where tax is calculated on taxable income accruing to the Branch; and the policyholder base which assesses investment income accruing to the policyholder.

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

in thousands of New Zealand dollars	2015	2014
(a) Income Tax Expense		
Current tax		
(a) Current tax on profits for the year	-	-
(b) Adjustments for current tax of prior periods	-	454
Total current tax expense	**-**	**454**
Deferred income tax		
(Decrease)/increase in deferred tax liabilities	556	(1,380)
Total deferred tax expense/(benefit)	556	(1,380)
Income tax expense/(benefit)	**556**	**(926)**
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) from operations before income tax expense	4,155	(4,925)
Tax at the New Zealand tax rate of 28% (2014: 28%)	1,163	(1,379)
Tax effect of amounts which are not deductible (taxable) in calculating		
taxable income:		
Non-assessable income	(607)	-
Adjustments for current tax of prior periods	-	453
Income tax expense/(benefit)	**556**	**(926)**

10 Income Tax (continued)

in thousands of New Zealand dollars	2015	2014
(c) Analysis of deferred tax liability		
Tax losses	942	2,270
Reinsurance balances	210	210
Deferred tax liability on New Zealand acquisition costs	(8,132)	(8,903)
Closing deferred tax liability[1]	**(6,980)**	**(6,423)**
	-	
(d) Deferred tax liability		
Opening balance	(6,423)	(7,802)
Reinsurance balances	-	6,873
Deferred tax liability on New Zealand acquisition costs	771	(7,764)
Tax losses	(1,328)	2,270
Closing deferred tax liability	**(6,980)**	**(6,423)**
(e) Imputation credit account		
Imputation credit account	**31,907**	**31,907**
(f) Current income tax asset/(liability)		
Opening balance	6,254	78
(Under)/over provision from previous year	-	(453)
Current component of income tax expense	-	-
Tax paid during current year	-	6,629
Closing balance	**6,254**	**6,254**
Deferred tax liability expected to be recovered after 12 months	(8,132)	(8,903)

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

11 Financial assets at fair value through profit and loss

in thousands of New Zealand dollars	2015	2014
Non-current		
Debt security investments: New Zealand government (Level 2)	113,250	112,022

Financial Assets are designated as fair value through profit and loss. The Branch 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

in thousands of New Zealand dollars	2015	2014
Current		
Outstanding premiums	20,011	28,871
Amounts due from cedants and retrocessionaires	270	1,732
Amounts due from related parties	16,281	12,265
Investment income accrued and receivable	433	684
Total receivables	**36,995**	**43,552**

13 Other assets

in thousands of New Zealand dollars	2015	2014
Non-current		
Prepaid tax	6,254	6,254

14 Creditors

in thousands of New Zealand dollars	2015	2014
Current		
Reinsurance claims payable	6,723	6,133
Amounts due to cedants and retrocessionaires	611	4,060
Amounts due to related parties	4,436	8,447
Other creditors	84	228
Total creditors	**11,854**	**18,868**

15 Life insurance contract liabilities

(a) Reconciliation of movements in life insurance contract liabilities

in thousands of New Zealand dollars	2015	2014
Liabilities assumed under reinsurance		
Opening balance at 1 January	25,385	(10,995)
Net increase reflected in the statement of comprehensive income	4,501	36,380
Closing balance at 31 December	**29,886**	**25,385**
Liabilities ceded under reinsurance		
Opening balance at 1 January	(228)	(241)
Net increase reflected in the statement of comprehensive income	225	13
Closing balance at 31 December	**(3)**	**(228)**
Net life insurance contract liabilities at 31 December	**29,883**	**25,157**

(b) Components of net life insurance contract liabilities

Future policy benefits	997,970	1,078,869
Future expenses	84,642	124,375
Planned margins of future revenues over expenses	190,830	175,659
Future charges for acquisition costs	(108,035)	(101,569)
Balance of future revenues	(1,135,524)	(1,252,177)
Total net life insurance contract liabilities	**29,883**	**25,157**

16 Equity

in thousands of New Zealand dollars	2015	2014
Balance at 1 January	127,433	131,432
Net profit/(loss) after tax	3,599	(3,999)
Balance at 31 December	**131,032**	**127,433**

The movement in the Retained earnings during the year represents the net profit after tax. There were no transfers of retained earnings in 2015.

17 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 Branch 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	2015	2014
Net assets	1,202,573	1,120,150
Regulatory adjustment applied in calculation of tier 1 capital	(220,433)	(241,273)
Tier 1 capital:		
Common equity tier 1 capital	902,436	800,266
Additional tier 1 capital	79,704	78,611
Tier 2 Capital	-	-
(a) Capital base	**982,140**	**878,877**

Prescribed capital amount comprises:		
Insurance risk	316,880	305,768
Asset risk	60,436	33,932
Asset concentration risk	-	4,790
Operational risk	55,363	53,221
Aggregation benefit	(43,062)	(25,382)
Combined scenario adjustment	142,490	134,707
(b) Prescribed capital amount	**532,107**	**507,035**

Capital in excess of prescribed capital amount = (a)-(b)	450,033	371,842
Capital adequacy multiple (%)=(a)/(b)	185%	173%

18 Key management personnel and remuneration

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

Non-Executive: J R Broadbent, D P Fox, 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 Branch.

Remuneration as disclosed in this report comprises:

- Non-executive directors: 4 directors received fees in 2015 (2014: 5). The remaining non-executive director is not remunerated in his capacity as director of the Branch but is remunerated for his executive role in related entities outside Australia.

- Executive director and management: The management group in 2015 comprises 9 persons (2014: 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 employee share purchase schemes. All share scheme entitlements relate to shares in the ultimate controlling entity.

The total remuneration paid to the 13 key management personnel in 2015 (2014: 19 personnel) was:

in thousands of New Zealand dollars	2015	2014
Wages, bonuses and other short-term benefits	2,825	1,922
Post employment benefits	213	158
Long term benefits	238	108
Termination payments [1]	-	117
Total	**3,276**	**2,305**

(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.

19 Related party transactions

Controlling entities

This is the New Zealand Branch of Swiss Re Life and Health Australia Limited.

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

Related party transactions

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

in thousands of New Zealand dollars	2015	2014
Retrocession contracts with controlling entity – Swiss Reinsurance Company Ltd		
Outwards reinsurance expense	15,375	17,593
Reinsurance recoveries	(24,420)	(26,167)
Movement in life insurance contract liabilities	225	13
Net reinsurance (recovery)/expense	**(8,820)**	**(8,561)**
Management and other expenses		
Ultimate controlling entity – Swiss Re Ltd	1,026	660
Controlling entity [1] – Swiss Reinsurance Company Ltd	3,013	3,873
Other related parties	133	249
Net management and other expenses	**4,172**	**4,782**
Investment management expense		
Controlling entity	127	118

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

20 Risk management and financial instruments disclosure

Risk Management

SRLHA has a separately documented Risk Appetite Statement, which specifies the types of risk that SRLHA wishes to take and qualitative and in some cases quantitative tolerance to each category of risk. The Risk Appetite Statement gives detailed information on the risk appetite and risk tolerance of SRLHA, as well as the risk limits, targets and guidance used to maintain levels of risk within tolerance.

Assessment against the risk appetite framework takes place quarterly at a minimum. The risk appetite statement is reviewed at least annually. The review includes an assessment of the operation of the existing framework and how it has linked to decision-making and capital management.

SRLHA implements its risk management system as part of the global framework that governs risk management practices throughout Swiss Re Group. The approach to identifying, assessing and managing risks in SRLHA through the risk management framework is set out in detail within the Risk Management Strategy.

SRLHA's Board of Directors is ultimately responsible for oversight over the operation of the Company, including its risk and its ICAAP. It is supported in this by various key function-holders, including the Head of Finance ANZ, Chief Risk Officer, Compliance Officer and Appointed Actuary.

The Board Risk Committee, appointed by the Board, is the main body charged with oversight of the risk governance issues of SRLHA. Its responsibilities are established in the Board charter.

The Board of SRLHA has established the Reinsurance Leadership Team, with primary responsibilities to manage the business and operations of SRLHA and to act as an interface between SRLHA and the Group.

The Head of Reinsurance ANZ, supported by the Chief Risk Officer ANZ, the Risk Management Committee and Reinsurance Leadership Team, are responsible for ensuring compliance with the Risk Management Framework, as documented in the Risk Management Strategy approved by the Board of SRLHA.

The Board of Directors has established the Risk Management Committee with responsibilities for overseeing and raising awareness of risk management activities (including business continuity management) for all functional areas of Swiss Re ANZ and providing management sign off on the risk management framework.

For its risk identification process, SRLHA applies Swiss Re's Group-wide framework, under which risk takers are responsible for reporting all relevant information on risks they are exposed to or undertake. Risks are identified both locally within SRLHA and in consultation with Swiss Re Group.

The following risk taking controls govern all risk-taking decisions across the Group and are embedded into the risk framework of SRLHA:

- Clearly established authorities and delegations governed by referral triggers (e.g. quantitative and qualitative limits to delegated risk-taking authority)
- Risk capacity limits
- Capital and liquidity adequacy targets.

SRLHA uses a range of methods to quantify risks to which it is exposed and monitor risk profile. These include the use of reported risk metrics, sensitivity, stress and scenario testing; credit and asset models; exposure analyses; and use of the Swiss Re Group's integrated risk model.

SRLHA is exposed to a broad landscape of risks. These include core quantified risks that are actively taken as part of the insurance or asset management operations, and are calculated in Swiss Re's internal risk model:

- <u>Insurance (or underwriting) risk</u> is the risk of incurring a financial loss from coverage provided for life and health risks.
- <u>Financial market risk</u> is the risk that assets or liabilities may be impaired by movements in financial market prices or rates, such as equity prices, interest rates, credit spreads or foreign exchange rates.
- <u>Credit risk</u> is the risk of incurring a financial loss due to diminished creditworthiness or default of counterparties of Swiss Re or of third parties.

Other significant risks that are not explicitly modelled within Swiss Re's internal risk model include:

- Operational risk represents the economic impact of inadequate or failed internal processes, people or systems risks or external events, including compliance risk and financial reporting misstatement risk. An additional allowance is made for this risk, described below.
- Liquidity risk is the risk that Swiss Re, though solvent, either does not have sufficient resources available to meet its obligations when they fall due, or can secure them only at excessive cost

SRLHA's Target Capital includes capital held against the core insurance and financial market risks, operational risks and counterparty credit risks via the Prudential Capital Requirement. An additional component of Target Capital is held against core insurance, financial market and operational risks within the Capital Buffer.

Insurance Risk arises from the business written by SRLHA to provide cover for mortality, morbidity and longevity. There are also potential shock events such as a severe pandemic or a catastrophe, and underlying risks in pricing and valuation, which arise when mortality, morbidity or lapse experience deviate from expectations.

Insurance risk is managed using two approaches, further detailed in the Risk Appetite Statement:

- There are controls and capacity limits set on risks that may be accepted and
- Risk exposure is mitigated by the use of retrocessions.

Asset Liability Matching

The principal aims of the Branch's Asset Liability Management (ALM) are to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to contract holders and, to achieve long term investment returns in excess of its obligations under insurance and investment contracts. A separate portfolio of assets is maintained for each distinct category of liabilities. The Branch's ALM also forms an integral part of the insurance risk management policy, to ensure in each period, sufficient cash flow is available to meet liabilities arising from insurance contracts.

Financial market risk

Financial market risk is managed for SRLHA by Financial Risk Management, an independent corporate function

All activities involving financial market risk are subject to limits at various levels of the organisation. In addition to an overall Group limit for market and credit risk, Swiss Re has established limits by risk factor and business area – including limits for the Group's external investment managers. The Asset Management unit determines a more detailed set of risk limits for its portfolio mandates. In addition SRLHA's Investment Guidelines contain local constraints on the permissible asset mix and limits. These limits are set in order to target and reduce particular types of risks.

The Head of Finance ANZ receives quarterly confirmations from Asset Management that they have complied with the Swiss Re ANZ Investment Guidelines, and receive notification of any breaches within 48 hours.

The Branch 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 Branch 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, price risk and Interest rate risk are components of market risk.

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 Branch's exposure to equity securities price risk arises from investments held by the Branch and classified in the balance sheet as at fair value through profit or loss. There is currently no exposure to Price risk as the Branch does not hold any equity securities.

Interest rate risk

Interest rate risk is the risk of an impact on the Branch's profit after tax from movements in market interest rates, including changes in the absolute levels of interest rates, the shape of the yield curve, the margin between different yield curves and the volatility of interest rates. Interest rate risk arises from interest bearing financial assets and financial liabilities in various activities of the Company. Management of those risks is decentralised according to the activity.

The Branch conducts its life insurance business through separate life statutory funds. Investment assets of the life statutory funds including interest-bearing financial assets are held to back life insurance contract liabilities, investment contract liabilities, retained profits and capital.

The interest rate risk of the Branch which impacts the shareholder arises in respect of financial assets and liabilities held in the life statutory funds. A risk arises to the extent that there is an economic mismatch between the timing of payments to life policyholders and the duration of the assets held in the life statutory funds to back the policyholder liabilities.

Management of various risks associated with investments undertaken by life statutory funds and the life shareholder fund, such as interest rate risk, is subject to the relevant regulatory requirements governed by the Life Act. The Branch is required to satisfy capital adequacy requirements, including holding statutory reserves to cater for interest rate risk to the extent that assets are not matched against liabilities. The Branch manages interest rate and other market risks pursuant to an asset and liability management policy that has regard to the Board's target surplus for capital as advised by the appointed actuary.

Interest rate risk sensitivity is disclosed in Note 3.

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

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 interest bearing [1]	**Total**
2015									
Assets									
Cash	23,250	-	-	-	-	-	-	-	23,250
Receivables	-	-	-	-	-	-	-	36,995	36,995
Investments	-	63,351	10,307	10,936	-	16,052	12,604	-	113,250
Total financial assets	**23,250**	**63,351**	**10,307**	**10,936**	-	**16,052**	**12,604**	**36,995**	**173,495**
Weighted average interest rate %	2.50%	2.74%	6.00%	5.00%	0.00%	6.00%	3.60%	0.00%	-
Liabilities									
Accounts payable	-	-	-	-	-	-	-	(5,131)	(5,131)
Total financial liabilities	-	-	-	-	-	-	-	**(5,131)**	**(5,131)**
Weighted average interest rate %	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-
Net financial assets	**23,250**	**63,351**	**10,307**	**10,936**	-	**16,052**	**12,604**	**31,864**	**168,364**
2014									
Assets									
Cash	16,053	-	-	-	-	-	-	-	16,053
Receivables	-	-	-	-	-	-	-	43,552	43,552
Investments	-	54,447	7,902	10,361	10,821	-	28,491	-	112,022
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%	4.50%	6.00%	5.00%	0.00%	4.93%	0.00%	-
Liabilities									
Accounts payable	-	-	-	-	-	-	-	(12,735)	(12,735)
Total financial liabilities	-	-	-	-	-	-	-	**(12,735)**	**(12,735)**
Weighted average interest rate %	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-
Net financial assets	**16,053**	**54,447**	**7,902**	**10,361**	**10,821**	-	**28,491**	**30,817**	**158,892**

[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 20.

20 Risk Management and Financial instruments disclosure (continued)

in thousands of New Zealand dollars	2015	2014
Reconciliation of net financial assets to net assets per balance sheet		
Net financial assets	168,363	158,892
Net liabilities arising under reinsurance arrangements	(36,606)	(31,290)
Other liabilities	(725)	(169)
Net assets	**131,032**	**127,433**

Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted and meet payment obligations.

Credit limits are assigned at Group level as well as by Business Unit, by corporate counterparty and country. These limits are based on a variety of factors, including the prevailing economic environment, the nature of the underlying credit exposures and a detailed internal assessment of the counterparty's financial strength, industry position and other qualitative factors. Group Risk Management is also responsible for regularly monitoring corporate counterparty credit quality and exposures, and compiling watch lists of cases that merit close attention.

Credit risk is managed and monitored by dedicated Credit Risk Management teams, supported by a Group-wide credit exposure information system that contains all relevant data, including counterparty details, ratings, credit risk exposures, credit limits and watch lists. All key credit practitioners have access to this system, thus providing the necessary transparency to implement specific exposure management strategies for individual counterparties, industry sectors and geographic regions.

A key counterparty risk for SRLHA occurs due to the use of retrocession, as large loss events or cumulative losses on retroceded portfolios may lead to a significant counterparty exposure. For SRLHA, the predominant counterparty exposure is to SRZ.

Credit Quality

The majority of investment assets are unsecured. However, the Branch 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 Branch also performs a review of doubtful debts in relation to outstanding premiums.

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

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

	AAA	AA	A	BBB	Other	Total
2015						
Cash and cash equivalents	18,972	4,278				23,250
Receivables					36,995	36,995
Debt securities		57,660	55,590			113,250
Total	**18,972**	**61,938**	**55,590**	-	**36,995**	**173,495**
2014						
Cash and cash equivalents	15,214	839				16,053
Receivables					43,552	43,552
Debt securities		77,110	34,912			112,022
Total	**15,214**	**77,949**	**34,912**	-	**43,552**	**171,627**

Past due but not impaired financial assets
The following table provides an ageing analysis of financial assets that are past due as at reporting date but not impaired.

		Due and past due but not impaired			
	Not yet due	Less than 31 days	31 - 60 days	61 - 90 days	Total
2015					
Receivables	16,643	1,345	176	2,597	**20,761**
2014					
Receivables	26,100	163	144	3,213	**29,620**

Liquidity Risk

Liquidity Risk is the risk that the Branch is not able to meet its debt obligations or other cash outflows as they fall due because of an inability to liquidate assets or obtain adequate funding when required.

Swiss Re's exposure to liquidity risk stems mainly from two sources: the need to cover potential extreme loss events and regulatory constraints that limit the flow of funds within the Group.

To manage liquidity risks, Swiss Re has a range of liquidity policies and measures in place. In particular, the Group aims to ensure that:

- Sufficient liquidity is held to meet funding requirements even under adverse circumstances
- Funding is charged and credited at an appropriate market rate through internal transfer pricing
- Diversified sources are used to meet Swiss Re's residual funding needs
- Long-term liquidity needs are taken into account in the planning process and in the management of financial market risk

Swiss Re's core liquidity policy is to retain sufficient liquidity, in the form of unencumbered liquid assets and cash, to meet potential funding requirements arising from a range of possible stress events. To allow for regulatory restrictions on intra-Group funding, liquidity is managed within groups of entities, known as liquidity pools. The amount of liquidity held in each pool is largely determined by internal liquidity stress tests, which estimate the potential funding requirements stemming from extreme loss events.

Group Treasury reviews liquidity positions for SRLHA semi-annually (or more frequently as necessary), to assess the liquidity sources and requirements. The results are reviewed by the CRO and reported to the Reinsurance Leadership Team and Board via the CRO Risk Update.

To ensure that the Branch has sufficient funds available, in the form of cash, liquid assets to meet its liquidity requirements, the Branch maintains available for sale assets that can be readily converted to meet its obligations.

Maturity of financial liabilities

The following table shows the estimated timing of future net cash outflows resulting from insurance contract liabilities. This includes estimated future surrenders, death/disability claims and maturity benefits, offset by expected future premiums and reinsurance recoveries. All values are discounted to the reporting date using the assumed future investment earning rate for each product.

	Up to 1 year	1-5 years	Over 5 years	Total
2015	(5,512)	62,493	141,866	**198,847**
2014	3,643	51,359	119,337	**174,339**

Derivative financial instruments

The Branch did not use derivative financial instruments during the year and at 31 December 2015 had no open derivative financial instrument contracts (2014: nil).

Operational risk

Operational risk arises from inadequate or failed internal processes, people or systems risks or external events, including compliance risk and financial reporting misstatement risk. These risks can also arise for SRLHA from its operational dependencies with the wider Swiss Re Group, and are considered and managed in the same way.

Since Swiss Re does not receive an explicit financial return for the operational risk inherent within business processes, the approach to managing operational risk differs from the approach applied to other risk classes. Swiss Re has implemented a methodology, based on the concept of three lines of defence, designed to achieve a strong, coherent and group wide operational risk culture built on the overriding principles of ownership and accountability. This methodology is implemented in SRLHA.

The ultimate goal of operational risk management is not to eliminate operational risk per se but to identify, assess, pre-emptively manage, and to cost effectively remediate where the risk exceeds SRLHA's tolerance for expected and/or potentially severe operational losses. When assessing operational risk, the primary decision is whether additional actions and resources are needed to reduce risk to desired levels, and that such decisions are properly reflected within risk assessments completed by responsible management (within self-assessments), based on a centrally coordinated methodology.

The management of operational risk at SRLHA is monitored using business Risk & Control Self-Assessments, which are prepared by the heads of all operating units reported to the Risk Management Committee half-yearly.

21 Cash flow information

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

in thousands of New Zealand dollars	2015	2014
Net profit/(loss) after tax	3,599	(3,999)
Add/(less) items classified as investing activities:		
Realised gain on investments	1,115	697
Unrealised gains on investments	(1,133)	(2,139)
Net cash provided/(used) by operating activities before change in assets and liabilities	**3,581**	**(5,441)**
Change in assets and liabilities excluding impact of foreign exchange revaluation:		
Decrease/(increase) in deferred tax	557	(1,380)
Decrease/(increase) in receivables	6,557	(11,404)
Increase in net life insurance contract liabilities	4,726	36,394
Increase in other assets	-	(6,551)
Decrease in creditors	(7,014)	(4,457)
Net cash provided by operating activities	**8,407**	**7,161**

(b) Cash and cash equivalents

in thousands of New Zealand dollars	2015	2014
Current assets		
Cash at bank and in hand	18,972	15,214
Deposits at call	4,278	839
Total	**23,250**	**16,053**

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.

22 Contingencies

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

23 Events occurring after the balance sheet date

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

24 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 33, which comprise the statement of financial position as at 31 December 2015, statement of comprehensive income and statement of changes in head office account 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 and providers of other related assurance services we have no relationship with, or interests in, the Branch.

Opinion

In our opinion, the financial statements on pages 1 to 33:

(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 2015, 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

Sydney
29 March 2016

I, Scott K Fergusson, am currently a member of the Institute 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 2015. I was responsible for the execution of the audit and delivery of our firm's auditors' report. The audit work was completed on 29 March 2016 and an unqualified opinion was issued.

SFergusson

S K Fergusson