Swiss Re

Annual Report 2018

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	2018	2017
Revenue			
Premium revenue from life insurance contracts		258 323	109 722
Premium revenue ceded to retrocessionaires		(166 091)	(94 365)
Net premium revenue		**92 232**	**15 357**
Investment revenue	5	2 126	2 767
Other revenue	6	1 089 092	13 973
Net revenue		**1 183 450**	**32 097**
Expenses			
Claims expense		98 210	68 482
Claims recovered from retrocessionaires		(43 302)	(9 002)
Net claims expense		**54 908**	**59 480**
Decrease/(increase) in net life insurance contract liabilities	14(a)	16 749	(86 929)
Other expenses	7	1 090 517	27 286
Net claims and expense		**1 162 174**	**(163)**
Net profit before tax		**21 276**	**32 260**
Income tax expense	9	(5 958)	(9 050)
Net profit after tax	4	**15 318**	**23 210**

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

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Statement of Financial Position

As at 31 December

in thousands of New Zealand dollars	Notes	2018	2017
Assets			
Cash and cash equivalents	18	4 082	10 234
Trade and other receivables	11	95 080	25 931
Financial assets at fair value through profit and loss	10	85 730	130 952
Life insurance contract liabilities assumed under reinsurance	14	969 828	-
Retrocessionaires' share of life insurance contract liabilities	14	-	89 351
Current tax asset	9	1 779	-
Total assets		**1 156 499**	**256 468**
Liabilities			
Trade and other payables	12	87 704	18 002
Provision for income tax	9	-	5 795
Life insurance contract liabilities assumed under reinsurance	14	-	43 515
Retrocessionaires' share of life insurance contract liabilities	14	940 741	-
Deferred tax liabilities	9	11 848	11 744
Total liabilities		**1 040 293**	**79 056**
Net assets		**116 206**	**177 412**
Equity			
Retained earnings		116 206	177 412
Total equity		**116 206**	**177 412**

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	2018	2017
Balance at 1 January		177 412	154 202
Net profit after tax	4	15 318	23 210
Repatriation of assets		(76 524)	-
Balance at 31 December		**116 206**	**177 412**

A repatriation of assets occurred in 2018 for $76.5 million (2017: nil).

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

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Statement of Cash Flows

For the year ended 31 December

in thousands of New Zealand dollars	Notes	2018	2017
Cash flows from operating activities:			
Premiums received		195 057	113 670
Premiums retroceded		(91 697)	(95 659)
Interest received		3 734	4 240
Claims and other technical expense payments		(1 115 310)	(85 331)
Claims and other technical expense retroceded		1 041 355	41 084
Other retrocession commissions and expenses		9 121	(6 536)
Other expense payments		(4 544)	(111)
Income tax paid		(13 428)	(1 239)
Other revenue received		1 632	767
Net cash provided/(utilised) by operating activities	18	**25 920**	**(29 115)**
Cash flows from investing activities:			
Proceeds from the sale of financial assets		219 056	240 495
Payments for financial assets		(174 604)	(209 937)
Net cash provided by investing activities		**44 452**	**30 558**
Cash flows from financing activities			
Repatriation of assets		(76 524)	-
Net cash utilised by financing activities		**(76 524)**	**-**
Net (decrease)/increase in cash held		**(6 152)**	**1 443**
Cash at the beginning of financial year		10 234	8 791
Cash at the end of financial year	18	**4 082**	**10 234**

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

26 March 2019

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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 authoritative pronouncements and interpretations issued by the New Zealand Accounting Standards Board (NZASB) 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 Markets Conduct Act 2013.

The operations within the Branch comprise the reinsurance of life insurance contracts.

The Branch, 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 2018 was authorised for issue by the Board of Directors on 26 March 2019. 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, 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 are recognised as revenue on an accrual basis, details of the methods used and assumptions made are set out in note 2.

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 expected 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 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. Measurement at fair value of assets backing policy liabilities is consistent with how investment assets are managed and their performace is evaluated. 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;
- Debt securities, and other market traded securities are valued at the price the instrument could be sold into an active market, which is usually represented by the latest bid price for such an instrument. Where active market data is not available, the valuation is determined with reference to broker quotes, cashflow modeling or other valuation techniques commonly used by market participants for the same or similar assets and which are considered to be appropriate estimates of prices that would be reasonable in active market situations.
- Receivables are carried at book value, which is the best estimate of fair value, as they are generally settled within 12 months or less.

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, under 'Other expenses'. 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, recognised 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
Trade and other receivables are carried at cost which is the best estimate of fair value, as they are usually settled within twelve months and subsequently subject to impairment testing. Impairment testing is based on collectability of receivables and is reviewed on an ongoing basis. An impairment charge is recognised when there is objective evidence that the Branch will not be able to collect all amounts due according to the original terms of the contracts. The impairment charge is recognised in the Statement of Comprehensive Income.

Cash and cash equivalents
For the purposes of the statement of cash flow, cash and cash equivalents includes cash in banks, and money market investments with an original maturity of three months or less that are readily convertible to cash and which are subject to an insignificant risk of change in value, held to meet the Branch's operational cash requirements.

Income tax
The income tax expense or benefit for the year is the tax payable on the current period's taxable income based on the prevailing 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.

Income tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable (or refundable) on the taxable income for the year, using tax rates enacted or substantially enacted at the year-end date, and any adjustment to tax payable in respect of previous year.

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.

Trade and other payables
Trade and other payables are carried at cost which is the best estimate of fair value as they are usually settled within twelve months. These amounts represent liabilities for goods and services provided to the Branch prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

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 Statement of Financial Position. 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.

Comparative information
Certain comparatives have been re-presented to be consistent with current year's presentation.

Future Accounting Developments

New and amended standards adopted by the Branch

- NZ IFRS 9 'Financial Instruments' introduces changes for the classification, measurement and impairment of financial assets together with simplifications to hedge accounting. NZ IFRS 9 is applicable to annual reporting periods beginning on or after 1 January 2018.

  The Branch adopted the requirements of NZ IFRS 9 on 1 January 2018. The adoption of NZ IFS 9 had no material impact on results and financial position of the Branch.

  The Branch's investments are currently designated as fair value through profit or loss on initial recognition and are subsequently remeasured to fair value at each reporting date, reflecting the Branch's business model for managing and evaluating the investment portfolio. Adoption of NZ IFRS 9 did not result in any changes to accounting for these investments. Financial assets within the scope of NZ IFRS 4, such as premiums receivable and amount due from retrocessionaires, which together form the majority of the carrying value of the Branch's trade and other receivables, as well as life insurance contract assets assumed under reinsurance and retrocessionaires' share of life insurance contract liabilities are outside the scope of NZ IFRS 9 and are unaffected by the new requirements. Trade and other receivables also includes other financial assets with a relatively small carrying value which are measured at amortised cost, all of which are receivable within 12 months. The application of NZ IFRS 9 has not materially impacted these balances.

  Financial liabilities within the scope of NZ IFRS 9, such as amounts due to cedants and claims payable, which together form the majority of the carrying value of the Branch's trade and other payables, as well as life insurance contract assets assumed under reinsurance and retrocessionaires' share of life insurance contract liabilities are outside the scope of NZ IFRS 9 and are therefore unaffected by the new requirements. Trade and other payables also includes other financial liabilities measured at amortised cost arising from the Branch's activities, the accounting for which is materially unchanged by NZ IFRS 9.

- NZ IFRS 15 'Revenue from Contracts with Customers' introduces a single model for the recognition of revenue based on when control of goods and services transfers to a customer. NZ IFRS 15 is applicable to annual periods beginning on or after 1 January 2018. This does not apply to insurance contracts and financial instruments thus the Branch's revenue is not materially impacted by this change.

New standards and interpretations not yet effective

- NZ IFRS 17 'Insurance Contracts' introduces three new measurement approaches for accounting for insurance contracts. These include the Building Block Approach for long term contracts; the Premium Allocation Approach for short term contracts and a Variable Fee Approach for direct participating contracts. In addition, the level of contract aggregation is likely to be lower than under current practices.

  An entity may elect to early adopt NZ IFRS 17 however the Branch has not taken this option and will therefore adopt this standard on 1 January 2021. On 14 November 2018, the IASB proposed the deferral of the IFRS 17 adoption to 1 January 2022 and to extend the temporary exemption from adopting IFRS 9 for insurance companies. NZASB's Board has not yet made any pronouncement in this regard.

  The Branch is currently undertaking a multi-phase project to implement IFRS 17. This is a significant undertaking both in levels of complexity and interpretation of the new standard.

  The IASB has recently announced that it will propose some amendments to the standards following a number of concerns raised by the insurance industry worldwide. These amendments are not expected to be finalised before the end of 2019, leading to uncertainty at this point around both financial and operational impacts upon adoption.

- NZ IFRS 16 'Leases' requires recognition of all leases on the statement of financial position in the form of a right-of-use asset and a corresponding lease liability, except for leases of low value assets and leases with a term of twelve months or less. The Branch does not have any leases thus the Branch's results are not impacted by this change.

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

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.

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.

Retrocessionaires share of life insurance contract liabilities is also computed using the above method.

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 year-end 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

An actuarial report on policy liabilities and prudential capital as at 31 December 2018 is prepared by the Appointed Actuary Mr Michael Fowlds FIAA, FFA. 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.

SRLHA 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 expected claims 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 (refer to note 1).

Methods adopted for each of the major product groups:

Product Group:	*Method:*
Traditional non-participating life and 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 present value of future payments and premiums due

Valuation assumptions

Discount rates

Risk-free rate of return, gross basis: this has been based on using the New Zealand Government bond yield curve as at 31 December 2018.

Range of discount rates 1.58% to 2.68% (2017: 1.76% to 3.38%).

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.

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 1.0% to 2.1% (2017: 2.4% to 4.7%).

Future expenses have been assumed at levels consistent with 2019 planned expenses.

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 are:

Mortality:	
Males	48% - 102% of FSC 2012m for traditional and retail lump sum products (2017: 48% - 102% of FSC 2012m).
Females	48% - 102% of FSC 2012f for traditional and retail lump sum products (2017: 48% - 102% of FSC 2012f).

Morbidity:	
Incidence	between 83% - 191% of FSC 07–11 morbidity table (2017: 79% - 155% of FSC 07-11 morbidity table).
Termination	between 67% - 127% of FSC 07–11 morbidity table (2017: 69% - 159% of FSC 07-11 morbidity table).

Morbidity (Total and Permanent Disability (TPD)/Trauma)

Incidence between 100% - 200% FSC 2012 TPD/Trauma tables (2017: between 130% - 200% FSC 2012 TPD/ Trauma tables).

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 5% - 20% (2017: 8% - 20%).

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

Disability Income Escalation rate

Allowance for Disability Income escalation rate:

- New Zealand Retail Disability 2.30% (2017: 2.30%)
- New Zealand Group Salary Continuance 1.85% (2017: 1.85%)

The claims escalation rate for disability income payments post-disablement are derived based on current inflation rates, the outlook for inflation rate over the term of the liabilities and market implied inflation rates relative to the assumed earning rates.

Profit carriers

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

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 (2017: 0.12%).

Effects of changes in actuarial assumptions from 31 December 2017 to 31 December 2018

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

in thousands of New Zealand dollars	Profit Margins Increase/(decrease)	Policy Liabilities Increase/(decrease)
Assumption Change		
Discount rates	8 755	2 253
Expense	11 474	-
Mortality	(8 366)	-
Morbidity	26 091	-
Data change	(12 934)	26 210
Model/Methodology/System change	(2 418)	-
Other	2 050	(11 714)
Total effect of changes	**24 652**	**16 749**
Amount at 31 December 2017	209 849	(45 836)
Amount reported at 31 December 2018 under new assumptions	**234 501**	**(29 087)**

Effects of changes in actuarial assumptions from 31 December 2016 to 31 December 2017

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

in thousands of New Zealand dollars	Profit Margins Increase/(decrease)	Policy Liabilities Increase/(decrease)
Assumption Change		
Discount rates	10 428	966
Expense	1 747	-
Discontinuance rates	1 958	-
Retrocession restructure	4 088	(70 407)
Data change	(775)	(17 488)
Model/Methdology/System change	(580)	-
Other	(3 067)	-
Total effect of changes	**13 799**	**(86 929)**
Amount at 31 December 2016	196 050	41 093
Amount reported at 31 December 2017 under new assumptions	**209 849**	**(45 836)**

Sensitivity analysis

The Branch conducts sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables such as discount rate, 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
Discount rate	A decrease in the discount rate will reduce the policy liability. The overall impact on profit and shareholders equity depends on the impact on asset values.
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 profit.
TPD & trauma incidence	A sustained change in TPD and Trauma 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 TPD and group Trauma resulting in lower profit.
Disability claims incidence	The cost of disability income claims depends on both the incidence of policyholders becoming ill and the duration which they remain ill. An increase in the incidence rates or duration would increase claim costs and policy liabilities, resulting in lower profit.
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 profit.
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. An increase in lapse assumptions would increase the policy liabilities for retail disability products issued by the Branch, resulting in higher profit.

The table below illustrates how permanent changes in key variables would impact the reported financial position at year-end 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	Impact on Policy Liabilities		Impact upon Profit and Equity after Tax	
2018		**Gross of reinsurance**	**Net of reinsurance**	**Gross of reinsurance**	**Net of reinsurance**
Discount rate	+100bp	43 777	(4 192)	(31 519)	3 018
	−100bp	(43 777)	4 192	31 519	(3 018)
Mortality	+10%	28	28	(20)	(20)
	−10%	(28)	(28)	20	20
TPD & Trauma incidence	+10%	312	312	(225)	(225)
	−10%	(312)	(312)	225	225
Disability claims incidence	+10%	7 670	-	(5 523)	-
	−10%	(7 689)	-	5 536	-
Disability claims termination	+10%	(9 914)	-	7 138	-
	−10%	11 605	-	(8 356)	-

in thousands of New Zealand dollars	Change in Variable	Impact on Policy Liabilities		Impact upon Profit and Equity after Tax	
2017		**Gross of reinsurance**	**Net of reinsurance**	**Gross of reinsurance**	**Net of reinsurance**
Discount rate	+100bp	(13 846)	11 589	9 969	(8 344)
	−100bp	13 846	(11 589)	(9 969)	8 344
Mortality	+10%	106	106	(76)	(76)
	−10%	(106)	(106)	76	76
TPD & Trauma incidence	+10%	223	223	(160)	(160)
	−10%	(223)	(223)	160	160
Disability claims incidence	+10%	15 780	-	(11 362)	-
	−10%	(15 780)	-	11 362	-
Disability claims termination	+10%	(11 226)	-	8 083	-
	−10%	12 951	-	(9 325)	-

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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, inflation, discontinuance rates, and maintenance expenses incurred.

4. Components of profit

in thousands of New Zealand dollars	2018	2017
Components of profit related to movement in life insurance contracts:		
Planned margins of revenues over expenses released	14 970	15 729
Difference between actual and assumed experience	(1 183)	5 322
Capitalisation of expected future losses	17 572	(4 538)
Retrocession recovery relating to loss recognition	(17 572)	4 538
	13 787	**21 051**
Other components:		
Investment earnings on assets in excess of policy liabilities	1 531	2 159
Net profit after tax	**15 318**	**23 210**

5. Investment revenue

in thousands of New Zealand dollars	2018	2017
Interest on debt securities and deposits	2 896	4 464
Realised and unrealised losses	(770)	(1 697)
Total investment revenue	**2 126**	**2 767**

6. Other revenue

in thousands of New Zealand dollars	2018	2017
Interest on cash and cedant balances	154	204
Commission income from retrocession	1 078 604	11 959
Other retrocession commissions and expenses	9 584	1 810
Other	750	-
Total other revenue	**1 089 092**	**13 973**

7. Other expenses

in thousands of New Zealand dollars	2018	2017
Life insurance contract liabilities:		
Policy acquisition expenses		
Commission expense	1 056 662	1 738
Operating expenses	4 380	255
Policy maintenance expenses		
Commission expense	28 545	21 071
Operating expenses	778	3 097
Investment management expenses	142	231
Other	10	894
Total other expenses	**1 090 517**	**27 286**

8. Auditors' remuneration

The auditors' remuneration for the Branch is included within the financial statements of SRLHA.

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9. Income tax

Income tax expense 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% (2017: 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	2018	2017
Income Tax Expense		
Current tax		
Current tax on profits for the year	(5 854)	(5 867)
Total current tax expense	**(5 854)**	**(5 867)**
Deferred income tax		
Increase in deferred tax liabilities	(104)	(3 183)
Total deferred tax expense	**(104)**	**(3 183)**
Income tax expense	**(5 958)**	**(9 050)**
Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from operations before income tax expense	21 276	32 260
Tax at the New Zealand tax rate of 28% (2017: 28%)	(5 957)	(9 033)
Tax effect of amounts which are not deductible in calculating taxable income	(1)	(17)
Income tax expense	**(5 958)**	**(9 050)**
Analysis of deferred tax liability		
Reinsurance balances	-	(210)
Deferred tax liability on New Zealand acquisition costs	11 848	11 954
Closing deferred tax liability[1]	**11 848**	**11 744**
Deferred tax liability		
Opening balance	11 744	8 562
Reinsurance balances	210	-
Deferred tax liability on New Zealand acquisition costs	(104)	3 182
Other	(2)	-
Closing deferred tax liability	**11 848**	**11 744**
Deferred tax liabilities expected to be settled within 12 months	592	587
Deferred tax liabilities expected to be settled after 12 months	11 256	11 157
Current income tax (assets)/liability		
Opening balance	5 795	1 167
Current component of income tax expense	5 854	5 867
Tax paid during current year	(13 428)	(1 239)
Closing balance	**(1 779)**	**5 795**
Current tax (assets)/liabilities expected to be settled within 12 months	(1 779)	5 795

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

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10. Financial assets at fair value through profit and loss

in thousands of New Zealand dollars	2018	2017
Debt security investments: New Zealand government (level 1)	85 730	130 952
Balances maturing within 12 months	60 278	61 425

Credit ratings of financial assets are disclosed in Note 17.

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

Level 1 financial assets are financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities). The fair value 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.

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.

11. Trade and other receivables

There are no trade and other receivables as at 31 December 2018 (2017: nil) that have been assessed as impaired.

in thousands of New Zealand dollars	2018	2017
Outstanding premiums	80 898	17 633
Amounts due from retrocessionaires - controlling entity	13 080	6 459
Investment income accrued and receivable	161	999
Amounts due from related parties	829	-
Other debtors	112	840
Total trade and other receivables	**95 080**	**25 931**
Balance expected to be received within 12 months	**70 722**	**25 931**

12. Trade and other payables

in thousands of New Zealand dollars	2018	2017
Claims payable	3 396	3 275
Amounts due to cedants	75 649	7 663
Amounts due to related parties	1 526	6 990
Other creditors	7 133	74
Total trade and other payables	**87 704**	**18 002**
Balance expected to be settled within 12 months	**63 346**	**18 002**

13. Offsetting

The Branch is part of retrocession agreements with Swiss Reinsurance Company Ltd. These agreements entitle the counterparties to offset balances due and settle on a net basis. The following table lists out balances offset on the Statement of Financial Position:

in thousands of New Zealand dollars	2018	2017
Balances setoff		
Premiums ceded under retrocession	(78 967)	(4 575)
Claims and other technical expenses ceded under retrocession	86 605	6 055
Other retrocession commissions and expenses	5 442	4 979
Amounts due from cedants and retrocessionaires - controlling entity	**13 080**	**6 459**

14. Life insurance contract liabilities

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

in thousands of New Zealand dollars	2018	2017
Life insurance contract assets/(liabilities) assumed under reinsurance		
Opening balance at 1 January	(43 515)	(41 095)
Increase/(decrease) reflected in the statement of comprehensive income	1 013 343	(2 420)
Closing balance at 31 December[1]	**969 828**	**(43 515)**
Retrocessionaires' share of life insurance contract assets/(liabilities)		
Opening balance at 1 January	89 351	2
(Decrease)/increase reflected in the statement of comprehensive income	(1 030 092)	89 349
Closing balance at 31 December[1]	**(940 741)**	**89 351**
Net life insurance contract assets as at 31 December	**29 087**	**45 836**

[1]Life insurance contract liabilities assumed under reinsurance and retrocessionaires' share of life insurance contract liabilities include the deferral of acquisition costs paid to cedents and reimbursed by the retrocessionaire in relation to two transactions incepted in 2018.

14 (b) Components of net life insurance contract assets

in thousands of New Zealand dollars	2018	2017
Future policy benefits	(607 596)	(617 195)
Future expenses	(97 748)	(117 615)
Planned margins of future revenues over expenses	(234 501)	(201 672)
Future revenues	968 932	982 318
Total net life insurance contract assets	**29 087**	**45 836**
Net life insurance contract assets/(liabilities) to be realised within 12 months	**172 498**	**(3 560)**

15. Solvency

In accordance with section 59 of the Insurance Prudential Supervision Act 2010, SRLHA 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 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 SRLHA, of which the New Zealand Branch is a subset.

in thousands of New Zealand dollars	2018	2017
Net assets	1 238 059	1 622 922
Regulatory adjustment applied in calculation of tier 1 capital	(283 870)	(305 916)
Tier 1 capital:		
Common equity tier 1 capital	875 466	1 234 545
Additional tier 1 capital	78 722	82 461
Tier 2 capital	-	-
Capital base	**954 188**	**1 317 006**
Prescribed capital amount comprises:		
Insurance risk	225 510	231 534
Asset risk	85 642	78 245
Asset concentration risk	89 130	-
Operational risk	39 852	39 644
Aggregation benefit	(54 414)	(50 980)
Combined scenario adjustment	91 992	96 258
Prescribed capital amount	**477 712**	**394 701**
Capital in excess of prescribed capital amount	476 476	922 305
Capital adequacy multiple (%)	200%	334%

16. Related party disclosures

Controlling entities

The immediate controlling entity is Swiss Re Australia Ltd (SRAUL), a company incorporated in Australia. The controlling entity of SRAUL is Swiss Re Asia Holding Pte. Ltd, a company incorporated in Singapore. On 30 November 2018, SRAUL was sold by Swiss Reinsurance Company Ltd to Swiss Re Asia Holding Pte Ltd. There was no material impact on the operations of the Company as a consequence of this transaction. The ultimate controlling entity is Swiss Reinsurance Company 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	2018	2017
Retrocession contracts with ultimate controlling entity		
Outwards reinsurance expense	(166 098)	(95 259)
Reinsurance recoveries and commission income	1 131 490	22 771
Movement in life insurance contract liabilities	(1 030 094)	89 349
Net reinsurance (expense)/recovery	**(64 702)**	**16 861**
Management and other expenses with other related parties		
Management and other expenses	(4 222)	(3 376)
Investment management expenses	(131)	(7 904)
Management and other expenses	**(4 353)**	**(11 280)**

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

17. 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 SRLHA, which is in accordance with Section 73 of the Insurance (Prudential Supervision) Act 2010 and Prudential Standard CPS 220 Risk Management issued by 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 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 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 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 Branch's policies and procedures for managing these risks are set out in this note.

In accordance with the Risk Management Programme Guideline issued by the Reserve Bank of New Zealand, dated December 2012, 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 reviews at least annually 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:

Underwriting risk

Underwriting risk is the risk of loss where the underwriting decision inappropriately accepts, or rejects a risk. The Branch's underwriting philosophy is to ensure that insurance risk is only accepted consistent with risk appetite and chosen pricing terms. Key controls in the underwriting process include the application and maintenance of the delegation of authority framework, and underwriting policy and associated rules and guidelines.

Retrocession management

Retrocession is used to manage the volatility of insurance risk and to limit the exposure to significant, individual or aggregated risks or risk concentrations.

The credit risk section of this note provides information about the Branch's credit risk exposure in respect if retrocession receivables at the year-end date

Claims management and review of claims liabilities

The Branch has a documented claims management policy, claims procedures and claims delegation of authority framework. Claims are subject to the following controls:

- processes to ensure all liabilities are captured, updated on a timely basis and paid to the extent of the sum insured once they have been assessed for their eligibility; and
- total claims liabilities are reviewed and validated by an actuary and reviewed on a minimum annual basis by the Appointed Actuary

The Branch's approach to determining policy liabilities and the related sensitivities is set out in note 3 actuarial methods and assumptions.

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 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, which include the branch, 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 Statement of Financial Position. 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, equity and other market 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 charges received from other group companies. It carries out all other transactions in New Zealand dollars.

Equity and Other Market Price Risk
The Branch's exposure to equity securities price risk arises from the change in fair value of investments held by the branch as a result of changes in levels of equity indices and the value of individual shares. Price risk also exists for unit trust investments held by the Branch whereby trust exit prices are impacted by equity, property and other prices changes in the trusts' investment portfolios.

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.

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.

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.

The following table summarises how changes in interest rates would impact the Branch's profit after income tax and equity as a consequence of changes in interest rates impacting investment assets.

In thousands of New Zealand dollars	Change in variable	Impact on Profit after Income Tax and equity	
		2018	2017
Adverse change in risk variable:			
Interest rates	+1%	(504)	(792)
Favourable change in risk variable:			
Interest rates	-1%	504	792

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.

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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.

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). The net exposure to SRZ at 31 December 2018 is $928 million dollars (2017: $96 million dollars).

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 amounts due from clients.

The following table is a summary of credit ratings for financial assets.

in thousands of New Zealand dollars	AAA	AA	A	Not rated	Total
2018					
Cash and cash equivalents	-	3 801	281	-	4 082
Trade and other receivables	-	13 241	-	81 839	95 080
Financial assets at fair value through profit and loss	60 278	25 452	-	-	85 730
Life insurance contract liabilities assumed under reinsurance	-	695 896	321 714	(47 782)	969 828
Total	**60 278**	**738 390**	**321 995**	**34 057**	**1 154 720**

in thousands of New Zealand dollars	AAA	AA	A	Not rated	Total
2017					
Cash and cash equivalents	-	8 322	1 912	-	10 234
Trade and other receivables	-	7 458	-	18 473	25 931
Financial assets at fair value through profit and loss	61 425	69 527	-	-	130 952
Retrocessionaire's share of life insurance contract liabilities	-	89 351	-	-	89 351
Total	**61 425**	**174 658**	**1 912**	**18 473**	**256 468**

The Branch does not have financial assets that have been impaired at either the 2018 or 2017 year-end 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.

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.

The following table summarises the maturity profile of the Branch's financial liabilities at the respective year-end dates, based on undiscounted contractual obligations remaining.

in thousands of New Zealand dollars	Carrying value	Undiscounted contractual obligations remaining Up to 1 year	1 to 5 years	Greater than 5 years	Total
2018					
Trade and other payables	87 704	63 346	24 358	-	**87 704**
Life insurance contract liabilities assumed under reinsurance	(969 828)	(175 232)	177 787	(1 211 563)	**(1 209 008)**
Retrocessionaires' share of life insurance contract liabilities	940 741	169 976	(172 455)	1 175 226	**1 172 747**
Total	**58 617**	**58 090**	**29 690**	**(36 337)**	**51 443**

in thousands of New Zealand dollars	Carrying value	Undiscounted contractual obligations remaining Up to 1 year	1 to 5 years	Greater than 5 years	Total
2017					
Trade and other payables	18 002	18 002	-	-	**18 002**
Life insurance contract liabilities assumed under reinsurance	43 515	3 622	17 530	19 369	**40 521**
Total	**61 517**	**21 624**	**17 530**	**19 369**	**58 523**

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 Branch 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.

18. Cash flow information

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

in thousands of New Zealand dollars	2018	2017
Net profit after tax	15 318	23 210
Add items classified as investing activities:		
Net realised and unrealised losses	770	1 697
Net cash provided by operating activities before change in assets and liabilities	**16 088**	**24 907**
Change in assets and liabilities excluding impact of foreign exchange revaluation:		
Increase in deferred tax liabilities	104	3 182
(Increase)/decrease in trade and other receivables	(69 149)	15 663
Increase/(decrease) in net life insurance contract liabilities	16 749	(86 929)
Increase in trade and other payables	69 702	9 434
(Decrease)/increase in the provision for income tax	(7 574)	4 628
Net cash provided/(utilised) by operating activities	**25 920**	**(29 115)**

Cash and cash equivalents

in thousands of New Zealand dollars	2018	2017
Current assets		
Cash at bank	3 801	8 322
Deposits at call	281	1 912
Total	**4 082**	**10 234**

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

19. Events occurring after the year-end date

No matter or circumstance that has occurred since the end of the financial year has significantly affected or may significantly affect the operations of the Branch, the result of those operations or the state of affairs of the Branch in subsequent financial years.

20. Capital expenditure commitments

The Branch has not entered into any contracts for capital expenditure which have not been provided for in the financial statements.

21. Contingencies

There are no contingent liabilities or assets to be reported.

Independent auditor's report

To the shareholders of Swiss Re Life and Health Australia Limited - New Zealand Branch

The financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cashflows 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 and Health Australia Limited - New Zealand Branch (the Branch), present fairly, in all material respects, the financial position of the Branch as at 31 December 2018, 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.

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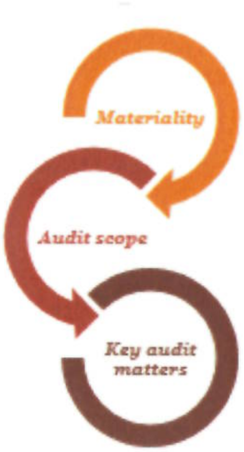
Our audit approach

Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall materiality: $2.5 million, which represents approximately 1% of the Branch's total revenue.

We chose total revenue because, in our view, it is the benchmark against which the performance of the Branch is most commonly measured by users, and is a generally accepted benchmark. We used a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

We have determined that there are three key audit matters:

- Revenue recognition for estimated premium
- Accounting for large transactions
- Valuation of life insurance contract liabilities

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Branch, the accounting processes and controls, and the industry in which the Branch operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

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Key audit matter	How our audit addressed the key audit matter
Revenue recognition for estimated premium Life insurance contract 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 Branch. Subsequent premium receipts may be less than, or greater than, the estimates recorded at the balance sheet date. Revenue recognition for estimated premium was a key audit matter due to the level of judgement involved in the estimation of these premiums.	Our procedures included evaluating and testing the design and operating effectiveness of certain key controls over the premium estimation process. To evaluate the reasonability of estimated premium recognised at 31 December 2018, we performed the following procedures for a sample of estimated premiums: • compared prior year estimated premiums to actual data subsequently received from cedants to assess the robustness of management's estimation process; • assessed the methodology and assumptions utilised for the estimation of the premium; and • compared estimated premiums booked to cedant data received post year end, wherever possible.
Accounting for large transactions During 2018, the Branch entered into two new large reinsurance treaties. These treaties reinsure the risks of the cedants on a quota share basis, and are 100% retroceded. These treaties involve a significant outlay of upfront commission in relation to business that will be generated over a period of time. A significant amount of premium is expected to be generated in a calendar year from these two treaties. The execution of these treaties significantly increased the size, complexity and the volume of business written by the Branch in 2018. Accounting for these large transactions was a key audit matter due to the significance of these transactions to the Branch's operation, performance and financial position.	Our audit procedures over the accounting of these two transactions included: • reading the reinsurance and retrocession agreements for key terms and conditions; • reading management's accounting memorandum for the appropriateness of the accounting treatment adopted; • corroborating the outlay of upfront commissions to the reinsurance and retrocession agreements, subsequent correspondence with cedants, and bank records; • testing the initial recognition and subsequent amortisation of Deferred Acquisition Costs; • testing a sample of premiums to source records and checking they are recognised in line with applicable accounting standards; and • with assistance of PwC actuarial experts, assessing the reasonability of the methodology and assumptions underlying management's estimation of life insurance contract liabilities and the corresponding retrocession recoverables.

Key audit matter	How our audit addressed the key audit matter
Valuation of life insurance contract liabilities The estimation of life insurance contract liabilities involves significant judgement given the size of the liability and the inherent uncertainty in estimating the expected future payments for claims. The valuation of life insurance contact liabilities was a key audit matter due to the higher level of estimation and judgement required in determining the appropriateness of the assumptions used in valuing the liability. In determining the valuation of the liabilities, the key actuarial assumptions made by the Branch's experts include: • discount rates; • future maintenance and acquisition expenses; • mortality and morbidity rates; • discontinuance rates; and • surrender values.	To assess the methodologies and assumptions used to determine the value of life insurance contract liabilities we, along with PwC actuarial experts, performed the following audit procedures: • compared the methodologies and models used to those commonly applied in the industry and recognised by regulatory standards; • developed an understanding of, and evaluated the controls in place over, key processes relating to the valuation. This included the use of models, the quality of oversight and controls over key assumptions within those models, and the preparation of the manually calculated components of the liability; • compared key inputs used in the calculation to relevant supporting evidence, such as external market data; • considered the impact of key changes in assumptions and methodologies over the year and compared these to industry practice; and • compared the underlying supporting data relating to policyholder information used in the valuation to source documentation on a sample basis.

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 of Swiss Re Life and Health Australia Limited 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://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Branch's shareholder. 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 shareholder for our audit work, for this report or for the opinions we have formed.

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
26 March 2019

Sydney

I, Rod Balding, am currently a member of Chartered Accountants Australia & New Zealand and my membership number is 45745.

PricewaterhouseCoopers was the audit firm appointed to undertake the audit of Swiss Re Life and Health Australia Limited - New Zealand Branch for the year ended 31 December 2018. I was responsible for the execution of the audit and delivery of our firm's auditor's report. The audit work was completed on 26 March 2019 and an unqualified opinion was issued.

R Balding

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