Swiss Re

Annual Report 2016

Swiss Re Life & Health Australia Limited

New Zealand Branch

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Statement of Comprehensive Income

For the year ended 31 December

in thousands of New Zealand dollars	Notes	2016	2015
Revenue			
Premium revenue from life insurance contracts		109 522	113 260
Premium revenue ceded to retrocessionaires		(16 021)	(15 378)
Net premium revenue		**93 501**	**97 882**
Investment revenue	5	4 181	4 444
Other revenue	6	287	844
Net revenue		**97 969**	**103 170**
Expenses			
Claims expense on life insurance contracts	7	73 654	88 361
Claims recovered from retrocessionaires		(41 350)	(24 204)
Net claims expense		**32 304**	**64 157**
Increase in net life insurance contract liabilities	14(a)	11 209	4 726
Other expenses	8	22 296	30 132
Net claims and expenses		**65 809**	**99 015**
Net profit before tax		**32 160**	**4 155**
Income tax expense	10	(8 990)	(556)
Net profit after tax	4	**23 170**	**3 599**

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

Statement of Financial Position

As at 31 December

in thousands of New Zealand dollars	Notes	2016	2015
Assets			
Current assets			
Cash and cash equivalents	19(b)	8 791	23 250
Financial assets at fair value through profit and loss	11	163 207	113 250
Total current assets		**171 998**	**136 500**
Non-current assets			
Trade and other receivables	12	45 289	36995
Life insurance contract liabilities ceded under retrocession	14(a)	2	3
Income tax receivable	10	-	6254
Total non-current assets		**45 291**	**43 252**
Total assets		**217 289**	**179752**
Liabilities			
Current liabilities			
Trade and other payables	13	12 263	11 854
Provision for income tax	10	1 167	-
Total current liabilities		**13 430**	**11 854**
Non-current liabilities			
Life insurance contract liabilities assumed under retrocession	14(b)	41 095	29886
Deferred tax liabilities	10	8 562	6980
Total non-current liabilities		**49 657**	**36 866**
Total liabilities		**63 087**	**48720**
Net assets		**154 202**	**131032**
Equity			
Retained earnings	15	154 202	131032
Total equity		**154 202**	**131032**

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

in thousands of New Zealand dollars	Notes	2016	2015
Balance at 1 January		131 032	127 433
Net profit after tax	4	23 170	3 599
Balance at 31 December	**15**	**154 202**	**131 032**

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

Statement of Cash Flows

For the year ended 31 December

in thousands of New Zealand dollars	Notes	2016	2015
Cash flows from operating activities:			
Premiums received		107 953	122 120
Retrocession premiums paid		(13 410)	(24 476)
Interest received		6 409	5 521
Claim payments		(76 095)	(73 064)
Other expense payments		(22 042)	(43 344)
Retrocession recoveries received		34 762	21 650
Net cash provided by operating activities	19(a)	**37 577**	**8 407**
Cash flows from investing activities:			
Net investment securities purchased		(52 036)	(1 210)
Net cash used in investing activities		**(52 036)**	**(1 210)**
Net (decrease)/increase in cash held		**(14 459)**	**7 197**
Cash at the beginning of financial year		23 250	16 053
Cash at the end of financial year	19(b)	**8 791**	**23 250**

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:

Villian R Broadbent
Chairman

Mark Senkevics
Chief Executive Officer and Director

28 March 2017

Notes to the Financial Statements

1. Summary of significant accounting policies

Basis of preparation

The reporting entity is the New Zealand Branch of Swiss Re Life & Health Australia Limited ("the Branch"), 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 authoriative pronouncements and interpretations issued by the New Zealand Accounting Standards Board as appropriate for profit-oriented entities.

The financial statements have been prepared on a fair value basis in accordance with the requirements of the Financial Reporting Act 2013.

The operations within the Branch comprise the reinsurance of life insurance 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 2016 was authorised for issue by the Board of Directors on 28 March 2017. The directors have the power to amend the financial statements of the Branch.

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.

All policy contracts are non-investment linked and no contracts are related to investment linked policies or shareholder investments.

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.

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.

Premiums ceded to retrocessionaires

Premium ceded to retrocessionaires is recognised as an expense in accordance with the pattern of retrocession service received. Accordingly, a portion of premiums ceded to retrocessionaires is treated at the reporting date as a trade payable.

Claims recovered from retrocessionaires

Claims recovered from retrocessionaires are recognised as revenue for claims incurred. Amounts due from retrocessionaires are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims, adjusted for key contract terms.

Life insurance contract liabilities

Life insurance contract liabilities or policy 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 policyholders, 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.

Assets backing life insurance contracts

The Branch has determined that it at least holds sufficient investment assets including cash, shares and fixed interest securities held within its statutory funds to match policy liabilities. The Branch also holds investment assets in excess of those backing policy liabilities. Financial assets are classified at fair value through profit or loss. Financial assets are initially recognised at fair value and subsequently measured at fair value through profit and loss. 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.

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 Life insurance contract liabilities 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 of 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 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 – the costs involved with buying and selling investments and the ongoing management costs of an investment portfolio; or

Maintenance costs – all other expenses are considered to be incurred to administer existing life insurance and life investment contracts.

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 statement of financial position as a reduction in policy liabilities and are amortised through the Statement of Comprehensive Income over the expected duration of the relevant policies.

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.

Trade and other 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. Trade and other receivables are presented as current assets unless receipt is not due within 12 months after the reporting period.

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.

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

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction by the end of the reporting date. 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.

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 2016. 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 2018)

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. Management are aware of these changes and are working on the potential impacts on the Branch as a result of these proposed changes.

Exposure Draft (ED) 244 Insurance Contracts which 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 final standard (IFRS 17) is expected to be published in 2017, with a proposed effective date of 1 January 2021. 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.

The Branch intends to adopt the referenced accounting standards on their relevant adoption date.

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.

Rounding of amounts
Amounts in the financial statements have been rounded off to the nearest thousand dollars.

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.

Offsetting

Assets and liabilities, and income and expenses, must not be offset unless required or permitted by a New Zealand Accounting Standard. Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Currency

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

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.

Income taxes

The Branch is subject to income tax in New Zealand. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome differs from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

3. Actuarial methods and assumptions

The effective date of the actuarial report on the policyholder liabilities and prudential capital is 31 December 2016. The actuarial report, prepared by Mr Andrew Mead, BEc, FIAA. This report indicates that he is satisfied as to the accuracy of the data upon which policy liabilities have been determined.

The policy liabilities in the Appointed Actuary's report have been calculated in accordance with the New Zealand Society of Actuaries professional standard, PS3 Determination of life insurance policy liabilities.

Swiss Re Life & Health Australia Ltd was granted a licence in New Zealand by the Reserve Bank of New Zealand. 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

Policy liabilities in these financial statements have been determined in accordance with applicable accounting standards and in accordance with relevant actuarial and Prudential Standards. Policy liabilities have been calculated in a way which allows for the systematic release of planned margins as services are provided to policyholders and premiums received.

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 expected and expenses ("the margin") is recognised over the life of the contract in a manner that includes 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 investment contact liabilities are measured at fair value.

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 method
Conventional whole of life and endowment business; and Single premium business with lump-sum benefits	Projection method, using cash flows for all individual policies.

Valuation assumptions

Profit carriers

Claims are used as the profit carrier for all major product groups in order to achieve the systematic release of planned margins.

Discount rates

Risk-free rate of return, gross basis: based on the New Zealand Commonwealth Government bond yield curve as at 31 December 2016 ranging from 1.89% to 4.24% (2015: 2.59% to 4.22%).

Gross of tax rates are used for products where the risk component of premium is taxed.

Net of tax rates are used for all other products.

Rates of taxation

It has been assumed that future income will be taxed consistently with current tax legislation and a tax rate of 28% (2015: 28%).

Inflation rates

Allowance for future inflation: 2.8% (2015: 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.

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 2.6% to 5.0% (2015: 5.0% to 9.3%)

Expenses have been assumed at levels consistent with the actual expenses in 2016.

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	48%–102% of FSC 2012m for traditional and retail lump sum products (2015: 48%–102% of FSC 2012m)
Females	48%–102% of FSC 2012f for traditional and retail lump sum products (2015: 48%–102% of FSC 2012f)

Morbidity:

Incidence	between 67%–165% (2015: 67%–165%) of IAD 89–93 morbidity table
Termination	between 21%–119% (2015: 21%–140%) 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.

Discontinuance rates

Future rates of discontinuance which vary by product type are assumed to be in the order of:
Range of rates: 8%–21% (2015: 8%–17%)

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

Surrender values

Surrender value bases used by the cedants are assumed to apply to the future.

Investment expenses

Future investment management expenses are based on the rates agreed with the investment manager, which vary by class of asset and average 0.12% of assets (2015: 0.11%).

Effects of changes in actuarial assumptions from 31 December 2015 to 31 December 2016

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	675	1 701
Expense	(2 937)	(258)
Mortality	-	-
Morbidity	-	235
Other	6 618	7 928
Discontinuance rates	864	-
Total effect of changes	**5 220**	**9 606**
Amount at 31 December 2016 under old assumptions	190 830	29 884
Amount reported at 31 December 2016 under new assumptions	**196 050**	**39 490**

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 and morbidity. 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	A sustained change in mortality rates would result in an update of the best estimate mortality assumptions. An increase in best estimate mortality assumptions will increase the policy liability, driven by the group life products resulting in lower net assets.
Morbidity rates	A sustained change in morbidity incidence rates would result in an update of the best estimate morbidity assumptions. An increase in best estimate morbidity incidence assumptions will increase the policy liability, driven by the group total and permanent disability (TPD) and retail disability income products resulting in lower net assets. Morbidity includes TPD, trauma and disability income.
Discontinuance	A sustained change in discontinuance rates would result in an update of the best estimate discontinuance assumptions. Changes in discontinuance assumptions would have a small impact on gross policy liabilities driven by retail disability products.
Disability Claims Termination	A sustained change in termination rates would result in an update of the best estimate disability claims termination assumptions. An increase in termination rates would reduce policy liabilities, driven by retail disability and group salary continuance (GSC) products, resulting in higher net assets before retrocession.

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.

in thousands of New Zealand dollars	Change in variable	Policyholder liabilities	Investment assets(1)	Impact upon net profit after tax
Gross of retrocession				
Risk free bond rates	+100bps	17 008	(3 366)	(14 261)
	–100bps	(17 008)	2 790	13 858
Mortality	+10%	167	-	(117)
	–10%	(167)	-	117
TPD & Trauma incidence	+10%	266	-	(186)
	-10%	(266)	-	186
Disability claims incidence	+10%	7 926	-	(5 549)
	-10%	(7 926)	-	5 549
Disability claims termination	+10%	(52 666)	-	36 866
	–10%	60 238	-	(42 167)
Net of retrocession				
Risk free bond rates	+100bps	17 008	(3 366)	(14 261)
	–100bps	(17 008)	2 790	13 858
Mortality	+10%	167	23	(101)
	-10%	(167)	(23)	101
TPD & Trauma incidence	+10%	266	(139)	(283)
	-10%	(266)	139	283
Disability claims incidence	+10%	7 926	7 926	-
	–10%	(7 926)	(7 926	-

Disability claims termination	+10%	(50 589)	(50 589)	-
	−10%	57 763	57 763	-

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

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

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

4. Components of profit

in thousands of New Zealand dollars	2016	2015
Components of profit related to movement in life insurance contracts:		
Planned margins of revenues over expenses released	11 656	12 193
Difference between actual and assumed experience	8 429	(12 012)
Release/(capitalisation) of expected future losses	(6 899)	(15 434)
Retrocession recovery/(payment) relating to loss recognition	6 899	15 434
	20 085	**181**
Other components:		
Investment earnings on assets in excess of policy liabilities	3 085	3 418
Net profit/(loss) after tax	**23 170**	**3 599**

5. Investment revenue

in thousands of New Zealand dollars	2016	2015
Revenue derived from debt securities and deposits	6 260	4426
Realised and unrealised (losses) /gains derived from debt securities and deposits	(2 079)	18
Total investment revenue	**4 181**	**4444**

6. Other revenue

in thousands of New Zealand dollars	2016	2015
Interest on cash and cedant balances	287	844
Total other revenue	**287**	**844**

7. Claims expense on life insurance contracts

in thousands of New Zealand dollars	2016	2015
Death and disability claims	73 639	88081
Maturities, surrenders and terminations	15	280
Claims expense on life insurance contracts	**73 654**	**88361**

8. Other expenses

in thousands of New Zealand dollars	2016	2015
Life insurance contract liabilities:		
Policy acquisition expenses		
Commission	3 898	10 398
Operating expenses	749	2 483
Policy maintenance expenses		
Commission	14 665	13 783
Operating expenses	2 818	3 291
Investment management expenses	165	177
Total other expenses	**22 295**	**30 132**

9. Auditors' remuneration

The auditors' remuneration for the Branch is disclosed within the financial statements of Swiss Re Life & Health Australia Limited.

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% (2015: 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	2016	2015
Income Tax Expense		
Current tax		
(a) Current tax on profits for the year	7 422	-
(b) Adjustments for current tax of prior periods	(14)	-
Total current tax expense	**7 408**	**-**
Deferred income tax		
Increase in deferred tax liabilities	1 582	556
Total deferred tax expense	**1 582**	**556**
Income tax expense	**8 990**	**556**
Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from operations before income tax expense	32 160	4 155
Tax at the New Zealand tax rate of 28% (2015: 28%)	9 004	1 163
Taxable income:		
Tax effect of amounts which are not deductible (taxable) in calculating		
Non-assessable income	-	(607)
Adjustments for current tax of prior periods	(14)	-
Income tax expense	**8 990**	**556**
Analysis of deferred tax liability		
Tax losses	-	942
Reinsurance balances	210	210
Deferred tax liability on New Zealand acquisition costs	(8 772)	(8 132)
Closing deferred tax liability (1)	**(8 562)**	**(6 980)**
Deferred tax liability		
Opening balance	(6 980)	(6 423)
Deferred tax liability on New Zealand acquisition costs	(640)	771
Tax losses	(942)	(1 328)
Closing deferred tax liability	**(8 562)**	**(6 980)**

Current income tax (liability)/asset		
Opening balance	6 254	6 254
Current component of income tax expense	(7 421)	-
Closing balance	**(1 167)**	**6 254**

Deferred tax liability expected to be recovered after 12 months	(8 562)	(6 980)

(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	2016	2015
Debt security investments: New Zealand government (level 1)	163 207	113 250

Financial Assets are designated as fair value through profit and loss. The Branch has no assets that meet the definition of level 2 or level 3.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

Valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments where available.
- The use of redemption values for investments in other unlisted unit trusts as reported by the investment manager of such trusts.
- The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques.

These include use of recent arm's length market transaction, historical transaction values, reference to the current fair value of a substantially similar other instrument that provide a reliable estimate of prices obtained in active market transactions.

12. Trade and other receivables

in thousands of New Zealand dollars	2016	2015
Current		
Outstanding premiums	21 580	20 011
Amounts due from cedants and retrocessionaires	3 035	270
Amounts due from related parties - non technical	20 103	16 281
Investment income accrued and receivable	571	433
Total trade and other receivables	**45 289**	**36 995**

13. Trade and other payables

in thousands of New Zealand dollars	2016	2015
Current		
Reinsurance claims payable	4 282	6 723
Amounts due to cedants and retrocessionaires	337	611
Amounts due to related parties - non technical	7 212	4 436
Other creditors	432	84
Total trade and other receivables	**12 263**	**11 854**

14. Life insurance contract liabilities

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

in thousands of New Zealand dollars	2016	2015
Liabilities assumed under reinsurance		
Opening balance at 1 January	29 886	25 385
Net increase reflected in the statement of comprehensive income	11 209	4 501
Closing balance at 31 December	**41 095**	**29 886**
Liabilities ceded under reinsurance		
Opening balance at 1 January	(3)	(228)
Net increase reflected in the statement of comprehensive income	1	225
Closing balance at 31 December	**(2)**	**(3)**
Net life insurance contract liabilities at 31 December	**41 093**	**29 883**

14(b) Components of net life insurance contract liabilities

in thousands of New Zealand dollars	2016	2015
Future policy benefits	687 407	997 970
Future expenses	141 484	84 642
Planned margins of future revenues over expenses	193 077	190 830
Future revenues	(980 875)	(1 243 559)
Total net life insurance contract liabilities	**41 093**	**29 883**

15. Equity

in thousands of New Zealand dollars	2016	2015
Balance at 1 January	131 032	127 433
Net profit/(loss) after tax	23 170	3 599
Balance at 31 December	**154 202**	**131 032**

Total equity comprises of retained earnings. The movement in the retained earnings during the year represents the net profit after tax. There were no transfers of retained earnings in 2016.

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 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	2016	2015
Net assets	1 411 542	1 202 573
Regulatory adjustment applied in calculation of tier 1 capital	(242 989)	(220 433)
Tier 1 capital:		
Common equity tier 1 capital	1 085 796	902 436
Additional tier 1 capital	82 757	79 704
Tier 2 capital	-	-
(a) Capital base	**1 168 553**	**982 140**
Prescribed capital amount comprises:		
Insurance risk	334 171	316 880
Asset risk	71 032	60 436
Asset concentration risk	-	-
Operational risk	59 251	55 363
Aggregation benefit	(49 942)	(43 062)
Combined scenario adjustment	151 210	142 490
(b) Prescribed capital amount	**565 722**	**532 107**
Capital in excess of prescribed capital amount = (a)-(b)	602 831	450 033
Capital adequacy multiple (%)=(a)/(b)	207%	185%

17. Related party disclosures

Controlling entities

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

Related party transactions

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

in thousands of New Zealand dollars	2016	2015
Retrocession contracts with controlling entity – Swiss Reinsurance Company Ltd		
Outwards reinsurance expense	16 019	15 375
Reinsurance recoveries	(41 350)	(24 420)
Movement in life insurance contract liabilities	1	225
Net reinsurance recovery	**(25 331)**	**(8 820)**
Management and other expenses		
Ultimate controlling entity – Swiss Re Ltd	2 824	1 026
Controlling entity (1) – Swiss Reinsurance Company Ltd	62	3 013
Other related parties	1 148	133
Net management and other expenses	**4 034**	**4 172**
Investment management expense - Controlling entity	**157**	**127**

The related party balance sheet balances are disclosed in the relevant notes to the statements. The related party transactions have been disclosed on the basis on the terms and conditions of the arrangements with the specific related party. This varies by arrangement.

18. Risk management and financial instruments

Risk Management

The Branch implements its risk management system as part of the global framework that governs risk management practices throughout Swiss Re Group. The New Zealand Branch shares the same Risk Management framework as Swiss Re Life & Health Australia Ltd (SRLHA), which is in accordance with Prudential Standard CPS 220 Risk Management issued by the Australian Prudential Regulation Authority (APRA). SRLHA's policies and procedures for managing these risks are set out in this note and apply to both the Branch and the Australian operations.

The SRLHA Board of Directors is ultimately responsible for oversight over the operation of the Branch, including its risk management. It is supported in this by various key function-holders, including the Head of Finance ANZ, Chief Risk Officer ANZ, Compliance Officer and Appointed Actuary. The SRLHA Board Risk Committee, appointed by the Board, is the main body charged with oversight of the risk governance issues of the Branch. 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 the Branch and to act as an interface between the Branch 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, including the Branch.

The financial condition and operating results of the Branch are affected by a number of material risk categories including insurance (or underwriting) risk, financial market risk, credit risk, operational risk and liquidity risk. These risks could have a material impact, either financial or non-financial, on the Branch or on the interest of its stakeholders.

The Board and senior management of SRLHA develop, implement and maintain a Risk Management Strategy (RMS). It forms the core of SRLHA's Risk Management Framework, which seeks to manage risks within the Board's risk appetite, including a focus on potential adverse effects on the financial performance, capital and solvency of SRLHA. The RMS formalises SRLHA's approach to the management of risk by setting out:

- A Risk Appetite Statement (RAS);
- A summary of the clear roles and responsibilities for the management of risk;
- The mechanisms by which SRLHA determines its risk appetite and considers and manages new risks;
- The methodology used to identify, assess and manage risks and
- Reporting requirements for risk monitoring and the process for escalation where required.

The Board of SRLHA at least annually reviews and approves the RMS. Annually, the Board is required to report to APRA that adequate strategies have been put in place to monitor those risks and that the Board has satisfied itself on compliance with the RMS by submission of a Risk Management Declaration to APRA.

SRLHA has an Internal Capital Adequacy Assessment Process (ICAAP) that addresses the potential impact of all risk types to capital and solvency. Under the ICAAP, the authority to hold this risk is clearly delegated through the Board's RAS.

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 and
- 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.

The Branch 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:

- Insurance (or underwriting) risk
- Financial market risk
- Credit risk

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

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

Insurance Risk is the risk of incurring a financial loss from coverage provided for life and health risks. It arises from the business written by the Branch 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. ALM is reviewed regularly and implemented via the investment guidelines that apply to all of SRLHA including the Branch.

Financial Market Risk

Financial market risk 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. It is managed for SRLHA by Financial Risk Management, an independent corporate function. Financial market risk exists for policyholders and shareholders and is a fundamental characteristic of SRLHA's business including the Branch.

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 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

The Branch has an exchange risk as a result of intra-group services received from other group companies. It carries out all other transactions in New Zealand dollars.

Price Risk

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

Interest rate risk

Interest rate risk is the risk to the Branch's earnings arising from movements in 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 Branch. Management of those risks is decentralised according to the activity.

Investment assets are held to back life insurance contract liabilities, investment contract liabilities, retained profits and capital. Interest rate 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.

The interest rate risk of the Branch impacting the shareholder arises in respect of financial assets and liabilities held in the shareholder fund and 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 are subject to the relevant regulatory requirements governed by the RBNZ Insurance (Prudential Supervision) 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 SRLHA Board's target surplus for capital as advised by the Appointed Actuary.

Interest rate risk sensitivity is disclosed in Note 3.

Credit risk

Credit risk represents the potential of loss arising from failure of a debtor or counterparty to meet its contractual obligations or due to a credit downgrade of a counterparty. The Branch's maximum exposure to credit risk is the carrying amount of each recognised financial assets as indicated in the statement of financial position.

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 the Branch 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 the Branch, the predominant counterparty exposure is to Swiss Reinsurance Company Ltd in Zurich (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. This is managed through the investment guidelines set by the Board of SRLHA. 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.

in thousands of NZ dollars	AAA	AA	A	Other	Total
2016					
Cash and cash equivalents	-	7 431	1 360	-	8 791
Trade and other receivables	-	-	-	43 115	43 115
Accrued interest receivable	-	535	-	36	571
Debt Securities	-	46 894	116 313	-	163 207
Total	**-**	**54 860**	**117 673**	**43 151**	**215 684**
2015					
Cash and cash equivalents	18 972	4 278	-	-	23 250
Trade and other receivables	-	-	-	36 562	36 562
Debt securities	-	57 660	55 590	-	113 250
Accrued interest receivable	-	398	-	35	433
Total	**18 972**	**62 336**	**55 590**	**36 597**	**173 495**

The Branch does not have financial assets that have been impaired at either the 2016 or 2015 balance sheet dates.

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.

The Branch'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 to subsidiaries 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 and
- 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 semi-annually (or more frequently as necessary), to assess the liquidity sources and requirements.

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.

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 the Branch from its operational dependencies within 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, including the Branch.

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 the 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 the Company 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.

19. Cash flow information

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

in thousands of New Zealand dollars	2016	2015
Net profit after tax	23 170	3 599
(Deduct)/Add items classified as investing activities:		
Realised gains on investments	(1 669)	1 115
Unrealised gains on investments	3 748	(1 133)
Net cash provided by operating activities before change in assets and liabilities	**25 249**	**3 581**
Change in assets and liabilities excluding impact of foreign exchange revaluation:		
Increase in deferred tax	1 582	557
(Decrease)/increase in trade and other receivables	(8 294)	6 557
Increase in net life insurance contract liabilities	11 209	4 726
Decrease in income tax receivable	6 254	-
Increase/(decrease) in trade and other payables	409	(7 014)
Increase in the provision for income tax	1 168	-
Net cash provided by operating activities	**37 577**	**8 407**

(b) Cash and cash equivalents

in thousands of New Zealand dollars	2016	2015
Current assets		
Cash at bank and in hand	7 431	18 972
Deposits at call	1 360	4 278
Total	**8 791**	**23 250**

Deposits at call are presented as cash equivalents if they have a maturity of three months or less.

20. Events occurring after the statement of financial position date

The Branch has undertaken a material restructure of its retrocession programme effective 1 January 2017. The main material change to the structure is that the largest retrocession arrangement will change from a modified co-insurance basis to a co-insurance basis. The result is that the assets backing the insurance liabilities that have been retroceded under the existing arrangement which are on the Statement of Financial Position of the Branch will move to the Statement of Financial Position of the retrocessionaire, SRZ. In addition there are several commutations and recaptures which will impact the Branch.

These changes will result in a material reduction in the assets and liabilities of the Branch, however the entity will retain sufficient assets to meet policyholder liabilities and capital requirements. There will also be an impact on the income of the Branch due to the commutations and recapture fees related to the restructure. As of the date of this report the financial effects of these changes are not yet finalised.

21 Capital expenditure commitments

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

22. Contingencies

There are no contingent liabilities or assets to be reported.

Independent auditor's report

To the directors of Swiss Re Life & Health Australia Limited – New Zealand Branch

Swiss Re Life & Health Australia Limited – New Zealand Branch financial statements comprise:

- the statement of financial position as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion the financial statements of Swiss Re Life & Health Australia Limited (the Branch), present fairly, in all material respects, the financial position of the Branch as at 31 December 2016, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Branch in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor we have no relationship with, or interests in, the Branch.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Branch, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Branch's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Branch or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page6.aspx

Who we report to

This report is made solely to the Branch's Board of Directors, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's 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 Branch and the Branch's Board of Directors, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Rodney Balding.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants

Sydney

28 March 2017

I, Rodney Balding, am currently a member of the Institute of Chartered Accountants Australia and New Zealand and my membership number is 45745. 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 2016. I was responsible for the execution of the audit and delivery of our firm's auditors' report. The audit work was completed on 28 March 2017 and an unqualified opinion was issued.

R Balding

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