RGA Reinsurance Company of Australia Limited

Annual Financial Report
for the year ended
31 December 2020

Registered Office and Principal Place of Business:
Level 23, 225 George Street
Sydney NSW 2000

ABN 14 072 292 712

BOARD

Directors

Ian A. Pollard	(Chairman of the Board and Investment Committee)
Mark E. Turner	(Chairman of the Board Audit Committee, Board Risk Committee and Board Remuneration Committee)
Angela C. Emslie	
Alain P. Neemeh	
Mark A. Stewart	(Managing Director)

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Directors' Report

The Directors present their report together with the financial report of RGA Reinsurance Company of Australia Limited ("the Company") for the year ended 31 December 2020, and the auditor's report thereon.

Directors

The Directors of the Company at any time during the financial year and up to the date of this report are:

Ian A. Pollard (Chairman of the Board and Investment Committee)

Mark E. Turner (Chairman of the Board Audit Committee, Board Risk Committee and Board Remuneration Committee)

Angela C. Emslie

Alain P. Neemeh

Mark A. Stewart (Managing Director)

Secretary

Jacquie Shanahan

Principal activities

The principal activity of the Company during the course of the financial year was life reinsurance including treaty and facultative underwriting.

There were no significant changes in the nature of the activities of the Company during the year.

Review and results of operations

Key operating indicators for the Company are summarised as follows:

	2020 $'000	**2019 $'000**
Gross premium revenue from insurance contracts	599,290	781,585
Investment income	75,200	94,956
Net profit for the year after income tax	62,485	21,709
Net assets as at the end of the year	696,864	637,014

Gross premium income decreased $182.3m compared to the prior year, primarily due to non-renewals of some group treaties.

For the 2020 year, the Company recorded a net profit after tax of $62.5m (2019: $21.7m). The improvement in net profit was mainly due to improved claims experience and loss recognition reversal. Net investment income decreased by $19.8m or 20.8% as compared to the previous year (2019: increase of 75.5%) mainly due to lower net realised and unrealised investment gains of $25.9m in 2020 (2019: $39.7m).

Directors' Report

Dividends

No dividends were declared or paid during the 2020 financial year (2019: nil).

Ultimate parent entity

Reinsurance Group of America, Incorporated ("RGA Inc."), a company incorporated in the United States of America, is the ultimate parent entity of the Company.

State of affairs

During the reporting period, there was no significant change in the state of affairs of the Company other than that referred to in the financial statements or notes thereto.

Events subsequent to reporting date

Other than the ongoing COVID-19 pandemic event as disclosed in Note 25 to the financial statements, there have been no other material or unusual events or transactions between balance date and the date of this report which are likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in subsequent financial years.

Likely developments

Information as to likely developments in the operations of the Company and the expected results of those operations in subsequent financial years has not been included in this report because the Directors believe that to include such information would be likely to result in unreasonable prejudice to the Company.

Corporate governance

Corporate governance refers to the way a company is organised, managed and controlled. The Company is committed to meeting appropriate standards of corporate governance in all its operations. Compliance with this principle means the upholding of appropriate legal, regulatory and ethical standards. This is achieved through, among other things, a group-wide code of conduct that expresses RGA's core principles and values and provides guidance on their application in all business conduct, stipulating the behavioural requirements expected of everyone in the RGA Group, including Directors and employees.

Staff

The Directors wish to record their appreciation of the commitment and dedication of all staff (as well as the support of their families) to the continued development of the Company during 2020.

Indemnification and insurance for directors and officers

Indemnification

The Constitution of the Company provides an indemnification (to the maximum extent permitted by law) in favour of each Director, Secretary or Executive Officer ("Officers") of the Company and previous Officers of the Company and its related bodies corporate, against any liability to third parties (other than related RGA Group companies) incurred by such Officers unless the liability arises out of conduct involving a lack of good faith. The indemnity includes costs or expenses incurred by an Officer in successfully defending proceedings or in connection with an application in which the Court grants relief to the specified persons under the Corporations Act 2001. In addition, RGA Inc. (the controlling entity of the Company) provides certain indemnities in favour of Independent Non-Executive Directors of the Company.

The Company has not, during or since the financial year, indemnified or agreed to indemnify an auditor of the Company or of any related body corporate against a liability incurred as an auditor.

Directors' Report

Indemnification and insurance for directors and officers (continued)

Insurance premiums

During or since the end of the financial period, RGA Inc. has paid or agreed to pay a premium in respect of a contract of insurance insuring Officers (and any persons who are Officers in the future) and employees of the Company against certain liabilities incurred in that capacity. Disclosure of the total amount of the premiums and the nature of the liabilities in respect of such insurance is not permitted by the terms of the policy.

Auditor's independence declaration

Deloitte Touche Tohmatsu has continued in office as the Company's auditor. A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

Rounding of amounts

The amounts contained in this report and the financial statements have been rounded in accordance with the instrument available to the Company under ASIC Legislative Instrument 2016/191. Amounts in the financial report have been rounded to the nearest thousand dollars in accordance with that instrument, unless otherwise stated. The Company is an entity to which the instrument applies.

This report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:

Ian A. Pollard
Chairman

Mark A. Stewart
Managing Director

Dated at Sydney this 18th day of March 2021

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Australia

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The Board of Directors
RGA Reinsurance Company of Australia Limited
Grosvenor Place
Level 23, 225 George Street
SYDNEY NSW 2000

18th March 2021

Dear Board Members

RGA Reinsurance Company of Australia Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of RGA Reinsurance Company of Australia Limited.

As lead audit partner for the audit of the financial statements of RGA Reinsurance Company of Australia Limited for the financial year ended 31 December 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

JLGorton

Joanne Gorton
Partner
Chartered Accountants

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2020

	Note	2020 $'000	2019 $'000
Revenue			
Premium revenue from reinsurance contracts		599,290	781,585
Outward reinsurance expense		(82,892)	(92,648)
Net insurance premium revenue		516,398	688,937
Investment income	5(a)	75,200	94,956
Other income	5(b)	22,893	27,129
Net revenue		**614,491**	**811,022**
Claims and expenses			
Claims expense from reinsurance contracts		615,129	702,188
Reinsurance recoveries		(114,426)	(102,470)
Net claims expense		500,703	599,718
Movement in net insurance contract liabilities	15(a)	(131,005)	(18,704)
Policy acquisition costs	7	15,850	15,598
Other expenses	7	159,735	184,714
Finance costs		4,488	4,487
Total claims and expenses		**549,771**	**785,813**
Net profit before related income tax expense		**64,720**	**25,209**
Income tax expense	9	(2,235)	(3,500)
Net profit for the year	6	**62,485**	**21,709**
Other comprehensive (expenditure) /income, net of tax			
Items that may be reclassified to profit or loss:			
Foreign currency translation reserve movement		(2,635)	458
Total other comprehensive (expenditure)/ income for the year		**(2,635)**	**458**
Total comprehensive income for the year		**59,850**	**22,167**

Net profit for the year and total other comprehensive income for the year are attributable to the members of RGA Reinsurance Company of Australia Limited.

The Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the accompanying notes.

Statement of Financial Position
as at 31 December 2020

	Note	2020 $'000	2019 $'000
Assets			
Cash and cash equivalents	22(a)	287,563	116,115
Investments	10	1,569,977	1,548,003
Premium receivable	11	70,856	120,188
Other receivables	11	97,728	100,077
Gross insurance contract liabilities ceded	15(a)	1,004,761	1,151,866
Total assets		**3,030,885**	**3,036,249**
Liabilities			
Outstanding claims	13	404,771	396,552
Payables	14	33,873	58,406
Gross insurance contract liabilities assumed	15(a)	1,889,301	1,941,725
Deferred tax liabilities	12	6,076	2,552
Total liabilities		**2,334,021**	**2,399,235**
Net assets		**696,864**	**637,014**
Equity			
Issued capital	16	268,250	268,250
Entities under common control reserve		64,949	64,949
Foreign currency translation reserve		8,708	11,343
Retained earnings		354,957	292,472
Total equity attributable to the members of RGA Reinsurance Company of Australia Limited		**696,864**	**637,014**

The Statement of Financial Position is to be read in conjunction with the accompanying notes.

Statement of Changes in Equity
for the year ended 31 December 2020

	Issued share capital	Entities under common control reserve	Foreign currency translation reserve	Retained earnings	Total
	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2019	**268,250**	**64,949**	**10,885**	**270,763**	**614,847**
Net profit for the year	-	-	-	21,709	21,709
Foreign currency translation	-	-	458	-	458
Balance at 31 December 2019	**268,250**	**64,949**	**11,343**	**292,472**	**637,014**
Net profit for the year	-	-	-	62,485	62,485
Foreign currency translation	-	-	(2,635)	-	(2,635)
Balance at 31 December 2020	**268,250**	**64,949**	**8,708**	**354,957**	**696,864**

The Statement of Changes in Equity is to be read in conjunction with the accompanying notes.

Statement of Cash Flows
for the year ended 31 December 2020

	Note	2020 $'000	2019 $'000
Cash flows from operating activities			
Premium received		648,236	765,013
Retrocession premium paid		(97,239)	(112,365)
Allowances paid		(143,300)	(128,358)
Retrocession allowances received		26,843	26,951
Claims paid		(624,299)	(650,913)
Retrocession recoveries received		368,995	184,540
Interest received		50,303	55,756
Interest paid		(4,465)	(4,603)
Payments to suppliers and employees		(52,688)	(54,484)
Net cash generated from operating activities	22(b)	**172,386**	**81,537**
Cash flows from investing activities			
Proceeds from sale and maturity of investments		256,495	239,771
Purchase of investments		(257,301)	(306,912)
Net cash used in investing activities		**(806)**	**(67,141)**
Net increase in cash held		171,580	14,396
Cash at the beginning of the financial year		116,115	101,443
Foreign exchange effect on cash held		(132)	276
Cash at the end of the financial year	22(a)	**287,563**	**116,115**

The Statement of Cash Flows is to be read in conjunction with the accompanying notes.

Notes to the Financial Statements

Notes to the Financial Statements

1 Summary of significant accounting policies

(a) Statement of compliance

This financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board ("AASB"), *the Corporations Act 2001* and the *Life Insurance Act 1995* ("the Life Act").

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures that the financial reporting of the Company, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ("IFRS").

The financial report was authorised for issue by the Directors on 18 March 2021.

(b) Adoption of new and revised accounting standards

In the current year, a number of new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) became effective for accounting periods beginning on or after 1 January 2020. The application of these new and revised Standards has not resulted in any changes in accounting policy or changes in disclosures.

At the date of authorisation of the financial report, the following Standards, relevant to the Company, were in issue but not yet adopted or effective:

Title	Operative Date
AASB 9 - Financial Instruments (including relevant amending standards)	1 January 2018
AASB 17 – Insurance Contracts	1 January 2023

AASB 9 - Financial Instruments (including relevant amending standards)

AASB 9 was issued during 2014 and will replace existing accounting requirements for financial instruments. AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018. However the Company has deferred the adoption of AASB 9 to align with the implementation of AASB 17, which is permissible under *AASB 2016-6 Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts and AASB 2017-3 Amendments to Australian Accounting Standards – Clarifications to AASB 4*.

Currently, the Company's investments are designated as at fair value through profit or loss on initial recognition and are subsequently remeasured to fair value at each reporting date, reflecting the business model applied by the Company to manage and evaluate its investment portfolio. Under this business model, the adoption of AASB 9 is expected to have limited application to the Company and is not expected to result in significant changes to accounting for investments.

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

(b) Adoption of new and revised accounting standards (continued)

AASB 17 – Insurance Contracts

On 19 July 2017, the AASB issued AASB 17 Insurance Contracts (AASB 17) subsequent to being issued by the International Accounting Standard Board (IASB) on 18 May 2017. AASB 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Since the standard was issued, various implementation matters have been raised by stakeholders and the IASB has considered these concerns and suggested targeted amendments to the standard. The proposed amendments have been considered by the IASB and industry constituents with a finalised standard issued on 10 July 2020. One of the changes to the standard, in addition to several others, is an agreed effective date for periods beginning 1 January 2023, with early adoption permitted. AASB 17 will replace the current AASB 4 - Insurance Contracts (AASB 4) and AASB 1038 - Life Insurance Contracts (AASB 1038).

The Company intends to first apply AASB 17 on 1 January 2023. There is a global project in place to implement the new standard and the system, data and process changes are currently being determined. The project is currently on schedule in meeting the implementation timeline. The Company anticipates that the application of AASB 17 in the future is likely to have a material impact on the amounts reported and disclosures made in the financial statements.

Below are some of the key changes applicable to the Company:

- Changes to the level of aggregation, as AASB 17 requires that insurance contracts to be pooled into portfolios of insurance contracts that have similar risks and are managed together. These portfolios are to be separated into groups of insurance contracts split by profitability (or onerous) categories. AASB 17 also requires the measurement and disclosure of underlying (gross) insurance contracts to be separated from their related reinsurance contracts held. These groups of insurance contracts under AASB 17 are expected to be more granular than the current related product groups under AASB 1038.
- Although conceptually similar, the Contractual Service Margin (CSM) requirement under AASB 17 recognises profit on a different basis to the Margin on Services (MoS) approach under AASB 1038, and therefore the emergence of profit is likely to change for portfolios with positive profit margins.
- Changes to the determination of discount rate. AASB 1038 requires the insurance contract liabilities to be discounted using risk free rates. Under AASB 17, the Company has the option to apply a “top down” or “bottom up” approach to determine the discount rates used to discount insurance contract liabilities;
- The introduction of a risk adjustment for non-financial risk which reflects the compensation that the Company requires for bearing the uncertainty in relation to the amount and timing of cash flows. The confidence level used to determine the risk adjustment will need to be disclosed.

Given the broad scope of the recent amendments, complexity of the new requirements and lack of general consensus on the interpretation of key components of the standard, the impact of AASB 17 on the Company’s financial statements is still being determined.

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

(c) Basis of preparation

The financial report is presented in Australian dollars, unless otherwise noted.

The financial report is prepared in accordance with the fair value basis of accounting with certain exceptions as described in the accounting policies below.

For the purposes of preparing the financial report, the Company is a for-profit entity.

The Company is of the kind referred to in ASIC Corporations (Rounding in Financials/Director's Report) Instrument 2016/19 and in accordance with that Corporations Instrument, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise noted.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may vary from estimates. These accounting policies have been consistently applied by the Company.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the financial report and estimates with a significant risk of material adjustment in the financial year are discussed in Notes 2 and 3.

The accounting policies set out below have been applied consistently to all periods presented in the financial report.

(d) Business combinations under common control

Business combinations under common control are accounted for in the Company accounts prospectively from the date the Company obtains the ownership interest. Assets and liabilities are recognised at their carrying amounts at the highest level of common control. Any difference between the fair value of the consideration paid by the Company and the amounts at which the assets and liabilities are recorded in the financial statements of the Company, is recognised directly in equity in the 'entities under common control' reserve.

(e) Principles for life insurance business

The life insurance operations of the Company are conducted within Statutory Funds as required by the Life Act and are reported in aggregate with the Shareholders' Fund in the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows of the Company. The life reinsurance operations of the Company comprise the selling and administration of life reinsurance contracts. All contracts are non-investment linked business. All business written by the Company is non-participating and all profits and losses are allocated to the shareholders.

Life insurance contracts involve the acceptance of significant insurance risk. 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" i.e. have no discernible effects on the economics of the transaction (*AASB 1038 Life Insurance Contracts*). Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, critical illness event or injury or disability caused by accident or illness.

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

(f) Revenue recognition

Revenue is recognised for the major business activities as follows:

Premium revenue

Premiums due are recognised as revenue on an accrual basis. All deposit components of receipts under reinsurance contracts are recognised as a change in insurance contract liabilities.

As is customary in the reinsurance business, ceding companies continually update, refine and revise information provided to the reinsurers. Such revised information is used by the Company in the preparation of its financial statements. Financial effects resulting from the incorporation of revised data are reflected in the current year's Statement of Profit or Loss and Other Comprehensive Income.

Interest income

Interest income from financial assets is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably.

Other income

Allowances received from reinsurers under retrocession contracts are recorded as other income and recognised in accordance with the pattern of reinsurance services received. Accordingly, a portion of other income may be deferred at the balance date.

(g) Outwards reinsurance expense

Premiums ceded to reinsurers under retrocession contracts are recorded as an outward reinsurance expense and recognised in accordance with the pattern of reinsurance service received. Accordingly, a portion of outwards reinsurance premium may be deferred at the balance date. All deposit components of payments made under retrocession contracts are recognised as a change in insurance contract liabilities ceded.

(h) Claims expense

Claims expense from reinsurance contracts relate to life insurance contracts (providing services and bearing risks including income protection business) and are treated as expenses. Claims are recognised upon notification of the insured event.

(i) Policy acquisition costs

Policy acquisition costs relate to the fixed and variable costs incurred in acquiring new business during the financial year. They do not include general growth and development costs incurred. The actual acquisition costs incurred are recorded in the Statement of Profit or Loss and Other Comprehensive Income.

(j) Basis of expense apportionments for insurance products

Expenses are incurred in relation to the acquisition and maintenance of life insurance contracts.

Expense apportionments have been made as follows:

- Where an item of expense relates directly to a category of business, the expense will be allocated directly to that category of business.
- Where an item of expense does not relate directly to a category of business, the expense will be apportioned between the relevant categories of business on the basis of an appropriate underlying driver. Drivers include time spent, number of staff and premium income.

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

(k) Tax Consolidation

Legislation allows groups under a common ultimate parent, comprising Australian parent entities and their Australian resident wholly-owned entities, to elect to consolidate and be treated as a single entity for income tax purposes.

The Company and other related Australian resident entities wholly owned by the ultimate parent entity are eligible to consolidate for tax purposes under this legislation and have elected to be taxed as a single entity. The provisional head entity within the tax-consolidated group for the purposes of the tax consolidation system is RGA Australian Holdings Pty Ltd ("RGAH").

The Company and each of the entities in the tax consolidated group has agreed to settle a tax equivalent amount to or from the provisional head entity, based on the tax position of the entity. Such amounts are reflected in amounts receivable or payable to the other entities in the tax consolidated group.

(l) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability or asset to the extent that it is unpaid or refundable.

Current tax payable or receivable balances are recognised as an intercompany payable to or receivable from the provisional head entity within the tax-consolidated group, in accordance with the tax funding agreement.

Deferred tax

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 tax rates which are enacted or substantively enacted. 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 to the extent that it is considered probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(m) Foreign currency translation

Foreign currency transactions are translated at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at balance date are translated at the rates of exchange ruling on that date. Foreign exchange differences arising on translation are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

Assets and liabilities of the Company's New Zealand Statutory Fund 2 are translated at the rates of exchange ruling at balance date. The revenues and expenses are translated at a weighted average rate for the year. The effect of movements in exchange rates on the translation of assets and liabilities denominated in New Zealand dollars is recognised as a separate component of equity.

1 Summary of significant accounting policies (continued)

(n) Assets backing insurance contract liabilities

The Company has determined that all assets held within its Statutory Funds are assets backing insurance contract liabilities.

Financial assets held to back life insurance activities are designated at fair value through profit and loss. Initial recognition and subsequent measurement is at fair value. Unrealised profits and losses on subsequent measurement to fair value are recognised in the Statement of Profit or Loss and Other Comprehensive Income. Fair value is determined as follows:

- Cash and cash equivalents are carried at the face value of the amounts deposited. The carrying amount of cash and cash equivalents approximates to its fair value. For the purposes of the Statement of Cash Flows, cash and cash equivalents includes cash on hand and deposits held at call;
- Receivables are stated at their cost less impairment losses. This is the best estimate of fair value as they are settled within a short period;
- Listed fixed interest securities are stated at the bid price of the instrument listed on the relevant exchange. This is taken as their fair value;
- Unlisted fixed interest securities, if held, are recorded at fund managers' valuation. This is taken as their fair value.

(o) Assets not backing life insurance liabilities

Financial assets in the shareholder fund which do not back life insurance liabilities are designated at fair value through profit and loss. Fair value is determined as set out in Note 10.

(p) Cash and cash equivalents

Cash and cash equivalents includes cash on hand and at bank and deposits held at call with financial institutions that are readily convertible to known amounts of cash.

(q) Receivables

The collectability of receivables is assessed on an ongoing basis and specific provision is made for any doubtful debts.

(r) Outstanding claims liability

For claims with a lump sum benefit, the outstanding claims liability is measured as the expected amount payable on claims notified to the Company prior to balance date. For claims with a disability income benefit, the outstanding claims liability is measured as the expected amount payable based upon the expected monthly benefit multiplied by the number of payments outstanding at the balance date, on any claim notified to the Company prior to that date.

(s) Deferred acquisition costs

Insurance contracts

The costs incurred in acquiring specific life insurance contracts include commission payments, underwriting costs and other acquisition costs deferrable under the relevant standards.

The proportion of policy acquisition costs not recovered by specific charges received from the cedant at inception is 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 insurance contract liabilities and are amortised through the Statement of Profit or Loss and Other Comprehensive Income over the expected duration of the relevant policies.

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

(t) Life insurance contract liabilities

Life insurance contract liabilities are recorded using a methodology referred to as 'Margin on Services' (MoS). Under MoS the excess of premium received over claims and expenses ('the margin') is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder ('the service'). The movement in life insurance contract liabilities recognised in the Statement of Profit or Loss and Other Comprehensive Income reflects the planned release of this margin.

The life insurance contract liabilities are measured as the accumulated benefits to policyholders (accumulation approach). The accumulation approach is used as it is considered to produce results that are not materially different from those that would be produced by a projection method. Further details of the method used and the assumptions made in valuing life insurance contract liabilities are set out in Note 3.

The valuation of life insurance contract liabilities is consistent with the basis prescribed for regulatory reporting in accordance with Life Prudential Standard LPS 340 Valuation of Policy Liabilities.

Where applicable, gross insurance contract liabilities ceded are recognised on the same basis as gross insurance contract liabilities assumed.

All deposit components of retrocession recoveries are recognised as a change in insurance contract liabilities ceded.

(u) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In those circumstances, the GST is recognised as part of the cost of acquisition of an asset or as part of an item of expense.

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the tax authority is included as part of current assets or liabilities in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

(v) Share based payments

RGA Inc. issues equity settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the shares that will eventually vest and adjusted over time for the effects of non-market-based vesting conditions.

The fair value of non-restricted share options and conditional rights are measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on the best estimate, for the effects of non-transferability, exercise restrictions and other factors. The fair value of performance contingent restricted stock is measured using the closing price of the stock at the date of grant. The amount expensed is in proportion to the services attributable to the Company's operations.

Notes to the Financial Statements

2 Critical accounting estimates and judgements

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities as at the end of the year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

(a) Insurance contract liabilities

Insurance contract liabilities for life insurance contracts are computed using statistical or mathematical methods. 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. Deferred policy acquisition costs are connected with the measurement basis of life insurance liabilities and are equally sensitive to the factors that are considered in the liability measurement.

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

- mortality and morbidity experience on life insurance products, including enhancements to policyholder benefits;
- discontinuance experience, which affects the Company's ability to recover the cost of acquiring new business over the lives of the contracts;
- data supplied by ceding companies in relation to the underlying policies being reinsured;
- the cost of providing benefits and administering the insurance contracts; and
- the discount rate applied to calculate the present value of future benefits.

In addition, factors such as regulation, publicly available industry data, interest rates, taxes, investment market conditions and general economic conditions which are currently impacted by the on-going Covid pandemic may affect the level of these liabilities. Details of specific actuarial policies and methods are set out in Note 3.

(b) Assets arising from reinsurance contracts

Assets arising from reinsurance contracts which the Company has entered into with retrocessionaires are also computed using the above methods where required. The majority of these reinsurance contracts entered into are with a related company and recoverability of these and other such assets is not considered to be impaired by any counterparty or credit risk.

(c) Outstanding Claims

A liability is calculated at year-end for the estimated cost of claims incurred which have been notified to the Company but not settled at the balance date. In estimating the cost of outstanding claims, the Company has regard to the sum reinsured, the details of the claim as reported, and information about the cost and likelihood of settling claims with similar characteristics in previous periods.

The liability calculated is gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross amounts.

(d) Deferred tax assets

Determining whether deferred tax assets are recognised requires an estimation of future taxable profits against which the assets can be released. This estimation process is based on relevant available information pertaining to the business and the exercise of management judgement.

Recognition involves judgements and estimations regarding the future financial performance of the Company and reflects a prudent regard, where considered appropriate, for the inherent uncertainties associated with making such estimations and judgements in relation to deferred tax assets. Details of the carrying amount of the deferred tax asset are set out in Note 12.

Notes to the Financial Statements

3 Actuarial assumptions and methods

The effective date of the Financial Condition Report (containing the insurance contract liabilities, capital adequacy position and solvency requirement) is 31 December 2020. The Financial Condition Report was prepared by the Appointed Actuary, Mr Mark Henderson (FIAA), and dated 18 March 2021. The Financial Condition Report indicated that Mr Henderson was satisfied as to the accuracy of the data upon which insurance contract liabilities have been determined.

(a) Insurance contract liabilities

The insurance contract liabilities have been determined in accordance with the applicable actuarial and accounting standards. Insurance contract liabilities for life insurance contracts are valued in accordance with AASB 1038 *Life Insurance Contracts* and the Life Prudential Standard LPS 340 *Valuation of Policy Liabilities* issued by the Australian Prudential Regulation Authority ("APRA").

Insurance contract liabilities of the Company have been calculated under an accumulation approach, as permitted under LPS 340, where the value of the unrecouped portion of acquisition expenses to be recovered from future income has been explicitly allowed for as a reduction in liability using the Acquisition Expense Recovery Component (AERC). The AERC uses premium as the profit carrier.

In addition to the insurance contract liabilities calculated under the accumulation approach the insurance contract liabilities were adjusted for a number of reserve items including:

(i) Reserves for incurred but not reported claims,
(ii) Reserves for accumulated experience rebates,
(iii) Reserves for expected future payments on reported disability income claims.

(b) Disclosure of assumptions

(i) Discount rates

The yield curve for Australian and New Zealand Government Bonds was used as a basis to determine the appropriate discount rate for calculation of the insurance contract liabilities. The ranges of discount rates used are as follows:

- Australia: 0.0% to 2.0% pa (2019: 0.9% to 2.0% pa) for individual and group business
- New Zealand: 0.2% to 1.8% pa (2019: 0.9% to 1.9% pa) for individual and group business

Discount rates adopted are gross of tax. A deduction from these rates of 0.25% (2019: 0.25%) for Australia and 0.15% (2019: 0.23%) for New Zealand was made for investment expenses.

(ii) Inflation rates

The assumed inflation rates are set after considering current market conditions, the Reserve Bank of Australia's and Reserve Bank of New Zealand's inflation targets, and the average duration of the liabilities.

3 Actuarial assumptions and methods (continued)

(b) Disclosure of assumptions (continued)

(iii) Future expenses and indexation

Future maintenance expenses have been assumed at expected ongoing costs attributable to the Company.

Future investment expenses have been assumed at the same percentage of assets under management as currently applies.

Benefits and/or premiums under most of the regular premium policies are automatically indexed to inflation.

(iv) Rates of taxation

Rates of taxation have been assumed in the future to remain at current levels. The rates of taxation applicable to the taxable income of significant classes of business are as follows:

	Australia		New Zealand	
Class of business	**2020**	**2019**	**2020**	**2019**
Ordinary life insurance business	30%	30%	28%	28%
Other business (including accident and disability)	30%	30%	28%	28%
Shareholders fund	30%	30%	n/a	n/a

(v) Mortality and morbidity

Lump sum

For Australian and New Zealand individual lump sum business:

- The base mortality tables for future mortality rates are using the FSC Industry tables set based on 2004-2008 Australian industry experience up to age 65 and based on the IA95-97 mortality tables above age 65.

- The base table rates for future TPD (total and permanent disablement) and trauma rates are using FSC Industry tables set based on 2004-2008 Australian industry experience

Adjustments are made for factors such as gender and smoking status where applicable.

For group lump sum business in Australia and New Zealand, future mortality and TPD assumptions are based on the Company's and life insurance industry's overall experience over recent years.

Disability

Future disability claims costs were assumed to be a range of percentage adjustments applied to the ADI 14-18 industry table (2019: ADI 07-11 industry table).

Adjustments are made for factors such as gender and smoking status where applicable.

3 Actuarial assumptions and methods (continued)

(b) Disclosure of assumptions (continued)

(vi) Rates of discontinuance

Australia

Future rates of discontinuance for the major classes of lump sum business are assumed in aggregate to be between 2.8% and 80.8% (2019: 2.8% and 59.3%) per annum based on age, gender, smoker status, duration, amount at risk, benefit type and treaty type adjustments.

For individual disability income business, the future rates of discontinuance are assumed in aggregate to be between 4.9% and 28.1% (2019: 4.9% and 28.1%) per annum depending on the age, gender, duration, occupation and waiting period of the life insured.

New Zealand

Future rates of discontinuance for the major classes of lump sum business are assumed in aggregate to be between 5.3% and 71.2% (2019: 4.8% and 64.1%) per annum based on age, gender, smoker status, duration, amount at risk, benefit type and treaty type adjustments.

For individual disability income business, the future rates of discontinuance are assumed in aggregate to be between 3.9% and 31.4% (2019: 3.9% and 31.4%) per annum depending on the age, gender, duration, occupation and waiting period of the life insured.

(c) Effects of changes in actuarial assumptions

	Effect on net insurance contract liabilities $'000 increase/(decrease)	
	2020	**2019**
Discount rates		
Individual business	5,951	(4,389)
Group business	10,615	12,140
Mortality and morbidity		
Individual business	22,180	-
Group business	(459)	13,774
Total	**38,287**	**21,525**

Figures in the table above are shown before tax.

3 Actuarial assumptions and methods (continued)

(d) Processes used to select assumptions

Discount rate

Benefits under life insurance contracts are discounted for the time value of money using risk-free discount rates based on current observable objective rates that relate to the nature, structure and term of future obligations.

Tax

It is assumed that current tax legislation and tax rates will continue unaltered.

Mortality and morbidity

An appropriate base table of mortality (and morbidity) is chosen or derived from industry or population experience for the type of product being underwritten. An investigation into the actual experience of the major cedants of the Company over recent years is performed and statistical methods are used to adjust the rates in the table to reflect a best estimate of mortality or morbidity for future years. Where data is sufficient to be statistically credible, the statistics generated by the data are generally used without reference to an industry table.

Discontinuance

An investigation into the actual experience of the major cedants of the Company over the recent years is performed and the results compared with existing assumptions for discontinuances. Statistical methods are used to determine the suitability of current assumptions and/or adjust the basis for any trends in the data to arrive at a best estimate of future discontinuance rates.

(e) Sensitivity analysis

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

3 Actuarial assumptions and methods (continued)

(e) Sensitivity analysis (continued)

Variable	Impact of movement in underlying variable
Expense risk	An increase in the level of inflationary growth of expenses over assumed levels may decrease profit and shareholders' equity.
Interest rate risk	A reduction/increase in interest rates would result in an increase/ reduction in the life insurance contract liabilities, although this would be partly or wholly offset by increases/decreases to the market value of fixed interest investments. The impact on profit and shareholders' equity depends on the relative profiles of assets and liabilities to the extent these are not matched.
Mortality rates	For insurance contracts providing death benefits, greater mortality rates would lead to higher levels of claims occurring sooner than anticipated, increasing associated claims cost and therefore potentially reducing profit and shareholders' equity.
Morbidity rates	The cost of health-related claims depends on both the incidence of policyholders becoming ill and the duration they remain ill. Higher than expected incidence and longer than expected duration would likely increase claim costs, reducing profit and shareholders' equity.
Discontinuance	The impact of the discontinuance rate assumption depends on a range of factors including the type of contract, the surrender value basis (where applicable) and the duration in force. For example, an increase in discontinuance rates at earlier durations of life insurance contracts usually has a negative effect on performance and net assets. However, due to the interplay between the factors, there is not always an adverse outcome from an increase in discontinuance rates.
Inflation risk	The impact of the inflation rate assumption varies depending on the type of policy. For example an increase in future inflation will increase the cost for disabled lives but will also increase the premium revenue for products that have indexed benefits.

3 Actuarial assumptions and methods (continued)

(e) Sensitivity analysis (continued)

The table below illustrates how changes in key assumptions regarding future experience would impact the reported net profit and equity of the Company (after tax and retrocession and before any re-pricing response).

	Change in variable %	Profit/(Loss) 2020 $'000	Equity at 31 December 2020 $'000
Balance per financial statements		**62,485**	**696,864**
Change in balance as a result of permanent change in variables:			
Worsening of future mortality and morbidity claim costs	10%	(90,944)	(90,944)
Increase in discontinuance rate	20%	(29,736)	(29,736)
Decrease in discontinuance rate	(20%)	-	-
Increase in discount rate	1%	(35,049)	(35,049)
Decrease in discount rate	(1%)	26,398	26,398
Increase in future maintenance expenses	10%	(4,900)	(4,900)
Increase in future inflation rate	1%	(23,193)	(23,193)

	Change in variable %	Profit/(Loss) 2019 $'000	Equity at 31 December 2019 $'000
Balance per financial statements		**21,709**	**637,014**
Change in balance as a result of permanent change in variables:			
Worsening of future mortality and morbidity claim costs	10%	(110,918)	(110,918)
Increase in discontinuance rate	20%	(20,836)	(20,836)
Decrease in discontinuance rate	(20%)	(5,066)	(5,066)
Increase in discount rate	1%	(37,208)	(37,208)
Decrease in discount rate	(1%)	41,238	41,238
Increase in future maintenance expenses	10%	(10,287)	(10,287)
Increase in future inflation rate	1%	(938)	(938)

Notes to the Financial Statements

4 Risk and capital management policies and procedures

The financial condition and operating results of the Company are affected by a number of key risks, including interest rate risk, credit risk, market risk, liquidity risk, insurance risk, compliance risk, operational risk and taxation risk. The objective of the Company's risk management procedures is to ensure that these risks are properly managed.

(a) Risk management policies and procedures for mitigating financial and non-financial risks

The Company has in place a process to review its control and risk management framework. It regularly reviews and assesses its risk exposure and the effectiveness of its control framework.

The Company's objective is to satisfactorily manage the identified risks in line with the Company's Risk Management Framework. Various procedures are put in place to control and mitigate the risks faced by the Company depending on the nature of the risk. The Company's overall risk exposure is monitored by management and by the Board.

Financial risks are generally monitored and controlled by selecting appropriate assets to back insurance contract liabilities and the use of maximum acceptable limits for other financial risks such as liquidity risk, credit risk and duration risk. Additional disclosures on financial instruments and associated risks are to be found in Note 23.

Insurance risks are controlled through the use of underwriting procedures, premium rate reviews (where permissible), policy charges and sufficient reinsurance arrangements. Controls are also maintained over claims management practices to ensure correct and timely payment of insurance claims.

Compliance risk and operational risk are monitored by management. The Company has processes in place for regular reporting to the Board Audit Committee and/or Board Risk Committee (on behalf of the Board) on the effectiveness of the controls used to mitigate these risks.

Taxation risks are managed through the operation of the Board endorsed Tax Risk Management and Governance policy. The purpose of this Policy is to set out the approach and outline the framework by which the tax obligations of the Group are met from an operational and risk management perspective. Taxes are managed with the objective that all tax liabilities properly due under the law are correctly recorded, accounted for and paid.

(b) Strategy for managing insurance risk

The Company issues term life and disability reinsurance treaties covering both individual and group business. The Company has a risk strategy which summarises the Company's approach to risk and risk management.

Risk strategy

In compliance with contractual and regulatory requirements, a strategy is in place to ensure that the risks underwritten should not jeopardise the Company's ability to pay benefits and claims when due. The strategy involves the identification of risks by type, assessment of risk level, impact and likelihood, the implementation of processes and controls to mitigate the risks, and continuous monitoring and improvement of the procedures in place to minimise the chance of an adverse compliance or operational risk event occurring. Included in this strategy are the processes and controls over underwriting and product pricing.

Capital position

Capital is allocated by the Company to the Statutory Funds where business is written in order to satisfy the Solvency and Capital Adequacy requirements set by APRA (Life Prudential Standard LPS 100 Solvency Standard and Life Prudential Standard LPS 110 Capital Adequacy Standard). Additional capital is held to provide a buffer above these requirements which allows for further adverse experience and/or additional growth of the business before these regulatory requirements would be impacted.

4 Risk and capital management policies and procedures (continued)

(b) Strategy for managing insurance risk (continued)

Capital position (continued)

The Directors of the Company monitor the level of capital against this buffer and also conduct reviews of the level of capital in the context of business strategy and performance, to assist in predicting when additional capital may be required.

(c) Methods to monitor and assess insurance risk exposures

Pricing oversight

All pricing is subject to an internal review and sign-off process in relation to methodology and assumptions. Pricing bases include appropriate return on capital targets.

Experience analysis

Experience studies are conducted regularly to assist in determining the adequacy of pricing and reserving assumptions. The results are used to determine prospective changes in pricing and reserving.

Asset management

The Company maintains an investment portfolio to support policyholder liabilities. Most non-cash investment assets are market traded. All fixed interest securities are of investment grade and within the Company's investment policies. The Investment Committee sets the investment policies and mandates. These are reviewed by the Investment Committee on a regular basis.

Management reporting

The Company reports and monitors its financial and operational results on a regular basis. The results are summarised to give an overall view of the Company's performance. The process undertaken and controls over the process are reviewed by the Board Audit Committee and/or Board Risk Committee (on behalf of the Board) on a regular basis. Additionally, a periodic review of the management reporting process is performed by the Company's internal auditors.

(d) Methods to limit or transfer insurance risk exposures

Reinsurance

To limit its exposure, the Company has its own reinsurance programme (commonly referred to as retrocession) in place. The Company primarily retrocedes business to RGA Reinsurance Company Limited in St Louis, Missouri, USA ("RGA Re") and RGA Global Reinsurance Company Ltd (RGA Global) both related entities.

Underwriting procedures

Underwriting decisions are put into effect using the underwriting procedures detailed in the Company's underwriting manual. Such procedures include limits to delegated authorities and signing powers. Individual underwriting decisions are supported by the policies and procedures manual and, if necessary, by obtaining a medical opinion. Underwriting decisions are regularly monitored and reviewed. Where authority is delegated to cedants, the Company has processes in place for auditing the underwriting processes used by the ceding company.

4 Risk and capital management policies and procedures (continued)

(d) Methods to limit or transfer insurance risk exposures (continued)

Claims management

Procedures exist for the verification, assessment and payment of claims. Income protection claims are monitored on a regular basis. Claims management procedures support the timely and correct payment of claims in accordance with policy and/or treaty conditions. Where authority is delegated to cedants, the Company has processes in place for reviewing the claims assessment processes used by the ceding company.

Asset and liability management techniques

The Company's investment policy contains objectives and constraints to reflect the term structure of its liabilities. The compliance of the investment portfolio with the investment policy is monitored regularly. The extent of any asset liability mismatch is also monitored regularly and is allowed for in the Company's prudential reserves.

(e) Terms and conditions of insurance contracts

The nature of the terms of the reinsurance contracts written by the company is such that certain external variables can be identified on which related cash flows for claims payments depend. The table below provides an overview of the key variables upon which the amount of related cash flows are dependent.

Type of contract:	Non-participating life reinsurance contracts with fixed and guaranteed terms.
Details of contract workings:	Guaranteed benefits payable on death, ill health or disability that are fixed and guaranteed and not at the discretion of the issuer.
Nature of compensation for claims:	Benefits, defined by the reinsurance contract, are determined by the contract and are not directly affected by the performance of underlying assets or, except in relation to experience refunds on certain reinsurance contracts, the performance of the contracts as a whole.
Key variables that affect the timing and uncertainty of future cash flows:	Mortality, morbidity, interest rates, discontinuance rates and expenses.

(f) The approach to tax risk management and governance arrangements

The Company pursue an approach to tax that is principled, transparent and sustainable in the long term. The Board endorses the following principles governing its approach:

(i) Commitment to ensure full compliance with all legal obligations, and full disclosure to revenue authorities;

(ii) Maintenance of documented policies and procedures in relation to tax risk management and completion of thorough risk assessments including escalation and reporting to the Board where prescribed;

(iii) Sustaining engagement with revenue authorities, and actively considering the implications of tax planning for the Tax Groups' wider reputation; and

(iv) Management of tax affairs in a pro-active and efficient manner for the business, while operating in accordance with the law.

Notes to the Financial Statements

5 Revenue

(a) Investment income

	2020 $'000	2019 $'000
Interest Income:		
Bank deposits	284	951
Investments at fair value through profit or loss	48,978	54,346
Net realised and unrealised investment gains	25,938	39,659
Total investment income	**75,200**	**94,956**

(b) Other income

	2020 $'000	2019 $'000
Retrocession allowances	22,780	27,129
Other income	113	-
Total other income	**22,893**	**27,129**

6 Net profit for the year

	2020 $'000	2019 $'000
Net profit after income tax arose from:		
Planned margins of revenues over expenses released	5,032	7,725
Difference between actual and expected experience	4,663	(24,767)
Effects of changes to underlying assumptions	(38,287)	(21,525)
Reversal of loss recognition	35,277	12,343
Investment earnings on assets in excess of insurance contract liabilities	58,035	51,433
Income tax expense	(2,235)	(3,500)
Net profit after income tax	**62,485**	**21,709**

Notes to the Financial Statements

7 Operating expenses

	2020 $'000	2019 $'000
Policy acquisition costs		
Allowances	5,846	4,984
Other acquisition costs	10,004	10,614
Total policy acquisition costs	**15,850**	**15,598**
Other expenses		
Allowances	115,772	140,570
Other maintenance costs	40,559	40,447
Investment management fees	3,404	3,697
Total other expenses	**159,735**	**184,714**

8 Dividends

No dividends were declared or paid for the 2020 financial year (2019: nil).

9 Income tax expense

The prima facie tax on net profit differs from the income tax provided in the accounts as follows:

	2020 $'000	2019 $'000
Net profit before related income tax expense	**64,720**	**25,209**
Prima facie tax on net profit at 30% (2019: 30%)	(19,416)	(7,561)
Difference in the New Zealand tax rate	1,101	404
Tax effect of:		
Non-assessable retrocession and other income	51,051	29,731
Non-deductible expenses	(172)	(16)
Increase in unrecognised deferred tax asset	(37,535)	(31,147)
Loss offset - Statutory Fund 2[(1)]	2,716	4,948
Others	20	141
Total income tax expense attributable to net profit	**(2,235)**	**(3,500)**
Income tax expense comprises:		
Current Tax		
- Current year	1,387	1,248
Deferred tax		
- Origination and reversal of temporary differences (AUS)	(2)	(4,202)
- Origination and reversal of temporary differences (NZ)	(3,620)	(546)
Total income tax expense attributable to net profit	**(2,235)**	**(3,500)**

(1) During the year, the New Zealand Branch of the Company has utilised tax losses of the New Zealand Branch of RGA Reinsurance Company ('RGA Re') of $9.7m (2019: $17.7m). The New Zealand Branch of RGA Re and the New Zealand Branch of the Company group for tax purposes.

Notes to the Financial Statements

10 Fair value measurement

This note provides information about how the Company determines fair values of various financial assets and liabilities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at measurement date.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

(a) Fair value of the Company's financial assets that are measured at fair value on a recurring basis

The following financial assets are designated at fair value through profit or loss as they are assets backing insurance contract liabilities. The assets are measured at fair value at the end of each reporting period.

Financial assets at fair value	2020 $'000 Total	2020 $'000 Level 1	2020 $'000 Level 2	2020 $'000 Level 3
Interest bearing securities:				
- National government[1]	66,649	-	66,649	-
- Private sector	1,456,700	-	1,415,356	41,344
- Other public sector[2]	46,628	-	46,628	-
Total investments at fair value through profit or loss	**1,569,977**	**-**	**1,528,633**	**41,344**

Financial assets at fair value	2019 $'000 Total	2019 $'000 Level 1	2019 $'000 Level 2	2019 $'000 Level 3
Interest bearing securities:				
- National government[1]	53,815	-	53,815	-
- Private sector	1,322,401	-	1,281,238	41,163
- Other public sector[2]	171,787	-	171,787	-
Total investments at fair value through profit or loss	**1,548,003**	**-**	**1,506,840**	**41,163**

(1) National governments include any government or government guaranteed securities.

(2) Public sector includes local authorities and Supranational issuers

10 Fair value measurement (continued)

(a) *Fair value of the Company's financial assets that are measured at fair value on a recurring basis (continued)*

All interest bearing securities categorised as level 2 are quoted with fixed maturity dates. Fair values have been determined using quoted bid prices obtained from independent pricing services.

The fair value of the level 3 securities were assessed using a non-binding broker quote and have been reviewed for reasonableness based on the Company's understanding of the market.

There were no transfers between the different levels of fair value hierarchy during the year.

(b) *Fair value of the Company's financial liabilities that are not measured at fair value on a recurring basis but for which fair value disclosures are required*

The directors consider that the carrying amount of all other financial assets and financial liabilities recognised in the financial statements approximate their fair values and are categorised as Level 3 within the fair value hierarchy.

There were no transfers between the different levels of fair value hierarchy during the year.

(c) *Reconciliation of Level 3 recurring fair value measurements*

	2020 $'000	2019 $'000
Opening balance at 1 January	41,163	39,789
Changes in fair value included in investment income	181	1,374
Closing balance at 31 December	**41,344**	**41,163**

11 Receivables

	2020 $'000	2019 $'000
Premium Receivable		
Premium receivable[1]	70,856	120,188
Total premium receivable	**70,856**	**120,188**
Other receivables	3,223	19
Accrued investment income	11,401	12,506
Related parties[1]	83,104	87,552
Total other receivables	**97,728**	**100,077**
Total receivables	**168,584**	**220,265**
Expected to be realised within 12 months	**168,584**	**220,265**

(1) The credit period for trade receivables and balances due from related parties is generally 30 to 90 days. The premium receivable balance includes $15.3m receivables (gross of allowances) which are past due at the reporting date (2019: $16.7m). The Company believes that that these amounts are fully recoverable.

Notes to the Financial Statements

12 Deferred tax

	Balance 1-Jan-2019	Recognised in 2019 in profit or loss	Recognised in 2019 in foreign currency translation reserve	Balance 31-Dec-2019	Recognised in 2020 in profit or loss	Recognised in 2020 in foreign currency translation reserve	Balance 31-Dec-2020
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
As at 31 December the net deferred tax assets comprise:							
Accrued expenses (Statutory Fund 1)	110	29	-	139	66	-	205
Provision for loss recognition (Statutory Fund 1)	-	-	-	-	4,800	-	4,800
Unused tax losses (Statutory Fund 1)	12,655	7,515	-	20,170	2,688	-	22,858
Investments (Statutory Fund 1)	(8,565)	(11,744)	-	(20,309)	(7,554)	-	(27,863)
Net deferred tax assets	**4,200**	**(4,200)**	**-**	**-**	**-**	**-**	**-**

	Balance 1-Jan-2019	Recognised in 2019 in profit or loss	Recognised in 2019 in foreign currency translation reserve	Balance 31-Dec-2019	Recognised in 2020 in profit or loss	Recognised in 2020 in foreign currency translation reserve	Balance 31-Dec-2020
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
As at 31 December the net deferred tax liabilities comprise:							
Investments (Shareholder's Fund)	(7)	(2)	-	(9)	(2)	-	(11)
Deferred acqusition cost (Statutory Fund 2)	(1,982)	(546)	(15)	(2,543)	(3,620)	98	(6,065)
Net deferred tax liabilities	**(1,989)**	**(548)**	**(15)**	**(2,552)**	**(3,622)**	**98**	**(6,076)**

The Company has unused cumulative tax losses and provision for loss recognition in Australia in respect of which deferred tax assets of $239.3m (2019: $201.7m) have not been recognised. These losses are available for offsetting against future taxable profits subject to relevant tax rules.

13 Outstanding claims

	2020 $'000	2019 $'000
Total outstanding claims[1]	404,771	396,552
Expected to be realised within 12 months	**404,771**	**396,552**

(1) Outstanding claims includes amounts in respect of claims which have been notified prior to balance date and, are fully assessed and awaiting payment or, where final assessment of the claim is not yet complete. The Company generally settles claims payable within 30 days of the final assessment date of the claim.

14 Payables

	2020 $'000	2019 $'000
Assumed allowances payable[1]	28,338	50,132
Accounts payable[1]	1,497	3,997
Related parties	4,038	4,277
Total payables	**33,873**	**58,406**
Expected to be realised within 12 months	**33,873**	**58,406**

(1) The Company generally settles trade payables within the agreed credit period of 30 to 90 days.

15 Insurance contract liabilities

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

		2020 $'000	2019 $'000
Insurance contract liabilities			
Gross insurance contract liabilities at 1 January		1,941,725	1,896,230
Liabilities withdrawn during the year		(18,011)	(17,441)
(Decrease)/Increase in insurance contract liabilities reflected in the Statement of Profit or Loss and Other Comprehensive Income	(i)	(32,365)	62,750
Foreign exchange adjustment		(2,048)	186
Gross insurance contract liabilities at 31 December		**1,889,301**	**1,941,725**
Liabilities ceded under reinsurance			
Gross insurance contract liabilities at 1 January		1,151,866	1,122,459
Liabilities withdrawn during the year		(245,551)	(51,913)
Increase in reinsurance assets reflected in the Statement of Profit or Loss and other Comprehensive Income	(ii)	98,640	81,454
Foreign exchange adjustment		(194)	(134)
Gross insurance contract liabilities ceded under reinsurance at 31 December		**1,004,761**	**1,151,866**
Net insurance contract liabilities at 31 December		**884,540**	**789,859**
Made up as:			
Expected to be realised within 12 months		201,154	232,494
Expected to be realised in more than 12 months		683,386	557,365
		884,540	**789,859**
Note: **(i) less (ii) = (decrease)/increase in net insurance contract liabilities as disclosed in the Statement of Profit or Loss and Other Comprehensive Income**		**(131,005)**	**(18,704)**

(b) *Components of net life insurance contract liabilities*

	2020 $'000	2019 $'000
Future policy benefits	1,024,961	890,656
Future charges for acquisition costs	(140,421)	(100,797)
Net life insurance contract liabilities	**884,540**	**789,859**

15 Insurance contract liabilities (continued)

(c) Capital adequacy and solvency requirements

(i) Capital adequacy

In accordance with the APRA Life Prudential Standard (LPS) 110 'Capital Adequacy', the capital adequacy position of the Company and each of the funds as at 31 December is disclosed below.

Capital adequacy position of the Company as at 31 December	**2020 $'000**	**2019 $'000**
Common Equity Tier 1 Capital	571,584	525,234
Regulatory adjustments applied in the calculation of Common Equity Tier 1 Capital	*125,280*	*111,780*
Additional Tier 1 Capital	-	-
Regulatory adjustments applied in the calculation of Additional Tier 1 Capital	-	-
Tier 2 Capital	-	-
Regulatory adjustments applied in the calculation of Tier 2 Capital	-	-
(a) Capital Base	571,584	525,234
(b) Prescribed capital amount	270,448	281,530
Capital in excess of prescribed capital amount = (a)–(b)	**301,136**	**243,704**
Capital adequacy multiple = (a)/(b)	**211%**	**187%**

15 Insurance contract liabilities (continued)

(c) Capital adequacy and solvency requirements (continued)

(i) Capital adequacy (continued)

Capital adequacy position of the fund as at 31 December 2020	Statutory Fund 1 2020 $'000	Statutory Fund 2 2020 $'000	Shareholder Fund 2020 $'000	Total 2020 $'000
(a) Capital Base	475,525	94,158	1,901	571,584
(b) Prescribed capital amount	251,063	19,353	32	270,448
Capital in excess of prescribed capital amount = (a)–(b)	**224,462**	**74,805**	**1,869**	**301,136**
Capital adequacy multiple = (a)/(b)	**189%**	**487%**	**5941%**	**211%**
Capital Base comprises:				
(a) Net assets after applying any regulatory adjustments	475,525	94,158	1,901	571,584
Regulatory adjustments applied to net assets	66,372	58,908	-	125,280
(b) Tier 2 Capital	-	-	-	-
Regulatory adjustment applied in calculation of Tier 2 capital	-	-	-	-
Capital Base (a)+(b)	**475,525**	**94,158**	**1,901**	**571,584**
Prescribed capital amount comprises:				
Insurance risk	112,236	11,566	-	123,802
Asset risk	85,077	8,567	31	93,675
Asset concentration risk	-	-	-	-
Operational risk	18,849	1,849	-	20,698
Aggregation benefit	(43,513)	(4,423)	-	(47,936)
Combined scenario adjustment	78,414	1,794	1	80,209
Prescribed capital amount	**251,063**	**19,353**	**32**	**270,448**

15 Insurance contract liabilities (continued)

(c) Capital adequacy and solvency requirements (continued)

(i) Capital adequacy (continued)

Capital adequacy position of the funds as at 31 December 2019	Statutory Fund 1 2019 $'000	Statutory Fund 2 2019 $'000	Shareholder Fund 2019 $'000	Total 2019 $'000
(a) Capital Base	435,530	87,815	1,889	525,234
(b) Prescribed capital amount	237,999	43,506	25	281,530
Capital in excess of prescribed capital amount = (a)–(b)	**197,531**	**44,309**	**1,864**	**243,704**
Capital adequacy multiple = (a)/(b)	**183%**	**202%**	**7556%**	**187%**
Capital Base comprises:				
(a) Net assets after applying any regulatory adjustments	435,530	87,815	1,889	525,234
Regulatory adjustments applied to net assets	95,230	16,550	-	111,780
(b) Tier 2 Capital	-	-	-	-
Regulatory adjustment applied in calculation of Tier 2 capital	-	-	-	-
Capital Base (a)+(b)	**435,530**	**87,815**	**1,889**	**525,234**
Prescribed capital amount comprises:				
Insurance risk	111,044	29,395	-	140,439
Asset risk	82,421	7,614	24	90,059
Asset concentration risk	-	-	-	-
Operational risk	16,263	1,836	-	18,099
Aggregation benefit	(42,518)	(5,204)	-	(47,722)
Combined scenario adjustment	70,789	9,865	1	80,655
Prescribed capital amount	**237,999**	**43,506**	**25**	**281,530**

(ii) Solvency

Under Life Prudential Standard (LPS) 100 'Solvency Standard', the solvency requirement for each fund is met if the capital base of the fund exceeds 90% of the fund's prescribed capital amount. This requirement has been met for each fund throughout the year.

(d) Disclosures on asset restrictions, managed assets and trustee activities

Assets held in the company's Statutory Funds can only be used within the restrictions imposed under the Life Act. The main restrictions are that the assets in a statutory fund can only be used to meet the liabilities and expenses of that statutory fund, to acquire assets to further the business of the statutory fund or as distributions in accordance with the terms of the Life Act.

15 Insurance contract liabilities (continued)

(e) Reconciliation of reported policy liability with Life Act amount

	2020 $'000	2019 $'000
Reported policy liability	884,540	789,859
Plus: Variations in valuation of DAC assets	-	-
Plus: Change in the use of the discount rate	-	-
Life Act amount	**884,540**	**789,859**

16 Share capital

	2020 Number ('000)	2019 Number ('000)	2020 $ ('000)	2019 $ ('000)
Issued and paid-up share capital:				
Ordinary shares	266,250	266,250	268,250	268,250
Total share capital	**266,250**	**266,250**	**268,250**	**268,250**

Share capital is recognised at the fair value of consideration received by the Company.

Ordinary shares have the right to receive dividends as declared and, in the event of winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number and amounts paid up on shares held. Each ordinary share entitles its holder to one vote, either in person or by proxy, at a meeting of the Company.

17 Auditor's remuneration

The Company's auditor is Deloitte Touche Tohmatsu. The auditor's remuneration (exclusive of GST) is as follows:

	2020 $	2019 $
Amounts received or due and receivable by the auditor for:		
Audit services	468,250	492,350
Total auditor's remuneration	**468,250**	**492,350**

18 Share based payments

RGA Inc. enables its subsidiary operations to offer key members of staff access to equity-based remuneration as part of their employment packages. The types of equity remuneration provided to key staff consist of equity-settled share options and conditional rights, and performance contingent units. All expenses relating to this are borne by RGA Australian Holdings Pty Limited ('RGAH').

All values disclosed are in US dollars (US$).

(a) Stock options and conditional rights

In general, options and conditional rights granted under the plan become exercisable over vesting periods ranging from one to five years. Options and conditional rights are generally granted with an exercise price equal to the stock's fair value at the date of grant and expire ten years after the date of grant. The tables shown below relate to employees of RGAH who provide services to the Company and receive these awards from RGA Inc.

	2020 Number of options and conditional rights	2020 Weighted average exercise price $US	2019 Number of options and conditional rights	2019 Weighted average exercise price $US
Outstanding at the beginning of the year	13,842	133.57	19,952	94.18
Granted during the year	8,917	117.85	8,605	145.25
Exercised/lapsed during the year	(716)	141.41	(12,256)	65.15
Forfeited	-	-	(2,459)	195.85
Outstanding at the end of the year	**22,043**	**126.96**	**13,842**	**133.57**
Exercisable at the end of the year	**12,252**	**126.96**	**7,797**	**125.20**

The options and conditional rights outstanding at the end of the year have a weighted average remaining contractual life of 6.8 years (2019: 7.7 years). The estimated fair value of each option and conditional right granted during this period was US$15.14 (2019: US$26.59).

These fair values were calculated by RGA Inc. using the Black-Scholes option pricing model. The inputs into the model were as follows:

	2020	2019
Expected life	7 years	6 years
Expected volatility	18.8%	18.2%
Risk free interest rate	0.7%	2.7%
Expected dividend yield	2.4%	1.7%

18 Share based payments (continued)

(b) *Performance contingent units*

Awards of performance contingent units (PCU) to key employees have been made annually since 2006. The estimated fair value of the PCU's awarded is US$117.85 per PCU (2019: US$145.25). These fair values were calculated using the closing price of the stock at the date of grant. Each PCU represents the right to receive from zero to two shares of RGA Inc. common stock depending on the results of certain performance measures over a three-year period. The tables shown below relate to employees of RGAH who provide services to the Company and receive these awards from RGA Inc.

	2020 Number of PCU's	2020 Weighted average fair value US$	2019 Number of PCU's	2019 Weighted average fair value US$
Outstanding at the beginning of the year	7,665	141.68	11,264	117.85
Granted during the year	3,421	117.85	3,422	145.25
Exercised/lapsed during the year	(3,398)	129.72	(8,855)	93.53
Forfeited during the year	-	-	(2,823)	140.63
Change based on performance factor	(1,459)	162.67	1,891	93.53
Transfer in/(out) during the year	-	-	2,766	113.12
Outstanding at the end of the year	**6,229**	**130.20**	**7,665**	**141.68**

(c) *Restricted Stock Unit*

Restricted stock unit (RSU) becomes payable at the end of a three-or ten-year vesting period. Each RSU, if they vest, represents the right to receive one share of RGA Inc. common stock. RSUs awarded under the plan generally have no strike price and are included in the RGA Inc. shares outstanding. The table shown below presents a summary of Restricted Stock Unit Activity:

	2020 Number of RSU's	2020 Weighted average fair value US$	2019 Number of RSU's	2019 Weighted average fair value US$
Outstanding at the beginning of the year	575	142.31	542	123.53
Granted during the year	266	117.85	228	145.25
Exercised/lapsed during the year	(172)	129.72	(195)	93.53
Forfeited during the year	(229)	134.63	-	-
Outstanding at the end of the year	**440**	**136.45**	**575**	**142.31**

19 Director and key management personnel disclosures

(a) Directors

The following were Directors of the Company at any time during the reporting period and, unless otherwise indicated, were Directors for the entire period:

Independent Non-Executive Directors

Ian A. Pollard (Chairman)

Mark E. Turner

Angela C. Emslie

Non-Executive Director

Alain P. Neemeh

Executive Director

Mark A. Stewart

(b) Committee membership

In addition to their membership of the Board of the Company the following table details other committees of which the directors were members during the year ended 31 December 2020.

	Board Audit Committee	Board Risk Committee	Investment Committee	Board Remuneration Committee
Ian A. Pollard(1)	X	X	X	X
Mark E. Turner(2)	X	X	X	X
Angela C. Emslie	X	X	X	X
Alain P. Neemeh	-	-	-	-
Mark A. Stewart	-	-	X	-

(1) Chairman of the Investment Committee.

(2) Chairman of the Board Audit Committee, Board Risk Committee and the Board Remuneration Committee.

19 Director and key management personnel disclosures (continued)

(c) Key management personnel

The key management personnel include certain Directors of the Company and certain executives with the authority and responsibility for planning, directing and controlling the activities of the entity.

Key management personnel compensation:

	2020 $'000	2019 $'000
Short-term employee benefits	5,510	4,787
Post-employment benefits	298	297
Other long term benefits	-	18
Termination benefits	204	635
Share based payments	(606)	846
Total	**5,406**	**6,583**

Key management personnel compensation is paid by the Company's immediate parent RGAH or a related service entity, RGA International Division Sydney Office. Key management personnel compensation is recharged to the Company as part of management charges and other expenses as set out in Note 20.

20 Related party transactions

(a) Ultimate parent entity

The Company's immediate parent entity is RGAH, a company incorporated in Australia. The Company is 100% owned by RGAH.

The Company's ultimate parent entity is Reinsurance Group of America Incorporated ("RGA Inc."), a company incorporated in the United States of America and listed on the New York Stock Exchange.

20 Related party transactions (continued)

(b) Trading transactions with related parties

During the year, the Company entered into the following transactions with related parties.

	2020 $'000	2019 $'000
Retrocession contracts with RGA Global Reinsurance Company, Ltd ('RGA Global') and RGA Reinsurance Company ('RGA Re'), both subsidiaries of RGA Inc.:		
Outward reinsurance expenses	74,841	84,769
Retrocession allowances	(21,258)	(25,640)
Reinsurance claims recoveries	(108,521)	(102,470)
Movement in ceded insurance contract liabilities	(94,539)	(75,730)
Other retrocession treaty income	-	-
Net retrocession income	**(149,477)**	**(119,071)**
Amount owed by RGA Re (Statutory Fund 1)	**3,960**	**6,332**
Amount owed by RGA Global (Statutory Fund 1)	**73,760**	**80,109**
Amount owed by RGA Global (Statutory Fund 2)	**4,875**	**603**
Management fees, tax related items and other transactions:		
- RGAH	31,809	35,048
- RGA Re	739	771
- RGA Enterprise Services Co (RGA Enterprise)	12,289	10,072
- Other subsidiaries of RGA Inc.	2,257	2,597
Net management fees, tax related items and other expenses	**47,094**	**48,488**
Amount owed to RGAH	**1,430**	**1,732**
Amount owed by other related parties	**509**	**508**
Amounts owed to other related parties	**1,296**	**1,141**
Investment management services fee expense:		
- RGA Enterprise	**1,939**	**1,936**
Amount owed to RGA Enterprise	**300**	**314**
Demand guarantee fee expense[1]**:**		
- RGA Re	**4,488**	**4,487**
Amount owed to RGA Re	**1,012**	**1,090**

20 Related party transactions (continued)

(b) Trading transactions with related parties (continued)

(1) During the current and prior years, RGA Re applied for, and was issued, guarantees by certain Australian authorised deposit taking institutions for the benefit of the Company. In accordance with the terms of the guarantees, a portion of amounts recoverable by the Company under retrocession arrangements with RGA Re and RGA Global are guaranteed to specified amounts and under certain conditions, including non-performance by RGA Re and RGA Global. The demand guarantees are still in place as at 31 December 2020.

The Company regularly settles balances associated with related party transactions. Intercompany balances are at no interest and are payable within 30 days of the invoice date.

(c) New Zealand tax losses

The New Zealand branch of RGA Re and the New Zealand branch of the Company group for New Zealand tax purposes.

21 Disaggregated information

(a) Net assets

	Statutory Fund 1 2020 $'000	Statutory Fund 2 2020 $'000	Shareholder Fund 2020 $'000	Total 2020 $'000
Financial assets	1,797,545	226,651	1,928	2,026,124
Other assets	1,000,403	4,358	-	1,004,761
Total assets	**2,797,948**	**231,009**	**1,928**	**3,030,885**
Life insurance contract liabilities	1,851,410	37,891	-	1,889,301
Other liabilities	404,641	40,052	27	444,720
Total liabilities	**2,256,051**	**77,943**	**27**	**2,334,021**
Net assets	**541,897**	**153,066**	**1,901**	**696,864**

	Statutory Fund 1 2020 $'000	Statutory Fund 2 2020 $'000	Shareholder Fund 2020 $'000	Total 2020 $'000
Opening Equity	530,760	104,365	1,889	637,014
Net profit after income tax	11,137	51,336	12	62,485
Movement in foreign currency translation reserve	-	(2,635)	-	(2,635)
Closing Equity	**541,897**	**153,066**	**1,901**	**696,864**

21 Disaggregated information (continued)

(a) Net assets (continued)

	Statutory Fund 1 2019 $'000	Statutory Fund 2 2019 $'000	Shareholder Fund 2019 $'000	Total 2019 $'000
Financial assets	1,675,676	206,795	1,912	1,884,383
Other assets	1,144,314	7,552	-	1,151,866
Total assets	**2,819,990**	**214,347**	**1,912**	**3,036,249**
Life insurance contract liabilities	1,862,218	79,507	-	1,941,725
Other liabilities	427,012	30,475	23	457,510
Total liabilities	**2,289,230**	**109,982**	**23**	**2,399,235**
Net assets	**530,760**	**104,365**	**1,889**	**637,014**

	Statutory Fund 1 2019 $'000	Statutory Fund 2 2019 $'000	Shareholder Fund 2019 $'000	Total 2019 $'000
Opening Equity	528,728	84,262	1,857	614,847
Net profit after income tax	2,032	19,645	32	21,709
Movement in foreign currency translation reserve	-	458	-	458
Closing Equity	**530,760**	**104,365**	**1,889**	**637,014**

Notes to the Financial Statements

21 Disaggregated information (continued)

(b) Net profit after tax

	Statutory Fund 1 2020 $'000	Statutory Fund 2 2020 $'000	Shareholder Fund 2020 $'000	Total 2020 $'000
Net premium revenue	434,259	82,139	-	516,398
Investment income	65,300	9,879	21	75,200
Other income	21,021	1,872	-	22,893
Net revenue	**520,580**	**93,890**	**21**	**614,491**
Net claims expense	(444,830)	(55,873)	-	(500,703)
Change in net insurance contract liabilities	94,467	36,538	-	131,005
Policy Acquisition costs	(9,992)	(5,858)	-	(15,850)
Other expenses	(142,944)	(13,387)	-	(156,331)
Investment management fees	(3,145)	(255)	(4)	(3,404)
Finance costs	(4,488)	-	-	(4,488)
Net profit before related income tax expense	**9,648**	**55,055**	**17**	**64,720**
Income tax benefit/(expense)	1,489	(3,719)	(5)	(2,235)
Net profit for the year	**11,137**	**51,336**	**12**	**62,485**

	Statutory Fund 1 2019 $'000	Statutory Fund 2 2019 $'000	Shareholder Fund 2019 $'000	Total 2019 $'000
Net premium revenue	608,701	80,236	-	688,937
Investment income	85,504	9,396	56	94,956
Other income	25,823	1,306	-	27,129
Net revenue	**720,028**	**90,938**	**56**	**811,022**
Net claims expense	(545,243)	(54,475)	-	(599,718)
Change in net insurance contract liabilities	17,645	1,059	-	18,704
Policy acquisition costs	(10,786)	(4,812)	-	(15,598)
Other expenses	(168,811)	(12,209)	-	(181,020)
Investment management fees	(3,395)	(288)	(11)	(3,694)
Finance costs	(4,487)	-	-	(4,487)
Net profit before related income tax expense	**4,951**	**20,213**	**45**	**25,209**
Income tax expense	(2,919)	(568)	(13)	(3,500)
Net profit for the year	**2,032**	**19,645**	**32**	**21,709**

Notes to the Financial Statements

22 Notes to the Statement of Cash Flows

(a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash includes cash on hand and at bank and short term deposits held at call with financial institutions readily convertible to cash. Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2020 $'000	2019 $'000
Cash at bank	262,553	90,485
Deposits held at call and cash equivalents	25,010	25,630
Total cash and cash equivalents	**287,563**	**116,115**

(b) Reconciliation of net profit after income tax to net cash from operating activities

	2020 $'000	2019 $'000
Net profit for the year	**62,485**	**21,709**
Adjustments for non-cash and investing activities:		
Increase in investment values	(25,938)	(39,659)
Change in assets and liabilities during the financial year:		
Decrease/(Increase) in premiums receivable	48,946	(16,933)
Decrease in other receivables	1,767	8,555
Decrease/(Increase) in insurance contract liabilities ceded	146,946	(29,546)
Decrease in deferred tax asset	-	4,200
Increase in outstanding claims	8,840	68,717
(Decrease)/Increase in payables	(23,904)	18,636
Increase in deferred tax liability	3,622	548
(Decrease)/Increase in insurance contract liabilities assumed	(50,378)	45,310
Net cash generated from operating activities	**172,386**	**81,537**

Notes to the Financial Statements

23 Financial risk management

The Company undertakes transactions in a range of financial instruments including cash assets, receivables, payables and fixed income investments. These activities result in exposure to a number of financial risks including market risk, credit risk, operational risk and liquidity risk.

Financial risks are generally monitored and controlled by selecting appropriate assets to back insurance contract liabilities. The Company has developed and implemented risk and capital management policies, which are described in Note 4. The assets are regularly monitored by management to ensure asset and liability mismatching and other risks such as liquidity risk and credit risk are maintained within acceptable limits.

Throughout 2020, the Company held no derivative financial instrument contracts (2019: nil).

(a) Interest rate risk

The Company's financial assets and liabilities and their effective interest rates at balance date are as follows:

	Variable interest rate	Fixed interest rate 1 year or less	Fixed interest rate over 1 up to 5 years	Fixed interest rate over 5 years	Non-interest bearing 1 year or less	Total	Weighted average interest rate
	2020 $'000	2020 $'000	2020 $'000	2020 $'000	2020 $'000	2020 $'000	2020 %
Financial assets							
Cash and cash equivalents	287,563	-	-	-	-	**287,563**	0.11
Receivables and outstanding premiums	-	-	-	-	168,584	**168,584**	n/a
Investments	310,883	126,575	477,593	654,926	-	**1,569,977**	1.44
Total	**598,446**	**126,575**	**477,593**	**654,926**	**168,584**	**2,026,124**	
Financial liabilities							
Outstanding Claims	-	-	-	-	404,771	**404,771**	
Payables	-	-	-	-	33,873	**33,873**	
Total	**-**	**-**	**-**	**-**	**438,644**	**438,644**	

	Variable interest rate	Fixed interest rate 1 year or less	Fixed interest rate over 1 up to 5 years	Fixed interest rate over 5 years	Non-interest bearing 1 year or less	Total	Weighted average interest rate
	2019 $'000	2019 $'000	2019 $'000	2019 $'000	2019 $'000	2019 $'000	2019 %
Financial assets							
Cash and cash equivalents	116,115	-	-	-	-	**116,115**	0.85
Receivables and outstanding premiums	-	-	-	-	220,265	**220,265**	n/a
Investments	338,873	155,475	528,082	525,573	-	**1,548,003**	2.44
Total	**454,988**	**155,475**	**528,082**	**525,573**	**220,265**	**1,884,383**	
Financial liabilities							
Outstanding Claims	-	-	-	-	396,552	**396,552**	
Payables	-	-	-	-	58,406	**58,406**	
Total	**-**	**-**	**-**	**-**	454,958	**454,958**	

23 Financial risk management (continued)

(a) Interest rate risk (continued)

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. At the balance date, the Company's exposure to interest rate risk arose primarily from its fixed interest securities.

Ignoring the impact of any corresponding changes in the value of insurance contract liabilities and taxation, an increase in interest rates of 0.25% would decrease net profit and equity by approximately $13.0m (2019: $11.6m). A corresponding decrease of 0.25% would increase net profit and equity by $13.3m (2019: $11.8m). A sensitivity of 0.25% per annum has been selected as this is considered reasonable given the current environment for Australian and New Zealand interest rates.

(b) Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. The Company seeks to minimise its credit risk by the appropriate selection and spread of assets. The Company currently invests in fixed income and other specified securities, subject to certain issuer limits and restrictions, such that the average long term credit rating of the investment portfolio held within each statutory fund is at least A.

The Company's maximum exposure to credit risk at balance date is the fair value of financial assets as indicated in the Statement of Financial Position.

(c) Liquidity risk

Liquidity risk represents the risk that the Company will have difficulty in meeting its obligations associated with insurance contracts as they fall due as a result of a lack of cash. The Company minimises its liquidity risk by appropriate selection of maturity duration for its investments and by monitoring and managing its emerging needs for liquidity.

The table in Note 23(a) summarises the maturity profile of the company's financial assets and liabilities.

(d) Market risk

The Company is required to record its investment assets at fair value, with unrealised movements in market value recognised as income or expense in the period in which they occur. Accordingly, the full extent of exposure to market movements is reflected in the Statement of Financial Position. The Company manages market risk by maintaining a balanced portfolio with a spread of investment assets.

Most non-cash investment assets are market traded. All fixed interest securities are of investment grade and within the Company's investment policies. The Investment Committee sets the investment policies and mandates. These are reviewed by the Investment Committee on a regular basis.

(e) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange arises where assets or liabilities, revenue or expense items are denominated in a currency other than its functional or presentation currencies.

The Company manages foreign currency risk arising from its insurance operations in New Zealand by holding assets in original currency to match the expected reinsurance contract liabilities and their associated prudential reserves. A residual foreign exchange exposure results on translation of the NZD denominated net assets from NZD into the presentation currency.

23 Financial risk management (continued)

(e) Foreign currency risk (continued)

As at 31 December 2020, a 10% strengthening of the Australian dollar (AUD) against the NZD would have decreased equity by $15.3m (2019: $10.4m). A 10% weakening of AUD against NZD would have had the equal but opposite effect to these amounts. In these scenarios, these changes in equity would be accompanied by an associated change in the Australian dollar value of prudential reserves relating to the New Zealand branch.

The following exchange rates applied during the year:

	Average rate		Balance date rate	
	2020	**2019**	**2020**	**2019**
NZD1= AUD	$0.9424	$0.9466	$0.9337	$0.9600

In addition, the Company incurs certain management charges and investment management services fees from related parties that are denominated in currencies other than its functional currencies. The Company lessens its exposure to foreign exchange risk arising on these transactions by regularly settling outstanding balances with related parties.

24 Contingencies

The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business. Legal proceedings can arise where the Company has a reinsured interest in a dispute between a client and its policyholders; or where there is a direct dispute between the Company and its client.

Where it is determined that the disclosure of information in relation to a contingent liability can be expected to prejudice seriously the position of the Company in a dispute, accounting standards allow the Company not to disclose such information and it is the Company's policy that such information is not disclosed in this note.

There are no other contingent liabilities or assets to be reported as defined under AASB 137.

25 Events subsequent to reporting date

The ongoing COVID-19 global pandemic may cause increases in mortality, morbidity and other insurance risks, as well as significant disruption in the local and international economies and financial markets, and may adversely impact, the Company's results of operations, financial condition and cash flows. The risks may have manifested, and may continue to manifest, in our financial statements in the areas of, among others,

(i) investments: increased risk of loss on our investments due to default or deterioration in credit quality or value;
(ii) insurance liabilities and related balances: potential changes to assumptions regarding investment returns, mortality, morbidity and policyholder behaviour which are reflected in our insurance liabilities and certain related balances (e.g., DAC); and
(iii) other assets and liabilities.

The extent to which the Company's future results continue to be affected by COVID-19 will largely depend on, among other factors, country-specific circumstances, measures by public and private institutions, COVID-19's impact on all other causes of death and the timing of effective treatments and/or a vaccine for COVID-19. Given these many variables, the Company is unable predict the future impact of the pandemic on its business, results of operations and financial condition.

There are no other matters or circumstances that have arisen since the end of the financial year which significantly affect or may significantly affect the operations of the Company, the results of its operations or state of affairs of the Company in subsequent financial years.

Directors' Declaration

In the opinion of the Directors of RGA Reinsurance Company of Australia Limited ("the Company"):

(a) the financial statements and notes, set out on pages 5 to 49, are in accordance with *the Corporations Act 2001*, including:

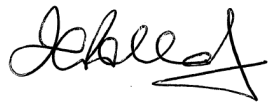
  (i) giving a true and fair view of the financial position of the Company as at 31 December 2020 and of its performance, as represented by the results of its operations and cash flows, for the year ended on that date; and

  (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

  (iii) adherence to International Financial Reporting Standards issued by the International Accounting Standards Board; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors made in pursuant to s.295(5) of the *Corporations Act 2001*.



Ian A. Pollard
Chairman

Mark A. Stewart
Managing Director

Dated at Sydney this 18th day of March 2021

Deloitte Touche Tohmatsu
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Australia

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Independent Auditor's Report to the Shareholders of RGA Reinsurance Company of Australia Limited

Opinion

We have audited the financial report of RGA Reinsurance Company of Australia Limited (the "Company") which comprises the statement of financial position as at 31 December 2020, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Company is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's financial position as at 31 December 2020 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants *(including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company**,** would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 31 December 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or

our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, 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 Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Company 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 Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is 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 the Australian Auditing Standards 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up

to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

JLGorton

Joanne Gorton
Partner
Chartered Accountants
Sydney, 18 March 2021