Swiss Re

Annual Report 2021

Swiss Re Life & Health Australia Limited

ABN 74 000 218 306

Swiss Re Life & Health Australia Limited is a company limited by shares, incorporated and domiciled in Australia

Offices

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Board of Directors

Table of contents

Directors' Report

The Directors present their report together with the financial statements of Swiss Re Life & Health Australia Limited (the Company or SRLHA) for the year ended 31 December 2021.

The Directors of the Company in office at the date of this report are:
M Babbage, S Ooi, M Eves, J Minto, J Swinhoe, A King

There were no changes in Directors during 2021.

This financial report of the Company for the year ended 31 December 2021 was authorised for issue by the Board of Directors on 28 March 2022. The Directors have the power to amend the financial statements of the Company.

Options

No Director or Officer of the Company is eligible for, or holds options over, unissued shares or interests in SRLHA.

Principal activity

The principal activity of the Company during the course of the financial year remained unchanged and was the transaction of life and disability reinsurance and direct life insurance.

Significant changes in the state of affairs

2021 remained a challenging year with continued losses in Disability Income (DI) and COVID–19 continuing to impact operations. SRLHA has responded well to the extended lockdowns experienced in both Sydney and Melbourne throughout 2021 with no significant impacts to critical business processes or client delivery.

The remediation program relating to past conduct of a third party provider who administered life insurance products issued by the company made significant progress throughout 2021 and is expected to be completed in the first half of 2022. The provision for this remediation program was increased in 2021 to accommodate the increase in policyholder interest and the associated operating costs. The provision continues to be based on various assumptions and may be subject to change.

Review of operations

SRLHA's operations are focused on continuing to deliver against the regulatory reform agenda and building a sustainable future for DI and applying these frameworks across the portfolio over time. SRLHA's capability in data analytics has continued to gain momentum with our focus moving from primarily internal to now offering solutions for external clients under a fee for service arrangement. Improved portfolio insights from new dashboards have allowed us to act quicker on problem areas and see future trends earlier.

SRLHA continues to work closely with clients to transition the inforce Individual Disability Income Insurance (IDII) book (where losses are expected to continue) onto the new DI products in place across the industry. SRLHA remains closely engaged and is monitoring the impact of these changes to continue the evolution of sustainable products. To further strengthen sustainability, SRLHA has established a new DI cross functional team focused on delivering sustainable product design and effecting a robust control cycle within the business. A broader IDII project has been reconstituted to respond to the latest regulatory requirements in this space. SRLHA is committed to providing industry leadership and taking the learnings from IDII and applying to the broader portfolio.

SRLHA has also reviewed all key business guidelines to strengthen the operational governance of the business.

Operating result

Gross insurance premium revenue increased by 4.4% (2020: 17.1% decrease) due to new business growth.

Net loss after tax was $19.6 million (2020: net profit $43.4 million) predominantly driven by increase in remediation costs (refer note 15).

Financial position
At the year–end date, the financial position of the Company can be summarised as follows:

in thousands of Australian dollars	2021	2020
Total assets	4,115,355	4,250,536
Total liabilities	2,713,102	2,828,620
Net assets	**1,402,253**	**1,421,916**

The Company had a capital adequacy multiple of 159% of its prescribed capital amount as at 31 December 2021 (2020: 137%).

Outlook for the future
2022 is focused on delivering stable results through active portfolio steering and continued framework development. The market remains challenging with the key areas being Group and Individual Disability insurance and flow on impacts from COVID–19. The full impact of COVID–19 remains unclear, particularly as it relates to mental health, however, Insurers are still reporting strong save rates with customers demonstrating more risk awareness and the need for cover in pandemic times – something we expect to continue throughout 2023. Inflation is also expected to impact our Disabled Life Reserve (DLR) which will be continually monitored and reviewed.

The New Zealand portfolio continues to perform well and is expected to remain a key contributor to overall results for Australia.

The SRLHA Board continues to drive sustainability actions aimed at arresting these trends for the Company, with ongoing oversight of new product developments and deep dives into the topic at regular intervals. APRA has further increased supervisory activities with a sustainability plan for the industry that will require two significant review points that cover three key themes, Strategy & Risk Governance, Product & Pricing and Data. Strong execution of a clear plan will result in an overall uplift in practices and support long term sustainability.

Investment in a strong foundation of performance, people and operational effectiveness continues alongside SRLHA's enhanced monitoring capability through the use of data analytics and additional focus on how data analytics can assist clients with portfolio insights.

Dividend
During 2021, the Company did not pay dividends.

Events subsequent to year–end date
Other than as disclosed in note 26 of the financial statements, there has not arisen between year–end date and the date of this report any item, transaction or event of a material and unusual nature likely to substantially affect the operations of the Company, the results of those operations or the state of affairs in subsequent years.

Corporate governance
The Company is committed to meeting the highest 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 a Group–wide Code of Conduct that expresses the Swiss Re Group's core principles and values and provides guidance on their application in all business conduct stipulating the behavioural requirements expected of everyone in the Swiss Re Group, including Directors and employees.

Indemnification and insurance of Officers
Pursuant to the Constitution, the Company indemnifies any Director or Officer of the Company against any liability to third parties incurred in or arising out of the business of the Company unless the liability was incurred through dishonesty, lack of good faith or breach of duty.

The ultimate parent entity, Swiss Re Ltd, has also given an undertaking to indemnify any Director or Officer against all expenses, judgements, fines and amounts actually and reasonably incurred in settlement of any action, suit or proceedings brought against them.

Rounding off of amounts
The Company is of the kind referred to in Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the ASIC, relating to the rounding off of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Environmental regulations

The Company has assessed whether there are any particular or significant environmental regulations which apply to it and has determined that there are none.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 5.

Auditors

KPMG commenced in office in accordance with section 327 of the Corporations Act 2001.

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:

J R Minto
Chairman

S Ooi
Managing Director

Sydney, 28 March 2022

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Swiss Re Life & Health Australia Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Swiss Re Life & Health Australia Limited for the financial year ended 31 December 2021 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Julia Gunn

Julia Gunn
Partner

Sydney

28 March 2022

Auditor's Independence Declaration

to be provided by KPMG

Statement of Comprehensive Income

For the year ended 31 December

in thousands of Australian dollars	Notes	2021	2020
Revenue			
Premium revenue from life insurance contracts		1,914,464	1,834,494
Premium revenue ceded to retrocessionaires		(1,043,784)	(1,028,362)
Net premium revenue		**870,680**	**806,132**
Investment (expense)/revenue	5	(8,825)	36,353
Other revenue	6	309,152	324,743
Net revenue		**1,171,007**	**1,167,228**
Expenses			
Claims expense		1,221,263	1,405,388
Claims recovered from retrocessionaires		(572,391)	(640,667)
Net claims expense		**648,872**	**764,721**
Decrease in net life insurance contract liabilities	16(a) & 17	(101,735)	(208,779)
Other expenses	7	629,772	634,816
Net expense		**1,176,909**	**1,190,758**
Net loss before tax		**(5,902)**	**(23,530)**
Income tax (expense)/benefit	9	(13,705)	66,955
Net (loss)/profit after tax	4	**(19,607)**	**43,425**
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations	19	(56)	(3,451)
Total comprehensive (loss)/income for the year		**(19,663)**	**39,974**

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

Statement of Financial Position

As at 31 December

in thousands of Australian dollars	Notes	2021	2020
Assets			
Cash and cash equivalents	23	132,369	100,151
Trade and other receivables	11	715,848	744,234
Financial assets at fair value through profit or loss	10	1,795,523	1,871,507
Retrocessionaires' share of life insurance contract liabilities	16	1,218,046	1,275,298
Capitalised software	12	1,747	1,618
Deferred tax assets	9	251,822	257,728
Total assets		**4,115,355**	**4,250,536**
Liabilities			
Trade and other payables	13	359,591	297,453
Current tax liability	9	4,736	1,506
Provisions	15	71,038	92,627
Life insurance contract liabilities assumed	16	2,182,859	2,329,642
Life investment contract liabilities assumed	17	84,301	96,680
Deferred tax liabilities	9	10,577	10,712
Total liabilities		**2,713,102**	**2,828,620**
Net assets		**1,402,253**	**1,421,916**
Equity			
Contributed equity	19	1,136,000	1,136,000
Foreign currency translation reserve		11,768	11,824
Retained earnings		254,485	274,092
Total equity		**1,402,253**	**1,421,916**

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

Statement of Changes in Equity

For the year ended 31 December

in thousands of Australian dollars	Notes	Contributed Equity	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
Balance at 1 January 2021	**19**	**1,136,000**	**11,824**	**274,092**	**1,421,916**
Net loss after tax	4	–	–	(19,607)	(19,607)
Capital contribution	19	–	–	–	–
Other comprehensive income	19	–	(56)	–	(56)
Balance at 31 December 2021	**19**	**1,136,000**	**11,768**	**254,485**	**1,402,253**

in thousands of Australian dollars	Notes	Contributed Equity	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
Balance at 1 January 2020	**19**	**980,000**	**15,275**	**230,667**	**1,225,942**
Net profit after tax	4	–	–	43,425	43,425
Capital contribution	19	156,000	–	–	156,000
Other comprehensive income	19	–	(3,451)	–	(3,451)
Balance at 31 December 2020	**19**	**1,136,000**	**11,824**	**274,092**	**1,421,916**

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

Statement of Cash Flows

For the year ended 31 December

in thousands of Australian dollars	Notes	2021	2020
Cash flows from operating activities:			
Premiums received		1,921,872	1,887,417
Premiums retroceded		(1,039,629)	(1,028,971)
Interest and distributions received		53,152	60,901
Claims and other technical expense payments		(1,644,111)	(1,909,633)
Claims and other technical expense retroceded		918,363	969,072
Other retrocession commission income		33,213	36,362
Other expense payments		(216,028)	(190,936)
Net income tax (payments)/refunds	9	(4,865)	4,919
Investment and insurance contract net contributions		–	234,811
Net cash provided by operating activities	23	**21,967**	**63,942**
Cash flows from investing activities:			
Proceeds from the sale of financial assets		1,757,611	1,608,880
Payments for financial assets		(1,746,734)	(1,879,011)
Net cash provided/(utilised) by investing activities		**10,877**	**(270,131)**
Cash flows from financing activities:			
Capital contribution		–	156,000
Net cash provided by financing activities		**–**	**156,000**
Net increase/(decrease) in cash held		**32,844**	**(50,189)**
Cash at the beginning of financial year		**100,151**	**151,436**
Effect of foreign exchange rate changes		(626)	(1,096)
Cash at the end of financial year	23	**132,369**	**100,151**

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

Notes to the Financial Statements

1. Summary of significant accounting policies

Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements and interpretations of the Australian Accounting Standards Board, and the Corporations Act 2001.

The financial statements of SRLHA also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These are standalone financial statements and incorporate the results of its branch, Swiss Re Life & Health Australia Limited, New Zealand Branch.

The life insurance operations of the Company are administered through statutory funds in accordance with the requirements of the Life Insurance Act 1995. This report presents the operation of the statutory funds in aggregate with the shareholders' fund of the Company. The operations within the statutory funds comprise the insurance and reinsurance of life insurance contracts and life investment contracts.

These financial statements are prepared in accordance with the fair value basis of accounting with certain exceptions described in accounting policies.

The Company is a for-profit entity for the purpose of preparing the financial statements.

Principles for life insurance business

Contracts that involve the acceptance of significant insurance risk are accounted for as life insurance contracts. Insurance risk is defined as significant if, and only if, "an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance" (AASB 1038 Life Insurance Contracts). Life insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness.

Contracts that do not meet the definition of a life insurance contract, as they do not involve the acceptance of insurance risk, are classified as life investment contracts. The cash flows under these contracts give rise to either a financial asset or financial liability and generate a fee income for the Company, either from the services provided under the contract or administration of assets held by the company.

Contracts that include both insurance and investment elements are separated into insurance and investment components that are accounted for separately, but only where these elements can be reliably separated and measured.

Revenue from life insurance contracts

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

Claims expense on life insurance contracts

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

Premiums ceded to retrocessionaires

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

Claims recovered from retrocessionaires

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

Life insurance contract liabilities

Life insurance contract liabilities or policy liabilities are recorded using a methodology referred to as Margin on Services (MoS). Under MoS the excess of premium received over expected claims and expenses ("the margin") is recognised over the life of the contract in a manner that includes the pattern of risk accepted from the policyholder ("the service"). The movement in life insurance contract liabilities recognised in the Statement of Comprehensive Income includes the planned release of this margin. Life insurance contract liabilities are ordinarily determined using a projection method, whereby estimates of policy cash flows (premiums, benefits, expenses and profit margins to be released in future periods) are projected into the future. The policyholder liability is calculated as the net present value of these projected cash flows and future profit margins using best estimate assumptions about the future.

An accumulation method, valuing liabilities at the accumulated benefits available to policyholders, may be used if it produces results that are not materially different from those produced by a projection method. The valuation of life insurance contract liabilities is consistent with the basis prescribed for regulatory reporting in accordance with Prudential Standard LPS 340 Valuation of Policy Liabilities.

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

Life investment contracts

Life investment contracts are accounted for as financial instruments, giving rise to a financial asset or financial liability based on the present value of future cash flows expected under the terms of the contract.

Revenue in respect of life investment contracts is classified as fee income and disclosed in other revenue. Fees are recognised as earned when the services under the contract have been performed.

The nature of this business relates to acquisition of a nil risk portfolio; thus, all incurred claims have no financial impact. Under Australian Accounting Standards, such contracts are defined as life investment contracts and described as investment contracts throughout this financial report. Life investment contract liabilities are measured at fair value.

Assets backing life insurance and life investment contracts

The Company has determined that it holds sufficient investment assets including cash, shares and fixed interest securities within its statutory funds to match policy liabilities. The Company also holds investment assets in excess of those backing policy liabilities. Financial assets are initially recognised at fair value and subsequently measured at Fair Value Through Profit or Loss (FVPL). Measurement at fair value of assets backing policy liabilities is consistent with how investment assets are managed and their performance is evaluated. Unrealised profits and losses on subsequent measurement to fair value are recognised in the Statement of Comprehensive Income. Fair value is determined as follows:

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

Apportionment of expenses

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

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

Where expenses are not directly attributable, they are apportioned based on detailed expense analysis, having regard to the objective of incurring each expense and the outcome achieved. The apportionment is consistent with the basis prescribed for regulatory reporting in accordance with Prudential Standard LPS 340 Valuation of Policy Liabilities.

Costs incurred within the statutory fund are classified as:

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

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

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

Acquisition costs

Life insurance and investment contracts

The actual acquisition costs incurred are recorded in the Statement of Comprehensive Income, under 'other expenses'. The proportion of life acquisition costs not recovered by specific charges received from the policyholder at inception 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 policy liabilities and are amortised through the Statement of Comprehensive Income over the expected duration of the relevant policies.

Investment revenue

Investment revenue includes:

(i) Interest recognised using the effective interest rate method;
(ii) Dividends, recognised on an entitlement basis when the securities trade 'ex-div';
(iii) Profits or losses realised on the disposal of investment assets; and
(iv) The change in value of investment assets that are held on a 'fair value through profit or loss' basis.

Trade and other receivables

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

Cash and cash equivalents

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

Employee entitlements

The Company has no employees and as such all activities are performed by employees of the Australian branch of Swiss Re Asia Pte. Ltd. All employee entitlement costs are included within the management expenses charged from a related party (refer to note 21).

Income tax

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

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

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

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

The Company has a permanent difference between accounting profit and taxable income which relates to the Australian income tax treatment of overseas retrocessions of accident and health business.

Foreign currency translation

The Company's functional currency is the Australian dollar which is also its presentation currency. The Company also transacts in foreign currencies through its New Zealand operations and when incurring expenses in foreign currencies. The results and financial position of foreign operations in New Zealand has a functional currency different from the presentation currency and are translated into the presentation currency as follows:

- Assets and liabilities are translated at the exchange rate at the relevant year-end date;
- Income and expenses are translated at the exchange rates prevailing on the transaction date or at an average exchange rate, being a reasonable approximation of the cumulative effect of rates prevailing on the transaction dates.
- Resulting exchange differences are recognised through Other Comprehensive Income (OCI).

Balances relating to incurred expenses in foreign currency are translated in the same way as the New Zealand operations with the exception of exchange differences being recognised in the Statement of Comprehensive Income and not as part of other comprehensive income.

Trade and other payables

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

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission, relating to the rounding off of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Goods and Services Tax (GST)

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

Offsetting

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

Contributed Equity

Issued capital

Issued capital in respect of ordinary and preference shares is recognised as the fair value of consideration received by the parent entity. Incremental costs directly attributable to the issue of certain new shares are recognised in equity as a deduction, net of tax, from the proceeds.

Comparative information

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

Contingent liabilities and Contingent assets

Contingent liabilities are not recognised, but are disclosed in the financial statements, unless the possibility of settlement is remote, in which case no disclosure is made. If settlement becomes probable and the amount can be reliably estimated, a provision is recognised.

Contingent assets are not recognised, but are disclosed in the financial statements when inflows are probable. If inflows become virtually certain, an asset is recognised.

The amount disclosed as a contingent liability or contingent asset is the best estimate of the settlement or inflow.

Future Accounting Developments

New and amended standards adopted by the Company

- AASB 2020-5 Amendments to Australian Accounting Standards – Insurance Contracts
- AASB 2020-8 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2

New standards and interpretations not yet effective

- AASB 17, a new accounting standard for insurance contracts, was adopted by the AASB in July 2017. In June 2020, the IASB issued amendments to IFRS 17 which deferred the effective date from 1 January 2021 to 1 January 2023 and made significant amendments to the standard in response to feedback from, and implementation issues raised by stakeholders. These amendments were adopted by the AASB in July 2020. These amendments also extend the fixed expiry date of the temporary exemption from applying AASB 9 Financial Instruments in AASB 4 Insurance Contracts to annual reporting periods beginning on or after 1 January 2023.

  An entity may elect to early adopt AASB 17 however SRLHA has not taken this option and will therefore adopt this standard on 1 January 2023, with the comparative period for the year ending 31 December 2022 restated on a AASB 17 basis. SRLHA is expected to apply the full retrospective approach on transition, unless impracticable, where the fair value method may be used instead.

  AASB 17 includes some fundamental differences to current accounting in both insurance contract measurement and profit recognition. The general model is based on a discounted cash flow model with a risk adjustment and deferral of unearned profits. A separate approach applies to insurance contracts that are linked to returns on underlying items and meet certain requirements. Based on the current portfolio mix, SRLHA has decided to apply general model as its measurement approach.

  SRLHA is currently undertaking a multi-phase project to implement IFRS 17. Swiss Re group wide accounting guidance and application methodologies are also being developed, and a global project team has been mobilised to progress the detailed design and implementation of required changes to financial reporting systems. At the date of this report, the following workstreams continue to work towards the implementation of IFRS 17 as follows:
  - Accounting policy: Various proposed accounting treatments were discussed throughout 2021, and there are discussions outstanding on topics such as IFRS 17 level of aggregation, coverage units, risk adjustment and transition methodology.
  - Implementation: Significant work has been performed on source data validation, systems build and testing. In 2021, a dry run exercise was performed based on Q1 2021 reporting covering certain defined functionalities. Further testings are planned in 2022.
  - Training: Training programs have been rolled out across the various functions covering accounting policy, systems usage, financial disclosures and substantiation of financial results and impact analysis.

- The Australian Prudential Regulation Authority (APRA) proposed updates to the capital and reporting frameworks for insurance in response to the transition to AASB 17, including the release of a number of draft prudential and reporting standards. APRA has indicated that the updates are not intended to alter the minimum capital levels required to be held by insurance companies. Consultation on the draft standards released by APRA is open until 31 March 2022.

  The requirements of AASB 17 are complex and some of the key accounting topics are still in discussion. Regulators continue to respond to the new standard which may result in changes to the capital and reporting frameworks, as well as the Income Tax Assessment Act 1997. As a result, the transition impact of AASB 17 on SRLHA's financial statements is still being determined. At this stage, SRLHA is not able to make a reliable disclosure of the estimated impact of transition or the likely direction of that impact relative to net assets and capital, although the impact is expected to be material. Over 2022, we expect the accounting policy discussions to conclude for implementation in the transition model ahead of the mandatory 1 January 2023 transition date.

- Financial Instruments with AASB 4 Insurance Contracts – AASB 4 amendments" issued by the AASB in September 2016. This amendment allows an entity to defer the implementation of AASB 9 if its activities are predominantly connected with insurance.

As the AASB 17 restatement is required in the comparative balance sheet, the comparative period for the year ending 31 December 2022 will also be restated on a AASB 9 basis.

SRLHA currently measures financial instruments at FVPL. From the initial assessment, with the adoption of AASB 9, SRLHA elected to measure debt instruments at fair value through OCI, equity instruments at FVPL and infrastructure loans at amortised cost. Elections have been made avoid potential accounting mismatches with the implementation of AASB 17.

SRLHA is analysing the potential transition impact expected from adoption of AASB 9.

We have not identified any other future standards that are expected to have a material impact on the Company in current or future reporting standards.

2. Critical accounting judgements and estimates

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

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

Liabilities for life insurance contracts

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

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

In addition, factors such as regulation, inflation, taxes, investment market conditions and general economic conditions affect the assumptions selected in the calculation of these liabilities. Specific details of actuarial methods and assumptions are set out in note 3.

Retrocessionaires share of life insurance contract liabilities are also computed using the above methods.

Premium receivable from life insurance contracts

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

Deferred tax asset

A deferred tax asset has been booked in respect of prior year losses. The recoverability of these losses has been assessed in the context of AASB 112 Income Taxes. It has been determined that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Provisions

In the process of determining a provision, significant judgement is applied in determining the best estimate based on all available information, facts and circumstances. The nature of provisions is such, that as further information comes to light, the ultimate outcome could be significantly different to the number provided.

Financial assets at fair value through profit or loss

The Company holds infrastructure loans, which are valued by external managers using discounted cash flow models that are validated by the Swiss Re Group. Discount risk free interest rates and market credit spreads are the two main inputs to the model.

To define the appropriate credit spread levels, external managers consider a range of elements including pricing of recent completed transactions, feedback from borrowers and sponsors, and public bond market pricing.

Impact of COVID-19

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

3. Actuarial methods and assumptions

An actuarial report on policy liabilities and prudential capital as at 31 December 2021 has been prepared by the Appointed Actuary, Mr Michael Fowlds (FIAA, FFA). This report indicates that he is satisfied as to the accuracy of the data upon which policy liabilities have been determined for the purposes of reporting under the Life Insurance Act 1995.

The policy liabilities in the Appointed Actuary's report have been calculated in accordance with Prudential Standard LPS 340 Valuation of Policy Liabilities issued by the Australian Prudential Regulation Authority.

Actuarial methods

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

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

Life investment contract liabilities are measured at fair value (refer to note 1).

Methods adopted for each of the major product groups:

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

Where contracts can be unbundled and a separate financial instrument element can be identified, this component is valued as a life investment contract.

Valuation assumptions

Discount rates

Risk free rate of return, gross basis: this has been based on using the Commonwealth Government bond yield curve as at 31 December 2021. For Australian liabilities this was 0.13% to 2.37% p.a. (2020: -0.07% to 1.97% p.a.) net of investment management expenses and for New Zealand liabilities this was 1.37% to 2.87% p.a. (2020: 0.15% to 1.83% p.a.) net of investment management expenses.

Gross of tax rates are used for:
- Australian products where the risk component of premium is taxed
- New Zealand products

Net of tax rates are used for all other products.

Investment expenses

Future investment management expenses are based on the rates agreed with the investment manager, which vary by class of asset and average 0.12% of assets (2020: 0.12%).

Future maintenance expenses

Allowance for future maintenance expenses has been made on the basis that expense loadings (before future inflation impacts) cover maintenance expenses. Expense loadings vary according to product type and are expressed as a % of annual premium or claim payments.
Range of expense loadings:
Premium driven expenses: 0.4% to 7.4% (2020: 0.5% to 9.4%).
Claim driven expenses: 1.9% (2020: 1.0%)

Mortality and Morbidity

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

Mortality	
Males:	48%-106% of FSC 2012m for traditional and retail lump sum products (2020: 48%-106% of FSC 2012m) 127%-145% of ALT90-92 for other non-traditional products (2020: 127%-145% of ALT90-92) NZ in-force transactions: 46%-55% of NZ97 Select table and 72%-86% of FSC 04-08
Females:	48%-132% of FSC 2012f for traditional and retail lump sum products (2020: 48%-132% of FSC 2012) 127%-145% of ALT90-92 for other non-traditional products (2020: 127%-145% of ALT90-92) NZ in-force transactions: 46%-55% of NZ97 Select table and 39%-47% of FSC 04-08
Morbidity (Disability)	
Incidence:	between 72%-240% of ADI 14-18 table (2020: 73%-246% of ADI 07-11 table) NZ in-force transaction: 74%-627% of IAD 89-93 table (2020: 74%-627% of IAD 89-93 table) 76%-104% of ADI 07/11 (2020: 76%-104% of ADI 07/11)
Termination:	between 77%-175% of ADI 14-18 table (2020: 60%-146% of ADI 07-11 table) NZ in-force transactions: 25%-228% of NZ cedent DI termination table (2020: 25%-228% of NZ cedent DI termination table) 76%-105% of ADI 07/11 (2020: 76%-105% of ADI 07/11)
Morbidity (Total and Permanent Disability (TPD)/Trauma)	
Incidence:	between 100%-260% FSC 2012 TPD/Trauma tables (2020: 100%-260% of FSC 2012 TPD/Trauma tables) NZ in-force transactions: between 135%-252% of FSC 04-08 between 23%-108% of cedent table

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

Discontinuance rates

Future rates of discontinuance which vary by product type are assumed to be in the order of:
Range of rates: 2% - 30.5% (2020: 4% - 48%)
NZ in-force transactions: 2% - 100% (2020: 2% - 100%)

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

Inflation rates for Annuities and Disability Income

The inflation rates for projecting annuity business is 1.6% at 31 December 2021 (2020: 1.85%).
The claims escalation rate for disability income payments post-disablement are derived based on current inflation rates, the outlook for inflation rate over the term of the liabilities and market implied inflation rates relative to the assumed earning rates.

Allowance for Disability Income escalation rate:
- Australia and New Zealand Retail Disability 1.7% - 2.2% (2020: 1.80%)
- Australia and New Zealand Group Salary Continuance 1.93% - 2.0% (2020: 1.60%)

Profit Carriers

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

Surrender values

For reinsurance business, surrender value bases used by the cedants are assumed to apply to the future. For direct business, the surrender value basis is consistent with the policy definition.

COVID-19 Assumptions

Mortality and Morbidity

Mortality

No material impact of additional mortality was assumed.

Morbidity (Disability)

Incidence

A multiplicative increase to incidence in addition to the standard incidence documented above, decreasing over time to the end of 2022 ranging between 3.75% And 22.5% (2020: 3.75% And 22.5%).

Termination

A multiplicative decrease to termination rates applied to the standard termination rates documented above, with the impact decreasing over time to the end of 2022 ranging between 2.5% And 20% (2020: 2.5% And 20%).

Morbidity (total and permanent disability (tpd)/trauma)

No material impact of increases in lump sum morbidity was assumed.

Discontinuance rates

Additional additive rates of discontinuance above the standard rates documented above are assumed to apply over 2021. 1.5% Additional lapse is applied to the retail non-annuity portfolio (2020: 1.5% To 3.5% Depending on line of business).

Effects of changes in actuarial assumptions from 31 December 2020 to 31 December 2021:

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

in thousands of Australian dollars	Profit Margins Increase/(decrease)	Policy Liabilities Increase/(decrease)
Assumption Change		
Discount rates	(118,582)	(66,200)
Expense	(132,242)	-
Mortality	5,308	-
Morbidity	(50,386)	-
Discontinuance rates[1]	(13,204)	-
Model/Methodology/System change	(28,544)	-
Other[2]	(45,625)	1,233
Total assumption change	**(383,275)**	**(64,967)**
Experience	70,873	(36,943)
Total effect of changes	**(312,402)**	**(101,910)**
Amount at 31 December 2020	1,294,207	1,151,024
Amount reported at 31 December 2021 under new assumptions	**981,805**	**1,049,114**

[1] 2021 discontinuance rates impact includes $5,007 profit margin impact related to COVID-19 assumption

[2] 2021 Other policy liability impact is from a change in annuity payment inflation assumption

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

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

in thousands of Australian dollars	Profit Margins Increase/(decrease)	Policy Liabilities Increase/(decrease)
Assumption Change		
Discount rates	41,156	17,526
Expense	-	-
Mortality	(28,393)	(34,464)
Morbidity	60,600	87,056
Discontinuance rates[1]	(81,360)	(10,201)
Model/Methodology/System change	20,188	-
Other[2]	-	223,399
Total assumption change	**12,191**	**283,316**
Experience	10,475	(255,973)
Total effect of changes	**22,666**	**27,343**
Amount at 31 December 2019	1,271,541	1,123,681
Amount reported at 31 December 2020 under new assumptions	**1,294,207**	**1,151,024**

[1] 2020 discontinuance rates impact includes $65,599 profit margin impact and $10,201 policy liability impact related to COVID-19 assumption

[2] Other is the impact of a recapture of an internal retrocession for a block of annuities and deposit accounting business

The Company considered the impact of the lapse experience arising from its direct and reinsurance business and based upon actual experience to date and has reflected this in the insurance valuation as at 31 December 2021. No allowance has been made for future changes in lapse experience.

Sensitivity analysis

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

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

Incurred but not reported claims	Sustained delays in the reporting pattern of claims would result in a slowing of claims development factors. Increases in claims incidence rates would result in higher IBNR. Changes in IBNR claims development factors would contribute directly to changes in the policy liability. Slowing the development factors would increase the policy liability, resulting in lower profit.
Operating expenses	A sustained change in operating expenses relative to policy volumes would result in an update of the best estimate operating expense assumptions. An increase in best estimate expense assumptions will increase the projected expense cost. To the extent that future profit can absorb the effect of higher expense cost, changes in assumption have little impact on the policy liability. If the increased expense cost is higher than the future profit can absorb, the excess will increase the policy liability and reduce profit.

The table below illustrates how permanent changes in key variables would impact the reported Statement of Financial Position of the Company through the value of its policyholder liabilities and through changed valuation assumptions.

in thousands of Australian dollars	Change in Variable	Impact on Policyholder Liabilities		Impact upon Profit and Equity after Tax	
2021		**Gross of reinsurance**	**Net of reinsurance**	**Gross of reinsurance**	**Net of reinsurance**
Discount rate	+50bp	(128,217)	(42,449)	75,745	(18,203)
	-50bp	149,528	54,453	(90,654)	13,151
Mortality rates	+10%	-	-	-	-
	-10%	-	-	-	-
TPD and trauma incidence	+10%	1,544	1,544	(1,081)	(1,081)
	-10%	-	-	-	-
Disability claims incidence	+10%	178,221	-	(124,838)	52,213
	-10%	(114,978)	-	80,569	(33,236)
Disability claims termination	+10%	(162,954)	-	114,154	(47,590)
	-10%	323,849	-	(227,087)	91,268
Discontinuance	+10%	21,296	-	(14,918)	6,237
	-10%	(1,146)	6,679	812	(6,871)
Incurred but unreported claims	+10%	131,542	74,856	(92,482)	(41,325)
	-10%	(121,604)	(66,297)	85,525	35,747
Operating expenses	+10%	10,769	117	(7,551)	2,923
	-10%	(10,769)	(117)	7,551	(2,923)

in thousands of Australian dollars	Change in Variable	Impact on Policyholder Liabilities		Impact upon Profit and Equity after Tax	
2020		**Gross of reinsurance**	**Net of reinsurance**	**Gross of reinsurance**	**Net of reinsurance**
Discount rate	+50bp	(133,888)	(52,250)	80,508	(9,425)
	-50bp	151,940	59,497	(93,169)	7,859
Mortality rates	+10%	-	-	-	-
	-10%	-	-	-	-
TPD and trauma incidence	+10%	-	-	-	-
	-10%	-	-	-	-
Disability claims incidence	+10%	180,097	-	(126,493)	47,644
	-10%	(100,281)	-	70,209	(29,907)
Disability claims termination	+10%	(172,885)	-	121,067	(51,160)
	-10%	357,860	-	(251,288)	95,557
Discontinuance	+10%	27,799	-	(19,626)	5,838
	-10%	(14,533)	-	10,181	(4,237)
Incurred but unreported claims	+10%	137,223	71,919	(96,443)	(36,444)
	-10%	(127,114)	(68,571)	89,367	36,128
Operating expenses	+10%	15,334	(61)	(10,748)	4,327
	-10%	(15,034)	60	10,536	(4,271)

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

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

4. Components of (loss)/profit

in thousands of Australian dollars	2021	2020
Components of (loss)/profit related to movement in contracts:		
Planned margins of revenues over expenses released	67,585	73,124
Difference between actual and assumed experience	(82,577)	(111,157)
Capitalisation of expected future (losses)/gains	(57,083)	105,279
Retrocession recovery/(loss) relating to loss recognition	58,646	(49,420)
	(13,429)	**17,826**
Other components:		
Investment (losses)/ earnings on assets in excess of policy liabilities	(6,178)	25,596
Profit from Shareholders Fund	-	3
Net (loss)/profit after tax	**(19,607)**	**43,425**

5. Investment (expense)/revenue

in thousands of Australian dollars	2021	2020
Trust distributions	757	390
Interest on debt securities and deposits	56,095	60,355
Net realised loss	(18,898)	(6,927)
Net unrealised loss	(46,779)	(17,465)
Total investment (expense)/revenue	**(8,825)**	**36,353**

6. Other revenue

in thousands of Australian dollars	2021	2020
Commission income from retrocession	275,249	279,409
Other retrocession commissions and expenses	33,213	33,405
Other	690	11,929
Total other revenue	**309,152**	**324,743**

7. Other expenses

in thousands of Australian dollars	2021	2020
Life insurance contract liabilities		
Policy acquisition expenses		
Commission expense	95,317	111,929
Operating expenses	12,405	11,349
Policy maintenance expenses		
Commission expense	369,687	344,574
Operating expenses	79,974	65,879
Investment management expenses	2,148	1,764
Remediation expenses	67,750	89,916
Other	2,491	9,405
Total other expenses	**629,772**	**634,816**

There were no recaptures in 2021. During 2020, the Company recaptured two business types retroceded to Swiss Reinsurance Company Ltd. This transaction resulted in overall loss of $3.1 million, amount included under other expenses - Other.

Below table provides further details:

in thousands of Australian dollars		2020
	Annuity	**Investment Contracts**
Agreed settlement value	132,040	101,280
Reserves book value	(130,867)	(103,900)
Claims (payable)/receivable	(3,810)	2,140
Overall recapture loss	**(2,637)**	**(480)**

8. Auditor's remuneration

Amounts received or due and receivable by auditors of the Company, including non-recoverable GST, for:

in thousands of Australian dollars	2021	2020
Audit of the financial statements	579	541
Audit related services	119	163
Total audit services	**698**	**704**

In 2021, all amounts were paid to member firms of KPMG. In 2020 all amounts were paid to member firms of PwC, being the Company's auditors for that financial year.

9. Income tax

The Company is part of a tax consolidated group, of which Swiss Re Australia Ltd is the head entity. The Statement of Financial Position recognises tax assets and liabilities of the company on a stand-alone basis and these are settled in accordance with the funding agreement between the entities in the group.

Income tax benefit has been determined in accordance with the taxes applicable to each product. In Australia, the risk component of ordinary life and disability business and the fee income from savings type products is generally subject to tax at 30% (2020: 30%), while a concessional rate of 15% (2020: 15%) applies to complying superannuation business.

In New Zealand, business is subject to tax in accordance with the Income Tax Act 2007 at a rate of 28% (2020: 28%).

The movements in the current tax assets and liabilities during the period and the composition of the total income tax benefit are as follows:

in thousands of Australian dollars	2021	2020
Income tax benefit		
Current tax		
Current tax on losses for the year	(8,069)	(3,896)
Total current tax expense	**(8,069)**	**(3,896)**
Deferred income tax		
Increase in deferred tax assets	10,985	67,294
Decrease in deferred tax liabilities	207	111
Utilisation of prior year losses	(15,464)	3,446
Adjustments to deferred tax for prior periods	(1,364)	-
Total deferred tax (expense)/benefit	**(5,636)**	**70,851**
Income tax (expense)/benefit	**(13,705)**	**66,955**
Numerical reconciliation of income tax expense to prima facie tax payable		
Loss from operations before income tax benefit	(5,902)	(23,530)
Tax at the Australian tax rate of 30% (2020 : 30%)	1,771	7,059
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Tax offset for franked dividends	175	106
Non-assessable disability (expense)/income	(17,452)	63,170
Difference in New Zealand tax rate	584	273
Foreign exchange adjustment	327	36
Adjustments for deferred tax of prior periods	(1,364)	-
Other	2,254	(3,689)
Income tax (expense)/benefit	**(13,705)**	**66,955**

Income Tax (continued)

in thousands of Australian dollars	2021	2020
Unrecognised temporary differences		
Temporary differences relating to overseas operations for which deferred tax liabilities have not been recognised:		
Foreign currency translation	11,768	11,824
Unrecognised deferred tax liabilities relating to the above temporary differences	3,530	3,547
Analysis of deferred tax asset		
Reinsurance balances	64,268	48,417
Tax losses	166,243	181,707
Other provisions	21,311	27,604
Closing deferred tax asset[1]	**251,822**	**257,728**
Deferred tax asset		
Opening balance	257,728	190,434
Reinsurance balances	15,851	(33,313)
Tax (losses)/profit	(15,464)	81,253
Other provisions	(6,293)	19,354
Closing deferred tax asset	**251,822**	**257,728**
Deferred tax assets expected to be recovered within 12 months	43,807	54,753
Deferred tax assets expected to be recovered after 12 months	208,015	202,975
Analysis of deferred tax liability		
Deferred tax liability on New Zealand acquisition costs[2]	10,577	10,712
Closing deferred tax liability[1]	**10,577**	**10,712**
Deferred tax liability		
Opening balance	10,712	11,090
Foreign exchange adjustment	72	(267)
Decrease of New Zealand acquisition costs	(207)	(111)
Closing deferred tax liability	**10,577**	**10,712**
Deferred tax liabilities expected to be settled within 12 months	529	536
Deferred tax liabilities expected to be settled after 12 months	10,048	10,176
Current income tax asset/(liability)		
Opening balance	(1,506)	3,870
Foreign exchange adjustment	(26)	(7)
Utilisation of losses	-	3,446
Current component of income tax expense	(8,069)	(3,896)
Income tax payments	4,872	4,924
Tax refunds received during the current year	(7)	(9,843)
Closing current income tax liability	**(4,736)**	**(1,506)**
Current income tax liability expected to be settled within 12 months	**(4,736)**	**(1,506)**

[1] The closing balances are disclosed as a separate deferred tax asset and deferred tax liability on the statement of financial position to reflect jurisdictional allocation.

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

10. Financial assets at fair value through profit or loss

in thousands of Australian dollars	2021	2020
Equities held indirectly by unit trusts (level 1)	19,954	17,767
Debt securities:		
Government (level 1)	1,049,163	1,156,516
Private sector (level 2)	534,368	540,153
Private sector (level 3)	192,038	157,071
Total debt securities	**1,775,569**	**1,853,740**
Total financial assets at fair value through profit or loss	**1,795,523**	**1,871,507**
Balance maturing within 12 months	**756,723**	**1,128,026**

Credit ratings of financial assets are disclosed in Note 22.

Financial assets are designated as fair value through profit or loss. The fair value of the Company's investment assets are classified as:

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

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Unit trust and national government debt securities have fair values that meet the definition of level 1. Private sector debt securities have fair values that meet the definition of level 2 and 3.

Valuation techniques used to value financial instruments include:

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

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

The Company has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period. There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the year. The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 3 is comprised of infrastructure loans wherein fair value is determined using discounted cash flow models with valuation spreads as the main unobservable input.

Level 3 financial assets at fair value through profit or loss movement analysis

in thousands of Australian dollars	2021	2020
As at 1 January	157,071	156,233
Acquisition of investments	40,400	-
(Losses)/Gains recognised in Statement of Comprehensive Income	(5,433)	838
As at 31 December	**192,038**	**157,071**

Sensitivity of recurring level 3 measurements to changes in unobservable inputs

The significant unobservable input used in the fair value measurement of the Company's infrastructure loans is valuation spread. A significant increase/(decrease) in this input in isolation would result in significantly lower/(higher) fair value measurement.

Disclosures about the temporary exemption from AASB 9

The Company applies the temporary exemption from AASB 9 Financial instruments, as defined in the amendment "Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts – AASB 4 amendments" issued by the AASB in September 2016. This amendment allows an entity to defer the implementation of AASB 9 if its activities are predominantly connected with insurance. As required by the application of this exemption, the table below presents an analysis of the fair value of the classes of financial assets as at the end of the reporting period, as well as the change in fair value during the reporting period. The financial asset classes are divided into three categories:

- Solely Payments of Principal and Interest (SPPI): assets of which cash flows represent solely payments of principal and interest on an outstanding principal amount, but are not meeting the definition of held for trading in AASB 9; or are not managed on a fair value basis;
- Fair Value Option: assets that follow the fair value option at initial recognition and are carried at FVPL;
- Other (at FVPL): all financial assets other than those specified in SPPI and Fair Value Option. These include the following financial assets:

  a) assets with contractual terms that do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding;

  b) assets that meet the definition of held for trading under AASB 9;

  c) assets that are managed and whose performance is evaluated on a fair value basis.

Fair values as of 31 December 2021

in thousands of Australian dollars	SPPI	Fair Value Option	Other (at FVPL)	Total Fair Value Amount
Financial assets				
Debt securities	-	-	1,775,569	**1,775,569**
Equities held indirectly by unit trusts	-	-	19,954	**19,954**
Investment income accrued and receivable	15,125	-	-	**15,125**
Cash and cash equivalents	132,369	-	-	**132,369**
Total financial assets	**147,494**	**-**	**1,795,523**	**1,943,017**

Fair values as of 31 December 2020

in thousands of Australian dollars	SPPI	Fair Value Option	Other (at FVPL)	Total Fair Value Amount
Financial assets				
Debt securities	-	-	1,853,740	**1,853,740**
Equities held indirectly by unit trusts	-	-	17,767	**17,767**
Investment income accrued and receivable	11,425	-	-	**11,425**
Cash and cash equivalents	100,151	-	-	**100,151**
Total financial assets	**111,576**	**-**	**1,871,507**	**1,983,083**

Change in fair value during the reporting period

in thousands of Australian dollars	SPPI	Fair Value Option	Other (at FVPL)	Total Fair Value Amount
Financial assets				
Debt securities	-	-	(63,491)	(63,491)
Equities held indirectly by unit trusts	-	-	(2,186)	(2,186)
Total financial assets	**-**	**-**	**(65,677)**	**(65,677)**

11. Trade and other receivables

There are no trade and other receivables at 31 December 2021 (2020: nil) that have been assessed as impaired.

in thousands of Australian dollars	2021	2020
Outstanding premiums	511,857	519,267
Amounts due from related parties	10,710	6,736
Amounts due from retrocessionaires - ultimate controlling entity	18,395	75,697
Investment income accrued and receivable	15,125	11,425
Other debtors	159,761	131,109
Total trade and other receivables	**715,848**	**744,234**
Balance expected to be received within 12 months	**715,848**	**744,234**

12. Capitalised software

During 2021, the Company has increased its capitalisation of software development cost by $0.1 million and maintains a closing balance of $1.7 million (2020: $1.6 million).

13. Trade and other payables

in thousands of Australian dollars	2021	2020
Amounts due to cedants, retrocessionaires and third parties	281,695	231,734
Claims payable	5,336	2,168
Amounts due to retrocessionaires - related parties	33,032	26,428
Amounts due to related parties	30,243	29,083
Investment related payables	80	59
Other creditors	9,205	7,981
Total trade and other payables	**359,591**	**297,453**
Balance expected to be settled within 12 months	**359,591**	**297,453**

14. Offsetting

The Company has entered into retrocession agreements, and some of these agreements entitle the counterparties to offset balances due and settle on a net basis. The following table lists out balances offset on the Statement of Financial Position:

in thousands of Australian dollars	2021	2020
Balances setoff		
Premiums ceded under retrocession	(302,130)	(297,975)
Claims and other technical expenses ceded under retrocession	140,734	213,805
Other retrocession commissions and expenses	97,935	95,587
Total amounts due (to)/from retrocessionaires	**(63,461)**	**11,417**

15. Provisions

The table below includes changes to the provision accounted during the reporting period.

in thousands of Australian dollars	2021	2020
Opening balance	92,627	27,500
Increase in provision	67,750	89,916
Utilisation of provision	(89,339)	(24,789)
Closing balance	**71,038**	**92,627**
Balance expected to be settled within 12 months	**71,038**	**92,627**

The provision of $71.0 million as at 31 December 2021 (2020: $92.6 million) represents management's best estimate of the cost of remediating affected policyholders and the cost of the remediation program to address the past conduct of business partners who distributed and administered life insurance products issued by the Company and is based on information available at the date of these financial statements.

The remediation program has made significant progress throughout 2021 and is expected to be completed within the first half of 2022.

16. Life insurance contract liabilities assumed

16 (a) Reconciliation of movements in life insurance contract liabilities assumed

in thousands of Australian dollars	2021	2020
Life insurance contract liabilities assumed		
Opening balance at 1 January	(2,329,642)	(2,331,044)
Decrease reflected in the statement of comprehensive income	141,535	18,492
Foreign exchange adjustment	5,248	(17,090)
Closing balance at 31 December	**(2,182,859)**	**(2,329,642)**
Retrocessionaires' share of life insurance contract liabilities		
Opening balance at 1 January	1,275,298	1,207,363
(Decrease)/Increase reflected in the statement of comprehensive income	(52,179)	183,067
Annuity reserves recapture value	-	(130,867)
Foreign exchange adjustment	(5,073)	15,735
Closing balance at 31 December	**1,218,046**	**1,275,298**
Net life insurance contract liabilities at 31 December	**(964,813)**	**(1,054,344)**

16 (b) Components of net life insurance contract liabilities

in thousands of Australian dollars	2021	2020
Future policy benefits	(6,238,167)	(6,558,380)
Future expenses	(3,570,235)	(3,394,830)
Planned margins of future revenues over expenses	(981,805)	(1,294,207)
Future revenues	9,825,394	10,193,073
Total net life insurance contract liabilities	**(964,813)**	**(1,054,344)**
Net life insurance contract liabilities to be realised within 12 months	**(369,666)**	**(284,703)**

17. Life investment contract liabilities assumed

Reconciliation of movements in life investment contract liabilities assumed

in thousands of Australian dollars	2021	2020
Life investment contract liabilities assumed		
Opening balance at 1 January	(96,680)	(100,127)
Decrease reflected in the statement of comprehensive income	12,379	3,447
Closing balance at 31 December	**(84,301)**	**(96,680)**
Retrocessionaires' share of life investment contract liabilities		
Opening balance at 1 January	-	100,127
Reserves recapture value	-	(103,900)
Decrease reflected in the statement of comprehensive income	-	3,773
Closing balance at 31 December	**-**	**-**
Net life investment contract liabilities at 31 December	**(84,301)**	**(96,680)**

18. Capital adequacy

Under the Life Insurance Act 1995 (the Life Act) life insurers are required to hold reserves in excess of policy liabilities. These additional reserves are necessary to support the life insurer's capital requirements under its business plan and to provide a buffer against adverse experience in managing long term risks. APRA issued Life Prudential Standard (LPS) 110 'Capital Adequacy' for determining the level of capital reserves. LPS 110 prescribes the minimum capital requirement for each fund and the minimum level of assets required to be held in each fund. The figures in the table below represent the ratio for each fund of the assets available for capital over the minimum regulatory capital requirement.

2021

in thousands of Australian dollars	Statutory Fund No.1	Statutory Fund No.2	Shareholders Fund	Total
Net assets	121,626	1,279,572	1,055	1,402,253
Regulatory adjustment applied in calculation of tier 1 capital	(77,239)	(391,957)	-	(469,196)
Tier 1 capital:				
Common equity tier 1 capital	44,387	812,615	1,055	858,057
Additional tier 1 capital	-	75,000	-	75,000
Capital base	**44,387**	**887,615**	**1,055**	**933,057**
Prescribed capital amount comprises:				
Insurance risk	17,838	236,757	-	254,595
Asset risk	381	97,555	1	97,937
Asset concentration risk	-	172,776	-	172,776
Operational risk	3,414	35,642	-	39,056
Aggregation benefit	(301)	(60,798)	-	(61,099)
Combined scenario adjustment	7,679	76,911	-	84,591
Prescribed capital amount	**29,011**	**558,843**	**1**	**587,856**
Capital in excess of prescribed capital amount	15,376	328,772	1,054	345,201
Capital adequacy multiple (%)[1]	153%	159%	73,850%	159%

[1] In addition to the prescribed capital amount coverage above, SRLHA holds Pillar 2 capital coverage per APRA's DI Supervisory Adjustment. There are no COVID-19 restrictions or other adjustment required by APRA other than the DI one noted.

2020

in thousands of Australian dollars	Statutory Fund No.1	Statutory Fund No.2	Shareholders Fund	Total
Net assets	107,284	1,313,577	1,055	1,421,916
Regulatory adjustment applied in calculation of tier 1 capital	(72,626)	(384,753)	-	(457,379)
Tier 1 capital:				
Common equity tier 1 capital	34,658	853,824	1,055	889,537
Additional tier 1 capital	-	75,000	-	75,000
Capital base	**34,658**	**928,824**	**1,055**	**964,537**
Prescribed capital amount comprises:				
Insurance risk	10,727	262,838	-	273,565
Asset risk	284	87,736	1	88,021
Asset concentration risk	-	272,829	-	272,829
Operational risk	3,180	34,037	-	37,217
Aggregation benefit	(223)	(57,307)	-	(57,530)
Combined scenario adjustment	4,623	87,470	1	92,094
Prescribed capital amount	**18,591**	**687,603**	**2**	**706,196**
Capital in excess of prescribed capital amount	16,067	241,221	1,053	258,341
Capital adequacy multiple (%)	186%	135%	52,750%	137%

19. Equity

in thousands of Australian dollars	2021	2020
Share capital		
35,296,208 ordinary shares (2020: 35,296,208)[1]	905,000	905,000
75,000 redeemable preference shares (2020: 75,000)[2]	75,000	75,000
Total Share capital	**980,000**	**980,000**
Other reserves		
Contributed capital without share issue	**156,000**	**156,000**
Total Contributed equity	**1,136,000**	**1,136,000**

[1] Face value per share $25.64
[2] Face value per preference share $1,000

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. This is subject to the prior entitlements of the redeemable preference shares.

All authorised shares have been issued. The redeemable preference shares have no voting rights, no fixed dividend entitlement and do not have a fixed redemption date. There were no issuances, redemptions or buybacks of redeemable preference shares during 2021 (2020: nil).

During the year the Company did not issue any ordinary shares (2020: nil).

Contributed Capital

On 26th March 2020 Swiss Reinsurance Company Ltd contributed $156.0 million to the Company. No shares were issued.

Foreign Currency Translation Reserve

The movement in the Foreign Currency Translation Reserve during the year, disclosed as "Exchange difference on translation of foreign operations", under the Statement of Comprehensive Income, represents the translation of the New Zealand branch operations. No tax balances have been accounted for in relation to Foreign Currency Translation Reserve as set out in note 9.

20. Segment information

Business segments

The Company operates in the two business segments of life and disability reinsurance and direct life and disability insurance.

Disaggregated information by fund

2021

in thousands of Australian dollars	Statutory Fund No.1	Statutory Fund No.2	Shareholders Fund	Total
Net premium revenue from life insurance contracts	108,682	761,998	-	870,680
Investment income	(34)	(8,791)	-	(8,825)
Other income	3,151	306,001	-	309,152
Total revenue	**111,799**	**1,059,208**	**-**	**1,171,007**
Net claims from life insurance contracts	(39,475)	(609,397)	-	(648,872)
Net expense	(85,943)	(442,094)	-	(528,037)
Net profit/(loss) before tax	**(13,619)**	**7,717**	**-**	**(5,902)**
Net loss after tax	**(9,658)**	**(9,949)**	**-**	**(19,607)**
Investment assets	97,704	1,697,819	-	1,795,523
Other assets	33,918	1,066,802	1,066	1,101,786
Retrocessionaires' share of life insurance contract liabilities	8,550	1,209,496	-	1,218,046
Life insurance and investment contract liabilities assumed	39,271	(2,306,431)	-	(2,267,160)
Net policy liabilities from insurance contracts	**47,821**	**(1,096,935)**	**-**	**(1,049,114)**
Other liabilities	(31,283)	(343,070)	(11)	(374,904)
Provisions	(25,994)	(45,044)	-	(71,038)
Net assets	**121,626**	**1,279,572**	**1,055**	**1,402,253**
Retained earnings	62,626	190,804	1,055	254,485
Foreign currency translation reserve	-	11,768	-	11,768
Transfers in period	24,000	(24,000)	-	-

2020

in thousands of Australian dollars	Statutory Fund No.1	Statutory Fund No.2	Shareholders Fund	Total
Net premium revenue from life insurance contracts	100,854	705,278	-	806,132
Investment income	864	35,489	-	36,353
Other income	3,201	321,538	4	324,743
Total revenue	**104,919**	**1,062,305**	**4**	**1,167,228**
Net claims from life insurance contracts	(25,140)	(739,581)	-	(764,721)
Net expense	(98,833)	(327,204)	-	(426,037)
Net profit/(loss) before tax	**(19,054)**	**(4,480)**	**4**	**(23,530)**
Net profit/(loss) after tax	**(13,575)**	**56,997**	**3**	**43,425**
Investment assets	80,773	1,790,734	-	1,871,507
Other assets	39,307	1,063,059	1,065	1,103,731
Retrocessionaires' share of life insurance and investment contract liabilities	8,152	1,267,146	-	1,275,298
Life insurance and investment contract liabilities assumed	26,732	(2,453,054)	-	(2,426,322)
Net policy liabilities from insurance contracts	**34,884**	**(1,185,908)**	**-**	**(1,151,024)**
Other liabilities	(22,247)	(287,414)	(10)	(309,671)
Provisions	(25,433)	(67,194)	-	(92,627)
Net assets	**107,284**	**1,313,577**	**1,055**	**1,421,916**
Retained earnings	72,284	200,753	1,055	274,092
Foreign currency translation reserve	-	11,824	-	11,824

The following details show the number of statutory funds operated by the Company, the types of business written and the major products within each statutory funds.

Statutory fund	Type of business	Major products
Statutory Fund No. 1	Non unit linked ordinary insurance business	Death, Total Permanent Disability, Trauma, Disability Income
Statutory Fund No. 2	Non unit linked ordinary and reinsurance business	Death, Total Permanent Disability, Trauma, Disability Income

21. Related party disclosures

Controlling entities

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

Related party transactions

During the year the Company conducted the following transactions, in its normal course of business, with related parties, all of whom are entities of the Swiss Re Group. The related party transactions have been disclosed on the basis of the terms and conditions of the arrangements with the specific related party, this varies by arrangement. Balances relating to transactions with related parties are summaried in the tables below:

in thousands of Australian dollars	2021	2020
Retrocession contracts with ultimate controlling entity – Swiss Reinsurance Company Ltd.		
Outwards reinsurance expense	(420,194)	(849,576)
Reinsurance recoveries and commission income	627,172	1,038,233
Movement in life insurance contract liabilities	(126,023)	(89,739)
Net reinsurance recovery	**80,955**	**98,918**
Retrocession contracts with other related parties – Swiss Re Asia Pte. Ltd.		
Outwards reinsurance expense	(577,551)	(142,078)
Reinsurance recoveries and commission income	218,952	(109,764)
Movement in life insurance contract liabilities	71,471	277,207
Net reinsurance (expense)/recovery	**(287,128)**	**25,365**
Management and other expenses		
Ultimate controlling entity – Swiss Re Ltd	(7,396)	(7,307)
Other related parties[1]	(61,944)	(59,419)
Net management and other expenses	**(69,340)**	**(66,726)**
Investment management expense		
Controlling entity	(2,288)	(1,801)
Net investment management expenses	**(2,288)**	**(1,801)**
Letter of credit fees	-	**(255)**
Contributed equity transactions with ultimate controlling entity - Swiss Reinsurance Company Ltd.	-	**156,000**

[1] The Company has no employees. Included in this amount is a cost allocation for day to day operating activities provided by Swiss Re Asia Pte. Ltd.

The related party balances are disclosed in the related notes to the Statement of Financial Position.

22. Risk management and financial instruments

Risk Management

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

The Company's Board of Directors is ultimately responsible for oversight over the operation of the Company, including its risk management. It is supported in this by various key function-holders, including the Chief Financial Officer ANZ, Chief Risk Officer ANZ, Compliance Officer and Appointed Actuary. The Board Risk Committee, appointed by the Board, is the main body charged with oversight of the risk governance issues of the Company. Its responsibilities are established in the Board charter. The Board of the Company has established the Location Management Team (LMT). The LMT is responsible for overseeing and raising awareness of risk management activities (including business continuity management) for all functional areas of Swiss Re ANZ and providing management sign off on the risk management framework.

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

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

In accordance with Prudential Standard CPS 220 Risk Management issued by the Australian Prudential Regulation Authority (APRA), the Board and senior management of the Company develop, implement and maintain a Risk Management Strategy (RMS). It forms the core of the Company's Risk Management Framework, which seeks to manage risks within the Board's risk appetite, including a focus on potential adverse effects on the financial performance, capital and solvency of the Company. The RMS formalises the Company's approach to the management of risk by setting out:

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

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

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

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

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

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

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

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

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

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

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

Insurance Risk

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

Insurance risk is managed using two approaches:

Underwriting

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

Retrocession management

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

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

Claims management and review of claims liabilities

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

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

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

Asset Liability Matching

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

Financial market risk

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

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

The 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 an appropriate spread selection and duration of investment assets to support the underlying policy liabilities.

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

Currency Risk

The Company operates in Australia and New Zealand and assets are held in original currency to match the expected reinsurance contract liabilities. A residual foreign exchange translation exposure results from net assets of the New Zealand branch. A 3% strengthening of the Australian dollar against the New Zealand dollar would decrease 'Other comprehensive income' and Equity by $4.9 million (2020: $4.3 million) and a 3% weakening of the Australian dollar against the New Zealand dollar would have had the equal but opposite effect to these amounts. Furthermore the Company has a foreign exchange risk as a result of expenses incurred in foreign currencies.

Equity and Other Market Price Risk

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

Interest rate risk

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

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

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

The following table summarises how changes in key variables would impact the Company's investment assets and financial position at the respective year-end dates:

in thousands of Australian dollars	Change in variable		Impact upon Profit and Equity after Tax	
	2021	2020	2021	2020
Adverse change in risk variable:				
Interest rates	+50bps	+50bps	(13,269)	(12,414)
Equity market prices	+10%	+10%	(1,397)	(1,243)
Credit spreads	+50bps	+50bps	(14,178)	(12,541)
Favourable change in risk variable:				
Interest rates	-50bps	-50bps	13,861	13,055
Equity market prices	-10%	-10%	1,397	1,243
Credit spreads	-50bps	-50bps	13,895	13,042

Credit Risk

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

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

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

A key counterparty risk for the Company occurs due to the use of retrocession, as large loss events or cumulative losses on retroceded portfolios may lead to a significant counterparty exposure. For the Company, the predominant counterparty exposure is with Swiss Reinsurance Company Ltd (SRZ) in Zurich. The net exposure to SRZ at 31 December 2021 is $2,170 million (2020: $2,355 million).

Credit Quality

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

The following table is a summary of credit ratings for rated investment assets which include cash and cash equivalents, deposits and debt securities.

in thousands of Australian dollars	AAA	AA	A	BBB	Not rated	Total
2021						
Cash and cash equivalents	13,999	107,234	11,136	-	-	132,369
Trade and other receivables	9,052	2,196	373,735	49,601	281,264	715,848
Financial assets at fair value through profit or loss	862,500	283,974	390,109	258,940	-	1,795,523
Retrocessionaires' share of life insurance contract liabilities	-	-	1,218,046	-	-	1,218,046
Total	**885,551**	**393,404**	**1,993,026**	**308,541**	**281,264**	**3,861,786**

in thousands of Australian dollars	AAA	AA	A	BBB	Not rated	Total
2020						
Cash and cash equivalents	-	88,084	12,067	-	-	100,151
Trade and other receivables	3,005	4,735	442,594	1,142	292,758	744,234
Financial assets at fair value through profit or loss	523,195	512,310	621,168	197,067	17,767	1,871,507
Retrocessionaires' share of life insurance contract liabilities	-	1,259,424	15,874	-	-	1,275,298
Total	**526,200**	**1,864,553**	**1,091,703**	**198,209**	**310,525**	**3,991,190**

The Company does not have financial assets that are past due or have been impaired at either the 2021 or 2020 year-end dates.

Liquidity Risk

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

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

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

- Sufficient liquidity is held to meet funding requirements even under adverse circumstances;
- Funding is charged and credited at an appropriate market rate through internal transfer pricing;

- Diversified sources are used to meet Swiss Re's residual funding needs; and
- Long-term liquidity needs are taken into account in the planning process and in the management of financial market risk.

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

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

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

		Undiscounted contractual obligations remaining			
in thousands of Australian dollars	Carrying value	Up to 1 year	1 to 5 years	Greater than 5 years	Total
2021					
Trade and other payables	359,591	359,591	-	-	**359,591**
Provisions	71,038	71,038	-	-	**71,038**
Life insurance contract liabilities assumed	2,182,859	808,630	646,600	1,951,680	**3,406,910**
Life investment contract liabilities assumed	84,301	19,499	45,409	19,393	**84,301**
Total	**2,697,789**	**1,258,758**	**692,009**	**1,971,073**	**3,921,840**

		Undiscounted contractual obligations remaining			
in thousands of Australian dollars	Carrying value	Up to 1 year	1 to 5 years	Greater than 5 years	Total
2020					
Trade and other payables	297,453	297,453	-	-	**297,453**
Provisions	92,627	92,627	-	-	**92,627**
Life insurance contract liabilities assumed	2,329,642	696,410	750,731	1,637,189	**3,084,330**
Life investment contract liabilities assumed	96,680	13,832	46,522	36,326	**96,680**
Total	**2,818,402**	**1,100,322**	**797,253**	**1,673,515**	**3,571,090**

Operational Risk

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

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

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

The management of operational risk at the Company is monitored using business Risk and Control Self-Assessments, which are prepared by key risk takers reported to the Board Risk Committee half-yearly.

23. Cash flow information

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

in thousands of Australian dollars	2021	2020
Net (loss)/profit after tax	(19,607)	43,425
Add items classified as investing activities:		
Net realised and unrealised loss	65,677	24,392
Net profit after tax provided by operating activities	**46,070**	**67,817**
Change in assets and liabilities excluding impact of foreign exchange revaluation:		
Decrease/(increase) in current and deferred tax assets	5,771	(63,802)
Decrease /(increase) in trade and other receivables	28,386	(61,439)
Increase in capitalised software	(129)	(1,618)
(Decrease)/increase in net life insurance contract liabilities	(101,910)	27,343
Increase in trade and other payables	62,138	29,008
(Decrease)/increase in provisions	(18,359)	66,633
Net cash provided by operating activities	**21,967**	**63,942**

Cash and cash equivalents

	2021	2020
Cash at bank	107,234	88,084
Deposits at call	11,136	12,067
Short term investments	13,999	-
Total	**132,369**	**100,151**

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

24. Capital expenditure commitments

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

25. Contingencies

The Company does not have any contingent liabilities other than those already recognised in Note 15.

26. Events occurring after the year-end date

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

Directors' declaration

In the Directors' opinion:

(a) The financial statements and notes set out on pages 6 to 37 are in accordance with the Corporations Act 2001, including:

- (i) complying with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (ii) giving a true and fair view of the Company's financial position as at 31 December 2021 and of its performance for the year ended on that date; 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.

The financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the Directors.

J R Minto
Chairman

S Ooi
Managing Director

Sydney,
28 March 2022

KPMG

Independent Auditor's Report

To the shareholder of Swiss Re Life & Health Australia Limited

Opinion

We have audited the ***Financial Report*** of Swiss Re Life & Health Australia Limited (the Company).

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

- 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 ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Statement of Financial Position as at 31 December 2021;
- Statement of Comprehensive Income, Statement of Changes in Equity, and Statement of Cash Flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and 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 fulfilled our other ethical responsibilities in accordance with these requirements.

Other Information

Other Information is financial and non-financial information in Swiss Re Life & Health Australia Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.

KPMG

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf This description forms part of our Auditor's Report.

KPMG

KPMG

Julia Gunn

Julia Gunn
Partner

Sydney

28 March 2022

Independent auditor's report to the Directors of Swiss Re Life & Health Australia Limited

Placeholder Auditor's report

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