Swiss Re

Annual Report 2022

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

J R Minto, FCA, GAICD	Chairman
T Thomson BCom, MAICD, ANZIIF	Managing Director

M Babbage, MCom (Finance & Economics)
A King, BEc, FIAA, FAICD.
J Swinhoe, BSC, AIAA.
SK Oon, BBus (Acc), CPA

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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 2022.

The Directors of the Company in office during the year and at the date of this report are:

- James R Minto, Chairman – appointed 15 January 2019
- Trent Thomson, Managing Director – appointed 3 November 2022
- Melissa A Babbage – appointed 1 July 2020
- Annette L King – appointed 1 May 2019
- Jan M Swinhoe – appointed 23 May 2016
- Soong Khim Oon – appointed 28 February 2023
- Michael J Eves – appointed 24 September 2020, resigned 27 February 2023
- Sharon J Ooi – appointed 1 September 2020, resigned 19 September 2022

This financial report of the Company for the year ended 31 December 2022 was authorised for issue by the Board of Directors on 29 March 2023. 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 and disability insurance.

Significant changes in the state of affairs

2022 remained a challenging year with weakening performance in the Total and Permanent Disability (TPD) portfolio. Retail Disability Income (DI) experience improved after concerted business and industry effort in recent years to restore product sustainability.

Rising interest rates and inflation during 2022 has impacted consumer affordability for insurance products. These macro-economic factors have also introduced volatility in the reserving and financial performance of the business.

Whilst the COVID-19 pandemic is largely behind us, it is believed to have accelerated mental health related disorders and driven healthcare costs and disability claims higher with a portion of the community displaying long-term health complications.

In relation to the SRLHA direct business, the remediation program relating to past conduct of a third-party provider who distributed life insurance products on behalf of SRLHA, was completed in 2022. Further, during 2022, a decision was made not to proceed with the renewal of two major distribution partnerships for direct life insurance products and hence the portfolio will transition into run off and a focus on in-force management from 1 July 2023.

Review of operations

SRLHA's operations are focused on continuing to deliver against a backdrop of a number of regulatory changes, including a strong focus on operationalising key processes and frameworks to underpin a sustainable future for the DI portfolio and meet APRA expectations. This includes robust cycle management framework, sustainable product design, disciplined use of new business frameworks, increasing the utilisation of data analytics to monitor and manage portfolio performance, as well as SRLHA taking an industry leadership position to help drive broader industry sustainability.

Reflecting a strong market position, the New Zealand portfolio continues to make a very positive contribution to overall SRLHA results and is an integral part of SRLHA's long-term strategy to build sustainable growth.

SRLHA's solutions offering is an increasingly critical element of SRLHA's proposition to its clients and a key differentiator. Data analytics through the proprietary platform Impact+ as well as solutions offerings in customer experience and claims and underwriting rule engines continue to drive growth momentum in the business.

Another major focal point for the business is the significant investment into systems, processes, and people to enable SRLHA to report its performance under IFRS 17 in 2023 and beyond.

Operating result
Gross insurance premium revenue decreased by 3.1% (2021: 4.4% increase) mainly due to the loss of some large Group schemes and a business recapture.

Net profit before tax was $99.4 million (2021: net loss $5.9 million), net loss after tax was $42.3 million (2021: net loss $19.6 million).

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

in thousands of Australian dollars	2022	2021
Total assets	3,454,823	4,115,355
Total liabilities	2,096,369	2,713,102
Net assets	**1,358,454**	**1,402,253**

The Company had a capital adequacy multiple of 161% of its prescribed capital amount as at 31 December 2022 (2021: 159%).

Outlook for the future
The environment for the (re)insurance industry continues to be challenging and competitive. With its leading market presence, robust operating platform, disciplined underwriting and pricing practices and overall value proposition, SRLHA remains well positioned to capitalise on new opportunities and achieve sustainable growth across the retail and group insurance markets.

The SRLHA Board continues to drive management actions targeted at improving sustainability, with ongoing oversight of new product development and deep dives into key topics at regular intervals, including but not limited to, SRLHA's program of activities to support and uplift the retail DI portfolio long-term sustainability, aligning with expectations from APRA and customers.

Macro-economic factors are expected to continue to impact reserving and produce volatility in SRLHA's results. Pricing and reserving assumptions are continually monitored and reviewed to reflect the latest experience and outlook.

Key strategic priorities for the business are to drive long-term sustainable growth and performance including partnering with its strong base of retail and group insurance clients to meet their core reinsurance and solutions needs, as well as driving a number of transformation initiatives to further enhance SRLHA's operating platform and product control framework.

Dividend
During 2022, 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.

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

T Thomson
Managing Director

Sydney, 29 March 2023

KPMG

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 2022 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

29 March 2023

Statement of Comprehensive Income

For the year ended 31 December

in thousands of Australian dollars	Notes	2022	2021
Revenue			
Premium revenue from life insurance contracts		1,854,460	1,914,464
Premium revenue ceded to retrocessionaires		(1,029,146)	(1,043,784)
Net premium revenue		**825,314**	**870,680**
Investment loss	5	(51,435)	(8,825)
Other revenue	6	442,653	309,152
Net revenue		**1,216,532**	**1,171,007**
Expenses			
Claims expense		1,237,661	1,221,263
Claims recovered from retrocessionaires		(596,828)	(572,391)
Net claims expense		**640,833**	**648,872**
Decrease in net life insurance contract liabilities	16(a) & 17	(192,023)	(101,735)
Other expenses	7	668,342	629,772
Net expense		**1,117,152**	**1,176,909**
Net proft/(loss) before tax		**99,380**	**(5,902)**
Income tax expense	9	(141,713)	(13,705)
Net loss after tax	4	**(42,333)**	**(19,607)**
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations	19	(1,466)	(56)
Total comprehensive loss for the year		**(43,799)**	**(19,663)**

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	2022	2021
Assets			
Cash and cash equivalents	23	57,863	132,369
Trade and other receivables	11	736,728	715,848
Financial assets at fair value through profit or loss	10	1,738,835	1,795,523
Retrocessionaires' share of life insurance contract liabilities	16	806,539	1,218,046
Capitalised software	12	1,581	1,747
Deferred tax assets	9	113,277	251,822
Total assets		**3,454,823**	**4,115,355**
Liabilities			
Trade and other payables	13	423,936	359,591
Current tax liability	9	2,328	4,736
Provisions	15	8,900	71,038
Life insurance contract liabilities assumed	16	1,587,524	2,182,859
Life investment contract liabilities assumed	17	71,384	84,301
Deferred tax liabilities	9	2,297	10,577
Total liabilities		**2,096,369**	**2,713,102**
Net assets		**1,358,454**	**1,402,253**
Equity			
Contributed equity	19	1,136,000	1,136,000
Foreign currency translation reserve		10,302	11,768
Retained earnings		212,152	254,485
Total equity		**1,358,454**	**1,402,253**

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 2022	**19**	**1,136,000**	**11,768**	**254,485**	**1,402,253**
Net loss after tax	4	–	–	(42,333)	(42,333)
Other comprehensive income	19	–	(1,466)	–	(1,466)
Balance at 31 December 2022	**19**	**1,136,000**	**10,302**	**212,152**	**1,358,454**

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)
Other comprehensive income	19	–	(56)	–	(56)
Balance at 31 December 2021	**19**	**1,136,000**	**11,768**	**254,485**	**1,402,253**

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	2022	2021
Cash flows from operating activities:			
Premiums received		1,878,740	1,921,872
Premiums retroceded		(1,026,002)	(1,039,629)
Interest and distributions received		61,584	53,152
Claims and other technical expense payments		(1,761,692)	(1,644,111)
Claims and other technical expenses retroceded		962,290	918,363
Other retrocession commission income		24,977	33,213
Other expense payments		(165,388)	(216,028)
Other income received		20,022	–
Net income tax payments	9	(13,856)	(4,865)
Net cash (utilised)/provided by operating activities	23	**(19,325)**	**21,967**
Cash flows from investing activities:			
Proceeds from the sale of financial assets		1,072,944	1,757,611
Payments for financial assets		(1,125,481)	(1,746,734)
Net cash (utilised)/provided by investing activities		**(52,537)**	**10,877**
Net (decrease)/increase in cash held		**(71,862)**	**32,844**
Cash at the beginning of financial year		**132,369**	**100,151**
Effect of foreign exchange rate changes		(2,644)	(626)
Cash at the end of financial year	23	**57,863**	**132,369**

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 are 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 (FVTPL). 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 modelling 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 standards and interpretations not yet effective

- 2020-1 Amendments to Australian Accounting Standards- Classification of Liabilities as Current or Non Current
- 2020-6 Amendments to Australian Accounting Standards- Classification of Liabilities as Current or Non Current-Deferral of Effective Date
- 2020-2 Amendments to Australian Accounting Standards-Disclosure of Accounting Policies and Definition of Accounting Estimates
- 2022-1 Amendments to Australian Accounting Standards- Initial Application of AASB 17 and AASB 9- Comparative Information

AASB 17 Insurance Contracts

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 extended 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.

SRLHA will apply AASB 17 and AASB 9 for the first time on 1 January 2023. These standards will bring significant changes to the accounting for SRLHA's (re)insurance and retrocession contracts and financial instruments and are expected to have a material impact on SRLHA's financial statements in the period of initial application.

Measurement of insurance contracts

Measurement Models

The standard introduces a new "general model" which SRLHA has adopted for the recognition and measurement of insurance contracts. The liability for remaining coverage (which represents insurance coverage to be provided after the balance date) under the general model is measured as the sum of:

- The present value of expected future cash flows and a risk adjustment for non-financial risk (collectively referred to as fulfilment cashflows); and
- A Contractual Service Margin (CSM), being the unearned profit, which is recognised as insurance revenue in profit or loss over the coverage period of the contracts. The CSM is earned based on a pattern of coverage units.

Level of Aggregation and Onerous Contracts

Under AASB 17, insurance contracts, reinsurance contracts and retrocession contracts held are aggregated into groups for measurement purposes. Groups of contracts are determined by first identifying portfolios of contracts, each comprising contracts subject to similar risks and managed together. Contracts in different product lines will be in different portfolios. Each portfolio is then divided into annual cohorts and each annual cohort into three groups:

- Any contracts that are onerous on initial recognition;
- Any contracts that, on initial recognition, have no significant possibility of becoming onerous subsequently; and
- Any remaining contracts in the annual cohort.

When a contract is recognised, it is added to an existing group of contracts or, if the contract does not qualify for inclusion in an existing group, it forms a new group to which future contracts may be added.

The level of aggregation requirements of AASB 17 limit the offsetting of gains on groups of profitable contracts, which are generally deferred as CSM, against losses on groups of onerous contracts, which are recognised immediately.

As onerous contract testing is performed at a more granular level than AASB 4 and AASB 1038 it is expected to result in more contracts being identified as onerous and losses on onerous contracts being recognised sooner.

SRLHA has developed a framework for identifying relevant facts and circumstances that may be indicators of onerous contracts. This includes management information used for planning and performance monitoring.

Contract Boundaries

Under AASB 17, the measurement of a group of contracts includes all of the future cash flows within the boundary of each contract in the group. Compared with the current accounting, SRLHA expects that for certain contracts the AASB 17 contract boundary requirements will change the scope of cash flows to be included in the measurement of existing recognised contracts, as opposed to future unrecognised contracts. The period covered by the premiums within the contract boundary is the 'coverage period', which is relevant when applying a number of requirements in AASB 17.

(Re)insurance contracts
For (re)insurance contracts, cash flows are within the contract boundary if they arise during the period that is the longer of:

- The period over which SRLHA has a substantive right to compel policyholders to pay the premiums; and
- The period over which SRLHA has a substantive obligation to provide services until it can reprice to fully reflect the risks of the policyholder (or of the portfolio of insurance contracts that contains the contract).

The contract boundary is reassessed at each reporting period.

Retrocession contracts
For retrocession contracts, cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which SRLHA is compelled to pay amounts to the retrocessionaire or has a substantive right to receive services from the retrocessionaire. A substantive right to receive services from the retrocessionaire ends when the retrocessionaire:

- Has the practical ability to reassess the risks transferred to it and can set a price or level of benefits that fully reflects those reassessed risks; or
- Has a substantive right to terminate the coverage.

Risk Adjustment
The risk adjustment measures the compensation required for uncertainty related to non-financial risk and reflects the compensation SRLHA would require for bearing this non-financial risk and its degree of risk aversion. Provision for uncertainty related to financial risks are included in the present value of future cash flows under AASB 17.

The Risk Adjustment is measured by a cost of capital method implemented via a factor-based approach. Risk Adjustment factors are applied on volumes which reflect the risk characteristics of the portfolio and are proportional to the measures used to calculate the compensation for risk charged by SRLHA when costing new business.

The confidence level of the Risk Adjustment under the cost of capital method is measured on the ultimate loss distribution. The percentile on that distribution, to which the fulfilment cash flows corresponds to, determines the confidence level.

Risk Adjustment factors are calibrated ahead of the annual reporting cycle using the latest information available. Risk Adjustment factors are reviewed annually considering the most recent margin for non-financial risk required as compensation when costing new business.

Discounting
The Company will determine risk-free discount rates using a bottom-up approach consisting of the following two elements:

- A risk-free yield curve; and
- An illiquidity premium curve.

The risk-free yield curve will be derived from Government bond prices.

The illiquidity premium is derived from financial instruments with different liquidity characteristics than Government Bonds. It will be determined by taking a percentage of the yield differences between Government Bonds and Corporate Bonds. The resulting illiquidity premium rates are differentiated by term and currency.

CSM
The CSM of a group of contracts is recognised in profit or loss to reflect services provided in each year, by identifying the coverage units in the group, allocating the CSM remaining at the end of the year equally to each coverage provided in the year and expected to be provided in future years, and recognising in profit or loss the amount of the CSM allocated to coverage units provided in the year. The number of coverage units is the quantity of services provided by the contract in the group, determined by considering for each contract the quantity of the benefits provided and its expected coverage period. The coverage units will be reviewed and updated at each reporting date. SRLHA's coverage units are expected to be based on Sum Assured.

Transition

Changes in accounting policies resulting from the adoption of IFRS 17 will be applied using the Full Retrospective Approach (FRA) to the extent practicable. Where it is impracticable to apply the FRA to a group of contracts or to an asset for insurance cash flows then the Company will choose between the Modified Retrospective Approach (MRA) and Fair Value Approach (FVA).

SRLHA considers the FRA approach impracticable as the information required to calculate the effects of retrospective application is not available because:

- Prior to 2019, cash flow information split per annual cohort is not available and therefore applying a retrospective approach is not possible for the pre-2019 business. With the introduction of the current actuarial database during 2019, cash flow splits per annual cohorts are available for 2019 and subsequent years; and
- The Risk adjustment calibration factors cannot be reproduced before 1 January 2022. The 2022 opening risk adjustment factors are the first set of risk adjustment calibration factors available. Therefore, it is impracticable to apply the risk adjustment before 2022. For business written in financial year 2021, 2020 and 2019, the risk adjustment modification and therefore the MRA is expected to be adopted.

As a result, SRLHA is expecting to use the FVA for all policies incepting before 2019, MRA for policies incepting on or after 1 January 2019 and FRA for policies incepting after 1 January 2022. At the date of these financial statements, SRLHA remain in the process of finalising the methodology that will be used to determine fair value.

The Company is currently finalising the adoption of AASB 17, however, the following impacts are expected:

- An impact to total equity on transition to AASB 17, which is still being quantified as the Company finalises its transition fair value methodology; and
- An impact to the timing of profit recognition over the lifetime of the (re)insurance and retrocession contracts compared with the current treatment under AASB 4 and AASB 1038. This will primarily be driven by the timing of the recognition in profit or loss of the CSM, the exact impact of which will be known once the Company finalises its Coverage Unit treatment.

AASB 17 will significantly change how (re)insurance contracts and retrocession contracts are presented and disclosed in SRLHA's financial statements. Under IFRS 17:

- Portfolios of (re)insurance contracts that are assets and those that are liabilities, and portfolios of retrocession contracts that are assets and those that are liabilities, are presented separately in the statement of financial position. All rights and obligations arising from a portfolio of contracts will be presented on a net basis;
- Amounts recognised in the statement of profit or loss and OCI are disaggregated into: (a) an insurance service result, comprising insurance revenue and insurance service expenses; and (b) insurance finance income or expenses. Amounts from retrocession contracts will be presented separately; and
- Extensive new disclosures are required about amounts recognised in the financial statements, including detailed reconciliations of contracts, effects of newly recognised contracts and information on the expected CSM emergence pattern, as well as significant judgments made when applying AASB 17. These disclosures will generally be at a more granular level than under AASB 4 and AASB 1038.

AASB 9 Financial instruments

Financial asset classification

The classification of financial assets under AASB 9 is generally based on the business model in which a financial asset is managed and its contractual cash flows characteristics. AASB 9 includes three principal measurement categories for financial assets, measured at amortised cost, FVTPL and Fair Value Through Other Comprehensive Income (FVOCI).

AASB 9 is expected to affect the classification and measurement of financial assets held at 1 January 2023 as follows:

- Debt investments that are classified as available-for-sale and measured at FVTPL under AASB 139 are expected to be classified and measured at FVOCI;
- Loans and cash equivalents measured at FVTPL under AASB 139 are expected to be classified and measured at amortised cost; and
- Equity investments will continue to be measured at FVTPL.

The majority of SRLHA's financial assets are measured at fair value both before and after transition to AASB 9. SRLHA's total equity is only expected to be materially impacted to the extent of any reclassification between amortised cost and fair value measurement categories.

The impact of these changes is preliminary as not all the transition work has been finalised.

Financial asset impairment
AASB 9 replaces the 'incurred loss' model in AASB 139 with a forward-looking Expected Credit Loss (ECL) model.

This will require considerable judgement about how changes in economic factors affect ECL, which will be determined on a probability-weighted basis.

The new impairment model will apply to SRLHA's financial assets measured at amortised cost and debt instruments at FVOCI.

AASB 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECL or lifetime ECL.

SRLHA's debt securities, cash equivalents and loans have been determined to have low credit risk at the reporting date, which the Group considers to be the case when the security's credit risk rating is equivalent to the globally understood definition of 'investment grade' and as a result it is expected that SRLHA will measure loss allowances on these securities at an amount equal to 12-month ECL.

Measurement of ECL
ECL are a probability-weighted estimate of credit losses. Credit losses are measured at the present value of all cash shortfalls (i.e. the difference between the cash flow due to SRLHA in accordance with the contract and the cash flows that SRLHA expects to receive).

The key inputs into the measurement of ECL are: probability of default (PD); likely loss if there is a default (LGD); and expected exposure in the event of a default (EAD).

The Company currently is finalising the adoption of AASB 9, however, it is expected that total equity will only be impacted to the extent of any ECL allowance on financial assets measured at amortised cost. The impact of these changes on transition to AASB 9 is being quantified as part of the transition work currently in progress.

The current assessment of the transition impacts on adoption of AASB 17 and AASB 9 is preliminary as not all the transition work has been finalised. The actual impact of adopting AASB 17 and AASB9 on 1 January 2023 and 2022 may change because:

- SRLHA is continuing to refine the new accounting processes and internal controls required for applying AASB 17 and 9;
- Although parallel runs were carried out in 2022 and user acceptance testing during beginning of 2023, the new systems and associated controls in place have not been operated for a more extended period. SRLHA has not finalised the testing and assessment of controls over its new IT systems and changes to its governance framework; and
- The new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until SRLHA finalises its first financial statements that include the date of initial application.

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 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. This loading was applied on disability income incidence and termination to the end of 2022. As at 31 December 2022, the Company does not expect any material cost of the pandemic on future claims.

3. Actuarial methods and assumptions

An actuarial report on policy liabilities and prudential capital as at 31 December 2022 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 30 December 2022. For Australian liabilities this was 3.21% to 4.40% p.a. (2021: 0.13% to 2.37% p.a.) net of investment management expenses and for New Zealand liabilities this was 4.37% to 4.99% p.a. (2021: 1.37% to 2.87% 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 (2021: 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% (2021: 0.4% to 7.4%).
Claim driven expenses: 1.9% (2021: 1.9%).

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	
Risk products:	2022: 79%-132% of FSC 2012m for traditional and retail lump sum products. 100%-145% of ALT90-92 for other non-traditional products. NZ in-force transactions: 46%-55% of NZ97 Select table 82%-120% of FSC 04-08. Experience based factors are applied for gender, smoker status, sum insured and cedant specific experience
	2021: 79%-132% of FSC 2012m for traditional and retail lump sum products. 100%-145% of ALT90-92 for other non-traditional products. NZ in-force transactions: 46%-55% of NZ97 Select table 82%-120% of FSC 04-08. Experience based factors are applied for gender, smoker status, sum insured and cedant specific experience
Annuitants:	2022: 81% - 96 % ALT 2015 -17 (2021: 81% - 96 % ALT 2015 -17). Adjustments for mortality improvements in line with company experience studies.

Morbidity (Disability)	
Incidence:	2022: Two tables are used across the portfolio - ADI 14-18 and IAD 89-93. A range of experience based factors is applied for gender, smoking status, occupation and sum insured. 2021: Three tables were used across the portfolio - ADI 14-18, IAD 89-93 and ADI 07 -11. A range of experience based factors is applied for gender, smoking status, occupation , cause of claim and sum insured.
Termination:	2022 Two tables are used across the portfolio - ADI 14-18 and a cedant supplied table for one block of business A range of experience based factors is applied for claim duration. 2021 Three tables were used across the portfolio - ADI 14-18, ADI 07and a cedant supplied table for one block of business - A range of experience based factors is applied for claim duration and cause of claim.
Morbidity (Total and Permanent Disability (TPD)/Trauma)	
	2022: 104%- 260% of FSC 2012 TPD table. 100% -151% of FSC 2012 Trauma table. NZ in-force transactions 150% -194% of FSC 04-08 TPD table. 101% -114% of FSC 04-08 Trauma table. Tables supplied by the cedant are used for some business. 2021: 100% -151% of FSC 2012 Trauma table. NZ in-force transactions 150% -194% of FSC 04-08 TPD table. 101% -114% of FSC 04-08 Trauma table. Experience based factors are applied for age, gender, sum insured, smoker status and cedant specific experience.

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: 1% - 95.2% (2021: 1% - 95.2%).

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 2.6% at 31 December 2022 (2021: 1.6%).
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 1.8% - 2.6% (2021: 1.7% - 2.2%).
– Australia and New Zealand Group Salary Continuance 1.8% - 3.0% (2021: 1.7% - 2.0%).

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

2022: No material impact of additional disability claims incidence was assumed.

(2021 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%).

Termination

2022: No material impact to disability claims termination was assumed.

(2021: 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%).

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

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

Effects of changes in actuarial assumptions from 31 December 2021 to 31 December 2022:

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	(220,926)	(160,447)
Expense	-	-
Mortality	23,953	(49,485)
Morbidity	6,655	-
Discontinuance rates	2,996	-
Model/Methodology/System change	77,330	-
Other[1]	(53,880)	-
Total assumption change	**(163,872)**	**(209,932)**
Experience	(65,407)	13,187
Total effect of changes	**(229,279)**	**(196,745)**
Amount at 31 December 2021	981,805	1,049,114
Amount reported at 31 December 2022 under old assumptions	**752,526**	**852,369**

[1] 2022 Other includes (89,624) impact of assumption changes for cedant recapture of business and 35,744 reflecting the settlement amount received for a recapture of risk business during the year.

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 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

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 2022. 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.
Inflation rate	A change in inflation rate will change the future cashflows for premiums, claims and expenses where those cashflows increase in line with an inflation index or depend on the general level of inflation. An increase in inflation expectations will increase premium income where sums insured are indexed to CPI or another measure. Expected future claims will increase in line with the increased sums insured. Operating expenses may also be projected to increase.
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. A sustained change in incidence rates will result in an update of the best estimate disability claims incidence assumptions. 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 will have a small impact on gross policy liabilities driven by retail disability products. A 10% reduction in lapse assumptions will increase the policy liabilities for Australian retail level premium disability income and Australian retail level premium lump sum business and reduce the policy liabilities for Australian retail stepped premium disability income business. This is an overall reduction in profit. An increase in lapse assumptions will reduce the policy liabilities for Australian retail level lump sum disability products and increase the policy liabilities for Australian stepped retail disability income. This will result in lower 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	
2022		**Gross of reinsurance**	**Net of reinsurance**	**Gross of reinsurance**	**Net of reinsurance**
Discount rate	+50bp	(81,752)	(25,966)	45,923	(15,533)
	-50bp	88,651	27,464	(50,616)	16,603
Inflation rate	+50bp	55,242	(1,115)	(38,270)	21,649
	-50bp	(47,272)	1,076	32,629	(20,274)
Mortality rates	+10%	1,332	1,332	(932)	(932)
	-10%	-	-	-	-
TPD and trauma incidence	+10%	20,747	20,747	(14,523)	(14,523)
	-10%	-	-	-	-
Disability claims incidence	+10%	164,716	-	(115,803)	41,880
	-10%	(88,867)	-	62,207	(26,660)
Disability claims termination	+10%	(127,867)	-	89,467	(38,959)
	-10%	277,372	-	(194,876)	72,467
Discontinuance	+10%	18,165	-	(12,988)	1,354
	-10%	4,845	9,358	(3,391)	(7,904)
Incurred but unreported claims	+10%	158,499	98,575	(117,261)	(57,337)
	-10%	(158,499)	(98,575)	117,261	57,337
Operating expenses	+10%	8,505	-	(5,965)	2,376
	-10%	(7,921)	-	5,545	(2,376)

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
Inflation rate	+50%	(21,444)	(2,086)	15,440	1,502
	-50%	24,786	1,991	(17,846)	(1,433)
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 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

in thousands of Australian dollars	2022	2021
Components of loss related to movement in contracts:		
Planned margins of revenues over expenses released	38,296	67,585
Difference between actual and assumed experience	(47,563)	(82,577)
Capitalisation of expected future gains/(losses)	48,088	(57,083)
Retrocession (loss) / recovery relating to loss recognition	(45,186)	58,646
	(6,365)	**(13,429)**
Other components:		
Investment losses on assets in excess of policy liabilities	(35,976)	(6,178)
Profit from Shareholders Fund	8	-
Net loss after tax	**(42,333)**	**(19,607)**

5. Investment loss

in thousands of Australian dollars	2022	2021
Trust distributions	-	757
Interest on debt securities and deposits	58,968	56,095
Net realised loss	(28,725)	(18,898)
Net unrealised loss	(81,678)	(46,779)
Total investment loss	**(51,435)**	**(8,825)**

6. Other revenue

in thousands of Australian dollars	2022	2021
Commission income from retrocession	379,403	275,249
Other retrocession commissions and expenses	24,977	33,213
Recapture Income	35,415	-
Other	2,858	690
Total other revenue	**442,653**	**309,152**

7. Other expenses

in thousands of Australian dollars	2022	2021
Life insurance contract liabilities		
Policy acquisition expenses		
Commission expense	85,238	95,317
Operating expenses	37,766	12,405
Policy maintenance expenses		
Commission expense	483,398	369,687
Operating expenses	45,158	79,974
Investment management expenses	1,935	2,148
Remediation expenses	3,174	67,750
Other	11,673	2,491
Total other expenses	**668,342**	**629,772**

8. Auditor's remuneration

Amounts received or due and receivable by the auditor of the Company for:

in thousands of Australian dollars	2022	2021
Audit of the financial statements	611	579
Regulatory assurance services	125	119
Other assurance services	100	-
Other services	112	-
Total auditor's remuneration	**948**	**698**

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% (2021: 30%), while a concessional rate of 15% (2021: 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% (2021: 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	2022	2021
Income tax benefit		
Current tax		
Current tax on losses for the year	(11,118)	(8,069)
Total current tax expense	**(11,118)**	**(8,069)**
Deferred income tax		
(Decrease)/increase in deferred tax assets	(31,116)	10,985
Decrease in deferred tax liabilities	7,947	207
Utilisation of prior year losses	(105,696)	(15,464)
Adjustments to deferred tax for prior periods	(1,730)	(1,364)
Total deferred tax expense	**(130,595)**	**(5,636)**
Income tax expense	**(141,713)**	**(13,705)**
Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) from operations before income tax expense	99,380	(5,902)
Tax at the Australian tax rate of 30% (2021: 30%)	(29,814)	1,771
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Tax offset for franked dividends	275	175
Non-assessable disability expense	(114,553)	(17,452)
Difference in New Zealand tax rate	231	584
Foreign exchange adjustment	88	327
Adjustments for deferred tax of prior periods	(1,730)	(1,364)
Other	3,790	2,254
Income tax expense	**(141,713)**	**(13,705)**
Unrecognised temporary differences		
Temporary differences relating to overseas operations for which deferred tax liabilities have not been recognised:		
Foreign currency translation	10,302	11,768
Unrecognised deferred tax liabilities relating to the above temporary differences	3,091	3,530
Analysis of deferred tax asset		
Reinsurance balances	51,790	64,268
Tax losses	58,814	166,243
Other provisions	2,673	21,311
Closing deferred tax asset[1]	**113,277**	**251,822**

Income Tax (continued)

in thousands of Australian dollars	2022	2021
Deferred tax asset		
Opening balance	251,822	257,728
Reinsurance balances	(12,478)	15,851
Tax losses	(107,429)	(15,464)
Other provisions	(18,638)	(6,293)
Closing deferred tax asset	**113,277**	**113,277**
Deferred tax assets expected to be recovered within 12 months	34,783	43,807
Deferred tax assets expected to be recovered after 12 months	78,494	208,015
Analysis of deferred tax liability		
Deferred tax liability on New Zealand acquisition costs[2]	2,297	10,577
Closing deferred tax liability[1]	**2,297**	**10,577**
Deferred tax liability		
Opening balance	10,577	10,712
Foreign exchange adjustment	(333)	72
Decrease of New Zealand acquisition costs	(7,947)	(207)
Closing deferred tax liability	**2,297**	**10,577**
Deferred tax liabilities expected to be settled within 12 months	115	529
Deferred tax liabilities expected to be settled after 12 months	2,182	10,048
Current income tax liability		
Opening balance	(4,736)	(1,506)
Foreign exchange adjustment	(330)	(26)
Current component of income tax expense	(11,118)	(8,069)
Income tax payments	13,856	4,872
Tax refunds received during the current year	-	(7)
Closing current income tax liability	**(2,328)**	**(4,736)**
Current income tax liability expected to be settled within 12 months	**(2,328)**	**(4,736)**

[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	2022	2021
Equities held indirectly by unit trusts (level 1)	18,393	19,954
Debt securities:		
Government (level 1)	1,260,750	1,049,163
Private sector (level 2)	284,815	534,368
Private sector (level 3)	174,877	192,038
Total debt securities	**1,720,442**	**1,775,569**
Total financial assets at fair value through profit or loss	**1,738,835**	**1,795,523**
Balance maturing within 12 months	**790,156**	**756,723**

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	2022	2021
As at 1 January	192,038	157,071
Acquisition of investments	-	40,400
Unrealised losses recognised in Statement of Comprehensive Income	(17,161)	(5,433)
As at 31 December	**174,877**	**192,038**

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) - Amortised Cost: 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;
- SPPI - FVOCI: assets of which cash flows represent solely payments of principal and interest on an outstanding principal amount, that follow the fair value option at initial recognition and are carried at FVOCI; and
- Other - FVTPL: assets that follow the fair value option at initial recognition and are carried at FVTPL

Fair values as of 31 December 2022

in thousands of Australian dollars

Financial assets	SPPI- Amortised Cost	SPPI – FVOCI	Other - FVTPL	Total Fair Value Amount
Fixed income securities	-	1,545,564	-	**1,545,564**
Loans	174,877	-	-	**174,877**
Equities held indirectly by unit trusts	-	-	18,393	**18,393**
Investment income accrued and receivable	12,509	-	-	**12,509**
Cash and cash equivalents	57,863	-	-	**57,863**
Total financial assets	**245,249**	**1,545,564**	**18,393**	**1,809,206**

Fair values as of 31 December 2021

in thousands of Australian dollars

Financial assets	SPPI- Amortised Cost	SPPI – FVOCI	Other - FVTPL	Total Fair Value Amount
Fixed income securities	-	1,583,531	-	**1,583,531**
Loans	192,038	-	-	**192,038**
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	**339,532**	**1,583,531**	**19,954**	**1,943,017**

Change in fair value during the reporting period

Financial assets	SPPI - Amortised Cost	SPPI – FVOCI	Other - FVTPL	Total Fair Value Amount
Fixed income securities	-	(113,022)	-	**(113,022)**
Loans	-	-	-	**-**
Equities held indirectly by unit trusts	-	-	2,619	**2,619**
Total financial assets	**-**	**(113,022)**	**2,619**	**(110,403)**

11. Trade and other receivables

There are no trade and other receivables at 31 December 2022 (2021: nil) that have been assessed as impaired.

in thousands of Australian dollars	2022	2021
Outstanding premiums	483,062	511,857
Amounts due from related parties	3,385	10,710
Amounts due from retrocessionaires - ultimate controlling entity	59,760	18,395
Investment income accrued and receivable	12,509	15,125
Other debtors	178,012	159,761
Total trade and other receivables	**736,728**	**715,848**
Balance expected to be received within 12 months	**736,728**	**715,848**

12. Capitalised software

in thousands of Australian dollars	2022	2021
Opening balance at 1 January	1,747	1,618
Capitalisation during the year	113	129
Amortisation during the year	(279)	-
Closing balance at 31 December	**1,581**	**1,747**

13. Trade and other payables

in thousands of Australian dollars	2022	2021
Amounts due to cedants, retrocessionaires and third parties	340,121	281,695
Claims payable	3,348	5,336
Amounts due to retrocessionaires - related parties	51,766	33,032
Amounts due to related parties	22,374	30,243
Investment related payables	121	80
Other creditors	6,206	9,205
Total trade and other payables	**423,936**	**359,591**
Balance expected to be settled within 12 months	**423,936**	**359,591**

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	2022	2021
Balances setoff		
Premiums ceded under retrocession	(305,274)	(302,130)
Claims and other technical expenses ceded under retrocession	117,518	140,734
Other retrocession commissions and expenses	135,092	97,935
Total amounts due to retrocessionaires	**(52,664)**	**(63,461)**

15. Provisions

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

in thousands of Australian dollars	2022	2021
Opening balance	71,038	92,627
Increase in provision	3,174	67,750
Utilisation of provision	(65,312)	(89,339)
Closing balance	**8,900**	**71,038**
Balance expected to be settled within 12 months	**8,900**	**71,038**

The provision of $8.9 million as at 31 December 2022 (2021: $71.0 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 was completed in March 2022, payments to continue during 2023.

16. Life insurance contract liabilities assumed

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

in thousands of Australian dollars	2022	2021
Life insurance contract liabilities assumed		
Opening balance at 1 January	(2,182,859)	(2,329,642)
Decrease reflected in the statement of comprehensive income	604,181	141,535
Foreign exchange adjustment	(8,846)	5,248
Closing balance at 31 December	**(1,587,524)**	**(2,182,859)**
Retrocessionaires' share of life insurance contract liabilities		
Opening balance at 1 January	1,218,046	1,275,298
Decrease reflected in the statement of comprehensive income	(425,075)	(52,179)
Annuity reserves recapture value	-	-
Foreign exchange adjustment	13,568	(5,073)
Closing balance at 31 December	**806,539**	**1,218,046**
Net life insurance contract liabilities at 31 December	**(780,985)**	**(964,813)**

16 (b) Components of net life insurance contract liabilities

in thousands of Australian dollars	2022	2021
Future policy benefits	(5,180,363)	(6,238,167)
Future expenses	(3,061,433)	(3,570,235)
Planned margins of future revenues over expenses	(752,526)	(981,805)
Future revenues	8,213,337	9,825,394
Total net life insurance contract liabilities	**(780,985)**	**(964,813)**
Net life insurance contract liabilities to be realised within 12 months	**(294,719)**	**(369,666)**

17. Life investment contract liabilities assumed

Reconciliation of movements in life investment contract liabilities assumed

in thousands of Australian dollars	2022	2021
Life investment contract liabilities assumed		
Opening balance at 1 January	(84,301)	(96,680)
Decrease reflected in the statement of comprehensive income	12,917	12,379
Closing balance at 31 December	**(71,384)**	**(84,301)**

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.

2022

in thousands of Australian dollars	Statutory Fund No.1	Statutory Fund No.2	Shareholders Fund	Total
Net assets	132,892	1,224,499	1,063	1,358,454
Regulatory adjustment applied in calculation of tier 1 capital	(92,523)	(319,987)	-	(412,510)
Tier 1 capital:				
Common equity tier 1 capital	40,369	829,512	1,063	870,944
Additional tier 1 capital	-	75,000	-	75,000
Capital base	**40,369**	**904,512**	**1,063**	**945,944**
Prescribed capital amount comprises:				
Insurance risk	12,947	250,350	-	263,297
Asset risk	553	90,154	1	90,708
Asset concentration risk	-	143,300	-	143,300
Operational risk	3,577	35,233	-	38,810
Aggregation benefit	(431)	(57,960)	-	(58,391)
Combined scenario adjustment	5,824	102,221	-	108,045
Prescribed capital amount	**22,470**	**563,298**	**1**	**585,769**
Capital in excess of prescribed capital amount	17,899	341,214	1,062	360,175
Capital adequacy multiple (%)[1]	178%	160%	74,410%	161%

[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.

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	76,912	-	84,591
Prescribed capital amount	**29,011**	**558,844**	**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.

19. Equity

in thousands of Australian dollars	2022	2021
Share capital		
35,296,208 ordinary shares (2021: 35,296,208)[1]	905,000	905,000
75,000 redeemable preference shares (2021: 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 2022 (2021: nil).

During the year the Company did not issue any ordinary shares (2021: nil).

Contributed Capital

On 26 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

2022 in thousands of Australian dollars	Statutory Fund No.1	Statutory Fund No.2	Shareholders Fund	Total
Net premium revenue from life insurance contracts	114,332	710,982	-	825,314
Investment loss	(274)	(51,161)	-	(51,435)
Other revenue	3,134	439,508	11	442,653
Total revenue	**117,192**	**1,099,329**	**11**	**1,216,532**
Net claims from life insurance contracts	(43,481)	(597,352)	-	(640,833)
Net expense	(56,710)	(419,609)	-	(476,319)
Net profit before tax	**17,001**	**82,368**	**11**	**99,380**
Net profit/(loss) after tax	**11,266**	**(53,607)**	**8**	**(42,333)**
Investment assets	68,280	1,670,555	-	1,738,835
Other assets	25,408	882,975	1,066	909,449
Retrocessionaires' share of life insurance contract liabilities	7,250	799,289	-	806,539
Life insurance and investment contract liabilities assumed	59,933	(1,718,841)	-	(1,658,908)
Net policy liabilities from insurance contracts	**67,183**	**(919,552)**	-	**(852,369)**
Other liabilities	(25,878)	(402,680)	(3)	(428,561)
Provisions	(2,101)	(6,799)	-	(8,900)
Net assets	**132,892**	**1,224,499**	**1,063**	**1,358,454**
Retained earnings	97,892	113,197	1,063	212,152
Foreign currency translation reserve	-	10,302	-	10,302
Transfers in period	-	-	-	-

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 loss	(34)	(8,791)	-	(8,825)
Other revenue	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	(31,823)	(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)	-	-

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 fund.

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 summarised in the tables below:

in thousands of Australian dollars	2022	2021
Retrocession contracts with ultimate controlling entity – Swiss Reinsurance Company Ltd.		
Outwards reinsurance expense	(418,100)	(420,194)
Reinsurance recoveries and commission income	584,896	627,172
Movement in life insurance contract liabilities	(574,675)	(126,023)
Net reinsurance (expense)/recovery	**(407,879)**	**80,955**
Retrocession contracts with other related parties – Swiss Re Asia Pte. Ltd.		
Outwards reinsurance expense	(571,010)	(577,551)
Reinsurance recoveries and commission income	381,519	218,952
Movement in life insurance contract liabilities	164,254	71,471
Net reinsurance expense	**(25,237)**	**(287,128)**
Management and other expenses		
Ultimate controlling entity – Swiss Re Ltd	(7,496)	(7,396)
Other related parties[1]	(51,442)	(61,944)
Net management and other expenses	**(58,938)**	**(69,340)**
Investment management expense		
Controlling entity	(5,400)	(2,288)
Net investment management expenses	**(5,400)**	**(2,288)**
Letter of credit fees	**(282)**	**-**

[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. Risk Management activities are complemented by Swiss Re's Group Internal Audit and Compliance units:

- Group Internal Audit performs independent, objective assessments of the adequacy and effectiveness of internal control systems. It evaluates the execution of process within Swiss Re, including those within Risk Management.
- The Compliance function oversees Swiss Re's compliance with applicable laws, regulations, rules and the Code of Conduct. It also assists the Group, Board, Group Executive Committee and other management bodies in identifying, mitigating and managing compliance risks.

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.

Risk appetite framework

In the context of business strategy and planning, the risk appetite statement facilitates discussions about where and how Swiss Re should deploy its capital, liquidity and other resources under a risk/ return view, while the risk tolerance sets clear boundaries to risk-taking.

Risk governance documentation

Swiss Re's risk management framework is set out in risk governance documentation at Group and legal entity level. Risk governance is the subset of corporate governance that describes the risk management framework and documents risk management practices. Group-level risk documents form the basis for all risk governance across Swiss Re. Additional risk governance for legal entities, such as the Risk Management Strategy and Risk Appetite Statement, is prepared as an addendum to the Group or parent entity document.

Group risk governance documents are organised hierarchically across five levels, which are mirrored by equivalent documents at legal entity (LE) level:

- SRL Bylaws and the charter for the Group Finance and Risk Committee outline the ultimate authority for risk management, assigning responsibilities to the Group Board of Directors and the Group Executive Committee.

- The Group Risk Policy is defined by the Group Board and articulates Swiss Re's risk appetite framework (risk appetite and tolerance) as well as fundamental risk and capital structure principles.
- The Group Risk Management Standards outline how the Group organises and applies its risk management practices.
- Risk category standards describe how risk practices are implemented for a specific category.
- The lowest level comprises risk management methodology and process documentation.

Key risk management principles
Swiss Re's risk management is based on four fundamental principles. These apply consistently across all risk categories at Group and legal entity level:

- Controlled risk-taking – Financial strength and sustainable value creation are central to Swiss Re's value proposition. The Group thus operates within a clearly defined risk policy and risk control framework.
- Clear accountability – Swiss Re's operations are based on the principle of delegated and clearly defined authority. Individuals are accountable for the risks they take on, and their incentives are aligned with Swiss Re's overall business objectives.
- Independent risk controlling – Dedicated units within Risk Management control all risk-taking activities. These are supported by Compliance and Group Internal Audit functions.
- Open risk culture – Risk transparency, knowledge-sharing and responsiveness to change are integral to the risk control process. The central goal of risk transparency is to create a culture of mutual trust and reduce the likelihood of surprises in the source and potential magnitude of losses.

Fundamental roles for delegated risk-taking
Risk-taking activities are typically subject to three lines of control. The first line comprises the day-to-day risk control activities performed by risk takers in the business as well as in Group functions, including proactive identification of risks, as well as establishing and operating an effective control system.
Independent oversight performed by functions such as Risk Management and Compliance represents the second line of control. The third line consists of independent audits of processes and procedures carried out by Group Internal Audit or by external auditors. This approach is designed to achieve a strong, coherent and Group-wide risk culture built on the principles of ownership and accountability.

Swiss Re operates within a clearly defined risk control framework. This is set out in the Group Risk Management Standards and comprises a body of standards that establish an internal control system for taking and managing risk. These standards set responsibilities for risk takers and risk controllers. The risk control framework defines key tasks, which are the core components of Swiss Re's risk management cycle:

- Risk tolerance and appetite assessment of plan – ensures that the risk implications of plans are understood and determines whether business and investment plans adhere to the internal risk appetite framework (risk appetite and tolerance).
- Risk identification – ensures that all risks to which Swiss Re is exposed are transparent in order to make them controllable and manageable.
- Risk measurement – enables Swiss Re to understand the magnitude of its risks and to set quantitative controls that limit its risk-taking.
- Risk limit framework – allows Swiss Re to control its risk-taking decisions and total risk accumulations, including the passive risk it is exposed to through its operations.
- Risk reporting – creates internal risk transparency and enables Swiss Re to meet external disclosure requirements.

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.

Management of key risks

Strategic Risk
Overall responsibility for managing strategic risk lies with the Group Board, which establishes Swiss Re's overall strategy. The SRLHA Board is responsible for the strategic risk inherent in strategy development and execution. Strategic risks are addressed by examining multi-year scenarios, considering the related risks, as well as monitoring the implementation of the chosen strategy year-by-year in terms of the annual business plan.

As part of their independent oversight role, Risk Management, Compliance and Group Internal Audit are responsible for controlling the risk-taking arising from the implementation of the strategy.

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 deviates 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 5% (2021: 3%) strengthening of the Australian dollar against the New Zealand dollar would decrease OCI and Equity by $8.7 million (2021: $4.9 million) and a 5% (2021: 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	
	2022	2021	2022	2021
Adverse change in risk variable:				
Interest rates	+50bps	+50bps	(10,935)	(13,269)
Equity market prices	+10%	+10%	(1,287)	(1,397)
Credit spreads	+50bps	+50bps	(11,639)	(14,178)
Favourable change in risk variable:				
Interest rates	-50bps	-50bps	11,036	13,861
Equity market prices	-10%	-10%	1,287	1,397
Credit spreads	-50bps	-50bps	11,374	13,895

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 2022 is $1,644 million (2021: $2,170 million).

An amount of $70 million reinsurance recoverable to our cedents is secured by a letter of credit balance (2021: nil).

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
2022						
Cash and cash equivalents	4,704	49,724	3,435	-	-	57,863
Trade and other receivables	5,568	2,266	265,776	75,336	387,782	736,728
Financial assets at fair value through profit or loss	836,058	240,168	392,284	270,325	-	1,738,835
Retrocessionaires' share of life insurance contract liabilities	-	-	806,539	-	-	806,539
Total	**846,330**	**292,158**	**1,468,034**	**345,661**	**387,782**	**3,339,965**

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**

The Company does not have financial assets that are past due or have been impaired at either the 2022 or 2021 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
2022					
Trade and other payables	423,936	423,936	-	-	**423,936**
Provisions	8,900	8,900	-	-	**8,900**
Life insurance contract liabilities assumed	1,587,524	648,644	504,930	1,593,063	**2,746,637**
Life investment contract liabilities assumed	71,384	18,923	36,344	16,117	**71,384**
Total	**2,091,744**	**1,100,403**	**541,274**	**1,609,180**	**3,250,857**

		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**

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.

Risk culture

Swiss Re fosters and maintains a strong risk culture to promote risk awareness and discipline across all its activities. This risk culture stands for the risk- and control related values, knowledge and behaviour shared by all employees. Its principal components are summarised in a framework that builds on the Group's Code of Conduct as well as on key risk management principles in the Group Risk Policy.

The risk culture framework serves to influence appropriate risk-taking behaviour in four key aspects, which are assessed annually for all employees in the performance and compensation process:

- Leadership in providing clear vision and direction
- Consideration of risk-relevant information in decision-making
- Risk governance and accountability of risk control activities as well as transparent flow of risk information
- Embedding of risk management skills and competencies Swiss Re's risk culture provides the foundation for the efficient and effective application of its Group-wide risk management framework. Group Risk Management reinforces the risk culture by ensuring risk transparency and fostering open discussion and challenge in the Group's risk-taking and risk management processes.

Key risk takers across Swiss Re are a particular focus in promoting good risk-and control-related behaviours. The relevant positions are identified in a regular process, and those who hold them are subject to additional behavioural objectives and assessments.

Risk culture is directly linked to Swiss Re's performance management, which is based not only on business results but also on behaviours. Swiss Re's compensation framework aims to foster compliance and support sensible risk-taking. Swiss Re also has a range of incentive programmes that reflect the long-term nature of its business by rewarding sustained performance rather than short-term results. This helps to align shareholder and employee interests. Swiss Re's compensation principles and framework are captured within the Swiss Re Group Compensation Policy. SRLHA's Board People & Culture Committee oversees the performance of risk behaviours and the link with remuneration.

Regulatory Risk

Regulatory developments and related risks that may affect Swiss Re and its subsidiaries or branches are identified, assessed and monitored as part of regular oversight activities. Swiss Re is actively engaged in a dialogue with relevant regulators to improve mutual understanding of the implications arising from new regulatory proposals. Periodic reports and recommendations on regulatory issues are provided to executive management and the SRLHA Board.

The regulatory environment of the insurance industry continues to evolve on the national, regional and international level. While some regulatory changes create new business opportunities, others come with significant costs and business restrictions. Growing regulatory complexity, increased national protectionism and a fragile global economy are persistent themes affecting regulation and the way Swiss Re operates worldwide. Regulatory efforts are becoming increasingly forward-looking, aimed at a broad range of emerging risks, both actual and perceived. If new regulation is not based on clearly understood risks with a view to materiality, and if the resulting requirements are not harmonised with international standards and best practices, this may create an excessive burden for both insurers and policyholders.

It remains a key priority for Swiss Re to highlight the negative impacts of market access restrictions or impediments to global diversification towards regulators. At the same time, such risks are mitigated by seeking solutions that reduce the negative impact on Swiss Re and its clients. There is ongoing regulatory attention on enhancing sustainability disclosure.

Forward-looking climate risk assessments, such as scenario analyses or stress testing, are gaining traction. These regulatory initiatives differ in scope, methodology and key assumptions. Swiss Re supports such measures and continues to advocate for a harmonised and gradual implementation of these requirements in line with international standards and recommendations, such as those of the Financial Stability Board Task Force on Climate-related Financial Disclosure (TCFD). Swiss Re continues in its efforts to discourage regulatory fragmentation and ensure that requirements are appropriate.

Swiss Re consistently advocates the removal or reduction of market access barriers, so that policyholders, governments, taxpayers and national economies can fully benefit from international diversification and therefore from reliable, sound and affordable risk cover and transfer.

With markets more stable following the pandemic shock, supervisors, regulators, standard-setters and other actors have significantly ramped up efforts in the digital policy space. COVID-19 has accelerated discussions around operational resilience, cybersecurity rules and third-party provider concentration risks. Swiss Re follows these topics closely and monitors their potential impact.

23. Cash flow information

Reconciliation of net loss after tax to net cash (utilised)/provided by operating activities

in thousands of Australian dollars

	2022	2021
Net loss after tax	(42,333)	(19,607)
Add items classified as investing activities:		
Net realised and unrealised loss	110,403	65,677
Net profit after tax provided by operating activities	**68,070**	**46,070**
Change in assets and liabilities excluding impact of foreign exchange revaluation:		
Decrease in current and deferred tax assets	130,265	5,771
(Increase)/decrease in trade and other receivables	(20,880)	28,386
Decrease/(increase) in capitalised software	166	(129)
Decrease in net life insurance contract liabilities	(196,745)	(101,910)
Increase in trade and other payables	64,345	62,138
Decrease in provisions	(64,546)	(18,359)
Net cash (utilised)/provided by operating activities	**(19,325)**	**21,967**

Cash and cash equivalents

	2022	2021
Cash at bank	49,724	107,234
Deposits at call	3,435	11,136
Short term investments	4,704	13,999
Total	**57,863**	**132,369**

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 42 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 2022 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

T Thomson
Managing Director

Sydney,
29 March 2023

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 2022 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 2022;
- 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.

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

29 March 2023

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