RGA Reinsurance Company of Australia Limited

Annual Financial Report for the year ended 31 December 2021

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	(resigned effective 23 September 2021)
Tony Kin Shun Cheng	(appointed effective 23 September 2021)
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 2021, 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 (Resigned effective 23 September 2021)

Tony Kin Shun Cheng (Appointed effective 23 September 2021)

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:

	2021 $'000	**2020 $'000**
Gross premium revenue from insurance contracts	475,733	599,290
Investment (loss)/income	(41,796)	75,200
Net (loss)/profit for the year after income tax	(29,808)	62,485
Net assets as at the end of the year	667,265	696,864

Gross premium income decreased by $123.5m compared to the prior year primarily due to non-renewals of some group treaties.

For the 2021 year, the Company recorded a net loss after income tax of $29.8m (2020: profit of $62.5m). Net investment income decreased by $117.0m as compared to the previous year. The decrease was driven predominantly by mark to market investment losses of $91.1m (2020: gains of $25.9m), reflecting the impact of an increase in yields on fixed income security prices during 2021.

The Company has recognised an income tax benefit of $17.7m in 2021. This was largely due to the partial re-recognition of a deferred tax asset in relation to unused cumulative tax losses brought forward from prior years for its Australian business.

Dividends

No dividends were declared or paid during the 2021 financial year (2020: 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

There have been no 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 2021.

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 the 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 17th day of March 2022

17/03/2022

Deloitte.

Deloitte Touche Tohmatsu
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Australia

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17 March 2022

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

Dear Directors

Auditor's Independence Declaration to 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 2021, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- The auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- Any applicable code of professional conduct in relation to the audit.

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

JGorton

Joanne Gorton
Partner
Chartered Accountants

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2021

	Note	2021	2020
		$'000	**$'000**
Revenue			
Premium revenue from reinsurance contracts		475,733	599,290
Outward reinsurance expense		(69,764)	(82,892)
Net insurance premium revenue		405,969	516,398
Investment (loss)/income	5(a)	(41,796)	75,200
Other income	5(b)	14,333	22,893
Net revenue		**378,506**	**614,491**
Claims and expenses			
Claims expense from reinsurance contracts		475,339	615,129
Reinsurance recoveries		(101,006)	(114,426)
Net claims expense		374,333	500,703
Movement in net insurance contract liabilities	15(a)	(111,331)	(131,005)
Policy acquisition costs	7	12,409	15,850
Other expenses	7	148,565	159,735
Finance costs		2,064	4,488
Total claims and expenses		**426,040**	**549,771**
Net (loss)/profit before related income tax expense		**(47,534)**	**64,720**
Income tax benefit/(expense)	9	17,726	(2,235)
Net (loss)/profit for the year	6	**(29,808)**	**62,485**
Other comprehensive income/(expenditure), net of tax			
Items that may be reclassified to profit or loss:			
Foreign currency translation reserve movement		209	(2,635)
Total other comprehensive income/(expenditure) for the year		**209**	**(2,635)**
Total comprehensive (expenditure)/income for the year		**(29,599)**	**59,850**

Net loss 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 2021

	Note	2021 $'000	2020 $'000
Assets			
Cash and cash equivalents	22(a)	147,129	287,563
Investments	10	1,685,791	1,569,977
Premium receivable	11	79,822	70,856
Other receivables	11	89,452	97,728
Gross insurance contract liabilities ceded	15(a)	798,480	1,004,761
Deferred tax assets	12	15,000	—
Total assets		**2,815,674**	**3,030,885**
Liabilities			
Outstanding claims	13	386,477	404,771
Payables	14	37,545	33,873
Gross insurance contract liabilities assumed	15(a)	1,719,156	1,889,301
Deferred tax liabilities	12	5,231	6,076
Total liabilities		**2,148,409**	**2,334,021**
Net assets		**667,265**	**696,864**
Equity			
Issued capital	16	268,250	268,250
Entities under common control reserve		64,949	64,949
Foreign currency translation reserve		8,917	8,708
Retained earnings		325,149	354,957
Total equity attributable to the members of RGA Reinsurance Company of Australia Limited		**667,265**	**696,864**

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 2021

	Issued share capital $'000	Entities under common control reserve $'000	Foreign currency translation reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2020	**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**
Net loss for the year	—	—	—	(29,808)	(29,808)
Foreign currency translation	—	—	209	—	209
Balance at 31 December 2021	**268,250**	**64,949**	**8,917**	**325,149**	**667,265**

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 2021

	Note	2021 $'000	2020 $'000
Cash flows from operating activities			
Premium received		466,946	648,236
Retrocession premium paid		(69,369)	(97,239)
Allowances paid		(103,182)	(143,300)
Retrocession allowances received		14,863	26,843
Claims paid		(502,830)	(624,299)
Retrocession recoveries received		266,374	368,995
Interest received		49,135	50,303
Payments to suppliers and employees		(55,643)	(57,153)
Net cash generated from operating activities	22(b)	**66,294**	**172,386**
Cash flows from investing activities			
Proceeds from sales and maturities of investments		273,941	256,495
Purchases of investments		(480,791)	(257,301)
Net cash used in investing activities		**(206,850)**	**(806)**
Net (decrease)/increase in cash held		(140,556)	171,580
Cash at the beginning of the financial year		287,563	116,115
Foreign exchange effect on cash held		122	(132)
Cash at the end of the financial year	22(a)	**147,129**	**287,563**

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 17 March 2022.

(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 2021. 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 2019
AASB 17 – Insurance Contracts	1 January 2023

AASB 9 - Financial Instruments (including relevant amending standards)

AASB 9 was issued during 2014 and replaces existing accounting requirements for financial instruments. AASB 9 is effective for annual reporting periods beginning on or after 1 January 2019. 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

AASB 17 Insurance Contracts replaces AASB 4 Insurance Contracts and AASB 1038 Life Insurance Contracts, and is effective for the Company from 1 January 2023. AASB 17 aims to establish globally consistent principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. Although the new standard does not change the underlying economics or cashflows of the Company's business, it is expected to have an impact on the emergence of profits.

The Company intends to first apply AASB 17 on 1 January 2023. There is a global project in place within the RGA group of companies to implement the new standard in multiple locations. The required systems, data and process changes are currently in the final stages of development and are being tested. The project is currently on schedule in meeting the implementation timeline.

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

- The standard will apply to all reinsurance business in the Company and introduces a 'General Measurement Model' for recognition and measurement of insurance contracts. In addition, it also allows the application of a simplified model if the coverage period of the contract is 12 months or less or if the liability for remaining coverage under the simplified model would not materially differ from the general model. It is likely that the Company may adopt the General Measurement Model for most of its products.

- 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 Company expects to apply a 'bottom-up approach' which uses risk-free rates adjusted to reflect the liquidity characteristics of the reinsurance contracts which could result in higher discount rates relative to current requirements;

- 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.

1 Summary of significant accounting policies (continued)

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

- The standard introduces significant changes to the presentation and disclosure of insurance line items in the financial statements, introducing new line items on the balance sheet and statement of comprehensive income and increased disclosure requirements compared with current reporting requirements.

On 13 December 2021 APRA released a number of draft prudential and reporting standards with the purpose of integrating AASB 17 into the insurance capital and reporting frameworks after seeking industry feedback to its discussion paper published in November 2020.

For the capital framework, most of the existing requirements for the regulatory capital calculation for insurers will be maintained. For the reporting framework, insurers can use the AASB 17 accounting policies and principles to report financial statement information to APRA. The release of the final standards is expected in the second half of 2022.

Given the complexity of the key requirements of the accounting standard and the industry interpretation of certain requirements in the standard is still evolving, the impact of AASB 17 on the Company's financial statements cannot be reasonably estimated at the date of this report. We expect the quantification of AASB 17 financial impacts to be performed in the second half of 2022 once the requisite data, systems and models are in place.

(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. Certain comparative amounts have been represented to conform with the current year's presentation.

(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.

(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.

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

(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.

(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.

1 Summary of significant accounting policies (continued)

(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.

(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;

1 Summary of significant accounting policies (continued)

(n) Assets backing insurance contract liabilities (continued)

- 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.

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.

2 Critical accounting estimates and judgements (continued)

(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.

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 2021. The Financial Condition Report was prepared by the Appointed Actuary, Mr Mark Henderson (FIAA), and dated 17 March 2022. 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.

3 Actuarial assumptions and methods (continued)

(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: 0.2% to 2.4% pa (2020: 0.0% to 2.0% pa) for individual and group business
- New Zealand: 0.9% to 2.8% pa (2020: 0.2% to 1.8% pa) for individual and group business

Discount rates adopted are gross of tax. A deduction from these rates of 0.25% (2020: 0.25%) for Australia and 0.15% (2020: 0.15%) 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.

(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	**2021**	**2020**	**2021**	**2020**
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

3 Actuarial assumptions and methods (continued)

(b) Disclosure of assumptions (continued)

(v) Mortality and morbidity

Lump sum

For Australia individual lump sum business, the base mortality tables for future mortality, TPD (total and permanent disablement) and trauma rates are using the FSC Industry tables set based on 2014-2018 Australian industry experience.

For 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 for 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.

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

(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% (2020: 2.8% and 80.8%) 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% (2020: 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% (2020: 5.3% and 71.2%) 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% (2020: 3.9% and 31.4%) per annum depending on the age, gender, duration, occupation and waiting period of the life insured.

Notes to the Financial Statements

3 Actuarial assumptions and methods (continued)

(c) Effects of changes in actuarial assumptions

	Effect on net insurance contract liabilities $'000 (decrease)/increase	
	2021	**2020**
Discount rates		
Individual business	(10,302)	5,951
Group business	(9,873)	10,615
Future inflation rates		
Individual business	6,207	—
Group business	5,195	—
Mortality and morbidity		
Individual business	5,269	22,180
Group business	(8,429)	(459)
Total	**(11,933)**	**38,287**

Figures in the table above are shown before tax.

(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.

3 Actuarial assumptions and methods (continued)

(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.

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) 2021 $'000	Equity at 31 December 2021 $'000
Balance per financial statements		(29,808)	667,265
Change in balance as a result of permanent change in variables:			
Worsening of future mortality and morbidity claim costs	10%	(29,357)	(29,357)
Increase in discontinuance rate	20%	—	—
Decrease in discontinuance rate	(20%)	—	—
Increase in discount rate	1%	(47,141)	(47,141)
Decrease in discount rate	(1%)	48,536	48,536
Increase in future maintenance expenses	10%	(1,988)	(1,988)
Increase in future inflation rate	1%	(25,473)	(25,473)

	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)

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 occuring. Included in this strategy are the processes and controls over underwriting and product pricing.

(b) Strategy for managing insurance risk (continued)

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.

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

Insurance Risk Oversight

RGAA has established an Insurance Risk Committee (IRC) to monitor its insurance risk on a regular basis. The IRC monitors portfolio performance, adequacy of in-force pricing, experience studies and client operational capability.

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.

Notes to the Financial Statements

4 Risk and capital management policies and procedures (continued)

(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.

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 and strategy document contains objectives and constraints to reflect the term structure of its liabilities. The compliance of the investment portfolio with the investment policy and strategy document 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.

4 Risk and capital management policies and procedures (continued)

(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.

5 Revenue

(a) Investment income

	2021 $'000	2020 $'000
Interest Income:		
Bank deposits	116	284
Investments at fair value through profit or loss	49,223	48,978
Net realised and unrealised investment (losses)/gains	(91,135)	25,938
Total investment (loss)/income	**(41,796)**	**75,200**

(b) Other income

	2021 $'000	2020 $'000
Retrocession allowances	14,333	22,780
Other income	—	113
Total other income	**14,333**	**22,893**

Notes to the Financial Statements

6 Net (loss)/profit for the year

	2021 $'000	2020 $'000
Net (loss)/profit after income tax arose from:		
Planned margins of revenues over expenses released	(903)	20,396
Difference between actual and expected experience	9,600	4,663
Effects of changes to underlying assumptions	11,933	(38,287)
Reversal of loss recognition	9,798	35,277
Differences between actual and assumed investment earnings	(77,962)	42,671
Income tax benefit/(expense)	17,726	(2,235)
Net (loss)/profit after income tax	**(29,808)**	**62,485**

7 Operating expenses

	2021 $'000	2020 $'000
Policy acquisition costs		
Allowances	3,770	5,846
Other acquisition costs	8,639	10,004
Total policy acquisition costs	**12,409**	**15,850**
Other expenses		
Allowances	102,208	115,772
Other maintenance costs	42,604	40,559
Investment management fees	3,753	3,404
Total other expenses	**148,565**	**159,735**

8 Dividends

No dividends were declared or paid for the 2021 financial year (2020: nil).

Notes to the Financial Statements

9 Income tax benefit/(expense)

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

	2021 $'000	2020 $'000
Net (loss)/profit before related income tax benefit/ (expense)	**(47,534)**	**64,720**
Prima facie tax on net (loss)/profit at 30% (2020: 30%)	14,260	(19,416)
Difference in the New Zealand ('NZ') tax rate	(305)	1,101
Tax effect of:		
Movement on acquired deferred acquisition cost (NZ)	(2,294)	8,366
Non-assessable retrocession and other income	(6,471)	42,685
Non-deductible expenses	(22)	(172)
Movement in unrecognised deferred tax asset	(4,057)	(37,535)
Effect of recognition of previously unrecognised deferred tax asset	15,000	—
Loss offset - Statutory Fund 2[(1)]	1,615	2,716
Others	—	20
Total income tax benefit/(expense) attributable to net (loss)/ profit	**17,726**	**(2,235)**
Income tax benefit/(expense) comprises:		
Current Tax		
- Current year	1,833	1,387
Deferred tax		
- Origination and reversal of temporary differences (AUS)	15,012	(2)
- Origination and reversal of temporary differences (NZ)	881	(3,620)
Total income tax benefit /(expense) attributable to net (loss)/profit	**17,726**	**(2,235)**

(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 \$5.8m (2020: \$9.7m). The New Zealand Branch of RGA Re and the New Zealand Branch of the Company group for tax purposes.

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	2021 $'000 Total	2021 $'000 Level 1	2021 $'000 Level 2	2021 $'000 Level 3
Interest bearing securities:				
– National government(1)	430,576	—	430,576	—
– Private sector	1,208,230	—	1,208,230	—
– Other public sector(2)	46,985	—	46,985	—
Total investments at fair value through profit or loss	**1,685,791**	**—**	**1,685,791**	**—**

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)	353,108	—	353,108	—
– Private sector	1,171,820	—	1,130,476	41,344
– Other public sector(2)	45,049	—	45,049	—
Total investments at fair value through profit or loss	**1,569,977**	**—**	**1,528,633**	**41,344**

(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.

During the year, the private placement bond previously categorised as Level 3 has been transferred to Level 2 owing to the availability of market and observable input data. The below table outlines the movement in value between the levels.

(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*

	2021 $'000	2020 $'000
Opening balance at 1 January	41,344	41,163
Movement in market value during the year	(640)	181
Transfer to Level 2	(40,704)	—
Closing balance at 31 December	**—**	**41,344**

11 Receivables

	2021 $'000	2020 $'000
Premium Receivable		
Premium receivable(1)	79,822	70,856
Total premium receivable	**79,822**	**70,856**
Other receivables	4,071	3,223
Accrued investment income	11,608	11,401
Related parties(1)	73,773	83,104
Total other receivables	**89,452**	**97,728**
Total receivables	**169,274**	**168,584**
Expected to be realised within 12 months	**169,274**	**168,584**

(1) The credit period for trade receivables and balances due from related parties is generally 30 to 90 days. The premium receivable balance includes $18.4m receivables (gross of allowances) which are past due at the reporting date (2020: $15.3m). The Company believes that that these amounts are fully recoverable.

Notes to the Financial Statements

12 Deferred tax

As at 31 December the net deferred tax assets comprise:	Balance 1-Jan-2020 $'000	Recognised in 2020 in profit or loss $'000	Recognised in 2020 in foreign currency translation reserve $'000	Balance 31-Dec-2020 $'000	Recognised in 2021 in profit or loss $'000	Recognised in 2021 in foreign currency translation reserve $'000	Balance 31-Dec-2021 $'000
Accrued expenses (Statutory Fund 1)	139	66	—	205	25	—	230
Provision for loss recognition (Statutory Fund 1)	—	4,800	—	4,800	(2,865)	—	1,935
Unused tax losses (Statutory Fund 1)	20,170	2,688	—	22,858	(5,334)	—	17,524
Investments (Statutory Fund 1)	(20,309)	(7,554)	—	(27,863)	23,174	—	(4,689)
Net deferred tax assets	**—**	**—**	**—**	**—**	**15,000**	**—**	**15,000**

As at 31 December the net deferred tax liabilities comprise:	Balance 1-Jan-2020 $'000	Recognised in 2020 in profit or loss $'000	Recognised in 2020 in foreign currency translation reserve $'000	Balance 31-Dec-2020 $'000	Recognised in 2021 in profit or loss $'000	Recognised in 2021 in foreign currency translation reserve $'000	Balance 31-Dec-2021 $'000
Investments (Shareholder's Fund)	(9)	(2)	—	(11)	12	—	1
Deferred acqusition cost (Statutory Fund 2)	(2,543)	(3,620)	98	(6,065)	881	(48)	(5,232)
Net deferred tax liabilities	**(2,552)**	**(3,622)**	**98**	**(6,076)**	**893**	**(48)**	**(5,231)**

The Company has unused cumulative tax losses and provision for loss recognition in Australia in respect of which deferred tax assets of $229.3m (2020: $239.3m) have not been recognised. These losses are available for offsetting against future taxable profits subject to relevant tax rules.

Notes to the Financial Statements

13 Outstanding claims

	2021 $'000	2020 $'000
Total outstanding claims[1]	386,477	404,771
Expected to be realised within 12 months	**386,477**	**404,771**

(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

	2021 $'000	2020 $'000
Assumed allowances payable[1]	31,174	28,338
Accounts payable[1]	1,952	1,497
Related parties	4,419	4,038
Total payables	**37,545**	**33,873**
Expected to be realised within 12 months	**37,545**	**33,873**

(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

		2021 $'000	2020 $'000
Insurance contract liabilities			
Gross insurance contract liabilities at 1 January		1,889,301	1,941,725
Liabilities withdrawn during the year		(9,123)	(18,011)
Decrease in insurance contract liabilities reflected in the Statement of Profit or Loss and Other Comprehensive Income	(i)	(161,055)	(32,365)
Foreign exchange adjustment		33	(2,048)
Gross insurance contract liabilities at 31 December		**1,719,156**	**1,889,301**
Liabilities ceded under reinsurance			
Gross insurance contract liabilities at 1 January		1,004,761	1,151,866
Liabilities withdrawn during the year		(156,524)	(245,551)
(Decrease)/Increase in reinsurance assets reflected in the Statement of Profit or Loss and other Comprehensive Income	(ii)	(49,724)	98,640
Foreign exchange adjustment		(33)	(194)
Gross insurance contract liabilities ceded under reinsurance at 31 December		**798,480**	**1,004,761**
Net insurance contract liabilities at 31 December		**920,676**	**884,540**
Made up as:			
Expected to be realised within 12 months		154,093	201,154
Expected to be realised in more than 12 months		766,583	683,386
		920,676	**884,540**
Note:			
(i) less (ii) = decrease in net insurance contract liabilities as disclosed in the Statement of Profit or Loss and Other Comprehensive Income		**(111,331)**	**(131,005)**

(b) Components of net life insurance contract liabilities

	2021 $'000	2020 $'000
Future policy benefits	1,061,725	1,034,163
Future charges for acquisition costs	(141,049)	(149,623)
Net life insurance contract liabilities	**920,676**	**884,540**

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	**2021** **$'000**	**2020** **$'000**
Common Equity Tier 1 Capital	549,471	571,584
Regulatory adjustments applied in the calculation of Common Equity Tier 1 Capital	*117,794*	*125,280*
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	549,471	571,584
(b) Prescribed capital amount	262,053	270,448
Capital in excess of prescribed capital amount = (a)–(b)	**287,418**	**301,136**
Capital adequacy multiple = (a)/(b)	**210%**	**211%**

15 Insurance contract liabilities (continued)

(c) Capital adequacy and solvency requirements (continued)

Capital adequacy position of the fund as at 31 December 2021	**Statutory Fund 1 2021 $'000**	**Statutory Fund 2 2021 $'000**	**Shareholder Fund 2021 $'000**	**Total 2021 $'000**
(a) Capital Base	501,833	45,762	1,876	549,471
(b) Prescribed capital amount	247,927	14,066	60	262,053
Capital in excess of prescribed capital amount = (a)-(b)	**253,906**	**31,696**	**1,816**	**287,418**
Capital adequacy multiple = (a)/(b)	**202%**	**325%**	**3127%**	**210%**
Capital Base comprises:				
(a) Net assets after applying any regulatory adjustments	501,833	45,762	1,876	549,471
Regulatory adjustments applied to net assets	69,629	48,163	2	117,794
(b) Tier 2 Capital	—	—	—	—
Regulatory adjustment applied in calculation of Tier 2 capital	—	—	—	—
Capital Base (a)+(b)	**501,833**	**45,762**	**1,876**	**549,471**
Prescribed capital amount comprises:				
Insurance risk	92,862	8,902	—	101,764
Asset risk	101,844	6,235	48	108,127
Asset concentration risk	—	—	—	—
Operational risk	19,259	1,829	—	21,088
Aggregation benefit	(43,780)	(3,291)	—	(47,071)
Combined scenario adjustment	77,742	391	12	78,145
Prescribed capital amount	**247,927**	**14,066**	**60**	**262,053**

15 Insurance contract liabilities (continued)

(c) Capital adequacy and solvency requirements (continued)

Capital adequacy position of the funds 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**

(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.

15 Insurance contract liabilities (continued)

(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.

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

	2021 $’000	2020 $’000
Reported policy liability	920,676	884,540
Plus: Variations in valuation of DAC assets	—	—
Plus: Change in the use of the discount rate	—	—
Life Act amount	920,676	884,540

16 Share capital

	2021 Number ('000)	2020 Number ('000)	2021 $ ('000)	2020 $ ('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:

	2021 $	2020 $
Amounts received or due and receivable by the auditor for:		
Audit services	476,475	468,250
Other services (1)	10,500	—
Total auditor's remuneration	**486,975**	**468,250**

(1) Other services include review of CPS 234 - Information Security

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.

	2021 Number of options and condition al rights	2021 Weighted average exercise price $US	2020 Number of options and condition al rights	2020 Weighted average exercise price $US
Outstanding at the beginning of the year	22,043	126.96	13,842	133.57
Granted during the year	3,985	129.01	8,917	117.85
Exercised/Lapsed during the year	—	—	(716)	141.41
Outstanding at the end of the year	**26,028**	**127.27**	**22,043**	**126.96**
Exercisable at the end of the year	**17,454**	**128.22**	**12,252**	**126.96**

The options and conditional rights outstanding at the end of the year have a weighted average remaining contractual life of 6.4 years (2020: 6.8 years). The estimated fair value of each option and conditional right granted during this period was US$34.93 (2020: US$15.14).

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

	2021	2020
Expected life	6.3 years	7 years
Expected volatility	34.5%	18.8%
Risk free interest rate	1.0%	0.7%
Expected dividend yield	2.2%	2.4%

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$129.01 per PCU (2020: US$117.85). 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.

	2021 Number of PCU's	2021 Weighted average fair value US$	2020 Number of PCU's	2020 Weighted average fair value US$
Outstanding at the beginning of the year	6,229	130.20	7,665	141.68
Granted during the year	2,157	129.01	3,421	117.85
Exercised/Lapsed during the year	—	—	(3,398)	129.72
Change based on performance factor	(2,808)	145.25	(1,459)	162.67
Outstanding at the end of the year	**5,578**	**122.17**	**6,229**	**130.20**

(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:

	2021 Number of RSU's	2021 Weighted average fair value US$	2020 Number of RSU's	2020 Weighted average fair value US$
Outstanding at the beginning of the year	440	136.45	575	142.31
Granted during the year	7,230	129.01	266	117.85
Exercised/Lapsed during the year	(99)	150.87	(172)	129.72
Forfeited during the year	(102)	130.59	(229)	134.63
Outstanding at the end of the year	**7,469**	**129.05**	**440**	**136.45**

Notes to the Financial Statements

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 (resigned effective 23 September 2021)
Tony Kin Shun Cheng (appointed effective 23 September 2021)

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 2021.

	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	-	-	-	-
Tony K.S. Cheng	-	-	-	-
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:

	2021 $'000	2020 $'000
Short-term employee benefits	4,799	5,510
Post-employment benefits	211	298
Termination benefits	—	204
Share based payments	881	(606)
Total	**5,891**	**5,406**

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.

Notes to the Financial Statements

20 Related party transactions (continued)

(b) Trading transactions with related parties

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

	2021 $'000	2020 $'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	69,288	74,841
Retrocession allowances	(14,243)	(21,258)
Reinsurance claims recoveries	(98,162)	(108,521)
Movement in ceded insurance contract liabilities	44,631	(94,539)
Net retrocession income	**1,514**	**(149,477)**
Amount owed by RGA Re (Statutory Fund 1)	**7,767**	**3,960**
Amount owed by RGA Global (Statutory Fund 1)	**64,699**	**73,760**
Amount owed by RGA Global (Statutory Fund 2)	**506**	**4,875**
Management fees, tax related items and other transactions:		
- RGAH	30,516	31,809
- RGA Re	814	739
- RGA Enterprise Services Co (RGA Enterprise)	11,661	12,289
- Other subsidiaries of RGA Inc.	3,617	2,257
Net management fees, tax related items and other expenses	**46,608**	**47,094**
Amount owed to RGAH	**2,025**	**1,430**
Amount owed by other related parties	**801**	**509**
Amounts owed to other related parties	**1,536**	**1,296**
Investment management services fee expense:		
- RGA Enterprise	**2,173**	**1,939**
Amount owed to RGA Enterprise	**360**	**300**
Demand guarantee fee expense[1]		
- RGA Re	**2,064**	**4,488**
Amount owed to RGA Re	**498**	**1,012**

(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 2021.

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 loss transfer

During the year, the New Zealand Branch of the Company has utilised tax losses of the New Zealand Branch of RGA Re of $5.8m (2020: $9.7m). The New Zealand Branch of RGA Re and the New Zealand Branch of the Company group for tax purposes in New Zealand.

21 Disaggregated information

(a) Net asset

	Statutory Fund 1 2021 $'000	Statutory Fund 2 2021 $'000	Shareholder Fund 2021 $'000	Total 2021 $'000
Financial assets	1,811,132	189,166	1,896	2,002,194
Other assets	807,461	6,017	2	813,480
Total assets	**2,618,593**	**195,183**	**1,898**	**2,815,674**
Life insurance contract liabilities	1,669,828	49,328	—	1,719,156
Other liabilities	377,303	51,931	19	429,253
Total liabilities	**2,047,131**	**101,259**	**19**	**2,148,409**
Net assets	**571,462**	**93,924**	**1,879**	**667,265**

	Statutory Fund 1 2021 $'000	Statutory Fund 2 2021 $'000	Shareholder Fund 2021 $'000	Total 2021 $'000
Opening Equity	541,897	153,066	1,901	696,864
Net loss after income tax	(15,435)	(14,351)	(22)	(29,808)
Transfers between statutory funds	45,000	(45,000)	—	—
Movement in foreign currency translation reserve	—	209	—	209
Closing Equity	**571,462**	**93,924**	**1,879**	**667,265**

	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**

Notes to the Financial Statements

21 Disaggregated information (continued)

(a) Net asset (continued)

	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**

(b) Net profit after tax

	Statutory Fund 1 2021 $'000	Statutory Fund 2 2021 $'000	Shareholder Fund 2021 $'000	Total 2021 $'000
Net premium revenue	324,497	81,472	—	405,969
Investment loss	(35,919)	(5,849)	(28)	(41,796)
Other income	12,707	1,626	—	14,333
Net revenue	**301,285**	**77,249**	**(28)**	**378,506**
Net claims expense	(310,184)	(64,149)	—	(374,333)
Change in net insurance contract liabilities	121,055	(9,724)	—	111,331
Policy acquisition costs	(8,499)	(3,910)	—	(12,409)
Other expenses	(130,339)	(14,473)	—	(144,812)
Investment management fees	(3,525)	(224)	(4)	(3,753)
Finance costs	(2,064)	—	—	(2,064)
Net loss before related income tax expense	**(32,271)**	**(15,231)**	**(32)**	**(47,534)**
Income tax benefit	16,836	880	10	17,726
Net loss for the year	**(15,435)**	**(14,351)**	**(22)**	**(29,808)**

21 Disaggregated information (continued)

(b) Net profit after tax (continued)

	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**

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:

	2021 $'000	2020 $'000
Cash at bank	127,882	262,553
Deposits held at call and cash equivalents	19,247	25,010
Total cash and cash equivalents	**147,129**	**287,563**

22 Notes to the Statement of Cash Flows (continued)

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

	2021 $'000	2020 $'000
Net (loss)/ profit for the year	**(29,808)**	**62,485**
Adjustments for non-cash and investing activities:		
Decrease/(Increase) in investment values	91,135	(25,938)
Change in assets and liabilities during the financial year:		
(Increase)/Decrease in premiums receivable	(8,787)	48,946
Decrease in other receivables	7,986	1,767
Decrease in insurance contract liabilities ceded	206,248	146,946
Increase in deferred tax asset	(15,000)	—
(Decrease)/Increase in outstanding claims	(18,351)	8,840
Increase/(Decrease) in payables	3,942	(23,904)
(Decrease)/Increase in deferred tax liability	(893)	3,622
Decrease in insurance contract liabilities assumed	(170,178)	(50,378)
Net cash generated from operating activities	**66,294**	**172,386**

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 2021, the Company held no derivative financial instrument contracts (2020: nil).

Notes to the Financial Statements

23 Financial risk management (continued)

(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
	2021	**2021**	**2021**	**2021**	**2021**	**2021**	**2021**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**%**
Financial assets							
Cash and cash equivalents	147,129	—	—	—	—	**147,129**	0.19
Receivables and outstanding premiums	—	—	—	—	169,274	**169,274**	n/a
Investments	214,444	63,249	696,627	711,471	—	**1,685,791**	1.57
Total	**361,573**	**63,249**	**696,627**	**711,471**	**169,274**	**2,002,194**	
Financial liabilities							
Outstanding Claims	—	—	—	—	386,477	**386,477**	
Payables	—	—	—	—	37,545	**37,545**	
Total	**—**	**—**	**—**	**—**	**424,022**	**424,022**	

	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	**2020**	**2020**	**2020**	**2020**	**2020**	**2020**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**%**
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**	

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 $19.0m (2020: $13.0m). A corresponding decrease of 0.25% would increase net profit and equity by $19.5m (2020: $13.3m). 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.

23 Financial risk management (continued)

(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.

As at 31 December 2021, a 10% strengthening of the Australian dollar (AUD) against the NZD would have decreased equity by $9.4m (2020: $15.3m). 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	
	2021	**2020**	**2021**	**2020**
NZD1= AUD	$0.9417	$0.9424	$0.9398	$0.9337

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 COVID-19

The COVID-19 global pandemic continues to cause increases in mortality, morbidity and other insurance risks. The risks may have manifested, and may continue to manifest, in the Company's financial statements in the areas of, among others:

i. investments: increased risk of loss on the Company's 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 behavior which are reflected in the Company's insurance liabilities and certain related balances (e.g., DAC, VOBA, etc.); and

iii. other assets and liabilities

The Company cannot reliably predict the future impact of the pandemic on its business, results of operations and financial condition as the impact will largely depend on, among other factors, the impact of new variants of the virus, vaccination effectiveness and take-up rates, development and deployment of new antiviral therapeutics, measures by public and private institutions, and COVID-19's indirect impact on mortality and morbidity.

26 Events subsequent to reporting date

There are no 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 52, 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 2021 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 17th day of March 2022	17/03/2022

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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 2021, 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 2021 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 2021, 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.

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- 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, 17 March 2022