RGA Reinsurance Company of Australia Limited New Zealand Branch

Annual Financial Report for the year ended 31 December 2022

Principal Place of Business:
Level 6, 1 Willis Street,
Wellington 6011 New Zealand

Company number: 3658254

RGA 50 YEARS

Making financial protection accessible to all

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All amounts are reported in New Zealand Dollars unless stated otherwise.

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2022

	Note	2022 $'000	2021 $'000
Revenue			
Premium revenue from reinsurance contracts		103,889	95,105
Outward reinsurance expense		(8,727)	(8,560)
Net insurance premium revenue		95,162	86,545
Investments loss	5(a)	(5,619)	(6,162)
Other income	5(b)	1,569	1,730
Net Revenue		**91,112**	**82,113**
Claims and expenses			
Claims expense from reinsurance contracts		74,969	66,380
Reinsurance (recoveries)/expense		(2,511)	1,664
Net claims expense		72,458	68,044
Movement in gross insurance contract liabilities	14(a)	17,589	11,904
Movement in gross insurance contract liabilities ceded	14(a)	(175)	(1,736)
Policy acquisition costs	7	6,846	4,142
Other operating expenses	7	15,985	15,621
Net claims and expenses		**112,703**	**97,975**
Net loss before related income tax expense		**(21,591)**	**(15,862)**
Income tax benefit	8	1,685	928
Net loss for the year	6	**(19,906)**	**(14,934)**
Other comprehensive income for the year		—	—
Total comprehensive loss for the year		**(19,906)**	**(14,934)**

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

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

Statement of Financial Position
as at 31 December 2022

	Note	2022 $'000	2021 $'000
Assets			
Cash and cash equivalents	20(a)	14,545	21,439
Investments	10(a)	162,693	159,453
Premiums receivable	9	20,377	18,811
Other receivables	9	1,828	1,613
Gross insurance contract liabilities ceded	14(a)	6,579	6,404
Total assets		**206,022**	**207,720**
Liabilities			
Outstanding claims	12	44,925	43,157
Payables	13	7,113	6,577
Gross insurance contract liabilities assumed	14(a)	70,073	52,484
Deferred tax liability	11	3,882	5,567
Total liabilities		**125,993**	**107,785**
Net assets		**80,029**	**99,935**
Equity			
Capital reserves	15/19	15,782	15,782
Entities under common control reserve	19	76,646	76,646
(Accumulated losses)/Retained earnings	19	(12,399)	7,507
Total equity attributable to the members of RGA Reinsurance Company of Australia Limited	19	**80,029**	**99,935**

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

Statement of Changes in Equity
for the year ended 31 December 2022

	Capital Reserves	Entities under common control reserve	Retained earnings/ Accumulated losses	Total
	$'000	$'000	$'000	$'000
Balance at 1 January 2021	**15,782**	**76,646**	**71,510**	**163,938**
Net loss for the year	—	—	(14,934)	(14,934)
Transfer to Australian shareholder fund	—	—	(49,069)	(49,069)
Balance at 31 December 2021	**15,782**	**76,646**	**7,507**	**99,935**
Net loss for the year	—	—	(19,906)	(19,906)
Balance at 31 December 2022	**15,782**	**76,646**	**(12,399)**	**80,029**

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

Statement of Cash Flows
for the year ended 31 December 2022

	Note	2022 $'000	2021 $'000
Cash flows from operating activities			
Premium received		102,324	90,600
Retrocession premium paid		(9,946)	(8,393)
Allowances paid		(12,532)	(9,051)
Retrocession allowances received		1,961	1,703
Claims paid		(73,202)	(54,825)
Retrocession recoveries received		3,245	2,879
Interest received		5,541	5,554
Payments to suppliers and employees		(9,505)	(8,814)
Income tax paid		—	(105)
Net cash generated from operating activities	20(b)	**7,886**	**19,548**
Cash flows from investing activities			
Proceeds from sales and maturities of investments		27,589	58,324
Purchases of investments		(42,369)	(40,504)
Net cash (used in)/generated from investing activities		**(14,780)**	**17,820**
Cash flows from financing activities			
Transfer to Australian statutory fund		—	(49,069)
Net cash used in financing activities		**—**	**(49,069)**
Net decrease in cash and cash equivalents		**(6,894)**	**(11,701)**
Cash at the beginning of the financial year		21,439	33,140
Cash at the end of the financial year	20(a)	**14,545**	**21,439**

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

Notes to the Financial Statements

Notes to the Financial Statements

1 Summary of significant accounting policies

Set out below are the significant accounting policies followed in the preparation of the financial report of RGA Reinsurance Company of Australia Limited – New Zealand Branch (the "Branch") for the year ended 31 December 2022. These policies have been consistently applied to all periods presented, unless otherwise stated. The head office of the Branch is RGA Reinsurance Company of Australia Limited ("RGAA"), a company incorporated in Australia. RGAA is a Financial Market Conduct (FMC) reporting entity under Part 7 of the Financial Market Conduct Act 2013 and it is licensed under Section 19 of the Insurance (Prudential Supervision) Act 2010 to carry on insurance business in New Zealand.

The Branch was licensed to carry on insurance business on 24 February 2012. The Branch commenced insurance operations during 2013. In July 2013 the reinsurance treaties of a related party, RGA Reinsurance Company Limited, including the reinsurance assets and the reinsurance liabilities, were transferred into the Branch.

(a) Statement of compliance

This financial report has been prepared in accordance with New Zealand (NZ) generally accepted accounting practice (NZ GAAP). These financial statements comply with International Financial Reporting Standards and New Zealand equivalents to International Financial Reporting Standards.

The financial report was authorised for issue by the Directors on 16 March 2023.

(b) Adoption of new and revised accounting standards

In the current year, a number of new and revised Standards and Interpretations issued by the External Reporting Board (the XRB) became effective for accounting periods beginning on or after 1 January 2022. The application of these new and revised Standards has not resulted in any changes in accounting policy or changes in disclosures.

At the date of authorisation of the financial report, the following Standard, relevant to the Branch, was in issue but not yet effective:

Title	Operative Date
NZ IFRS 17 - Insurance Contracts	1 January 2023

NZ IFRS 17 – Insurance Contracts

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

The Branch intends to first apply NZ IFRS 17 on 1 January 2023 (with a transition date of 1 January 2022). There is a global project in place within the RGA group of companies to implement the new standard in multiple locations. The required systems, data and process changes are currently in the final stages of development and are being tested. The project is currently on schedule in meeting the implementation timeline.

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

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

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

- The standard will apply to all reinsurance business in the Branch and introduces a 'General Measurement Model' for recognition and measurement of insurance contracts, based on fulfillment cash flows (the present value of estimated future cash flows with an explicit Risk Adjustment for non-financial risk). In addition, it also allows the application of a simplified model if the coverage period of each contract in a group is 12 months or less or if the liability for remaining coverage under the simplified model would not materially differ from the general model. The Branch will adopt the General Measurement Model for all reinsurance contracts issued and reinsurance contracts held.
- Changes to the level of aggregation due to the NZ IFRS 17 requirement that insurance contracts are pooled into portfolios of insurance contracts which have similar risks and are managed together. For the Branch, the portfolios of insurance contracts will comprise of business separated by country of risk (e.g. Australia and New Zealand) and product lines (e.g. Individual, Group, Lump Sum and Disability Income). These portfolios are further separated into groups of insurance contracts split by profitability (or onerousness) categories.NZ IFRS 17 also requires the measurement and disclosure of underlying (gross) insurance contracts to be separated from their related reinsurance contracts held. These groups of insurance contracts under NZ IFRS 17 are more granular than the current related product groups under NZ IFRS 4.
- Although conceptually similar, the Contractual Service Margin (CSM) requirement under NZ IFRS 17 recognises profit on a different basis to the Margin on Services (MoS) approach under IFRS 4, and the emergence of profit is therefore likely to change for portfolios with positive profit margins. The amount of service margin to be released in each reporting period is established using coverage units. The Branch is likely to use volume-based coverage units such as sum insured for Individual Lump Sum business, total future claims for Individual Disability Income business and in-force premiums for Group business.
- NZ IFRS 4 requires the insurance contract liabilities to be discounted using risk free rates. Under NZ IFRS 17, the Branch has the option to apply a "top down" or "bottom up" approach to determine the discount rates used to discount insurance contract liabilities. The Branch will apply a "bottom-up" approach which uses risk-free rates adjusted to reflect the liquidity characteristics of the reinsurance contracts issued and held. This will result in higher discount rates relative to current requirements.
- The introduction of a Risk Adjustment for non-financial risk which reflects the compensation that the Branch requires for bearing the uncertainty in relation to the amount and timing of cash flows. The Branch will calculate the Risk Adjustment using a stressed best estimate liability approach by leveraging the Insurance Risk Charge calculation under the Life and General Insurance Capital (LAGIC) framework. The Risk Adjustment is likely to be determined at a confidence level between 75% to 85% and this would lead to a higher insurance contract liabilities than currently recorded if other factors remain unchanged.
- Liabilities for reinsurance contracts held will be determined separately from the liabilities of the underlying contract and will have different profit emergence patterns in most cases.
- The standard introduces significant changes to the presentation and disclosure of insurance line items in the financial statements, introducing new line items on the balance sheet and statement of profit and loss and other comprehensive income, and increased disclosure requirements compared to the previous reporting requirements.

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

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

At the transition date, NZ IFRS 17 requires the changes in accounting policies to be applied retrospectively unless it is impracticable to do so. To apply NZ IFRS 17 retrospectively, the Branch shall at the transition date:

- identify, recognise and measure each group of insurance contracts as if NZ IFRS 17 had always been applied;
- derecognise previously reported balances that would not exist had NZ IFRS 17 always applied; and
- recognise any resulting net difference in equity.

The Branch considered both the full and modified retrospective approach impracticable for contracts issued prior to 1 January 2022 due to the following reasons:

- The effects of retrospective application were not determinable because the information required had not been collected (or had not been collected with sufficient granularity) for the purpose of NZ IFRS 17;
- The information required was unavailable because of system migrations, data availability and data retention requirements. Such information included for certain contracts:
  i. expectations about the profitability of a contract and risks of becoming onerous used for identifying groups of contracts;
  ii. information about historical cash flows and discount rates required for determining the estimates of cash flows on initial recognition and subsequent changes on a retrospective basis;
  iii. information required to allocate fixed and variable overhead expenses to groups of contracts; and
  iv. information about changes in assumptions and estimates, which might not have been documented with sufficient granularity to meet the requirements of NZ IFRS 17 on an ongoing basis.
- The full retrospective approach requires assumptions about what the management's intentions would have been in the previous periods or significant accounting estimates that could not be made without the use of hindsight.

The Branch will apply the fair value approach as permitted by NZ IFRS 17 for all contracts issued prior to 1 January 2022.

On 27 September 2022, APRA finalised changes to the capital and reporting frameworks for insurance industry in response to the introduction of the new NZ IFRS 17. These changes seek to minimise any ongoing regulatory burden caused by misalignment between APRA's frameworks and the accounting standards, while ensuring sound prudential outcomes. For the capital framework, most of the existing requirements for the regulatory capital calculation for insurers will be maintained and they are not expected to have a material impact to the capital position of the Branch as a result of applying NZ IFRS 17. For the reporting framework, insurers can use the NZ IFRS 17 accounting policies and principles to report financial statement information to APRA. The revised prudential and reporting standards will come into effect from 1 July 2023.

NZ IFRS 17 will involve fundamental changes to the recognition of reinsurance contracts issued and reinsurance contracts held and related processes. The financial calculations and operational changes related to NZ IFRS 17 are highly complex. The Branch continues to assess the impact of the requirements and emerging industry guidance on the financial statements and APRA requirements. The finalisation of accounting policies, operationalisation of policies and configuration of actuarial models may result in refinements which could have a material impact on the effect of NZ IFRS 17 on the financial statements. While it is expected that NZ IFRS 17 will comprise of a transitional net asset impact on 1 January 2022 accompanied by an offsetting impact relating to the emergence of future profits, the quantum of these impacts is still being quantified. Most of the matters outlined above are materially finalised, other than certain inputs to the fair value calculation at transition, confidence level of risk adjustment, the determination of the discount rate and configuration of certain actuarial models which is currently being worked on prior to finalisation.

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

(c) Basis of preparation

The financial report is prepared in accordance with the fair value basis of accounting unless otherwise stated in the accounting policies below.

The financial report is presented in New Zealand Dollars ("NZD"), which is the Branch's functional currency. All amounts are reported in NZD unless otherwise stated.

For the purposes of complying with NZ GAAP, the Branch is a for-profit entity.

The preparation of a financial report requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

Actual results may vary from estimates. These accounting policies have been consistently applied by the Branch.

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

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

(d) Principles for life insurance business

The life reinsurance operations of the Branch comprise the selling and administration of life reinsurance contracts. All contracts are non-investment linked business. All business written by the Branch is non-participating and all profits and losses are attributable to the shareholders.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if "an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance" i.e. have no discernible effects on the economics of the transaction. Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, critical illness or injury, or disability caused by accident or illness.

(e) Business combinations under common control

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

(f) Revenue recognition

Revenue is recognised for the major business activities as follows:

Premium revenue

Premiums are recognised as revenue on an accrual basis.

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

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

(f) Revenue recognition (continued)

Interest income

Interest income from financial assets is recognised when it is probable that the economic benefits will flow to the Branch and the amount of revenue can be measured reliably, using the effective interest rate method.

Other income

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

(g) Outwards reinsurance expense

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

(h) Claims expense

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

(i) Policy acquisition costs

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

(j) Basis of expense apportionment for insurance products

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

Expense apportionment have been made as follows:

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

(k) Income tax

Current tax

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

Deferred tax

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on tax rates which are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and assessable temporary differences to measure the deferred tax asset or liability.

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

(k) Income tax (continued)

Deferred tax (continued)

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

(l) Assets backing insurance contract liabilities

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

(m) Cash and cash equivalents

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

(n) Receivables

The collectability of receivables is assessed on an ongoing basis. The Branch recognises a loss allowance for expected credit losses ("ECL") on receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the receivables.

The Branch recognises lifetime ECL for receivables. The expected credit losses are estimated using a provision matrix based on the Branch's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

(o) Outstanding claims liability

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

(p) Deferred acquisition costs

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

The proportion of policy acquisition costs not recovered by specific charges received from the cedant at inception is deferred provided that these amounts are recoverable from future profit margins. The deferred amounts are recognised in the Statement of Financial Position as a reduction in insurance contract liabilities and are amortised through the Profit or Loss over the expected duration of the relevant policies.

(q) Life insurance contract liabilities

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

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

(q) Life insurance contract liabilities (continued)

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

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

(r) Foreign currency

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

(s) Goods and services tax

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

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

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

Notes to the Financial Statements

2 Critical accounting estimates and judgements

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

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

(a) Insurance contract liabilities

Insurance contract liabilities for life insurance contracts are computed using statistical or mathematical methods. The computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles. The methodology takes into account the risks and uncertainties of the particular classes of life insurance business written. Deferred policy acquisition costs are connected with the measurement basis of life insurance liabilities and are equally sensitive to the factors that are considered in the liability measurement.

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

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

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

(b) Assets arising from reinsurance contracts

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

Notes to the Financial Statements

3 Actuarial assumptions and methods

The effective date of the Financial Condition Report (containing the insurance contract liabilities, capital adequacy position and solvency requirement) is 31 December 2022. The Financial Condition Report was prepared by the Appointed Actuary, Lucy Hammerman (FIAA), and dated 16 March 2023. The Financial Condition Report indicated that Ms Hammerman was satisfied as to the accuracy of the data upon which insurance contract liabilities have been determined.

(a) Insurance contract liabilities

The insurance contract liabilities have been determined in accordance with the applicable actuarial and accounting standards. Insurance contract liabilities for life insurance contracts are valued in accordance with NZ IFRS 4 Appendix C - *Life Insurance Entities* and the standards issued by the New Zealand Society of Actuaries.

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

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

(i) Reserves for incurred but not reported claims,

(ii) Reserves for accumulated experience rebates,

(iii) Reserves for expected future payments on reported disability income claims.

(b) Disclosure of assumptions

Assumptions below apply to all related product groups unless otherwise stated.

(i) Discount rates

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

- 4.5% to 5.3% pa (2021: 0.9% to 2.8%) for individual and group business

Discount rates adopted are gross of tax. A deduction from these rates of 0.15% (2021: 0.15%) was made for investment expenses.

(ii) Inflation rates

The assumed inflation rates are set after considering current market conditions, Reserve Bank of New Zealand's inflation targets, and the average duration of the liabilities. The inflation rate for New Zealand is 2.75% (2021: 2.25%).

3 Actuarial assumptions and methods (continued)

(b) Disclosure of assumptions (continued)

(iii) Future expenses and indexation

Future maintenance expenses have been assumed at expected ongoing costs attributable to the Branch. Future investment expenses have been assumed at the same percentage of assets under management as currently applies.

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

(iv) Rates of taxation

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

Class of business	2022	2021
Ordinary life insurance business	28%	28%
Other business (including accident and disability)	28%	28%

(v) Mortality and morbidity

Lump sum

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

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

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

Disability

Future disability claims costs were assumed to be a range of percentage adjustments applied to the ADI 14-18 industry table (2021: ADI 14-18 industry table).

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

(vi) Rates of discontinuance

Future rates of discontinuance for the major classes of lump sum business are assumed in aggregate to be between 5.3% and 71.2% (2021: 5.3% and 71.2%) per annum based on age, gender, smoker status, duration, amount at risk, benefit type and treaty type adjustments.

For individual disability income business, the future rates of discontinuance are assumed in aggregate to be between 3.9% and 31.4% (2021: 3.9% and 31.4%) per annum depending on the age, gender, duration, occupation and waiting period of the life insured.

3 Actuarial assumptions and methods (continued)

(c) *Effects of changes in actuarial assumptions*

	Effect on net insurance contract liabilities $'000 increase/(decrease)	
	2022	**2021**
Discount rates		
Individual business	1,508	2,645
Group business	—	—
Future inflation rates		
Individual business	1,513	(2,581)
Group business	—	—
Mortality and morbidity		
Individual business	2,706	2,772
Group business	—	—
Total	**5,727**	**2,836**

Figures in the table above are shown before tax.

(d) *Processes used to select assumptions*

Discount rate

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

Tax

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

Mortality and morbidity

An appropriate base table of mortality (and morbidity) is chosen or derived from industry or population experience for the type of product being underwritten. An investigation into the actual experience of the major cedants of the Branch over recent years is performed and statistical methods are used to adjust the rates in the table to reflect a best estimate of mortality or morbidity for future years.

Discontinuance

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

Notes to the Financial Statements

3 Actuarial assumptions and methods (continued)

(e) Sensitivity analysis

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

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

Notes to the Financial Statements

3 Actuarial assumptions and methods (continued)

(e) Sensitivity analysis (continued)

The table below illustrates how changes in key assumptions regarding future experience would impact the reported net profit and equity of the Branch (after tax and retrocession).

	Change in variable	Profit/(Loss)	Equity at 31 December
	%	2022	2022
		$'000	$'000
Balance per financial statements		**(19,906)**	**80,029**
Change in balance as a result of permanent change in variables:			
Worsening of future mortality and morbidity claim costs	10%	(9,771)	(9,771)
Increase in discontinuance rate	20%	—	—
Decrease in discontinuance rate	(20)%	—	—
Increase in discount rate	1%	(4,067)	(4,067)
Decrease in discount rate	(1)%	4,334	4,334
Increase in future maintenance expenses	10%	—	—
Increase in future inflation rate	1%	67	67

	Change in variable	Profit/(Loss)	Equity at 31 December
	%	2021	2021
		$'000	$'000
Balance per financial statements		**(14,934)**	**99,935**
Change in balance as a result of permanent change in variables:			
Worsening of future mortality and morbidity claim costs	10%	(10,097)	(10,097)
Increase in discontinuance rate	20%	—	—
Decrease in discontinuance rate	(20)%	—	—
Increase in discount rate	1%	(5,717)	(5,717)
Decrease in discount rate	(1)%	6,236	6,236
Increase in future maintenance expenses	10%	—	—
Increase in future inflation rate	1%	764	764

Notes to the Financial Statements

4 Risk and capital management policies and procedures

The Branch is covered by the risk management activities of RGAA.

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

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

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

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

Financial risks are generally monitored and controlled by selecting appropriate assets to back insurance contract liabilities and the use of maximum acceptable limits for other financial risks such as liquidity risk, credit risk and duration risk. Additional disclosures on financial instruments and associated risks are to be found in Note 21.

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

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

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

(b) Strategy for managing insurance risk

Portfolio of risks

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

Risk strategy

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

4 Risk and capital management policies and procedures (continued)

(c) Methods to monitor and assess insurance risk exposures

Insurance Risk Oversight

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

Pricing oversight

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

Experience analysis

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

Asset management

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

Management reporting

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

(d) Methods to limit or transfer insurance risk exposures

Reinsurance

To limit its exposure, RGAA has its own reinsurance programme (commonly referred to as retrocession) in place. RGAA primarily retrocedes business to RGA Global Reinsurance Company Ltd (RGA Global), a related entity.

Underwriting procedures

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

Claims management

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

4 Risk and capital management policies and procedures (continued)

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

Asset and liability management techniques

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

(e) Terms and conditions of insurance contracts

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

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

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

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

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

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

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

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

Notes to the Financial Statements

5 Revenue

(a) Investment loss

	2022 $'000	2021 $'000
Interest Income:		
- Bank deposits	362	20
- Investments at fair value through profit or loss	5,560	5,285
Net realised and unrealised investment losses	(11,541)	(11,467)
Total investment loss	**(5,619)**	**(6,162)**

(b) Other income

	2022 $'000	2021 $'000
Retrocession allowances	1,569	1,730
Total other income	**1,569**	**1,730**

6 Net loss for the year

	2022 $'000	2021 $'000
Net loss after income tax arose from:		
Planned margins of revenues over expenses released	(2,925)	3,864
Difference between actual and expected experience	(1,553)	(6,017)
Effects of changes to underlying assumptions	(5,727)	(2,836)
Differences between actual and assumed investment earnings	(11,386)	(10,873)
Income tax benefit	1,685	928
Net loss for the year	**(19,906)**	**(14,934)**

Notes to the Financial Statements

7 Operating expenses

	2022 $'000	2021 $'000
Policy acquisition costs		
Allowances	4,098	2,933
Other acquisition costs	2,748	1,209
Total policy acquisition costs	**6,846**	**4,142**
Other operating expenses		
Allowances	8,302	7,294
Other maintenance costs	7,357	8,092
Investment management fees	326	235
Total other operating expenses	**15,985**	**15,621**

8 Income tax benefit

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

	2022 $'000	2021 $'000
Net loss before related income tax benefit	**(21,591)**	**(15,862)**
Prima facie tax on net loss at 28% (2021: 28%)	6,045	4,441
Tax effect of:		
- Non-assessable retrocession and income	(1,589)	(2,782)
- Non-deductible expenses	(36)	(23)
- Permanent difference on acquired deferred acquisition cost	(2,735)	(2,389)
- Loss offsets [(1)]	—	1,681
Total income tax benefit attributable to operating loss	**1,685**	**928**
Income tax benefit comprises:		
Deferred tax:		
- Temporary differences	1,685	928
Total income tax benefit attributable to operating loss	**1,685**	**928**

(1) In prior year, the branch utilised tax losses of the New Zealand branch of RGA Reinsurance Company ('RGA Re') of $6.004m. There was no tax losses utilised in the current year. The New Zealand Branch of RGA Re and the Branch group for tax purposes.

Notes to the Financial Statements

9 Receivables

	2022 $'000	2021 $'000
Total premiums receivable[1]	**20,377**	**18,811**
Other receivables[1]	481	—
Related parties[1]	—	538
Accrued investment income	1,347	1,075
Total other receivables	**1,828**	**1,613**
Total receivables	**22,205**	**20,424**
Expected to be realised within 12 months	**22,205**	**20,424**

(1) The credit period for trade receivables and balances due from related parties is generally 30 to 90 days. The premium receivable balance includes $11.231m (2021: $10.816m) receivables (gross of allowances) which are past due at the reporting date. The Branch believes that these amounts are fully recoverable.

10 Fair value measurement

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

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

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

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

Notes to the Financial Statements

10 Fair value measurement (continued)

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

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

Financial assets at fair value	2022 $'000 Total	2022 $'000 Level 1	2022 $'000 Level 2	2022 $'000 Level 3
Interest bearing securities:				
– National Governments[1]	48,227	—	48,227	—
– Public Sector[2]	51,092	—	51,092	—
– Private Sector	63,374	—	63,374	—
Total investments at fair value through profit or loss	**162,693**	**—**	**162,693**	**—**

Financial assets at fair value	2021 $'000 Total	2021 $'000 Level 1	2021 $'000 Level 2	2021 $'000 Level 3
Interest bearing securities:				
– National Governments[1]	48,564	—	48,564	—
– Public Sector[2]	49,993	—	49,993	—
– Private Sector	60,896	—	60,896	—
Total investments at fair value through profit or loss	**159,453**	**—**	**159,453**	**—**

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

(2) Public sector includes local authorities and Supranational issuers.

All securities are quoted with fixed maturity dates. Fair values have been determined using quoted bid prices obtained from independent pricing services.

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

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

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

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

Notes to the Financial Statements

11 Deferred tax

	Balance 1-Jan-2021	Recognised in 2021 in profit or loss	Balance 31-Dec-2021	Recognised in 2022 in profit or loss	Balance 31-Dec-2022
	$'000	$'000	$'000	$'000	$'000
Deferred tax asset					
Unused tax losses	—	—	—	1,082	1,082
	—	**—**	**—**	**1,082**	**1,082**
Deferred tax liability					
Deferred acquisition cost	6,495	(928)	5,567	(603)	4,964
	6,495	**(928)**	**5,567**	**(603)**	**4,964**
Net deferred tax (liability)/asset	**(6,495)**	**928**	**(5,567)**	**1,685**	**(3,882)**

12 Outstanding claims

	2022 $'000	2021 $'000
Total outstanding claims	44,925	43,157
Expected to be realised within 12 months	**44,925**	**43,157**

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

13 Payables

	2022 $'000	2021 $'000
Assumed allowances payable	4,929	5,061
Accounts payable	230	449
Related parties	1,954	1,067
Total payables	**7,113**	**6,577**
Expected to be realised within 12 months	**7,113**	**6,577**

The Branch generally processes payables and balances due to related parties within the agreed credit period of 30 to 90 days.

Notes to the Financial Statements

14 Insurance contract liabilities

(a) Reconciliation of movements in insurance contract liabilities

	2022 $'000	2021 $'000
Insurance contract liabilities		
Gross insurance contract liabilities at 1 January	52,484	40,580
Movement in insurance contract liabilities reflected in the Profit or Loss	17,589	11,904
Gross insurance contract liabilities assumed at 31 December	**70,073**	**52,484**
Liabilities ceded under reinsurance		
Opening balance at 1 January	6,404	4,668
Movement in reinsurance assets reflected in the Profit or Loss	175	1,736
Gross insurance contract liabilities ceded under reinsurance at 31 December	**6,579**	**6,404**
Net insurance contract liabilities at 31 December	**63,494**	**46,080**
Made up as:		
Expected to be realised within 12 months	23,707	20,619
Expected to be realised in more than 12 months	39,787	25,461
	63,494	**46,080**

(b) Components of net life insurance contract liabilities

	2022 $'000	2021 $'000
Future policy benefits	123,579	116,652
Future charges for acquisition costs	(53,506)	(64,168)
Gross insurance contract liabilities	**70,073**	**52,484**
Future gross policy benefits ceded	(7,590)	(7,445)
Future charges for acquisition costs ceded	1,011	1,041
Gross insurance contract liabilities ceded	**(6,579)**	**(6,404)**
Net life insurance contract liabilities	**63,494**	**46,080**

14 Insurance contract liabilities (continued)

(c) Capital adequacy and solvency requirements

RGAA is licensed under Section 19 of the Insurance (Prudential Supervision) Act 2010 ("the Act") to carry on insurance business in New Zealand. The license includes an exemption under Section 59 of the Act allowing the Company to calculate and report the solvency position for the Branch in accordance with the regulatory requirements of its home jurisdiction.

The Company is required to satisfy Solvency and Capital Adequacy requirements set by Australian Prudential Regulation Authority ('APRA') and capital is allocated by RGAA to the Branch in order to satisfy these requirements.

The following requirements for capital adequacy and solvency set by APRA pursuant to the Australian Life Insurance Act 1995 ('Life Act') (Life Prudential Standard (LPS) 110 'Capital Adequacy' and Life Prudential Standard (LPS) 100 'Solvency Standard') are provided for the Branch in accordance with the terms and conditions of the license issued by the Reserve Bank of New Zealand.

Additional capital is held to provide a buffer above these requirements which allows for further adverse experience and/or additional growth of the business before these regulatory requirements would be impacted. The Directors of RGAA monitor the level of capital against this buffer and also conduct reviews of the level of capital in the context of business strategy and performance to assist in predicting when additional capital may be required.

(i) Capital adequacy

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

Capital adequacy position of the Branch as at 31 December	**2022 $'000**	**2021 $'000**
Common Equity Tier 1 Capital	40,705	48,691
Regulatory adjustments applied in the calculation of Common Equity Tier 1 Capital	*39,324*	*51,244*
Additional Tier 1 Capital	—	—
Regulatory adjustments applied in the calculation of Additional Tier 1 Capital	—	—
Tier 2 Capital	—	—
Regulatory adjustments applied in the calculation of Tier 2 Capital	—	—
(a) Capital Base	40,705	48,691
(b) Prescribed capital amount	15,389	14,967
Capital in excess of prescribed capital amount = (a) – (b)	**25,316**	**33,724**
Capital adequacy multiple = (a)/(b)	**265%**	**325%**

Notes to the Financial Statements

14 Insurance contract liabilities (continued)

(c) Capital adequacy and solvency requirements (continued)

(i) Capital adequacy (continued)

Capital adequacy position of the Branch as at 31 December (continued)	**2022 $'000**	**2021 $'000**
Capital Base comprises:		
(a) Net assets after applying any regulatory adjustments	40,705	48,691
Regulatory adjustments applied to net assets	*39,324*	*51,244*
(b) Tier 2 Capital	—	—
Regulatory adjustment applied in calculation of Tier 2 capital	—	—
Capital Base (a) + (b)	**40,705**	**48,691**
Prescribed capital amount comprises:		
Insurance risk	8,484	9,471
Asset risk	6,237	6,635
Asset concentration risk	—	—
Operational risk	2,089	1,947
Aggregation benefit	(3,230)	(3,502)
Combined scenario adjustment	1,809	416
Prescribed capital amount	**15,389**	**14,967**

(ii) Solvency

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

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

The assets of the Branch are held within Statutory Fund 2 of RGAA. Assets held within a Statutory Fund can only be used within the restrictions imposed under the Life Act. The main restrictions are that the assets in a statutory fund can only be used to meet the liabilities and expenses of that statutory fund, to acquire assets to further the business of the statutory fund or as distribution of retained profits in accordance with the terms of the Life Act.

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

	2022 $'000	**2021 $'000**
Reported net policy liability	63,494	46,080
Plus: Variations in valuation of DAC assets	—	—
Plus: Change in the use of the discount rate	—	—
Life Act amount	**63,494**	**46,080**

Notes to the Financial Statements

15 Capital reserves

	2022 $'000	2021 $'000
Head office account:		
Balance at the beginning of the year	15,782	15,782
Balance at end of year	**15,782**	**15,782**

16 Auditor's remuneration

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

	2022 $'000	2021 $'000
Amounts received or due and receivable by the auditor for:		
Audit services - Audit of financial statements	130	126
Total auditor's remuneration	**130**	**126**

17 Director and key management personnel disclosures

(a) Directors

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

Independent Non-Executive Directors

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

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

Angela C. Emslie

Daniel Shuttleworth (appointed 28 July 2022)

Non-Executive Director

Tony Kin Shun Cheng

Executive Director

Mark A. Stewart (Managing Director)

Notes to the Financial Statements

17 Director and key management personnel disclosures (continued)

(b) Committee membership

In addition to their membership of the Board of RGAA the following table details other committees of which the directors were members during the year ended 31 December 2022.

	Board Audit Committee	Board Risk Committee	Investment Committee	Board Remuneration Committee
Ian A. Pollard (1)	X	X	X	X
Mark E. Turner (2)	X	X	X	X
Angela C. Emslie	X	X	X	X
Daniel Shuttleworth	X	X	X	X
Tony K. S. Cheng	-	-	-	-
Mark A. Stewart	-	-	X	-

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

(c) Key management personnel

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

Key management personnel compensation:

	2022 $'000	**2021 $'000**
Short-term employee benefits	1,107	860
Post-employment benefits	48	38
Share based payments	269	158
Total	**1,424**	**1,056**

Key management personnel compensation is paid by the Branch's immediate parent RGA Australian Holdings Pty Limited ('RGAH') or a related service entity, RGA International Division Sydney Office. Key management personnel compensation is recharged to the Branch as part of management charges and other expenses as set out in Note 18.

18 Related party transactions

(a) Ultimate parent entity

The entity is a branch of RGAA. The Australian parent entity is RGAH.

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

Notes to the Financial Statements

18 Related party transactions (continued)

(b) Transactions with related parties

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

	2022 $'000	2021 $'000
Retrocession contracts with RGA Global Reinsurance Company Ltd ('RGA Global') a subsidiary of RGA Inc.:		
Outward reinsurance expense	8,727	8,560
Retrocession allowances	(1,569)	(1,730)
Reinsurance claims recoveries	(2,511)	1,664
Movement in ceded insurance contract liabilities	(175)	(1,736)
Net retrocession expenses	**4,472**	**6,758**
Amount owed by RGA Global	**—**	**538**
Amount owed to RGA Global	**798**	**—**
Management fees, tax related items and other transactions:		
- RGAH	5,768	5,677
- RGA Re	665	454
- RGA Enterprise Services Co ("RGA Enterprise")	1,962	1,815
- Other subsidiaries of RGA Inc.	950	700
Net management fees, tax related items and other expenses	**9,345**	**8,646**
Amount owed to RGAH	**573**	**540**
Amount owed to RGAA	**—**	**129**
Amount owed to other related parties	**565**	**380**
Investment management services fee expense:		
- RGA Enterprise	**218**	**213**
Amount owed to RGA Enterprise	**18**	**18**

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

(c) New Zealand tax loss transfer

In prior year, the branch utilised tax losses of the New Zealand branch of RGA Reinsurance Company (‘RGA Re’) of $6.004m. There was no tax losses utilised in the current year. The New Zealand Branch of RGA Re and the Branch group for tax purposes.

Notes to the Financial Statements

19 Summary of shareholder interests

	2022 $'000	2021 $'000
(Accumulated losses)/Retained Profits		
Retained profits at beginning of year	7,507	71,510
Net loss after income tax	(19,906)	(14,934)
Transfer to Australian statutory fund	—	(49,069)
(Accumulated losses)/Retained profits at end of year	**(12,399)**	**7,507**
Capital		
(Accumulated losses)/Retained profits at end of year	(12,399)	7,507
Capital reserve	15,782	15,782
Entities under common control reserve	76,646	76,646
Life Act shareholders' equity	**80,029**	**99,935**

20 Notes to the Statement of Cash Flows

(a) Reconciliation of cash and cash equivalents

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

	2022 $'000	2021 $'000
Cash at bank	2,487	960
Deposits held at call	12,058	20,479
Total cash and cash equivalents	**14,545**	**21,439**

Notes to the Financial Statements

20 Notes to the Statement of Cash Flows (continued)

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

	2022 $'000	2021 $'000
Net loss for the year	**(19,906)**	**(14,934)**
Adjustments for non-cash and investing activities:		
Movement in investment values	11,540	11,467
Change in assets and liabilities during the financial year:		
Increase in premiums receivable	(1,566)	(4,506)
(Increase)/Decrease in other receivables	(215)	4,998
Increase in insurance contract liabilities ceded	(175)	(1,736)
Increase in outstanding claims	1,768	11,556
Increase in payables	536	1,727
Increase in insurance contract liabilities assumed	17,589	11,904
Decrease in deferred tax liability	(1,685)	(928)
Net cash generated from operating activities	**7,886**	**19,548**

21 Financial risk management

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

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

Throughout 2022, the Branch held no derivative financial instrument contracts (2021: nil).

Notes to the Financial Statements

21 Financial risk management (continued)

(a) Interest rate risk

The Branch's financial assets and liabilities, their effective interest rates and maturity profile at balance date are as follows:

	Variable rate 1 year or less	Fixed interest 1 year or less	Fixed interest over 1 up to 5 years	Fixed interest over 5 years	Non-interest bearing 1 year or less	Total	Weighted average interest rate
	2022 $'000	**2022 $'000**	**2022 $'000**	**2022 $'000**	**2022 $'000**	**2022 $'000**	**2022 %**
Financial assets							
Cash and cash equivalents	14,545	—	—	—	—	**14,545**	3.58
Receivables and outstanding premiums	—	—	—	—	22,205	**22,205**	—
Investments	—	17,483	117,156	28,054	—	**162,693**	4.16
Total	**14,545**	**17,483**	**117,156**	**28,054**	**22,205**	**199,443**	
Financial liabilities							
Outstanding claims	—	—	—	—	44,925	**44,925**	
Payables	—	—	—	—	7,113	**7,113**	
Total	—	—	—	—	**52,038**	**52,038**	

	Variable rate 1 year or less	Fixed interest 1 year or less	Fixed interest over 1 up to 5 years	Fixed interest over 5 years	Non-interest bearing 1 year or less	Total	Weighted average interest rate
	2021 $'000	**2021 $'000**	**2021 $'000**	**2021 $'000**	**2021 $'000**	**2021 $'000**	**2021 %**
Financial assets							
Cash and cash equivalents	21,439	—	—	—	—	**21,439**	0.62
Receivables and outstanding premiums	—	—	—	—	20,424	**20,424**	—
Investments	—	13,668	112,520	33,265	—	**159,453**	1.86
Total	**21,439**	**13,668**	**112,520**	**33,265**	**20,424**	**201,316**	
Financial liabilities							
Outstanding claims	—	—	—	—	43,157	**43,157**	
Payables	—	—	—	—	6,577	**6,577**	
Total	—	—	—	—	**49,734**	**49,734**	

21 Financial risk management (continued)

(a) Interest rate risk (continued)

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

Ignoring the impact of any corresponding changes in the value of insurance contract liabilities and taxation, an increase in interest rates of 1% would decrease net profit and equity by approximately $4.5 million. A corresponding decrease of 1% would increase net profit and equity by $4.8 million. A sensitivity of 1% per annum has been selected as this is considered reasonable given the current environment for New Zealand interest rates.

(b) Credit risk

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

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

(c) Liquidity risk

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

The table in Note 21(a) summarises the maturity profile of the Branch's financial assets and liabilities.

(d) Market risk

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

All non-cash investment assets are market traded. All fixed interest securities are of investment grade and within RGAA's investment policy and strategy. The Investment Committee sets the investment policy and strategy, which is reviewed by the Investment Committee on a regular basis.

(e) Foreign currency risk

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

Notes to the Financial Statements

22 Contingencies

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

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

There are no other contingent liabilities or assets to be reported as defined under NZ IAS 37.

23 Events subsequent to reporting date

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

Directors' Declaration

In the opinion of the Directors of RGA Reinsurance Company of Australia Limited ("the Company") the financial statements and notes of the New Zealand Branch (the "Branch"), set out on pages 1 to 37:

(i) comply with New Zealand generally accepted accounting practice and present fairly the financial position of the Branch as at 31 December 2022 and its performance, as represented by the results of its operations and cash flow, for the year ended on that date; and

(ii) have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable estimates and judgements.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Branch and facilitate compliance of the financial statements with the *Companies Act 1993, Financial Reporting Act 2013* and *Financial Markets Conduct Act 2013.*

The Directors consider that they have taken adequate steps to safeguard the assets of the Branch, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide reasonable assurance as to the integrity and reliability of the financial statements.

The Directors are pleased to present the financial statements of RGA Reinsurance Company of Australia Limited – New Zealand Branch for the year ended 31 December 2022.

Signed in accordance with a resolution of the Directors:

Ian A. Pollard
Chairman

Mark A. Stewart
Managing Director

Dated at Sydney this 16th day of March 2023

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Independent Auditor's Report to the Shareholders of RGA Reinsurance Company of Australia Limited - New Zealand Branch

Opinion

We have audited the financial statements of RGA Reinsurance Company of Australia Limited - New Zealand Branch (the "Branch") which comprise the statement of financial position as at 31 December 2022, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 6 to 12.

In our opinion, the accompanying financial statements present fairly, in all material respects, the Branch's financial position as at 31 December 2022 and its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for Opinion

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

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

Other than in our capacity as auditor, we have no relationship with or interests in the Branch, except that partners and employees of our firm deal with the Branch on normal terms within the ordinary course of trading activities of the business of the Branch.

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

Key Audit Matters

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

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Actuarial Valuations As at 31 December 2022 the Branch's gross insurance contract liabilities assumed were NZ $70.073m calculated on the basis of recognised actuarial assumptions and methods as disclosed in note 14(a). Significant management judgement is involved, including assumptions that have been identified as having high estimation uncertainty and include: • Appropriateness of assumptions used in the valuations, especially in respect of the branch experience vs market experience; • Recognition and amortisation of deferred acquisition costs; • Appropriateness of allowances for discretions and professional judgement; and • Completeness and accuracy of data used for the valuation models.	In conjunction with our actuarial specialists our procedures included, but were not limited to: • Evaluating the design and implementation as well as the operating effectiveness of relevant controls; • Assessing the appropriateness of the valuation assumptions, methodology, valuation processes and valuation models with respect to actuarial standards; • Comparing valuation assumptions (interest rates, lapse rates, mortality, morbidity, terminations and expense ratios) to the results of experience studies or other sources of assumptions for reasonableness; • Assessing the competency and objectivity of the Appointed Actuary; • Inquiring with the Appointed Actuary and Management and evaluating documentation of model integrity checks, technical reviews, peer reviews and other documented data checks produced by the Branch; • Assessing the rationale and impact of the basis changes and model changes during the year; • Evaluating management's assessment of the recoverability of deferred acquisition costs; and • Assessing the adequacy of the disclosures in notes 3, 14(a) and 14(b) to the financial statements.

Premium Accrual	Our procedures included, but were not limited to:
As at 31 December 2022 the Branch's carrying amount of premium accrual amounted to NZ $20,376,513. Management estimates a portion of the premium accrual by using one of three methods, applied on a case by case basis. Significant management judgement is involved including; • Applying an appropriate methodology to each case, given the type of business; • Appropriateness of the assumptions supporting the method applied; and • Completeness and accuracy of data used for the assessment of the appropriate method.	• Evaluating the design and implementation as well as the operating effectiveness of relevant controls; • Developing an expectation of the premium accrual using an average of premium income recorded for the year and prorated as necessary; • Obtaining the premiums due listings and assessing the reasonableness of the estimation methodology applied; • Validating for completeness, the data used for the calculation of the accrual which included the months outstanding and the premium receipts; • Recalculating the accrual based on the period outstanding, frequency of premium paid and the past premium receipts; • Assessing the mathematical accuracy of the premium accrual by comparing the recalculated premium receivables to the premium accrual calculated by the client; • Assessing the adequacy and accuracy of management adjustments made to the premium accrual on a sample basis; and • Assessing the adequacy of the disclosures in note 9 to the financial statements.

Other Information

The directors on behalf of the Branch are responsible for the other information. The other information comprises the information included in the Branch's annual report for the year ended 31 December 2022, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

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

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

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

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

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

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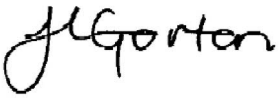

Joanne Gorton
Partner
Chartered Accountants
Sydney, 16 March 2023