Munich Reinsurance Company of Australasia Limited – New Zealand Branch

Annual Financial Report
31 December 2015

Principal Place of Business
Level15, PWC Tower 188 Quay Street Auckland New Zealand

Munich Reinsurance Company of Australasia Limited – New Zealand Branch

Statement on Corporate Governance

Munich Reinsurance Company of Australasia Limited (MRA) is an Australian company which operates in New Zealand through a branch. MRA is authorised by the Australian Prudential Regulation Authority to conduct life insurance business in Australia. The Company is also authorised by the Reserve Bank of New Zealand to conduct life reinsurance business in New Zealand. The Company is a reporting entity in terms of the Financial Markets Conduct Act 2013 and the financial statements have been prepared in accordance with the requirements of that Act and the Financial Reporting Act 2013.

Corporate governance across all areas of the Company is the responsibility of the MRA Board. Key responsibilities of the Board include:

a) approve and monitor the Company's corporate strategies;

b) ensure best practice corporate governance;

c) monitor the performance of the Company's management;

d) adopt appropriate risk management systems, internal control and reporting systems and compliance frameworks and monitor their operation;

e) approve the Company's financial results, including those of the New Zealand branch;

f) approve decisions concerning the Company's capital, including capital restructure, and dividend policy;

g) monitor compliance with the reporting and other requirements of the Corporations Act, Life Insurance Act and other applicable legislation, including legislation concerning the New Zealand Branch; and

h) review the preparation of financial reports and statements, including those of the New Zealand branch.

The Board comprises a majority of independent non-executive directors. All directors are subject to annual competency and Fit & Proper requirements and collectively must have the full range of skills needed for the effective and prudent operation of a company operating in the insurance industry.

To assist in fulfilling its functions, the Board has established the following Committees:

Risk and Compliance Committee which has responsibility for the oversight of the systems, controls and processes used to manage those risks to which MRA is exposed and responsibility to monitor compliance with all legal and statutory obligations of the Company.

Audit Committee to assist the Board in fulfilling its legal and fiduciary responsibilities relating to the integrity of the accounting and financial reporting of the Company, responsibility to implement and monitor the potential impact of financial risks on the Company and to review the performance and independence of the external auditor.

The Company has outsourced certain functions to a related entity, Munichre New Zealand Service Limited (NZS). NZS is incorporated in New Zealand and provides administrative services to the Group including MRA's New Zealand branch (NZL). NZS is a 100% owned subsidiary of Munich Holdings of Australasia Pty Limited (MHA).

MHA has established a Remuneration Committee and has a Remuneration Policy that aligns remuneration and risk management. The MRA Board formally delegated all remuneration responsibilities to the MHA Remuneration Committee. The MHA's Remuneration Committee's functions include conducting regular reviews of, and making recommendations to the Board on remuneration matters of the key staff, including New Zealand management.

As members of the Munich Re Group, all employees including those employed by NZS are subject to the Munich Re Code of Conduct. The purpose of the Code is to provide clear information and guidance for employees on the basic legal and ethical requirements with which they must comply in the course of their work.

To support the Governance function, the MRA Board has adopted the following MHA Board approved policies and procedures:

- Privacy Policy
- Conflict of Interest Policy and Procedure
- Whistle blowing Policy
- Fraud Risk Management Policy
- Insider Trading Policy and Procedure
- Incident Reporting and Investigation Policy
- Compliance Program
- Outsourcing Policy
- Fit and Proper Policy
- Business Continuity Management Policy

Munich Reinsurance Company of Australasia Limited – New Zealand Branch

Statement of Comprehensive Income for the year ended 31 December 2015

	Note	2015 $'000	2014 $'000
Reinsurance revenue		51,375	76,416
Investment revenue		8,180	8,928
Total revenue from operating activities	5	59,555	85,344
Expenses from operating activities	6(b)	(45,145)	(86,754)
Finance costs	6(c)	(1,718)	(1,952)
(Loss)/profit before tax		**12,692**	**(3,362)**
Income tax benefit/(expense)	8(a)	(4,710)	653
Total comprehensive (expense)/income for the year		**7,982**	**(2,709)**

The Statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 7 to 26.

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Statement of Financial Position as at 31 December 2015

	Note	2015 $'000	2014 $'000
Current assets			
Cash and cash equivalents	9	2,887	2,009
Outstanding premiums	10	26,650	21,394
Receivables	11	1,760	12,671
Retrocessionaires' share of life reinsurance contract liabilities	14	60	490
Other	13	3,957	9,837
Total current assets		**35,314**	**46,401**
Non-current assets			
Other financial assets	12	145,638	124,986
Retrocessionaires' share of life reinsurance contract liabilities	14	35,889	39,733
Deferred tax assets	15	6,232	5,821
Total non-current assets		**187,759**	**170,540**
Total assets		**223,072**	**216,941**
Current liabilities			
Payables	16	37,521	11,945
Provisions	17	19,293	27,469
Life reinsurance contract liabilities	18	885	2,595
Other	20	3,833	10,165
Total current liabilities		**61,532**	**52,174**
Non-current liabilities			
Life reinsurance contract liabilities	18	93,599	100,740
Other	21	35,016	38,867
Payables	22	-	217
Total non-current liabilities		**128,615**	**139,824**
Total liabilities		**190,147**	**191,998**
Net assets		**32,925**	**24,943**
Head office account			
Accumulated surplus – head office	24	(251)	(8,233)
Capital reserves	24	33,176	33,176
Total head office account		**32,925**	**24,943**

The Statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 7 to 26.

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Statement of Changes in Head Office Account for the year ended 31 December 2015

	Note	Capital reserve $'000	Accumulated Surplus – Head Office $'000	Total $'000
Balance at 1 January 2014		26,872	(5,524)	21,348
Total comprehensive income for the year				
Loss after tax for the year		-	(2,709)	(2,709)
Transfer to the shareholder's fund		6,304	-	6,304
Balance at 31 December 2014	**24**	**33,176**	**(8,233)**	**24,943**
Total comprehensive income for the year				
Profit after tax for the year		-	7,982	7,982
Balance at 31 December 2015	**24**	**33,176**	**(251)**	**32,925**

The Statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 7 to 26.

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Statement of Cash Flows for the year ended 31 December 2015

	Note	2015 $'000	2014 $'000
Cash flows from operating activities			
Treaty reinsurance		8,970	10,791
Retrocession received/ (paid)		7,759	(6,912)
Income tax transferred/ (paid)		(416)	(683)
Management and administrative expenses paid		(2,449)	(3,611)
Net cash from operating activities	31(a)	**13,864**	**(415)**
Cash flows from investing activities			
Interest received		6,509	5,482
Payments for investments		(63,065)	(61,084)
Proceeds from sale of investments		43,692	48,775
Investment expense		(122)	(91)
Net cash from investing activities		**(12,986)**	**(6,918)**
Cash flows from financing activities			
Transfer from the shareholder's fund		-	6,305
Net cash from financing activities		**-**	**6,305**
Net (decrease)/increase in cash held		878	(1,028)
Cash and cash equivalents at 1 January		2,009	3,037
Cash and cash equivalents at 31 December	31(b)	2,887	2,009

The Statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 7 to 26.

1. Summary of significant accounting policies

Set out hereunder are the significant accounting policies followed in the preparation of the financial report for the year ended 31 December 2015 for Munich Reinsurance Company of Australasia Limited – New Zealand branch ("Branch"). These policies have been consistently applied to all years presented, unless otherwise stated. The Company which is domiciled and incorporated in Australia, is registered in New Zealand to carry on business as a foreign company.

The financial report was authorised for issue by the Directors on 21 March 2016.

(a) Statement of compliance

This financial report is a general purpose financial report which has been prepared in accordance with the New Zealand Accounting Standards adopted by the Accounting Standards Review Board ("ASRB") and the Companies Act 1993. International Financial Reporting Standards ("IFRS") form the basis of New Zealand Accounting Standards adopted by the ASRB, being New Zealand equivalents to IFRS ("NZ IFRS"). The financial report of the Branch also complies with IFRS and interpretations adopted by the International Accounting Standards Board. The Company is a reporting entity in terms of the Financial Markets Conduct Act 2013 and the financial statements have been prepared in accordance with the requirements of that Act and the Financial Reporting Act 2013 and Insurance (Prudential Supervision) Act 2010.

(b) Basis of preparation

The financial report is presented in New Zealand Dollars, which is the Branch's presentation and functional currency.

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

The following accounting standards and interpretation were issued but is not yet mandatory and have not been adopted by the Branch for the financial year ended 31 December 2015. An assessment of the impact of the new standard is set out below:

- NZ IFRS 9 Financial Instruments includes requirements for the classification, measurement and de-recognition of financial assets and financial liabilities. The application date of NZ IFRS 9 has been deferred until 1 January 2018. Retrospective application is generally required, although there are exceptions. As the Branch currently classifies its financial assets either at amortised cost or fair value through the profit and loss, no material impact is expected on the Branch's financial performance or financial position on adoption of this standard. However, the Branch continues to monitor the impact of this standard.

- NZ IFRS 15 Revenue from Contracts with Customers establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue guidance. NZ IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Branch is assessing the potential impact on the financial statements resulting from the application of NZ IFRS 15.

The preparation of a financial report requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may vary from estimates. These accounting policies have been consistently applied by the Branch.

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

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

The accounting policies have been applied consistently by the Branch.

(c) Principles for life insurance business

The life reinsurance operations of the Branch are conducted within a separate statutory fund as required by the Australian Life Insurance Act (1995). The life insurance operations of the Branch comprise the reinsurance of life insurance contracts.

Life reinsurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). Products that do not meet the definition of a life insurance contract are classified as life investment contracts. Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness. All of the Branch's reinsurance contracts are classified as life insurance contracts. None are investment linked or other life investment type contracts.

(d) Premium revenue and recognition

Premiums are in respect of life reinsurance contracts. Premiums are recognised as revenue when due.

(e) Provision for outstanding claims and life reinsurance contract liabilities

Claims provisions cover claims reported but not yet paid. Allowance for incurred but not reported claims is included in the life reinsurance contract liabilities. The provision for life reinsurance contract liabilities is calculated using the Margin On Services valuation method as required by the Australian Life Insurance Act (1995). Claims incurred relating to life reinsurance contracts (providing services and bearing risks) are treated as expenses.

1. Summary of significant accounting policies (continued)

(f) Acquisition costs

Acquisition costs are recognised in line with the premiums to which they relate. The fixed and variable costs of acquiring new business include premium rebates, underwriting costs and sundry other costs. The actual acquisition costs are recorded in the statement of comprehensive income as incurred.

The Appointed Actuary, in determining the life reinsurance contract liabilities, implicitly takes account of the deferral and future recovery of acquisition costs resulting in life reinsurance contract liabilities being presented net of such costs and those costs being amortised over the period that they are projected to be recoverable.

(g) Retrocession expense

Premium ceded to retrocessionaires is recognised as an expense when due.

(h) Retrocession and other recoveries

Retrocession recoveries on incurred claims are recognised as revenue. Recoveries receivable are assessed in the same manner as the liability for outstanding claims and life reinsurance contract liabilities.

(i) Foreign currency translation

The financial statements are presented in New Zealand Dollars, which is the Branch's presentation and main functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the statement of comprehensive income in profit or loss.

(j) Income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the national 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.

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 substantially enacted for each jurisdiction. 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 only if it is probable that future taxable amounts will be available to utilise those temporary differences. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(k) Allocation and distribution of profit of statutory fund

The Branch does not issue participating policies, thus all profits are allocated to the shareholder.

The amount transferred to/from the New Zealand statutory fund from/to the Head Office account is determined after receiving written advice from the Appointed Actuary, including confirmation that the transfer will not breach the solvency and capital adequacy requirements in accordance with the requirements in Section 62 of the Australian Life Insurance Act (1995); and that the transfer is surplus to the solvency reserve specified in Professional Standard 5 issued by the New Zealand Society of Actuaries.

(l) Expense apportionment

Expenses are incurred in relation to the acquisition and maintenance of reinsured life insurance contracts and with respect to investment management and other administrative activities. Acquisition costs are the fixed and variable costs of acquiring new business, including premium rebates, underwriting costs and sundry other costs. Investment management costs include the costs involved with buying and selling investments and the ongoing management costs of an investment portfolio. All other expenses are considered to be maintenance costs incurred to administer existing reinsured life insurance contracts.

Apportionments under Part 6 Division 2 of the Australian Life Insurance Act (1995) have been made as follows:

(i) Direct expenses, e.g. premium rebates are allocated to the products to which they relate.

(ii) Indirect expenses are allocated on the basis of net revenue received taking into account that the expenses per product line are not of equal weighting.

(m) Rounding of amounts

Amounts in the financial report have been rounded off to the nearest thousand dollars.

1. Summary of significant accounting policies (continued)

(n) Assets backing life reinsurance contract liabilities

The Branch has determined that all assets held within its statutory fund are assets backing life reinsurance contract liabilities.

Financial assets backing life reinsurance contract liabilities are classified as fair value through profit or loss. Initial recognition and subsequent measurement is at fair value. Unrealised profits and losses on subsequent measurement to fair value are recognised as profit or loss.

Fair value by asset category is measured as follows:

- Cash assets are carried at face value of the amounts deposited. The carrying amounts of cash assets approximate their fair value. For the purposes of the statement of cash flows, cash includes cash on hand, deposits held at call with banks and investments in money market instruments, such as bills of exchange.
- Shares, fixed interest securities and units listed on stock exchanges are carried at the bid price of the instrument.
- Unlisted fixed interest securities are recorded at amounts based on valuations using rates of interest equivalent to the yields obtainable on comparable investments at balance date.
- Receivables are carried at book value, which is the best estimate of fair value, as they are settled within a short period.
- Deposits retained by ceding companies are recorded at fair value of the amount deposited.

Fair value excludes transaction costs for listed securities. Interest income is brought to account as it is earned. Dividend income is brought to account when it becomes receivable.

Purchases and sales of financial assets are recognised on trade date, being the date on which the Branch commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Branch has transferred substantially all the risks and rewards of ownership.

(o) Impairment of assets

All assets other than those which are outside the scope of NZ IAS 36 *Impairment of Assets* are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

(p) Receivables

Receivables are initially recognised and subsequently measured at book value less provision for doubtful debts, which is the best estimate of fair value. The collectability of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Branch will not be able to collect all amounts that are due in accordance with the original terms of the receivable. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated cash flows, discounted at the effective interest rate.

(q) Payables

These amounts are carried at book value, which approximates fair value and represents liabilities for goods and services provided to the Branch prior to the end of the financial year that were unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

2. Critical accounting estimates and judgements

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

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

2. Critical accounting estimates and judgements (continued)

(a) Life reinsurance contract liabilities

Life reinsurance contract liabilities are determined by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles as detailed in note 3 Summary of significant actuarial methods and assumptions – statutory fund. The methodology takes into account the risks and uncertainties of the particular classes of life reinsurance contracts accepted from cedants.

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

- The cost of providing benefits and administering the reinsurance of these insurance contracts together with the related retrocession arrangements.
- Mortality and morbidity experience on life reinsurance products.
- Discontinuance experience, which affects the Branch's ability to recover the cost of acquiring new business over the lives of the contracts.
- Data supplied by ceding companies in relation to the underlying policies being reinsured.
- The discount rate and inflation assumption applied to calculate the present value of future benefits.
- The historic delay pattern in the time taken between the date claims are incurred and the date they are notified to the Branch.

In addition, factors such as regulations, competition, interest rates, taxes, securities market conditions and general economic conditions affect the level of these liabilities. The number of major product groups was reduced by combining those groups exhibiting similar characteristics. Details of specific actuarial policies and methods are set out in note 3.

(b) Premium, claims and experience refund provisions

Premium provisions (net of premium rebates), claims provisions and experience refund provisions accrued at balance date include estimates of the amounts outstanding.

The methodology used in the calculation of premium provisions takes into account the annual premium inforce at the date of last premium receipt for each inforce treaty and the number of premium instalments outstanding for that treaty.

The methodology used to estimate claim provisions takes into account the recently reported claims up to the fast close date, the number of bordereaux outstanding for a treaty and the expected average monthly claims payments between fast close date and valuation date. Allowance for Incurred But Not Reported (IBNR) claims are incorporated into the calculation of the life reinsurance policy liability.

The calculation of the experience refund provision is dependent on these estimates of the premium and claim provisions at balance date.

3. Summary of significant actuarial methods and assumptions – statutory fund

The effective date of the actuarial report on life reinsurance contract liabilities and solvency requirements is 31 December 2015. The actuarial report was prepared by Mr Stuart Blackhall FIAA, the Appointed Actuary. The actuarial report indicates that the Appointed Actuary is satisfied as to the accuracy of data upon which the life reinsurance contract liabilities and solvency requirements have been determined.

The amount of life reinsurance contract liabilities has been determined in accordance with methods and assumptions disclosed in this financial report, the requirements of the Australian Life Insurance Act 1995 (which includes applicable prudential APRA requirements), the requirements of NZ IFRS 4 *Insurance Contracts* and the requirements of Professional Standard No. 3 issued by the New Zealand Society of Actuaries.

(a) Actuarial valuation methods

All product groups have been valued using the projection method. The projection method includes appropriate allowance for all reserves including IBNR, disabled lives, unrecouped acquisition costs and other reserves.

The major product groups are lump sum and disability income business. For disability income business the profit carrier is claims. For all other business premiums is the profit carrier.

(b) Actuarial assumptions

Assumption	Basis of assumption
Discount rates	Risk-free discount rates based on the current observable, objective rates that relate to the nature, structure and term of the future liability cash flows. 2015: 2.6% - 5.5% p.a.(2014: 3.6% - 5.0% p.a)

3. Summary of significant actuarial methods and assumptions – statutory fund (continued)

(b) Actuarial assumptions (continued)

Assumption	Basis of assumption
Maintenance expenses	The allowance for future expenses is a percentage of inforce premiums based on the Branch's planned expenses in 2015.
Inflation	Expected long term inflation rate based on the relativity between market yields on indexed and non-indexed government bonds and other market and economic data. 2015: 2.75% p.a.(2014: 2.75% p.a)
Voluntary discontinuance	The Branch's own experience. 2015: 0%-100% p.a. (2014: 0%-90% p.a.)
Surrender values	Ceding company values.
Mortality & morbidity	Biometric assumptions based on the company's own experience, supplemented by other experience sources in areas where own experience lacks credibility. No change in approach from 2014, but parameters have changed for Morbidity.
IBNR	Allowance was made for inherent delays in reporting claims based on investigations into the Branch's own recent experience. 2014 and 2015: IBNR determined using an adjusted chain-ladder method.

(c) Effects of changes in actuarial assumptions

	31 December 2014 to 31 December 2015	
Assumption category	Effect on net profit margins $'000 increase / (decrease)	Effect on net life reinsurance contract liabilities $'000 increase / (decrease)
Discount rates & inflation	363	568
Model and Assumptions change	(1,173)	7,912
Total	**(810)**	**8,480**

(d) Sensitivity of financial results

The valuations included in the reported results are calculated using certain assumptions about key underlying variables. The movement in any key variable will impact the performance and net assets of the Branch.

Variable	Impact of variable
Expense risk	An increase in the level or inflationary growth of expenses over assumed levels will decrease profit and equity.
Interest rate risk	The investment income of the Branch will decrease as interest rates decrease. This is offset to an extent by corresponding changes in the market value of fixed interest investments. The impact on profit and equity will be minimal for investment assets backing most life reinsurance contract liabilities, when the asset and liability profile is closely matched. However there will be an impact in respect of investment assets in excess of life reinsurance contract liabilities and annuity and other long term life reinsurance contract liabilities where close asset/liability matching is not possible. At balance date the assets are invested with a similar duration to the liabilities, hence there would be minimal impact on profits and equity as a result of interest rate movements.
Mortality rates	Greater mortality rates would lead to higher levels of claims and therefore reduce profit and equity.
Morbidity rates	The cost of disability-related claims depends on both the incidence of policy holders becoming disabled and, in the case of income benefits, the duration for which they remain disabled. Higher than expected incidence and duration would increase claim costs, reducing profit and equity.
Discontinuance	The impact of the discontinuance rate assumption depends on a range of factors including the type of contract, the surrender value basis (if any) and the duration in force. An increase in discontinuance rates at earlier policy durations usually has a negative effect on profit and equity, as it reduces the base from which the Branch may recoup expenses and generate profits. However, due to the interplay between a range of factors, there is not always an adverse outcome from an increase in discontinuance rates.

4. Risk management policies and procedures

The financial condition and operating results of the Branch are affected by a number of key financial and non-financial risks. Financial risks include credit risk, market risk and liquidity risk. The non-financial risks are insurance risk, compliance risk and operational risk. Risk management is the process of identifying, monitoring, controlling and reporting risks that could have a material impact on the operations of the Branch. The Branch's disclosed objectives and policies in respect of managing these risks are set out in the remainder of this note.

(a) Financial risks

(i) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

The following policies and procedures are in place to mitigate the Branch's exposure to credit risks and concentration:

- A mandate is in place that limits the exposure of the Branch to a minimum of the Standard & Poor's rating of A-. In most cases, if the rating of a security within the portfolio falls below A- it will be sold within three months. In some instances the security will be maintained within the portfolio, at the discretion of Branch, and its performance closely monitored.
- The credit risk in respect of client balances: Premium paid by cedents are paid net of rebate so that no rebate liability exists until a premium is paid. Additionally claim payments may be deferred where there are outstanding client balances.

The carrying amounts of financial assets represent the maximum credit exposure. The table below provides information regarding the maximum exposure to credit risk for the components of the Branch's balance sheet.

		Carrying amount	
		2015	**2014**
	Note	**$'000**	**$'000**
Cash and cash equivalents	9	2,887	2,009
Other financial assets at fair value through profit or loss			
- Debt securities	12	145,638	124,986
Amount due from ceding companies in respect of outstanding premium	10	26,650	21,394
Receivables	11	1,760	12,671
Retrocessionaires' share of life reinsurance contract liabilities	14	35,949	40,223
Claims recoveries from related retro	13	3,957	9,837
Total		**216,841**	**211,120**
No financial assets are either past due or impaired.			
Grade 1-3 (Standard & Poor's A- to AAA)		216,630	210,978
Grade 4-5 (Unrated or Standard & Poor's BB+ to BBB+)		211	142
Total		**216,841**	**211,120**

All financial assets carried at fair value through profit or loss are categorised as level 2 of the fair value measurement hierarchy. The fair value of level 2 financial assets are measured by using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. There were no transfers between levels in the current or prior year.

Other than to the New Zealand government, the Branch has no significant concentration of credit risk.

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments.

The following policy and procedures are in place to mitigate the Branch's exposure to liquidity risk:

- The Branch maintains a sufficient portfolio of liquid financial assets that are readily converted to cash to meet the needs of the business, without incurring unacceptable losses or risking damage to the Branch's reputation.
- The Branch maintains financial assets with similar duration as the underlying life reinsurance contract liabilities of the business in order to ensure sufficient funding is available to meet reinsurance contract obligations.

4. Risk management policies and procedures (continued)

(a) Financial risks (continued)

(ii) Liquidity risk

The table below summarises the maturity profile of the financial liabilities of the Branch at carrying value.

	Up to 1 year $'000	1-5 years $'000	Over 5 years $'000	Total $'000
2015				
Amount due to ceding companies	22,828	-	-	22,828
Amount due to related retrocessionaire	8,122	-	-	8,122
Amount due to related entities	6,551	-	-	6,551
Sundry payables	20	-	-	20
Outstanding claims	19,121	-	-	19,121
Non-resident withholding tax	172	-	-	172
Deposit retained from related retrocessionaire	3,833	6,615	27,550	37,998
Life reinsurance contract liabilities	885	20,059	73,540	94,484
Related retrocessionaire's share of unrealised gains on investments	-	234	617	851
Total	**61,532**	**26,908**	**101,707**	**190,147**
2014				
Amount due to ceding companies	10,494	217	-	10,711
Amount due to related retrocessionaire	-	-	-	-
Amount due to related entities	1,431	-	-	1,431
Sundry payables	20	-	-	20
Outstanding claims	27,054	-	-	27,054
Non-resident withholding tax	415	-	-	415,
Life reinsurance contract liabilities	2,595	19,686	81,054	103,335
Deposit retained from related retrocessionaire	10,165	6,654	31,187	48,006
Related retrocessionaire's share of unrealised gains on investments	-	32	994	1,026
Total	**52,174**	**26,589**	**113,235**	**191,998**

(iii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises interest rate risk, currency risk and other price risk.

The following policy is in place to mitigate the Branch's exposure to market risk:

- The Branch manages its risk within an Asset Liability Management (ALM) framework. The ALM framework forms an integral part of the reinsurance risk management policy which aims to ensure that the Branch maintains financial assets with similar duration and cash flow characteristics as the underlying life reinsurance contract liabilities of the business. This framework aims to manage the effect of interest rate movements on the net assets of the Branch. At the balance sheet date the assets are invested with somewhat shorter duration than the liabilities, hence there would be an impact on profits and equity as a result of interest rate movements.

  An integral part of the ALM framework is the investment mandate of the Company. On an annual basis the investment mandate is reassessed and updated, after which the MRA Board reviews and approves this document before implementation. This review reflects any changes which have occurred within the liabilities with the aim of modifying the asset allocation to realign the assets to the latest liability profile.

- The Branch does not trade in derivatives or use derivatives to manage exposures to interest rate risk, foreign currency risk and other price risk.

Interest rate risk

The Branch has determined that all assets held within its statutory funds are assets backing life reinsurance contract liabilities. The investment income of the Branch will decrease as interest rates decrease. This is offset to an extent by corresponding changes in the market value of fixed interest investments. The impact on profit and equity will be minimal for investment assets backing most life reinsurance contract liabilities, when the asset and liability profile is closely matched. However in respect of investment assets in excess of life reinsurance contract liabilities and other long term life reinsurance contract liabilities where close assets/liability matching is not possible, there will be an impact on profit and equity when interest rates change.

4. Risk management policies and procedures (continued)

(a) Financial risks (continued)

(iii) Market risk (continued)

Ignoring taxation impacts, at 31 December 2015, an increase in interest rates of 100 basis points would decrease profit and equity by $415,000 (2014: increase $81,000). A corresponding decrease of 100 basis points would decrease profit and equity by $91,000. (2014: decrease $830,000).

The Branch's exposure to interest rate risk and the effective weighted average interest rate for each significant class of interest bearing financial asset are set out below:

			---- Fixed interest maturing in:----			
	Weighted average interest rate	Floating interest rate $'000	Up to 1 year $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
2015						
Cash	1.05%	1,087	-	-	-	1,087
Deposits at call	2.50%	1,800	-	-	-	1800
Government bonds	5.37%	-	-	12,400	133,238	145,638
Total		**2,887**	**-**	**12,400**	**133,238**	**148,525**
2014						
Cash	2.35%	1,109	-	-	-	1,109
Deposits at call	3.50%	900	-	-	-	900
Government bonds	5.41%	-	-	20,343	104,643	124,986
Total		**2,009**	**-**	**20,343**	**104,643**	**126,995**

Currency risk

The Branch operates in New Zealand. Assets are maintained in the local currency to match the expected liabilities in local currency. Hence the Branch's currency risk is not considered to be of a material nature.

Other price risk

The Branch does not trade derivatives or hold equity securities in another entity, therefore there is no material exposure to other price risk.

(b) Capital management

(i) Regulatory capital

Under the Life (Prudential Supervision) Act 2010, MRA was issued with a full licence by the Reserve Bank of New Zealand in 2015. In accordance with the Act, it is the licensed entity, MRA, and not the Branch that must comply with the solvency requirements.

The Branch is subject to externally imposed capital requirements set and regulated by the Australian Prudential Regulation Authority (APRA). These requirements are in place to ensure sufficient solvency margins are held within the statutory fund in respect of the life insurance business of the Branch. The solvency requirements of Professional Standard 5 of the New Zealand Society of Actuaries also affects the capital held.

The amount of capital required to be held by the Branch is based primarily upon the regulatory capital requirements and buffer capital policy. In order to minimise the risk of breaching the regulatory capital requirements, the level of capital held by the Branch is regularly monitored relative to a MRA Board approved ICAAP. It also takes into account the longer term strategic objectives of its ultimate parent company Münchener Rückversicherungs-Gesellschaft (MR-AG) in order to maximise shareholder value.

The Branch manages its capital requirements by assessing economic conditions and risk characteristics of its business activities on a regular basis to ensure that the above regulatory requirements and business objectives are met. The capital structure is maintained or adjusted by the amount of transfers to or capital reduction/(injections) to/(by) its parent company Munich Holdings of Australasia Pty Limited ("MHA").

4. Risk management policies and procedures (continued)

(b) Capital management (continued)

(i) Regulatory capital (continued)

The Branch complied with the regulatory capital requirements during the reported financial year and no change was made to its objectives, policies and processes from the previous year. For detailed information on the capital being managed and required capital by APRA, refer note 19.

(ii) Ratings capital

MRA and hence the branch is classified as a core entity of MR-AG and therefore obtains the same credit rating as MR-AG based on ratings published by Standard & Poor's Ratings services at 31 December 2015. The ratings help to reflect the financial strength of the Branch and demonstrates to stakeholders the ability to pay claims for the long term.

(c) Risk management objectives and policies for mitigating insurance risks

Insurance risk involves the consideration of the market, product design, pricing, underwriting, claims management and valuation risk.

Portfolio of risks

The Branch issues reinsurance contracts covering term life, accident and disability (income and lump sum) on an individual or group basis. In addition the Branch has conventional catastrophe and medical expenses business either in run off or written on an annual, non-guaranteed renewable basis. The Branch does not write investment-linked business.

Risk management strategy

The Company's risk management strategy, which covers the operations of the Branch, involves the identification of risks by type, impact and likelihood of occurrence, the implementation of processes and controls to mitigate those risks and continuous monitoring and improvement of the procedures.

Exposure to risk

In an effort to protect and enhance shareholder value, the Branch actively manages its exposure to risks so that it can react in a timely manner to changes in insurance market conditions, economic and political environments and financial markets. Risk exposures are managed using various analysis and valuation techniques, pricing business to meet profitability targets, applying underwriting controls to new business, managing claims in line with assumptions and monitoring emerging results to detect and correct adverse variances.

Management reporting

The Branch reports financial and operational results quarterly and undertakes regular experience analyses to monitor emerging trends.

Retrocessions

The Company's retrocession programme, which includes the operations of the Branch, reduces its exposure to single large risks and/or to a large number of smaller claims.

Underwriting and claims management procedures

Underwriting procedures are set out in the underwriting process documentation and include limits to delegated authorities and signing powers. Internal auditors review the underwriting and claims management processes to ensure adequate controls are in place and that they are effective. Strict claims management procedures ensure the timely and correct payment of claims in accordance with treaty conditions. Active claims management is particularly necessary for disability income business. All large losses are reported to the MRA Board.

(d) Terms and conditions of reinsurance contracts

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

Type of contract	Detail of contract workings	Nature of compensation for claims	Key variables that affect the timing and uncertainty of future cash flows
Non-participating life reinsurance contracts with fixed and guaranteed terms • Term life • Disability (income and lump sum) • Catastrophe • Medical expenses	Guaranteed benefits paid on death, survival or disability that are fixed and guaranteed and not at the discretion of the issuer	Benefits, defined by the reinsurance contract, are determined by the contract and are not directly affected by the performance of underlying assets or the performance of the contracts as a whole.	Mortality Morbidity Market earning rates Interest rates Discontinuance rates Expenses

4. Risk management policies and procedures (continued)

(e) Concentrations of insurance risk

The Branch's group life risk segment offers death and disablement protection to employers of large workforces. The concentration of such workforces in single locations is a factor that exposes the Branch to a higher risk of loss in the event of an accident affecting the location where the reinsured employees work. The Branch conducts significant analysis of single-event exposures on an ongoing basis and continues to be well within the limits mandated by MR-AG.

(f) Claims development

Information about actual claims compared to previous estimates is provided below for claims for business for which uncertainty about the amount and timing of claim payments is not typically resolved within one year. For the Branch, such claims comprise disability income claims.

	2015 $'000	2014 $'000
Net claims incurred		
Expected	43,463	37,691
Actual	35,725	34,243

5. Revenue from operating activities

	2015 $'000	2014 $'000
Reinsurance revenue		
Reinsurance premium revenue	44,071	50,630
Retrocession recoveries from reinsurance contracts	7,304	25,786
Total reinsurance revenue	**51,375**	**76,416**
Investment revenue		
Interest	6,727	5,514
Net realised and unrealised gains	1,453	3,414
Total investment revenue	**8,180**	**8,928**
Total revenue from operating activities	**59,555**	**85,344**

6. Expenses from operating activities

	2015 $'000	2014 $'000
(a) Claims expense		
Gross reinsurance claims expense	31,586	39,466
(b) Other expenses		
Retrocession premium expense	18,320	19,682
Movement in life reinsurance contract liabilities	(8,852)	22,681
Policy acquisition costs		
Rebate	452	705
Other costs	349	609
Total policy acquisition costs	**801**	**1,314**
Policy maintenance costs		
Rebate	1,749	2,087
Other costs	1,407	1,420
Total policy maintenance costs	**3,156**	**3,507**
Investment expense	122	91
Net realised and unrealised loss	-	-
Foreign exchange losses	12	13
Total	**134**	**104**
Total other expenses	**13,559**	**47,288**
Total expenses from operating activities	**45,145**	**86,754**
(c) Finance costs		
Interest payable on deposit retained from related retrocessionaire	1,718	1,952
Total claims, other expenses & finance costs	**46,863**	**88,706**

7. Operating profit

Sources of shareholder's operating profit of statutory fund

	2015 $'000	2014 $'000
Operating profit after income tax arose from:		
Components of shareholder's profit related to movement in life reinsurance contract liabilities (non investment-linked business)		
• Planned margins of revenues over expenses released	1,551	725
• Experience gain/(loss)	12,430	6,614
• Capitalisation of expected future losses	(7,463)	(11,475)
• Investment earnings on assets in excess of life reinsurance contract liabilities	1,464	1,427
Operating (loss)/profit after income tax of statutory fund (note 24)	**7,982**	**(2,709)**

8. Income tax

(a) Income tax expense

	2015 $'000	2014 $'000
Current taxes – current year	4,721	1,431
Deferred taxes – current year	(11)	(2,084)
Income tax (benefit)/expense	**4,710**	**(653)**

(b) Reconciliation of prima facie tax payable to income tax expense

	2015 $'000	2014 $'000
Profit/(loss)/ from operating activities before income tax	12,692	(3,362)
Prima facie tax payable at 28%	3,554	(941)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenses	1,037	425
Non-assessable expense/(income)	119	(137)
Income tax (benefit)/expense	**4,710**	**(653)**

(c) Income tax payable

	2015 $'000	2014 $'000
Opening balance at 1 January	-	(271)
Additional provisions recognised - current year	4,721	(4,206)
Additional provision recognised – prior year	400	271
Transfer of tax losses	(5,121)	4,206
Closing balance at 31 December	-	-

9. Current assets – cash and cash equivalents

	2015 $'000	2014 $'000
Cash at bank	1,087	1,109
Deposits at call	1,800	900
Total	**2,887**	**2,009**

(a) Cash at bank

Cash at bank is currently held at a floating interest rate of 1.05% p.a. (2014: 1.95% to 2.75% p.a.).

(b) Deposits at call

The deposits at call are currently held at a floating interest rates of 2.50% p.a (2014: 3.50% p.a.).

10. Current assets – outstanding premiums

	2015 $'000	2014 $'000
Amount due from ceding companies	26,650	21,394

11. Current assets – receivables

	2015 $'000	2014 $'000
Amount due from related retrocessionaire	-	9,787
Recoveries due from non-related retrocessionaire	190	519
Amount due from ceding companies	103	1,041
Accrued income	1,297	1,079
GST receivable	170	245
Total	**1,760**	**12,671**

12. Other financial assets

(a) Other financial assets – fair value through profit or loss

	2015 $'000	2014 $'000
Debt securities – unsecured, including bills of exchange	145,638	124,986
Total other financial assets – fair value through profit or loss	145,638	124,986
Non-current other financial assets	145,638	124,986
Total other financial assets – fair value through profit or loss	145,638	124,986

Changes in the fair value of other financial assets are recorded as revenue or expense in the statement of comprehensive income - refer notes 5 and 6(b).

(b) Financial asset restrictions

Financial assets held in the life statutory fund can only be used within the restrictions imposed under the Australian Life Insurance Act (1995). The main restrictions are that the assets in a fund can only be used to meet liabilities and expenses of that fund, to acquire financial assets to further the business of the fund or as distributions to the shareholder when capital adequacy requirements are met.

13. Current assets – others

	2015 $'000	2014 $'000
Claims recoveries on related retrocession	3,957	9,837
Total	**3,957**	**9,837**

14. Retrocessionaires' share of life reinsurance contract liabilities

	2015 $'000	2014 $'000
Current		
Recoveries due (to)/from related retrocessionaire in respect of life reinsurance contract liabilities	(124)	327
Recoveries due from non-related retrocessionaire in respect of life reinsurance contract liabilities	184	163
Total	**60**	**490**
Non-current		
Recoveries due from related retrocessionaire in respect of life reinsurance contract liabilities	34,166	37,842
Recoveries due from non-related retrocessionaire in respect of life reinsurance contract liabilities	1,723	1,891
Total	**35,889**	**39,733**
Total Current and Non-current		
Recoveries due from related retrocessionaire in respect of life reinsurance contract liabilities	34,042	38,169
Recoveries due from non-related retrocessionaire in respect of life reinsurance contract liabilities	1,907	2,054
Total	**35,949**	**40,223**

15. Non-current assets – deferred tax asset

	2015 $'000	2014 $'000
Deferred tax asset relates to timing differences and comprises the tax effect of the following amounts recognised in the profit or loss:		
Accrued expenses	608	658
Components of life reinsurance contract liabilities	5,624	5,161
Other	-	2
Deferred tax asset	**6,232**	**5,821**
Movements:		
Opening balance at 1 January	5,821	3,737
Charged to the statement of comprehensive income	11	4,858
Tax loss utilisation	400	(2,774)
Closing balance at 31 December	**6,232**	**5,821**

16. Current liabilities – payables

	2015 $'000	2014 $'000
Amount due to ceding companies	22,828	10,494
Amount due to related retrocessionaire (refer note 30(e))	8,122	-
Amount due to related entities (refer note 30(e))	6,551	1,431
Sundry payables	20	20
Total	**37,521**	**11,945**

The amount due to the related retrocessionaire represents the Branch's net contractual rights under retrocession agreements with MR-AG (refer note 30).

17. Current liabilities – provisions

	2015 $'000	2014 $'000
Outstanding claims	19,121	27,054
Non-resident withholding tax	172	415
Total	**19,293**	**27,469**

Movements:

The movement in each class of provision in the financial year is set out below:

2015	**Outstanding claims $'000**	**Non-resident withholding tax $'000**	**Total $'000**
Opening balance at 1 January 2015	27,054	415	27,469
Additional provisions recognised	31,585	172	31,757
Liabilities paid	(39,518)	(415)	(39,933)
Closing balance at 31 December 2015	**19,121**	**172**	**19,293**

2014	Outstanding claims $'000	Non-resident withholding tax $'000	Total $'000
Opening balance at 1 January 2014	19,378	412	19,790
Additional provisions recognised	39,467	415	39,882
Liabilities paid	(31,791)	(412)	(32,203)
Closing balance at 31 December 2014	**27,054**	**415**	**27,469**

18. Life reinsurance contract liabilities

	2015 $'000	2014 $'000
Gross life reinsurance contract liabilities		
Current	885	2,595
Non-current	93,599	100,740
Total Gross life reinsurance contract liabilities assumed – see below (a) and (b)	**94,484**	**103,335**

(a) (i) Life reinsurance contract liabilities assumed

	2015 $'000	2014 $'000
Reinsured life reinsurance contract liabilities:		
Gross life reinsurance contract liabilities assumed	94,484	103,335
Gross life reinsurance contract liabilities ceded – note 14	(35,949)	(40,223)
Net life reinsurance contract liabilities	**58,535**	**63,112**

All life reinsurance contract liabilities assumed are in respect of the life statutory fund.

(ii) Reconciliation of changes in life reinsurance contract liabilities and retrocession assets

	2015 $'000	2014 $'000
Opening balance gross life reinsurance contract liabilities at 1 January	103,335	80,654
(Decrease)/increase in gross life reinsurance contract liabilities	(8,851)	22,681
Closing balance gross life reinsurance contract liabilities at 31 December	**94,484**	**103,335**
Opening balance retroceded life reinsurance contract liabilities at 1 January	40,223	30,060
(Decrease)/increase in retroceded life reinsurance contract liabilities	(4,274)	10,163
Closing balance retroceded life reinsurance contract liabilities at 31 December	**35,949**	**40,223**
Opening balance net life reinsurance contract liabilities at 1 January	63,112	50,594
(Decrease)/increase in net life reinsurance contract liabilities	(4,577)	12,518
Closing balance net life reinsurance contract liabilities at 31 December	58,535	**63,112**

(b) Components of net life reinsurance contract liabilities

	2015 $'000	2014 $'000
Best estimate liability for non investment-linked business		
Value of future policy benefits	272,969	261,749
Value of future expenses	52,423	42,803
Value of future premiums	(287,744)	(263,314)
Total	37,648	**41,238**
Value of future profits for non investment-linked business		
Shareholder profit margins	20,887	21,874
Net life reinsurance contract liabilities	**58,535**	**63,112**

19. Solvency requirement of the life statutory fund

Under the Life Insurance Act 1995 and the solvency requirement of Professional Standard 5.01 of the New Zealand Society of Actuaries, a life insurer holds reserves in excess of its life insurance contract liabilities and other liabilities in order to satisfy the life insurer's capital requirements and to provide a buffer against adverse experience.

The Branch determines capital requirements in accordance with APRA's LPS110 which prescribes the minimum capital requirement for the statutory fund and the minimum level of assets required to be held in the statutory fund. The Capital Adequacy multiple in the table below show the number of times there is coverage for the Branch representing the excess assets available over the prescribed capital amount. All of the amounts included in net assets as per the Life Insurance Act are Tier 1 capital.

	2015 $'000	2014 $'000
Capital Base	37,247	32,525
Common equity tier 1 (Net assets)	32,924	24,943
Total regulatory adjustments to net assets	4,323	7,582
Additional tier 1 capital	-	-
Total regulatory adjustments to additional tier 1 capital	-	-
Tier 2 capital	-	-
Total regulatory adjustments to Tier 2 capital	-	-
Total capital base (Actual Solvency Capital) (A)	**37,247**	**32,525**
Prescribed capital		
Insurance risk capital; charge	16,391	15,754
Asset risk capital charge	8,055	5,243
Asset concentration risk charge	-	-
Operational risk charge	960	1,012
Less aggregation benefit	(4,790)	(3,426)
Combined stress scenario adjustment	3,802	5,317
Total Prescribed capital amount (Minimum Solvency Capital) (B)	**24,418**	**23,900**
Capital adequacy multiple (Solvency Ratio) (A/B)	**1.53**	**1.36**
Solvency Margin (A-B)	**12,829**	**8,625**

	2015 $'000	2014 $'000
20. Current liabilities - other		
Deposit retained from related retrocessionaire	3,833	10,165

21. Non-current liabilities – other

	2015 $'000	2014 $'000
Accrual of related retrocessionaire's share of unrealised gains on investments	851	1,026
Deposit retained from related retrocessionaire	34,165	37,841
	35,016	**38,867**

	2015 $'000	2014 $'000
22. Non-current liabilities – payables		
Amount due to ceding companies	-	217

23. Determination of fair values

(a) Fair value hierarchy

NZ IFRS 13 *Fair Value Measurement* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2), and
- Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs) (level 3).

Where the determination of fair value for an instrument involves inputs from more than one category, the level within which the instrument is categorised in its entirety is determined on the basis of the lowest level input.

(b) Recognised fair value measurements

As at 31 December 2015, the Branch held the following classes of assets and liabilities measured at fair value:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Debt securities	-	145,638	-	145,638
Total	**-**	**145,638**	**-**	**145,638**

There were no transfers between level 1,2 and 3 for recurring fair value measurements during the year. The Branch's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of reporting period.

Financial assets measured at fair value in 2014 have been reviewed and re-classified from Level 1 to Level 2 to better reflect the categorisation of these assets into the fair value hierarchy. This change does not impact the financial results of the Company or any other notes in the financial statements.

(c) Fair values vs carrying amounts

The fair values of financial assets and liabilities together with the carrying amounts shown in the statement of financial position are as follows:

	Note	2015 Carrying value $'000	2015 Fair value $'000	2014 Carrying value $'000	2014 Fair value $'000
Financial assets					
Cash and cash equivalents	9	2,887	2,887	2,009	2,009
Debt securities – unsecured	12(a)	145,638	145,638	124,986	124,986
Total		**148,525**	**148,525**	**126,995**	**126,995**

24. Reserves and retained profits

Summary of shareholder's interests

	2015 $'000	2014 $'000
Net (loss)/profit for the year	7,982	(2,709)
Retained loss at 1 January	(8,233)	(5,524)
Retained loss at 31 December (overseas and non-participating)	(251)	(8,233)
Capital reserve	33,176	33,176
Shareholder's equity	**32,925**	**24,943**

25. Dividends

No dividend was paid for the year ended 31 December 2015. (2014: nil).

26. Remuneration of auditors

During the year, the following fees were paid or payable for services provided by the auditor of the Branch and its related practices:

	2015 $	2014 $
KPMG Australia:		
Audit and review of financial reports under the Companies Act 1993	33,889	24,542
Total remuneration for audit services	**33,889**	**24,542**

The arrangement and payment for audit services was undertaken by MHA on behalf of the Branch.

27. Contingencies

The Branch has no known contingent liabilities or contingent assets at the reporting date or the previous reporting date.

28. Commitments

There have been no capital or lease commitments contracted for at the reporting date or the prior year reporting date that have not been recognised as a liability.

29. Events occurring after the balance sheet date

No significant events have occurred subsequent to the balance sheet date.

30. Related party transactions

(a) Parent entities

The parent entity in Australia is Munich Holdings of Australasia Pty Ltd ("MHA"). The ultimate parent entity is Münchener Rückversicherungs-Gesellschaft ("MR-AG"), a company incorporated in Germany with limited liability.

(b) Directors

The following persons were Directors of Munich Reinsurance Company of Australasia Limited during the financial year:

		During the year the identified directors were also appointed director of:			
		Calliden Insurance Limited	Calibre Commercial Insurance Pty Ltd	Yealands Estate Limited	Yealands Estate Wines Limited
E G Tollifson	Chairman – non-executive - independent	✓			
A H Eder	Executive director	✓	✓		
B Edwards	Non-executive director - independent	✓			
A Rear	Non-executive director				
J B Shewan	Non-executive director - independent	✓		✓	✓
O Shub	Non-executive director	✓			
R Eckl	Resigned 31 August 2015	✓	✓		

During the year B Edwards resigned as a director of A.L.I Group Pty Ltd. And E G Tollifson resigned as a member of the advisory board of Salvos Youth Foundation.

	2015 $	2014 $
(c) Key management personnel compensation		
Short term employee benefits	72,238	113,382
Post employment benefits	7,969	13,470
Total	**80,207**	**126,852**

(d) Transactions with related parties

The following transactions occurred with related parties:

	2015	2014
Transactions in respect of retrocession of reinsurance contracts with:		
MR-AG	3,296,697	(12,567,058)
Transactions in respect of recharges of expenses incurred by the Branch with:		
MHA	2,323,827	2,768,445
Other related entities	121,126	146,767
Transaction in respect of transfer from the shareholder's fund to the New Zealand statutory fund	0	6,304,800
Transactions in respect of expenses paid on behalf of the Branch by:		
MRA	149,689	90,736
Transactions in respect of transfer of tax losses from:		
MR-AG	5,120,170	1,431,185

(e) Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	2015	2014
Current receivable/(payables) in respect of retrocession of reinsurance contracts	(8,122,351)	9,786,659
Current receivables/(payables) in respect of GST liabilities	170,326	245,569
Current receivable/(payables) in respect of tax losses transferred to related entities	(6,551,355)	(1,431,185)

No provision for doubtful debts has been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

(f) Guarantees

No guarantees have been given to or received from any related parties that are outside the normal trading arrangements involving the retrocession of reinsurance contracts.

(g) Terms and conditions

All related party transactions were made on normal commercial terms and conditions and at market rates (including market rental rates) except that there are no fixed terms for the repayment of loans between the parties.

Outstanding balances are unsecured and are repayable in cash.

31. Reconciliation of profit after income tax to net cash flows from operating activities

(a) Reconciliation of profit after income tax to the net cash flows from operating activities:

	2015 $'000	2014 $'000
Profit/(loss) from operating activities after income tax	7,982	(2,709)
Movements in:		
Trade debtors	938	642
Outstanding premiums due from ceding companies	(5,256)	(3,370)
Trade creditors	12,117	(939)
Retrocessionaires' current account	23,614	(14,609)
Other retrocession debtors / creditors	329	(494)
GST - acquisitions	75	(731)
Provision for tax	-	(271)
Related entities	5,122	1,431
Provision for non-resident withholding tax	(244)	3
Deferred taxes	(411)	(2,084)
Gross policy liabilities	(8,852)	22,681
Related retrocession policy liabilities	4,277	(10,163)
Outstanding claims reserve	(7,933)	7,676
Deposit retained from related retrocessionaire	(10,011)	12,765
Sundry creditors	-	37
Adjustments for:		
Gain on revaluation of investments	(1,278)	(4,857)
Investment revenue	(6,727)	(5,514)
Investment expense	122	91
Net cash flows from operating activities	**13,864**	**(415)**

Cash flows arising from life treaty underwriting activities are presented on a net basis in the statement of cash flows as treaty assets and liabilities are settled on a net basis.

(b) Cash and cash equivalents:

	2015 $'000	2014 $'000
Cash	1,087	1,109
Deposits at call	1,800	900
Total per cash flow statement	**2,887**	**2,009**

Munich Reinsurance Company of Australasia Limited – New Zealand Branch

Directors' Declaration

The Directors are pleased to present the financials statements of Munich Reinsurance Company of Australasia Limited – New Zealand Branch for the year ended 31 December 2015.

In the opinion of the Directors of Munich Reinsurance Company of Australasia Limited, the financial statements and notes of the New Zealand Branch (the Branch), on pages 1 to 28:

(a) comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Branch as at 31 December 2015 and the results of operations for the year ended on that date;

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

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

The Directors consider that they have taken adequate steps to safeguard the assets of the Branch, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide reasonable assurance as to the integrity and reliability of the financial statements. There are reasonable grounds to believe that, as at the time this statement is made, the Branch will be able to pay all debts or claims as and when they are due.

Signed in Sydney on 21 March 2016 in accordance with a resolution of the Directors:

E G Tollifson
Director

A H Eder
Director

Independent auditor's report

To the shareholders of Munich Reinsurance Company of Australasia Limited – New Zealand Branch

Report on the financial statements

We have audited the accompanying financial statements of Munich Reinsurance Company of Australasia Limited – New Zealand Branch ("the branch") on pages 3 to 26. The financial statements the statement of financial position as at 31 December 2015, the income statement and statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Directors' responsibility for the financial statements

The directors are responsible on behalf of the branch for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the branch's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the branch's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

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

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

KPMG

Opinion

In our opinion, the financial statements on pages 3 to 26 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the financial position of Munich Reinsurance Company of Australasia Limited - New Zealand Branch as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

KPMG

David Kells
Partner

Sydney

21 March 2016