Swiss Re

Financial Statements 2020

Swiss Re Life & Health Australia Limited

New Zealand Branch

Offices

Auckland
21 Queen Street, 1010, Auckland, New Zealand
Telephone: 64 9 363 2700
Facsimile: 64 9 363 2727

Sydney
Tower Two, International Towers Sydney
200 Barangaroo Avenue, 2000, Sydney, Australia
Telephone: 61 2 8295 9500
Facsimile: 61 2 8295 9604

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Statement of Comprehensive Income

For the year ended 31 December

in thousands of New Zealand dollars	Notes	2020	2019
Revenue			
Premium revenue from life insurance contracts		582,369	568,641
Premium revenue ceded to retrocessionaires		(494,159)	(476,534)
Net premium revenue		**88,210**	**92,107**
Investment revenue	5	579	1,485
Other revenue	6	126,017	101,137
Net revenue		**214,806**	**194,729**
Expenses			
Claims expense		239,270	197,418
Claims recovered from retrocessionaires		(179,338)	(143,908)
Net claims expense		**59,932**	**53,510**
Decrease in net life insurance contract assets	14(a)	831	11,217
Other expenses	7	139,457	107,370
Net claims and expense		**200,220**	**172,097**
Net profit before tax		**14,586**	**22,632**
Income tax expense	9	(4,084)	(6,337)
Net profit after tax	4	**10,502**	**16,295**

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

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Statement of Financial Position

As at 31 December

in thousands of New Zealand dollars	Notes	2020	2019
Assets			
Cash and cash equivalents	18	1,228	2,389
Trade and other receivables	11	104,072	116,256
Financial assets at fair value through profit or loss	10	88,414	92,616
Life insurance contract liabilities assumed under reinsurance	14	726,436	838,598
Current tax asset	9	–	225
Total assets		**920,150**	**1,050,084**
Liabilities			
Trade and other payables	12	55,221	85,299
Current tax liability	9	1,060	–
Retrocessionaires' share of life insurance contract liabilities	14	709,397	820,728
Deferred tax liabilities	9	11,469	11,556
Total liabilities		**777,147**	**917,583**
Net assets		**143,003**	**132,501**
Equity			
Head office account		143,003	132,501
Total equity		**143,003**	**132,501**

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

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Statement of Changes in Head Office account

For the year ended 31 December

in thousands of New Zealand dollars	Notes	2020	2019
Balance at 1 January		132,501	116,206
Net profit after tax	4	10,502	16,295
Balance at 31 December		**143,003**	**132,501**

The above Statement of Changes in Head Office account should be read in conjunction with the accompanying notes.

Statement of Cash Flows

For the year ended 31 December

in thousands of New Zealand dollars	Notes	2020	2019
Cash flows from operating activities:			
Premiums received		594,366	533,800
Premiums retroceded		(498,540)	(432,108)
Interest received		1,647	1,807
Claims and other technical expense payments		(402,061)	(304,675)
Claims and other technical expense retroceded		307,436	204,630
Other retrocession commission income		5,929	15,925
Other expense payments		(14,946)	(8,748)
Other revenue received		4,641	247
Net Income tax payments		(2,886)	(5,075)
Net cash (utilised)/provided by operating activities	18	**(4,414)**	**5,803**
Cash flows from investing activities:			
Proceeds from the sale of financial assets		326,715	411,226
Payments for financial assets		(323,462)	(418,722)
Net cash provided/(utilised) by investing activities		**3,253**	**(7,496)**
Cash flows from financing activities			
Net cash utilised by financing activities		**-**	**-**
Net decrease in cash and cash equivalents held		**(1,161)**	**(1,693)**
Cash and cash equivalents at the beginning of financial year		2,389	4,082
Cash and cash equivalents at the end of financial year	18	**1,228**	**2,389**

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

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

J R Minto
Chairman

S Ooi
Managing Director

25 March 2021

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Notes to the Financial Statements

1. Summary of significant accounting policies

Basis of preparation

The reporting entity is the New Zealand Branch of Swiss Re Life & Health Australia Limited ("the Branch"), a Company incorporated in Australia.

The financial report is prepared in accordance with Generally Accepted Accounting Practices in New Zealand. They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other authoritative pronouncements and interpretations issued by New Zealand External Reporting Board (XRB) as appropriate for for-profit entities.

The financial statements are prepared in accordance with the requirements of Part 7 of the Financial Market Conduct Act 2013.

The financial statements of the Branch comply with International Financial Reporting Standards (IFRS).

The financial statements have been prepared on a going concern basis.

This financial statements of the Branch for the year ended 31 December 2020 was authorised for issue by the Board of Directors on 25 March 2021. The directors have the power to amend the financial statements of the Branch.

Principles for life insurance business

Contracts that involve the acceptance of significant insurance risk are accounted for as life insurance contracts. Insurance risk is defined as significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. Life insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness.

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

Revenue from life insurance contracts

Revenue in respect of life insurance contracts is classified as premium revenue. Premiums are recognised as revenue on an accrual basis, details of the methods used and assumptions made are set out in note 2.

Claims expense on life insurance contracts

Claims incurred in respect of life insurance contracts are treated as an expense, and are recognised when the liability to the cedant under the reinsurance contract has been established.

Premiums ceded to retrocessionaires

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

Claims recovered from retrocessionaires

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

Life insurance contract liabilities

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

Life insurance contract liabilities are ordinarily determined using a projection method, whereby estimates of policy cash flows (premiums, benefits, expenses and profit margins to be released in future periods) are projected into the future. The policyholder liability is calculated as the net present value of these projected cash flows and future profit margins using best estimate assumptions about the future.

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

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

Assets backing life insurance contracts

The Branch has determined that it holds sufficient investment assets including cash and fixed interest securities held within its statutory funds to match policy liabilities. The Branch also holds investment assets in excess of those backing policy liabilities. Financial assets are classified at fair value through profit or loss. Measurement at fair value of assets backing policy liabilities is consistent with how investment assets are managed and their performance is evaluated. Financial assets are initially recognised at fair value and subsequently measured at fair value through profit or loss. Unrealised profits and losses on subsequent measurement to fair value are recognised in the Statement of Comprehensive Income. Fair value is determined as follows:

- Cash accounts and short term deposits are valued at the amounts deposited.
- Debt securities, and other market traded securities are valued at the price the instrument could be sold into an active market, which is usually represented by the latest bid price for such an instrument. Where active market data is not available, the valuation is determined with reference to broker quotes, cashflow modeling or other valuation techniques commonly used by market participants for the same or similar assets and which are considered to be appropriate estimates of prices that would be reasonable in active market situations.
- Receivables are carried at book value, which is the best estimate of fair value, as they are generally settled within 12 months or less.

Apportionment of expenses

Expenses are attributed to particular business lines, at either a class of business or product level, for the purpose of determining product profitability and as a basis for assessing future expense assumptions used in determining future margins (refer Life insurance contract liabilities above).

Expenses that are directly attributable to the sale and maintenance of a life insurance contract are allocated directly to the relevant expense class of business or product.

Where expenses are not directly attributable, they are apportioned based on detailed expense analysis, having regard to the objective of incurring each expense and the outcome achieved. The apportionment is consistent with the basis prescribed for regulatory reporting in accordance with the Actuarial Professional Standard No.3 "Determination of Life Insurance Policy Liabilities" (PS3).

Costs incurred are classified as:

Acquisition costs – the fixed and variable costs of acquiring new business, including commissions and similar distribution costs and costs of accepting, issuing and initially recording policies;

Investment management costs – the costs involved with buying and selling investments and the ongoing management costs of an investment portfolio; or

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

Acquisition costs

Life insurance contracts

The actual acquisition costs incurred are recorded in the Statement of Comprehensive Income, under 'other expenses'. The proportion of life acquisition costs not recovered by specific charges received from the policyholder at inception are deferred provided that these amounts are recoverable from future profit margins. The deferred amounts are recognised in the Statement of Financial Position as a reduction in policy liabilities and are amortised through the Statement of Comprehensive Income over the expected duration of the relevant policies.

Investment revenue

Investment revenue includes:

(i) Interest recognised using the effective interest rate method;
(ii) Profits or losses realised on the disposal of investment assets; and
(iii) The change in value of investment assets that are held on a 'fair value through profit or loss' basis.

Cash and cash equivalents

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

Trade and other receivables

All the receivables reflecting rights arising under an insurance contract as defined in NZ IFRS 4 Insurance Contracts are recognised at the amount receivable less a provision for impairment. A provision for impairment is established when there is objective evidence that the Branch will not be able to collect all amounts due according to the original term of the receivable.

Receivables within the scope of NZ IFRS 9 are managed to collect contractual cash flows and their contractual terms generate cash flows that are solely payments of principal (and interest thereon, if any). Receivables are initially recognised at fair value and subsequently measured at amortised cost less a provision for impairment.

Impairment is calculated as a provision of expected credit losses (ECLs). The provision for ECLs is based on the difference between the cash flows due in accordance with the contract and the cash flows that the Branch expects to receive. Any shortfall is discounted at an approximation to the asset's original effective interest rate. The assessment of ECL's reflects judgements and assumptions that take into account prior credit risk and loss history, current and expected future market conditions and individual debtor circumstances.

The Branch adopts the simplified approach permitted by NZ IFRS 9 with regard to non-insurance trade receivables and calculates the provision with reference to lifetime ECLs. For all other receivables, the provision is based on the proportion of lifetime ECLs that result from possible default events within 12 months from reporting date, unless there has been a significant increase in credit risk since initial recognition, in which case the provision is based on lifetime ECLs.

Financial assets at fair value through profit or loss

The Branch's investment strategy is to invest in debt securities and to manage and evaluate the portfolio on a fair value basis. The Branch is primarily focused on fair value information and uses that information to assess the asset's performance and to make decisions. Financial assets are neither held to collect contractual cash flows or held both to collect contractual cash flows and to realise proceeds from sale. As required by NZ IFRS 9 Financial Instruments, the Branch's portfolio of financial assets is categorised as fair value through profit or loss on initial recognition. Assets that are part of these portfolios are designated upon initial recognition at fair value through profit or loss.

Investments are initially recorded at fair value being the cost of acquisition excluding transaction costs and are subsequently measured to fair value at each reporting date. Assets that are subsequently measured at fair value through profit or loss are not subject to impairment considerations under the ECL model. Debt securities are valued using independently sourced valuations as described in note 10.

All purchases and sales of investments that require delivery of the asset within the time frame established by regulation or market convention are recognised at trade date, being the date on which the Branch commits to buy or sell the asset. Investments are derecognised when the right to receive future cash flows from the asset has expired or has been transferred and the Branch has transferred substantially all the risks and rewards of ownership.

Trade and other payables

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

Income tax

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

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

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

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction by the end of the reporting date. The relevant tax rates are applied to the cumulative amounts of deductible and assessable temporary differences to measure the deferred tax asset or liability. Deferred tax assets are recognised for deductible temporary differences and unused tax losses, only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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

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

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

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

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

Future Accounting Developments
New standards and interpretations not yet effective

- NZIFRS 17, a new accounting standard for insurance contracts, was adopted by the NZASB in July 2017. In June 2020, the IASB issued Amendments to IFRS 17 which deferred the effective date from 1 January 2021 to 1 January 2023 and made significant amendments to the standard in response to feedback from and implementation issues raised by stakeholders. These amendments were adopted by the NZASB in July 2020.

  An entity may elect to early adopt NZIFRS 17 however the SRLHA has not taken this option and will therefore adopt this standard on 1 January 2023.

  NZIFRS 17 includes some fundamental differences to current accounting in both insurance contract measurement and profit recognition. The general model is based on a discounted cash flow model with a risk adjustment and deferral of unearned profits. A separate approach applies to insurance contracts that are linked to returns on underlying items and meet certain requirements. In addition, the level of contract aggregation is likely to be lower than under current practices. Based on the current portfolio mix, SRLHA is expected to apply the general model as its measurement approach.

  SRLHA is currently undertaking a multi-phase project to implement NZIFRS 17. Swiss Re group wide accounting guidance and application methodologies are also being developed, and a global project team has been mobilised to progress the detailed design and implementation of required changes to financial reporting systems. Topics considered in the implementation include identifying contracts impacted by NZIFRS 17, defining the NZIFRS 17 level of aggregation, contract boundary, coverage units, risk adjustment, transition methodology and the disclosures required. Also, as part of the implementation, training programmes have been rolled out and various phases of systems testings were performed over 2020 and expect to continue over 2021.

  Given the broad scope of the recent amendments, complexity of the new requirements and lack of consensus on the interpretation of key components of the standard, the impact of NZIFRS 17 on SRLHA's financial statements is still being determined. Significant presentation format, disclosure changes and impact on reported profit or loss are expected, however we are still in the process of quantifying this impact. Market developments also continue to be monitored in order to assess the impact of evolving interpretations and other changes.

There are no other standards that are not yet effective and that are expected to have a material impact on the Branch in the current or future reporting periods and on foreseeable future transactions.

2. Critical accounting judgements and estimates

The Branch makes estimates and judgments that affect the reported amounts of assets and liabilities of the Branch. These judgements are based on factors such as historical experience and expectations of future trends and events that are believed to be reasonable under the circumstances. Estimates and judgements are continually evaluated.

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

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

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

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

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

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

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

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

Impact of COVID-19
COVID-19 was declared a pandemic by the World Health Organisation on 11 March 2020. For New Zealand, the pandemic is expected to lead to indirect COVID related claims (those sensitive to economic downturn) rather than direct COVID death claims. Since 30 June 2020, SRLHA NZ branch has included modelled loadings for COVID covering mortality, morbidity (disability) and discontinuance stresses. The largest loading is for increased disability incidence and reduced terminations until the end of 2022, though these risks are retroceded and not retained in New Zealand. The loadings are material and require significant actuarial judgement and have a higher level of uncertainty than other assumptions.

3. Actuarial methods and assumptions

An actuarial report on policy liabilities and prudential capital as at 31 December 2020 is prepared by the Appointed Actuary Mr Michael Fowlds FIAA, FFA. This report indicates that he is satisfied as to the accuracy of the data upon which policy liabilities have been determined.

The policy liabilities in the Appointed Actuary's report have been calculated in accordance with the New Zealand Society of Actuaries professional standard, PS20 Determination of life insurance policy liabilities.

Swiss Re Life & Health Australia Limited (SRLHA) was granted a licence in New Zealand by the Reserve Bank of New Zealand. As part of this, a section 59 exemption from compliance with the solvency standard for Life Insurance Business (under the Insurance (Prudential Supervision) Act 2010) was granted. The solvency position of the Branch has therefore been calculated in accordance with Life Prudential Standard (LPS 110) 'Capital Adequacy' as issued by the Australian Prudential Regulation Authority (APRA).

Actuarial methods

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

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

Methods adopted for each of the major product groups:

Product Group:	*Method:*
Traditional non-participating life and disability business; Single premium business with income benefits; Medical expenses; and Term insurance	Projection method, using cash flows from policy data where provided and applying results to the total product group
Group life and salary continuance insurance	Accumulation method
Conventional whole of life and endowment business; and Single premium business with lump-sum benefits	Projection method, using present value of future payments and premiums due

Valuation assumptions

Discount rates

Risk-free rate of return, gross basis: this has been based on using the New Zealand Government bond yield curve as at 31 December 2020.

Range of discount rates 0.15% to 1.83% (2019: 0.98% to 2.08%) net of investment management expenses.

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

Investment expenses

Future investment management expenses are based on the rates agreed with the investment manager, which vary by class of asset and average 0.12% of assets (2019: 0.12%).

Future maintenance expenses

Allowance for future maintenance expenses has been made on the basis that expense loadings (before future inflation impacts) cover maintenance expenses. Expense loadings vary according to product type and are expressed as a % of annual premium or claims.
Range of expense loadings
Premium driven expenses : 0.5% to 4.0% (2019: 0.5% to 4.0%)
Claims driven expenses: 1.0% (2019: 1.0%)

Rates of taxation

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

Mortality and Morbidity

Mortality and morbidity rates for risk products which vary by sex, age, smoking status and occupation have been based on the Branch's own experience and relevant industry studies. The range of rates used in the current year are:

Mortality:	
Males	48% – 102% of FSC 2012m for traditional and retail lump sum products (2019: 48% – 102% of FSC 2012m).
Females	48% – 102% of FSC 2012f for traditional and retail lump sum products (2019: 48% – 102% of FSC 2012f).

Morbidity:	
Incidence	between 73% – 246% of FSC 07–11 morbidity table (2019: 73% – 246% of FSC 07–11 morbidity table).
Termination	between 60% – 146% of FSC 07–11 morbidity table (2019: 60% – 146% of FSC 07–11 morbidity table).

Morbidity (Total and Permanent Disability (TPD)/Trauma)
Incidence between 100% –200% FSC 2012 TPD/Trauma tables (2019: between 100% – 200% FSC 2012 TPD/ Trauma tables).

Appropriate base tables are chosen for the type of product written. Investigations into the actual experience of the Branch over the preceding 5 years are performed annually, and the results of these investigations are considered in determining adjustments to the base tables to reflect best estimate experience.

Discontinuance rates
Future rates of discontinuance which vary by product type are assumed to be in the order of: 5% – 27% (2019: 4% – 27%).

These rates do not include assumptions relating to policyholder lapses due to the impacts of the Covid-19 pandemic. Assumptions relating to Covid-19 are documented as a separate item.

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

Disability Income Escalation rate
Allowance for Disability Income escalation rate:

– New Zealand Retail Disability	1.80% (2019: 1.80%)
– New Zealand Group Salary Continuance	1.60% (2019: 1.20%)

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

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

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

COVID-19 Assumptions

Mortality and Morbidity
Mortality:
No material impact of additional mortality was assumed.

Morbidity (Disability)
Incidence
A multiplicative increase to incidence in addition to the standard incidence documented above, decreasing over time to the end of 2022 ranging between 3.75% and 15% (2019 0.0% and 0.0%).
Termination
A multiplicative decrease to termination rates applied to the standard termination rates documented above, with the impact decreasing over time to the end of 2022 ranging between 2.5% and 15% (2019 0.0% and 0.0%).

Morbidity (Total and Permanent Disability (TPD)/Trauma)
No material impact of increases in lump sum morbidity was assumed.

Discontinuance rates
Additional additive rates of discontinuance above the standard rates documented above are assumed to apply over 2021. These rates vary by product type are assumed to be in the order of 2% – 3.5% (2019 0% and 0%).

Effects of changes in actuarial assumptions from 31 December 2019 to 31 December 2020

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

in thousands of New Zealand dollars	Profit Margins Increase/(decrease)	Policy Liabilities Increase/(decrease)
Assumption Change		
Discount rates	18,176	1,805
Expense	–	–
Mortality	–	–
Morbidity	–	–
Discontinuance rates[1]	(8,428)	–
Model/Methodology/System change	6	–
Other[2]	0	4,999
Total assumption change	**9,754**	**6,804**
Experience	(13,286)	(5,973)
Total effect of changes	**(3,532)**	**831**
Amount at 31 December 2019	300,550	(17,870)
Amount reported at 31 December 2020 under new assumptions	**297,018**	**(17,039)**

[1]Discontinuance rates impact includes (8,264) relating to COVID-19 assumptions.

[2]Other includes the reduction in reserves resulting from a cedant recapture.

Effects of changes in actuarial assumptions from 31 December 2018 to 31 December 2019

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

in thousands of New Zealand dollars	Profit Margins Increase/(decrease)	Policy Liabilities Increase/(decrease)
Assumption Change		
Discount rates	11,744	1,958
Expense	6,623	–
Mortality	–	–
Morbidity	–	–
Discontinuance rates	53,036	–
Model/Methodology/System change	2,089	–
Other	(1,359)	–
Total effect of assumption change	**72,133**	**1,958**
Experience	(6,084)	9,259
Total effect of changes	**66,049**	**11,217**
Amount at 31 December 2018	**234,501**	**(29,087)**
Amount reported at 31 December 2019 under new assumptions	**300,550**	**(17,870)**

Sensitivity analysis

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

Variable	Impact of movement in underlying variable
Discount rate	A decrease in the discount rate will increase the policy liability. The overall impact on profit and shareholders' equity depends on the impact on assets and liabilities combined.
Mortality rates	A sustained change in mortality rates would result in an update of the best estimate mortality assumptions. An increase in best estimate mortality assumptions will increase the claim costs. To the extent that future profit can absorb the effect of higher claims cost, changes in assumption have little impact on the policy liability. If the increased claims cost is higher than the future profit can absorb, the excess will increase the policy liability and reduce profit. A decrease in the best estimate mortality rates will reduce claim costs. To the extent that prior loss recognition exists, the lower claims cost will reverse that loss, reducing policy liability and increasing profit. Reduction in claims cost above the amount of prior loss recognition will be smoothed over the future and will not change the policy liability or profit.

TPD & trauma incidence	A sustained change in TPD and Trauma incidence rates will result in an update of the best estimate morbidity assumptions. An increase in best estimate morbidity incidence assumptions will increase the claim costs. To the extent that future profit can absorb the effect of higher claims cost, changes in assumption have little impact on the policy liability. If the increased claims cost is higher than the future profit can absorb, the excess will increase the policy liability and reduce profit. A decrease in the best estimate mortality rates will reduce claim costs. To the extent that prior loss recognition exists, the lower claims cost will reverse that loss, reducing policy liability and increasing profit. Reduction in claims cost above the amount of prior loss recognition will be smoothed over the future and will not change the policy liability or profit.
Disability claims incidence	The cost of disability income claims depends on both the incidence of policyholders becoming ill and the duration which they remain ill. An increase in the incidence rates or duration would increase claim costs. To the extent that future profit can absorb the effect of higher claims cost, changes in assumption have little impact on the policy liability If the increased claims cost is higher than the future profit can absorb, the excess will increase the policy liability and reduce profit. A decrease in the incidence rates or duration will reduce claim costs. To the extent that prior loss recognition exists, the lower claims cost will reverse that loss, reducing policy liability and increasing profit. Reduction in claims cost above the amount of prior loss recognition will be smoothed over the future and will not change the policy liability or profit.
Disability claims termination	A sustained change in termination rates would result in an update of the best estimate disability claims termination assumptions. An increase in termination rates will reduce claims costs. For individual business, to the extent that prior loss recognition exists, the lower future claims cost will reverse that loss, reducing policy liability and increasing profit. Reduction in claims cost above the amount of prior loss recognition will be smoothed over the future and will not change the policy liability or profit. Policy liabilities for group salary continuance will reduce.
Discontinuance	A sustained change in discontinuance rates would result in an update of the best estimate discontinuance assumptions. Changes in discontinuance assumptions would have a small impact on gross policy liabilities driven by retail disability products. An increase in lapse assumptions would reduce the policy liabilities for retail disability products, resulting in higher profit.

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

in thousands of New Zealand dollars	Change in Variable	Impact on Policy Liabilities		Impact upon Profit and Equity after Tax	
2020		**Gross of reinsurance**	**Net of reinsurance**	**Gross of reinsurance**	**Net of reinsurance**
Discount rate	+50bp	11,749	(3,688)	(8,597)	2,517
	−50bp	(10,494)	4,402	7,694	(3,031)
Mortality	+10%	–	–	–	–
	−10%	–	–	–	–
TPD & Trauma incidence	+10%	–	–	–	–
	−10%	–	–	–	–
Disability claims incidence	+10%	22,783	–	(16,404)	–
	−10%	(635)	–	457	–
Disability claims termination	+10%	(2,520)	–	1,814	–
	−10%	42,112	–	(30,321)	–
Discontinuance	+10%	8,925	–	(6,426)	–
	−10%	(438)	–	315	–

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in thousands of New Zealand dollars	Change in Variable	Impact on Policy Liabilities		Impact upon Profit and Equity after Tax	
2019		**Gross of reinsurance**	**Net of reinsurance**	**Gross of reinsurance**	**Net of reinsurance**
Discount rate	+100bp	52,366	(2,086)	(37,703)	1,502
	−100bp	(52,366)	2,086	37,703	(1,502)
Mortality	+10%	–	–	–	–
	−10%	–	–	–	–
TPD & Trauma incidence	+10%	–	–	–	–
	−10%	–	–	–	–
Disability claims incidence	+10%	–	–	–	–
	−10%	–	–	–	–
Disability claims termination	+10%	(4,710)	–	3,391	–
	−10%	5,483	–	(3,948)	–
Discontinuance	+10%	1,798	–	(1,294)	–
	−10%	(1,798)	–	1,294	–

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

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

4. Components of profit

in thousands of New Zealand dollars	2020	2019
Components of profit related to movement in life insurance contracts:		
Planned margins of revenues over expenses released	15,415	15,628
Difference between actual and assumed experience	(5,401)	(402)
Capitalisation of expected future losses	(631)	9,877
Retrocession recovery relating to loss recognition	631	(9,877)
	10,014	**15,226**
Other components:		
Investment earnings on assets in excess of policy liabilities	488	1,069
Net profit after tax	**10,502**	**16,295**

5. Investment revenue

in thousands of New Zealand dollars	2020	2019
Interest on debt securities and deposits	1,528	2,095
Realised and unrealised fair value losses	(949)	(610)
Total investment revenue	**579**	**1,485**

6. Other revenue

in thousands of New Zealand dollars	2020	2019
Interest on cash and cedant balances	95	135
Commission income from retrocession	113,752	91,725
Other retrocession commissions and expenses	7,624	9,277
Other[1]	4,546	–
Total other revenue	**126,017**	**101,137**

[1] This balance is due to the recapture profit on Fidelity.

7. Other expenses

in thousands of New Zealand dollars	2020	2019
Life insurance contract liabilities:		
Policy acquisition expenses		
Commission expense	16,042	63,790
Operating expenses	341	199
Policy maintenance expenses		
Commission expense	107,888	38,025
Operating expenses	8,868	5,193
Investment management expenses	19	163
Other[1]	6,299	–
Total other expenses	**139,457**	**107,370**

[1] This balance is due to the recapture of Fidelity.

8. Auditors' remuneration

Amount received or due and receivable by auditors' of the Branch, including non-recoverable GST, for:

in thousands of New Zealand dollars	2020	2019
Audit of the financial statements – PwC NZ	25	20
Audit of the financial statements – PwC AU	77	72
Total audit services	**102**	**92**

There are no non-audit services in 2020 (2019: nil).

9. Income tax

Income tax expense has been determined in accordance with the taxes applicable to each product in accordance with the Income Tax Act 2007 ("the Act"). Business is subject to income tax at a rate of 28% (2019: 28%) in accordance with the Act.

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

in thousands of New Zealand dollars	2020	2019
Income Tax Expense		
Current tax		
Current tax on profits for the year	(4,171)	(6,629)
Total current tax expense	**(4,171)**	**(6,629)**
Deferred income tax		
Decrease in deferred tax liabilities	87	292
Total deferred tax benefit	**87**	**292**
Income tax expense	**(4,084)**	**(6,337)**
Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from operations before income tax expense	14,586	22,632
Tax at the New Zealand tax rate of 28% (2019: 28%)	(4,084)	(6,337)
Income tax expense	**(4,084)**	**(6,337)**
Analysis of deferred tax liability		
Deferred tax liability on New Zealand acquisition costs	11,469	11,556
Closing deferred tax liability[1]	**11,469**	**11,556**
Deferred tax liability		
Opening balance	11,556	11,848
Deferred tax liability on New Zealand acquisition costs	(87)	(292)
Closing deferred tax liability	**11,469**	**11,556**
Deferred tax liabilities expected to be settled within 12 months	573	578
Deferred tax liabilities expected to be settled after 12 months	10,896	10,978
Current income tax liabilities/(assets)		
Opening balance	(225)	(1,779)
Current component of income tax expense	4,171	6,629
Tax refunds received during current year	2,384	**1,955**
Tax paid during current year	**(5,270)**	**(7,030)**
Closing balance	**1,060**	**(225)**
Current tax liabilities/(assets) expected to be settled within 12 months	1,060	(225)

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

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10. Financial assets at fair value through profit or loss

in thousands of New Zealand dollars	2020	2019
Debt security investments: New Zealand government (level 1)	88,414	92,616
Balances maturing within 12 months	88,414	30,798

Credit ratings of financial assets are disclosed in Note 17.

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

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

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

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

11. Trade and other receivables

There are no trade and other receivables as at 31 December 2020 (2019: nil) that have been assessed as impaired.

in thousands of New Zealand dollars	2020	2019
Outstanding premiums	103,742	115,739
Investment income accrued and receivable	330	449
Amounts due from related parties	–	68
Total trade and other receivables	**104,072**	**116,256**
Balance expected to be received within 12 months	**104,072**	**104,077**

12. Trade and other payables

in thousands of New Zealand dollars	2020	2019
Amounts due to cedants	34,747	73,603
Amounts due to retrocessionaires – related party	15,261	6,991
Amounts due to related parties	2,101	1,196
Other creditors	3,112	3,509
Total trade and other payables	**55,221**	**85,299**
Balance expected to be settled within 12 months	**55,221**	**73,120**

13. Offsetting

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

in thousands of New Zealand dollars	2020	2019
Balances setoff		
Premiums ceded under retrocession	(119,012)	(123,393)
Claims and other technical expenses ceded under retrocession	59,625	67,567
Other retrocession commissions and expenses	44,126	48,835
Amounts due to cedants and retrocessionaires – controlling entity	**(15,261)**	**(6,991)**

14. Life insurance contract liabilities

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

in thousands of New Zealand dollars	2020	2019
Life insurance contract liabilities assumed under reinsurance		
Opening balance at 1 January	838,598	969,828
(Decrease)/increase reflected in the statement of comprehensive income	(112,162)	(131,230)
Closing balance at 31 December[1]	**726,436**	**838,598**
Retrocessionaires' share of life insurance contract liabilities		
Opening balance at 1 January	(820,728)	(940,741)
Increase/(decrease) reflected in the statement of comprehensive income	111,331	120,013
Closing balance at 31 December[1]	**(709,397)**	**(820,728)**
Net life insurance contract liabilities as at 31 December	**17,039**	**17,870**

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

14 (b) Components of net life insurance contract liabilities

in thousands of New Zealand dollars	2020	2019
Future policy benefits	(818,917)	(820,604)
Future expenses	(88,230)	(91,202)
Planned margins of future revenues over expenses	(297,018)	(300,550)
Future revenues	1,221,204	1,230,226
Total net life insurance contract liabilities	**17,039**	**17,870**
Net life insurance contract liabilities to be realised within 12 months	**(23,460)**	**(6,801)**

15. Solvency

In accordance with section 59 of the Insurance Prudential Supervision Act 2010, SRLHA is exempt from compliance with the solvency standard for Life Insurance Business. The solvency position of the Branch has been calculated in accordance with Life Prudential Standard (LPS) 110 'Capital Adequacy' as issued by APRA. LPS 110 prescribes the minimum capital requirement for each statutory fund and the minimum level of assets required to be held in each statutory fund.

The figures in the table below represent the ratio of the assets available for capital over the minimum regulatory capital requirement for the reinsurance statutory fund of SRLHA, of which the New Zealand Branch is a subset.

in thousands of New Zealand dollars	2020	2019
Net assets	1,406,317	1,150,423
Regulatory adjustment applied in calculation of tier 1 capital	(411,918)	(268,435)
Tier 1 capital:		
Common equity tier 1 capital	914,104	803,837
Additional tier 1 capital	80,295	78,152
Capital base	**994,399**	**881,989**
Prescribed capital amount comprises:		
Insurance risk	281,395	225,999
Asset risk	93,929	85,699
Asset concentration risk	292,091	357,225
Operational risk	36,440	42,394
Aggregation benefit	(61,352)	(54,468)
Combined scenario adjustment	93,645	84,271
Prescribed capital amount	**736,148**	**741,120**
Capital in excess of prescribed capital amount	258,251	140,869
Capital adequacy multiple (%)[1]	135%	119%

[1]In addition to the prescribed capital amount coverage above, SRLHA holds Pillar 2 capital coverage per APRA's DI Supervisory Adjustment. There are no COVID restrictions or other adjustment required by APRA other than the DI one noted.

16. Related party disclosures

Controlling entities

The immediate controlling entity is Swiss Re Australia Ltd (SRAUL), a Company incorporated in Australia. The controlling entity of SRAUL is Swiss Re Asia Holding Pte. Ltd, a Company incorporated in Singapore. The ultimate controlling entity is Swiss Reinsurance Company Ltd, a Company incorporated in Switzerland.

Related party transactions

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

in thousands of New Zealand dollars	2020	2019
Retrocession contracts with ultimate controlling entity – Swiss Reinsurance Company Ltd.		
Outwards reinsurance expense	(396,046)	(476,533)
Reinsurance recoveries and commission income	241,225	244,912
Movement in life insurance contract liabilities	67,341	120,014
Net reinsurance expense	**(87,480)**	**(111,607)**
Retrocession contracts with other related parties – Swiss Re Asia Pte. Ltd.		
Outwards reinsurance expense	(98,113)	–
Reinsurance recoveries and commission income	63,342	–
Movement in life insurance contract liabilities	43,991	–
Net reinsurance recovery	**9,220**	**–**
Management and other expenses with other related parties		
Management and other expenses	(7,058)	(5,312)
Management and other expenses	**(7,058)**	**(5,312)**

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

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17. Risk management and financial instruments

Risk Management
The Branch implements its risk management system as part of the global framework that governs risk management practices throughout Swiss Re Group.

The New Zealand Branch shares the same Risk Management framework as SRLHA, which is in accordance with Section 73 of the Insurance (Prudential Supervision) Act 2010 and Prudential Standard CPS 220 Risk Management issued by APRA. SRLHA's policies and procedures for managing these risks are set out in this note and apply to both the Branch and the Australian operations.

The SRLHA Board of Directors is ultimately responsible for oversight over the operation of the Branch, including its risk management. It is supported in this by various key function-holders, including the Chief Financial Officer ANZ, Chief Risk Officer ANZ, Compliance Officer and Appointed Actuary. The SRLHA Board Risk Committee, appointed by the Board, is the main body charged with oversight of the risk governance issues of the Branch. Its responsibilities are established in the Board charter. The Board of SRLHA has established the Reinsurance Leadership Team, with primary responsibilities to manage the business and operations of the Branch and to act as an interface between the Branch and the Group.

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

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

The financial condition and operating results of the Branch are affected by a number of material risk categories including insurance (or underwriting) risk, financial market risk, credit risk, operational risk and liquidity risk. These risks could have a material impact, either financial or non-financial, on the Branch or on the interest of its stakeholders. The Branch's policies and procedures for managing these risks are set out in this note.

In accordance with the Risk Management Programme Guideline issued by the Reserve Bank of New Zealand, dated December 2012, the Board and senior management of SRLHA develop, implement and maintain a Risk Management Strategy (RMS). It forms the core of SRLHA's Risk Management Framework, which seeks to manage risks within the Board's risk appetite, including a focus on potential adverse effects on the financial performance, capital and solvency of SRLHA. The RMS formalises SRLHA's approach to the management of risk by setting out:

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

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

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

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

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

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

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

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

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

- Liquidity risk;
- Operational risk;
- Conduct risk.

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

Insurance Risk

Insurance Risk is the risk of incurring a financial loss from coverage provided for life and health risks. It arises from the business written by the Branch to provide cover for mortality, morbidity and longevity. There are also potential shock events such as a severe pandemic or a catastrophe and underlying risks in pricing and valuation, which arise when mortality, morbidity or lapse experience deviate from expectations.

Insurance risk is managed using two approaches:

Underwriting risk

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

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

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

Claims management and review of claims liabilities

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

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

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

Asset Liability Matching

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

Financial Market Risk

Financial market risk is the risk that assets or liabilities may be impaired by movements in financial market prices or rates, such as equity prices, interest rates, credit spreads or foreign exchange rates. It is managed for SRLHA by Financial Risk Management, an independent corporate function. Financial market risk exists for policyholders and shareholders and is a fundamental characteristic of SRLHA's business including the Branch.

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

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

Currency risk, equity and other market price risk and interest rate risk are components of market risk.

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

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

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

Interest rate risk arises to the extent that there is an economic mismatch between the timing of payments to life policyholders and the duration of the assets held.

Management of various risks associated with investments are subject to the relevant regulatory requirements governed by the RBNZ Insurance (Prudential Supervision) Act. The Branch is required to satisfy capital adequacy requirements, including holding statutory reserves to cater for interest rate risk to the extent that assets are not matched against liabilities. The Branch manages interest rate and other market risks pursuant to an asset and liability management policy that has regard to the SRLHA Board's target surplus for capital as advised by the Appointed Actuary.

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

in thousands of New Zealand dollars	Change in variable		Impact on Profit after Income Tax and equity	
	2020	2019	2020	2019
Adverse change in risk variable:				
Interest rates	+0.5%	+1%	(139)	(719)
Favourable change in risk variable:				
Interest rates	−0.5%	−1%	140	728

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

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

Credit risk is managed and monitored by dedicated Credit Risk Management teams, supported by a Group-wide credit exposure information system that contains all relevant data, including counterparty details, ratings, credit risk exposures, credit limits and watch lists.

A key counterparty risk for the Branch occurs due to the use of retrocession, as large loss events or cumulative losses on retroceded portfolios may lead to a significant counterparty exposure. For the Branch, the two predominant counterparty exposures are with Swiss Reinsurance Company Ltd (SRZ) in Zurich and Swiss Re Asia Ltd (SRAL) in Singapore. The net exposure to SRZ at 31 December 2020 is $8 million dollars (2019: $828 million dollars). The net exposure to SRAL at 31 December 2020 is $717 million dollars (2019: nil).

Credit Quality

The majority of investment assets are unsecured. However, the Branch seeks to minimise its credit risk by appropriate selection and spread of investment assets. This is managed through the investment guidelines set by the Board of SRLHA. There are no material exposures in respect of other financial assets and financial liabilities. The Branch also performs a review of doubtful debts in relation to outstanding amounts due from clients.

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

in thousands of New Zealand dollars	AAA	AA	A	Not rated	Total
2020					
Cash and cash equivalents	–	604	624	–	1,228
Trade and other receivables	–	330	97,441	6,301	104,072
Financial assets at fair value through profit or loss	45,134	43,280	–	–	88,414
Life insurance contract liabilities assumed under reinsurance	–	–	754,711	(28,275)	726,436
Total	**45,134**	**44,214**	**852,776**	**(21,974)**	**920,150**

in thousands of New Zealand dollars	AAA	AA	A	Not rated	Total
2019					
Cash and cash equivalents	–	2,151	238	–	2,389
Trade and other receivables	–	449	113,222	2,585	116,256
Financial assets at fair value through profit or loss	30,798	61,818	–	–	92,616
Life insurance contract liabilities assumed under reinsurance	–	–	891,652	(53,054)	838,598
Total	**30,798**	**64,418**	**1,005,112**	**(50,469)**	**1,049,859**

The Branch does not have financial assets that have been impaired at either the 2020 or 2019 year-end dates.

Liquidity Risk

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

The Branch's exposure to liquidity risk stems mainly from two sources: the need to cover potential extreme loss events and regulatory constraints.

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

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

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

Group Treasury reviews liquidity positions semi-annually (or more frequently as necessary), to assess the liquidity sources and requirements.

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

in thousands of New Zealand dollars	Carrying value	Undiscounted contractual obligations remaining			
		Up to 1 year	1 to 5 years	Greater than 5 years	Total
2020					
Trade and other payables	55,221	55,221	–	–	**55,221**
Life insurance contract liabilities assumed under reinsurance	(726,436)	74,867	(256,333)	(388,203)	**(569,670)**
Retrocessionaires' share of life insurance contract liabilities	709,397	(73,111)	250,321	379,098	**556,308**
Total	**38,182**	**56,977**	**(6,012)**	**(9,105)**	**41,859**

in thousands of New Zealand dollars	Carrying value	Undiscounted contractual obligations remaining			
		Up to 1 year	1 to 5 years	Greater than 5 years	Total
2019					
Trade and other payables	85,299	73,120	12,312	–	**85,432**
Life insurance contract liabilities assumed under reinsurance	(838,598)	(76,834)	(296,868)	(459,835)	**(833,537)**
Retrocessionaires' share of life insurance contract liabilities	820,728	75,196	290,542	450,036	**815,774**
Total	**67,429**	**71,482**	**5,986**	**(9,799)**	**67,669**

Operational Risk

Operational risk arises from inadequate or failed internal processes, people or systems risks or external events, including compliance risk and financial reporting misstatement risk. These risks can also arise for the Branch from its operational dependencies within the wider Swiss Re Group, and from distribution and administrative arrangements with external parties.

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

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

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

18. Cash flow information

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

in thousands of New Zealand dollars	2020	2019
Net profit after tax	10,502	16,295
Add items classified as investing activities:		
Net realised and unrealised fair value losses	949	610
Net cash provided by operating activities before change in assets and liabilities	**11,451**	**16,905**
Change in assets and liabilities excluding impact of foreign exchange revaluation:		
Decrease in deferred tax liabilities	(87)	(292)
Decrease/(increase) in trade and other receivables	12,184	(21,176)
Increase in net life insurance contract liabilities	831	11,217
Decrease in trade and other payables	(30,078)	(2,405)
Decrease in current tax asset	225	1,554
Increase in the provision for income tax	1,060	–
Net cash (utilised)/provided by operating activities	**(4,414)**	**5,803**

Cash and cash equivalents

in thousands of New Zealand dollars	2020	2019
Current assets		
Cash at bank	604	2,151
Deposits at call	624	238
Total cash and cash equivalents	**1,228**	**2,389**

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

19. Events occurring after the year-end date

The Directors of the Company are not aware of any matters or circumstances that have occurred since the end of the financial year that has significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

20. Capital expenditure commitments

The Branch has not entered into any contracts for capital expenditure which have not been provided for in the financial statements (2019: nil).

21. Contingencies

There are no contingent liabilities or assets to be reported (2019: nil).

Independent auditor's report

To the Directors of Swiss Re Life & Health Australia Limited

Our opinion

In our opinion, the accompanying financial statements of Swiss Re Life & Health Australia Limited (the Company) New Zealand Branch (the Branch), present fairly, in all material respects, the financial position of the Branch as at 31 December 2020, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

What we have audited

The financial statements comprise:

- the statement of financial position as at 31 December 2020;
- the statement of comprehensive income for the year then ended;
- the statement of changes in head office account for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Description of the key audit matter	How our audit addressed the key audit matter
Measurement of life insurance contract liabilities assumed under reinsurance and retrocessionaires' share of life insurance contract liabilities As at 31 December 2020, the Branch has an asset arising from life insurance contract liabilities assumed under reinsurance of $726 million (31 December 2019: asset of $839 million) and a liability arising from retrocessionaires' share of life insurance contract liabilities of $709 million (31 December 2019: liability of $821 million). The valuation of these balances involves complex and subjective actuarial judgements about future events, both internal and external to the business, for which small changes in assumptions can result in material impact to the measurement of these balances. The process relies on the quality of policy data supplied by ceding companies in relation to underlying policies being reinsured and the appropriateness of actuarial assumptions. Key actuarial assumptions represent best estimate assumptions at balance date and include: ● projection for premiums and expected claims and expenses; ● discount rates; ● future investment management expenses; ● future maintenance expenses; ● mortality and morbidity rates; ● discontinuance rates; ● disability income escalation rates; ● profit carriers; and ● surrender value. Actuarial assumptions have been adjusted to take into account the impact of COVID-19. In particular those relating to mortality, morbidity and discontinuance rates. The impact of these have been separately considered in the estimation process. These require significant actuarial judgement and have inherently higher levels of uncertainty. Relevant references in the financial statements *Refer to notes 2, 3 and 14 to the financial statements, which also describes the elements that make up the balances.*	Together with PwC actuarial experts, we: ● Evaluated the work of management's expert, being the Appointed Actuary, including assessing their professional competence, capability and objectivity. ● Assessed the reasonableness of the key actuarial assumptions by: – obtaining an understanding of the controls in place to determine the assumptions; – examining the approach used by management to derive the assumptions by applying our own industry knowledge and experience; and – challenging the key actuarial assumptions used by management against past experience, market observable data (as applicable) and our experience of the market, taking into consideration COVID-19 impacts. ● Assessed the valuation methodologies used by applying our industry knowledge and experience to compare whether the methodologies and changes to those are consistent with recognised actuarial practices and expectations derived from market experience. ● Assessed the reasonableness of the analysis of profit to consider whether the assumption changes are consistent with experience and whether the movement in life insurance contract liabilities assumed under reinsurance and retrocessionaires' share of life insurance contract liabilities have been adequately explained. Policy data supplied by ceding companies in relation to the underlying policies being reinsured is a key input to the actuarial estimates. Accordingly, we: ● understood and validated the processes and controls around completeness and accuracy of the data extraction from the policy administration system and other data sources; and ● reperformed key data reconciliations between the policy administration system, the valuation files and the valuation results.

Our audit approach

Overview

Materiality	Overall materiality: $5.8 million, which represents approximately 1% of premium revenue from life insurance contracts. We chose premium revenue from life insurance contracts as the benchmark because, in our view, it is a key metric used in assessing the performance of the Branch, is not as volatile as other profit and loss measures, and is a generally accepted benchmark. We selected 1% based on our professional judgement, noting that it is also within the range of commonly accepted revenue-related thresholds.
Key audit matters	As reported above, we have one key audit matter, being: ● Measurement of life insurance contract liabilities assumed under reinsurance and retrocessionaires' share of life insurance contract liabilities

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

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

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

Responsibilities of the Directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-2/
This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's Directors, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's Directors, as a body, for our audit work, for this report or for the opinions we have formed.

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
25 March 2021

Auckland

Swiss Re Life & Health Australia Ltd,
New Zealand Branch,
21 Queen Street,
1010, Auckland,
New Zealand.

Telephone +64 9 363 2700

Fax +64 9 363 2727

www.swissre.com

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