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**Munich Reinsurance Company of Australasia
Limited – New Zealand Branch**

Annual Financial Report
31 December 2009

NPC # 07
14 MAY 2010

Registered Office
Level 30, 23-29 Albert Street Auckland New Zealand

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Statement of Comprehensive Income for the year ended 31 December 2009

	Note	2009 \$'000	2008 \$'000
Revenue from operating activities	5	64,810	71,248
Expenses from operating activities	6(b)	61,474	65,769
Finance costs	6(c)	1,031	1,507
Profit from operating activities before income tax		2,305	3,972
Income tax credit/(expense) attributable to operating profit	8(a)	411	(1,507)
Total comprehensive income for the year		2,716	2,465

The Statement of Comprehensive Income is to be read in conjunction with the notes to the financial statements set out on pages 5 to 23.

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Balance Sheet as at 31 December 2009

	Note	2009 \$'000	2008 \$'000
Current assets			
Cash and cash equivalents	9	2,875	4,049
Outstanding premiums	10	18,350	17,797
Receivables	11	2,975	2,292
Other financial assets	12	12,969	6,095
Retrocessionaires' share of life reinsurance contract liabilities	13	7,462	8,552
Income tax receivable	8(c)	1,847	-
Total current assets		46,478	38,785
Non-current assets			
Other financial assets	12	77,094	78,141
Retrocessionaires' share of life reinsurance contract liabilities	13	20,468	17,933
Deferred tax assets	14	3,064	3,618
Total non-current assets		100,626	99,692
Total assets		147,104	138,477
Current liabilities			
Payables	15	15,361	7,047
Income tax payable	8(c)	-	694
Provisions	16	13,840	12,230
Life reinsurance contract liabilities	17	18,150	22,333
Other	19	6,877	8,150
Total current liabilities		54,228	50,454
Non-current liabilities			
Life reinsurance contract liabilities	17	48,727	43,880
Other	20	17,679	16,681
Total non-current liabilities		66,406	60,561
Total liabilities		120,634	111,015
Net assets		26,470	27,462
Equity			
Reserves	21	15,500	15,500
Retained profits	21	10,970	11,962
Total equity		26,470	27,462

The Balance Sheet is to be read in conjunction with the notes to the financial statements set out on pages 5 to 23.

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Statement of Changes in Equity for the year ended 31 December 2009

	Note	Capital reserve \$'000	Retained profits \$'000	Total \$'000
Balance at 1 January 2008		15,500	9,497	24,997
Total comprehensive income for the year				
Profit after tax for the year		-	2,465	2,465
Balance at 31 December 2008	21	15,500	11,962	27,462
Total comprehensive income for the year				
Profit after tax for the year		-	2,716	2,716
Transfer to the Australian statutory fund		-	(3,708)	(3,708)
Balance at 31 December 2009	21	15,500	10,970	26,470

The Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements set out on pages 5 to 23.

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Statement of Cash Flows for the year ended 31 December 2009

	Note	2009 \$'000	2008 \$'000
Cash flows from operating activities			
Treaty reinsurance		12,207	(319)
Retrocession		(2,368)	(1,356)
Income tax (paid)		(1,530)	(3,672)
Management and administrative expenses		(3,350)	(3,492)
Other income		-	1
Net cash from operating activities	29(a)	<u>4,959</u>	<u>(8,838)</u>
Cash flows from investing activities			
Interest received		5,088	5,133
Payments for investments		(51,572)	(64,425)
Proceeds from sale of investments		53,403	70,475
Investment expenses paid		(83)	(79)
Net cash from investing activities		<u>6,836</u>	<u>11,104</u>
Net increase in cash held		<u>11,795</u>	<u>2,266</u>
Cash and cash equivalents at 1 January		<u>4,049</u>	<u>1,783</u>
Cash and cash equivalents at 31 December	29(b)	<u><u>15,844</u></u>	<u><u>4,049</u></u>

The Statement of Cash Flows is to be read in conjunction with the notes to the financial statements set out on pages 5 to 23.

Munich Reinsurance Company of Australasia Limited – New Zealand Branch

Notes to the financial statements for the year ended 31 December 2009

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 2009 for Munich Reinsurance Company of Australasia Limited – New Zealand branch ("Branch"). The Company which is domiciled and incorporated in Australia, is registered in New Zealand to carry on business as a foreign company. These policies have been consistently applied to all years presented, unless otherwise stated.

The financial report was authorised for issue by the Directors on 24 March 2010.

(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.

(b) Basis of preparation

The financial report is presented in New Zealand Dollars.

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

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 discernable 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.

(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, 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.

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2009

1. Summary of significant accounting policies (continued)

(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.

Assets and liabilities expressed in another functional currency are translated to the presentation currency using the closing rate at the reporting date and income and expenses are translated using the average exchange rate for the year. Foreign exchange gains and losses resulting from this translation are recognised in equity.

(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 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.

(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 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 in the statement of comprehensive income.

Fair value by asset category is measured as follows:

Munich Reinsurance Company of Australasia Limited – New Zealand Branch

Notes to the financial statements for the year ended 31 December 2009

1. Summary of significant accounting policies (continued)

(n) Assets backing life reinsurance contract liabilities (continued)

- 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.
- Fair value of shares, fixed interest securities and units listed on stock exchanges is taken as 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.

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.

(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.

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2009

2. Critical accounting estimates and judgements (continued)

(a) Life reinsurance contract liabilities (continued)

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 provide for claim payments takes into account the expected claim payments from claims that have been notified to the Branch from cedant companies and, for those treaties with regular payment benefits, the average monthly claim bordereau payment. Allowance for Incurred But Not Reported (IBNR) claims are incorporated into the calculation of the life reinsurance contract liabilities.

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 2009. The actuarial report was prepared by the Appointed Actuary, Mr Lindsay Smartt FIAA, FNZSA. 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

The accumulation method was used for the majority of the business and the projection method was used for the relatively small direct marketing and medical business segments. In all cases claims is the profit carrier.

The accumulation method is the sum of:

- Unexpired risk reserve;
- IBNR and disabled lives reserves;
- An offset for unrecouped acquisition costs; and
- A reserve for premium payback.

The major product groups are lump sum and disability income business. The number of major product groups was reduced by combining those groups exhibiting similar characteristics.

(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. 2009: 5.7% - 6.2% p.a. (2008: 4.6% - 4.7% p.a.)
Maintenance expenses	The allowance for future expenses is a percentage of inforce premiums based on the Branch's experience in 2009.
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. 2009: 2.5% p.a. (2008: 2.0% p.a.)
Voluntary discontinuance	The Branch's own experience. 2009: 2.0% -15.0% p.a. (2008: 2.0% -15.0% p.a.)
Surrender values	Ceding company values.

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2009

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

(b) Actuarial assumptions (continued)

Assumption	Basis of assumption
Mortality & morbidity (Lump sum benefits)	For business valued using the projection method, a percentage of standard industry or company tables (including IA 90-92 and NZLT 00-02), the percentages being an adjustment to reflect recent company and industry experience. For business valued using the accumulation method, loss ratios based on investigations into the branch's own recent experience.
Morbidity (Income benefits)	The key assumptions are rates of termination of disability, which were set following an investigation into the branch's own recent experience. 2009: 85% - 145% (2008: 45% - 246%) of IAD 89 - 93.
IBNR	Allowance was made for inherent delays in reporting claims based on investigations into the branch's own recent experience. 2009: 51% - 88% of one year's expected incurred claims (2008: 17% - 96% of one year's expected incurred claims).

(c) Effects of changes in actuarial assumptions

Assumption category	31 December 2008 to 31 December 2009	
	Effect on net profit margins	Effect on net life reinsurance contract liabilities
	\$'000 increase / (decrease)	\$'000 increase / (decrease)
Discount rates & inflation	(422)	(1,456)
Maintenance expenses	(138)	49
Mortality & morbidity	190	(261)
Total	(370)	(1,668)

(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 Company 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, as 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.
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.

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2009

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

(e) Sensitivity of financial results (continued)

Variable	Impact of variable
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 restricts investment exposure made by 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 and its performance closely monitored.
- The credit risk in respect of client balances: Premium paid by cedants are paid net of commission so that no commission liability exists until a premium is paid. Additionally claim payments may be deferred where there are outstanding client balances.
- A mandate is in place that limits all New Zealand dollar investments to be in New Zealand government bonds.

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 balance sheet.

	Note	Carrying amount	
		2009 \$'000	2008 \$'000
Cash and cash equivalents	9	2,875	4,049
Other financial assets at fair value through profit or loss			
- Debt securities	12	90,063	84,236
Amount due from ceding companies in respect of outstanding premium	10	18,350	17,797
Receivables	11	2,975	2,292
Retrocessionaires' share of life reinsurance contract liabilities	13	27,930	26,485
Total		142,193	134,859
No financial assets are either past due or impaired			
Grade 1-3 (Standard & Poor's A- to AAA)		139,870	134,453
Grade 4-5 (Unrated or Standard & Poor's BB+ to BBB+)		2,323	406
Total		142,193	134,859

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 (as prices) or indirectly (derived from prices).

The Branch has no significant concentration of credit risk.

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2009

4. Risk management policies and procedures (continued)

(a) Financial risks (continued)

(ii) Liquidity 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.

The table below summarises the maturity profile of the financial liabilities of the Branch based on remaining undiscounted contractual obligations, except for life reinsurance contract liabilities, when maturity profiles are determined on the discounted estimated timing of net cash outflows.

	Up to a year \$'000	1-5 years \$'000	Over 5 years \$'000	Total \$'000
2009				
Amount due to ceding companies	8,746	-	-	8,746
Amount due to related retrocessionaire	2,817	-	-	2,817
Amount due to related entities	3,708	-	-	3,708
GST payables	90	-	-	90
Outstanding claims	13,428	-	-	13,428
Non-resident withholding tax	412	-	-	412
Life reinsurance contract liabilities	18,150	17,742	30,985	66,877
Deposit retained from related retrocessionaire	6,877	6,948	10,431	24,256
Accrual of related retrocessionaire's share of unrealised gains	-	27	273	300
Total	54,228	24,717	41,689	120,634
2008				
Amount due to ceding companies	4,798	-	-	4,798
Amount due to related retrocessionaire	2,229	-	-	2,229
GST payables	20	-	-	20
Tax payable	694	-	-	694
Outstanding claims	11,863	-	-	11,863
Non-resident withholding tax	367	-	-	367
Life reinsurance contract liabilities	22,333	15,001	28,879	66,213
Deposit retained from related retrocessionaire	8,123	5,731	9,052	22,906
Accrual of related retrocessionaire's share of unrealised gains	27	1,898	-	1,925
Total	50,454	22,630	37,931	111,015

(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 three types of risk: 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 and Liability Management (ALM) framework. The ALM framework forms an integral part of the reinsurance risk management policy and ensures the Branch maintains financial assets with similar duration and cash flow characteristics as the underlying life reinsurance contract liabilities of the business. This minimises the risk of interest rate movements resulting in a mis-match between the value of the assets and the liabilities.
- 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 will be minimal for investment assets backing most life reinsurance contract liabilities, as the asset and liability profile is closely matched.

Munich Reinsurance Company of Australasia Limited – New Zealand Branch

Notes to the financial statements for the year ended 31 December 2009

4. Risk management policies and procedures (continued)

(a) Financial risks (continued)

(iii) Market risk (continued)

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:

	Weighted average interest rate	Floating interest rate \$'000	---- Fixed interest maturing in:----			Total \$'000
			Up to 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	
2009						
Cash	2.25%	875	-	-	-	875
Short term deposits	2.50%	2,000	-	-	-	2,000
Bills of exchange – bank endorsed	2.86%	-	12,969	-	-	12,969
Investments						
Government bonds	5.82%	-	-	13,671	63,423	77,094
Total		2,875	12,969	13,671	63,423	92,938
2008						
Cash	4.75%	1,049	-	-	-	1,049
Short term deposits	5.00%	3,000	-	-	-	3,000
Investments						
Government bonds	6.14%	-	6,095	18,635	59,506	84,236
Total		4,049	6,095	18,635	59,506	88,285

Currency risk

The Branch operates predominantly in New Zealand. Assets are maintained in the local currency to match the expected liabilities. 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

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

The amount of capital allocated to the Branch's business activity 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 Board approved buffer capital policy. It also takes into account the fit of the activity with the longer term strategic objectives of its ultimate parent company Münchener Rückversicherungs-Gesellschaft (refer note 28(a)) 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 dividends paid or capital repatriations/(injections) to/(by) its parent company Munich Holdings of Australia Pty Limited ("MHA").

The Branch fully complied with the regulatory capital requirements during the reported financial year and no change was made to its capital base, objectives, policies and processes from the previous year.

For detailed information on the capital being managed and required capital by APRA, refer note 18.

(ii) Ratings capital

The Branch maintains the capital strength by reference to a target financial strength rating from an independent ratings agency. The ratings help to reflect the financial strength of the Branch and demonstrate to the stakeholders the ability to pay claims for the long term. Rating agencies assess the financial strength of the Munich Re Group. The Branch is classified as a core entity of Munich Re Group. Therefore the Branch obtained the same rating as Munich Re Group based on ratings published by Standard & Poor's Ratings services as 31 December 2009. The Branch manages its capital rating by performing periodical analysis using Standard & Poor's Capital model.

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2009

4. Risk management policies and procedures (continued)

(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; catastrophe and medical expenses business. 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 such as working to a target business mix established in the annual business plan, 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. The Branch's functional managers prepare monthly reports which are provided to the General Manager, Life and ultimately to a member of the Board.

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 Procedures Manual and include limits to delegated authorities and signing powers. Internal auditors from the ultimate parent entity 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 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	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
<ul style="list-style-type: none"> Term life Disability (income and lump sum) Catastrophe Medical expenses 			

(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 its ultimate parent entity.

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2009

4. Risk management policies and procedures (continued)

(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.

	2009 \$'000	2008 \$'000
Gross claims incurred		
Expected	15,462	12,411
Actual	13,218	11,096
Net claims incurred		
Expected	8,609	6,531
Actual	7,688	6,854

5. Revenue from operating activities

Reinsurance revenue		
Reinsurance premium revenue	46,423	44,860
Retrocession recoveries from reinsurance contracts	13,430	14,481
Total reinsurance revenue	59,853	59,341
Investment revenue		
Interest	4,957	5,147
Net realised and unrealised gains	-	6,759
Total investment revenue	4,957	11,906
General revenue		
Sundry income	-	1
Total revenue from operating activities	64,810	71,248

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2009

	2009 \$'000	2008 \$'000
6. Expenses from operating activities		
(a) Claims expense		
Gross reinsurance claims expense	32,833	31,015
(b) Other expenses		
Retrocession premium expense	17,991	17,444
Movement in life reinsurance contract liabilities	664	10,723
Policy acquisition costs		
Commission	677	821
Other costs	155	485
Total policy acquisition costs	832	1,306
Policy maintenance costs		
Commission	3,146	3,348
Other costs	2,239	1,851
Total policy maintenance costs	5,385	5,199
Investment management expenses	83	79
Foreign exchange losses	-	3
Net realised and unrealised losses	3,686	-
Total	3,769	82
Total other expenses	28,641	34,754
Total expenses from operating activities	61,474	65,769
(c) Finance costs		
Interest payable on deposit retained from related retrocessionaire	1,031	1,507
Total claims, other expenses & finance costs	62,505	67,276
7. Operating profit		
Sources of shareholder's operating profit of statutory fund		
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	2,187	2,279
• Experience profit/(loss)	586	(2,972)
• Reversal of capitalised loss	-	43
Investment (losses)/earnings on assets in excess of life reinsurance contract liabilities	(57)	3,115
Operating profit after income tax (note 21)	2,716	2,465

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2009

	2009 \$'000	2008 \$'000
8. Income tax		
(a) Income tax expense		
Current taxes	(965)	2,245
Deferred taxes	554	(875)
Under/(over) provision in prior year – current tax	-	1,526
Under/(over) provision in prior year – deferred tax	-	(1,389)
Income tax (credit)/expense	(411)	1,507
(b) Reconciliation of prima facie tax payable to income tax expense		
Profit from operating activities before income tax	2,305	3,972
Prima facie tax payable at 30% (2008: 30%)	692	1,191
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible expenses	220	958
Non-assessable items	(1,323)	(779)
Under provision prior year	-	137
Income tax (credit)/expense	(411)	1,507
(c) Income tax receivable / (payable)		
Opening balance at 1 January	(694)	(900)
Additional provisions recognised – current year	965	(2,245)
Additional provisions recognised – prior year	-	(1,526)
Liabilities paid	1,576	1,551
Transfer of tax credits	-	2,426
Closing balance at 31 December	1,847	(694)
9. Current assets – cash and cash equivalents		
Cash at bank	875	1,049
Deposits at call	2,000	3,000
Total	2,875	4,049
(a) Cash at bank		
Cash at bank is currently bearing floating interest rates of 2.25% to 4.75% p.a. (2008: 4.75% p.a.).		
(b) Deposits at call		
The deposits at call are bearing floating interest rates between 2.50% to 5.00% p.a. (2008: 5.00% to 8.25% p.a.).		
10. Current assets – outstanding premiums		
Amount due from ceding companies	18,350	17,797
11. Current assets – receivables		
Recoveries due from non-related retrocessionaires	561	252
Amount due from ceding companies	1,837	1,332
Accrued income	577	708
Total	2,975	2,292

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2009

2009
\$'000

2008
\$'000

12. Other financial assets

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

Debt securities – unsecured, including Bills of Exchange	90,063	84,236
Total other financial assets – fair value through profit or loss	90,063	84,236
Current other financial assets	12,969	6,095
Non-current other financial assets	77,094	78,141
Total other financial assets – fair value through profit or loss	90,063	84,236

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. Securities with a minimum value of \$1,000,000 are held with the Public Trustee as a requirement for the Branch to operate in New Zealand.

13. Retrocessionaires' share of life reinsurance

contract liabilities

Current

Recoveries due from related retrocessionaire in respect of life reinsurance contract liabilities	6,877	8,123
Recoveries due from non-related retrocessionaire in respect of life reinsurance contract liabilities	585	429
Total	7,462	8,552

Non-current

Recoveries due from related retrocessionaire in respect of life reinsurance contract liabilities	17,379	14,783
Recoveries due from non-related retrocessionaire in respect of life reinsurance contract liabilities	3,089	3,150
Total	20,468	17,933

Total

Recoveries due from related retrocessionaire in respect of life reinsurance contract liabilities	24,256	22,906
Recoveries due from non-related retrocessionaire in respect of life reinsurance contract liabilities	3,674	3,579
Total – note 17(a)(i)	27,930	26,485

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2009

2009
\$'000

2008
\$'000

14. Non-current assets – deferred tax asset

Deferred tax asset relates to timing differences and comprises the tax effect of the following amounts recognised in the profit or loss:

Accrued expenses	221	476
Components of life reinsurance contract liabilities	2,843	3,142
Deferred tax asset	3,064	3,618
Movements:		
Opening balance at 1 January	3,618	1,354
(Credited) / debited to the statement of comprehensive income	(554)	2,264
Closing balance at 31 December	3,064	3,618

15. Current liabilities – payables

Amount due to ceding companies	8,746	4,798
Amount due to related retrocessionaire	2,817	2,229
Amount due to related entities (refer note 28(e))	3,708	-
GST payables	90	20
Total	15,361	7,047

The amount due to related retrocessionaire represents the Branch's net contractual rights under retrocession agreements with its ultimate parent entity, Münchener Rückversicherungs-Gesellschaft (refer note 28).

16. Current liabilities – provisions

Outstanding claims	13,428	11,863
Non-resident withholding tax	412	367
Total	13,840	12,230

Movements:

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

	Outstanding claims \$'000	Non-resident withholding tax \$'000	Total \$'000
Opening balance at 1 January 2009	11,863	367	12,230
Additional provisions recognised	31,269	412	31,681
Liabilities paid	(29,704)	(367)	(30,071)
Closing balance at 31 December 2009	13,428	412	13,840

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2009

	2009 \$'000	2008 \$'000
17. Life reinsurance contract liabilities		
Gross life reinsurance contract liabilities		
Current	18,150	22,333
Non-current	48,727	43,880
Total Gross life reinsurance contract liabilities assumed – see below (a) and (b)	66,877	66,213
(a) (i) Life reinsurance contract liabilities assumed		
Reinsured life reinsurance contract liabilities:		
Gross life reinsurance contract liabilities assumed	66,877	66,213
Gross life reinsurance contract liabilities ceded – note 13	(27,930)	(26,485)
Net life reinsurance contract liabilities	38,947	39,728
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		
Opening balance gross life reinsurance contract liabilities at 1 January	66,213	55,490
Increase in gross life reinsurance contract liabilities	664	10,723
Closing balance gross life reinsurance contract liabilities at 31 December	66,877	66,213
Opening balance retroceded life reinsurance contract liabilities at 1 January	26,485	23,335
Increase in retroceded life reinsurance contract liabilities	1,445	3,150
Closing balance retroceded life reinsurance contract liabilities at 31 December	27,930	26,485
Opening balance net life reinsurance contract liabilities at 1 January	39,728	32,155
(Decrease)/Increase in net life reinsurance contract liabilities	(781)	7,573
Closing balance net life reinsurance contract liabilities at 31 December	38,947	39,728
(b) Components of net life reinsurance contract liabilities		
Best estimate liability for non investment-linked business		
Value of future policy benefits	65,886	93,598
Value of future expenses	18,531	30,334
Value of unrecouped acquisition expenses	(4,080)	(3,384)
Value of future premiums	(48,649)	(88,879)
Total	31,688	31,669
Value of future profits for non investment-linked business		
Shareholder profit margins	7,259	8,059
Net life reinsurance contract liabilities	38,947	39,728

Munich Reinsurance Company of Australasia Limited – New Zealand Branch

Notes to the financial statements for the year ended 31 December 2009

18. Solvency requirement of the life statutory fund

These are the amounts required to meet the prudential standards specified by the Australian Life Insurance Act (1995) and the solvency requirement of Professional Standard 5.01 of the New Zealand Society of Actuaries to provide protection against the impact of fluctuations and unexpected adverse circumstances on the life statutory fund.

The methodology and basis for determining the solvency requirements are in accordance with the requirements of Prudential Standard LPS 2.04, Solvency Standard, under section 230A of the Australian Life Insurance Act (1995).

The coverage of solvency reserve figures in the table below represent the number of times there is coverage of the assets that are available for solvency over the solvency reserve.

	2009 \$'000	2008 \$'000
Solvency requirement	106,889	101,326
Represented by:		
Minimum termination value	30,696	29,383
Other liabilities	53,345	44,914
Solvency reserve	22,848	27,029
Total	<u>106,889</u>	<u>101,326</u>
Assets available for solvency reserve	34,720	37,806
Comprised as:		
Excess of net policy liability over minimum termination value	8,250	10,344
Net assets	26,470	27,462
Total	<u>34,720</u>	<u>37,806</u>
Solvency reserve %	27.2%	36.4%
Coverage of solvency reserve	1.52	1.40

19. Current liabilities - other

Accrual of related retrocessionaire's share of unrealised gains on investments
Deposit retained from related retrocessionaire

-	27
6,877	8,123
<u>6,877</u>	<u>8,150</u>

20. Non-current liabilities – other

Accrual of related retrocessionaire's share of unrealised gains on investments
Deposit retained from related retrocessionaire

300	1,898
17,379	14,783
<u>17,679</u>	<u>16,681</u>

21. Reserves and retained profits

Summary of shareholder's interests

Net profit for the year	2,716	2,465
Retained profit at 1 January	11,962	9,497
Transfer to the Australian statutory fund	(3,708)	-
Retained profit at 31 December (overseas and non-participating)	10,970	11,962
Capital reserve	15,500	15,500
Shareholder's equity	<u>26,470</u>	<u>27,462</u>

22. Dividends

No dividends were paid or declared by Munich Reinsurance Company of Australasia Limited during the course of the financial year (2008: AUD\$15,000,000) to its parent entity, Munich Holdings of Australasia Pty Ltd ("MHA").

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2009

23. 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:

	2009 \$	2008 \$
(a) Audit and assurance services		
KPMG Australia:		
Audit and review of financial reports under the Companies Act 1993	15,227	9,496
Total remuneration for audit and other assurance services	<u>15,227</u>	<u>9,496</u>
(b) Advisory services		
KPMG Australia:		
Review of group life experience study report	-	669
Advice and review of expatriate agreements	2,526	685
Total remuneration for advisory services	<u>2,526</u>	<u>1,354</u>
Total	<u>17,753</u>	<u>11,850</u>

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

24. Directors' disclosure

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

(i) Chairman – non-executive

P D R Isherwood, AO

(ii) Executive Directors

A H Eder

(iii) Non-executive Directors

B Gierl
J Ludbrook
N J Milne, OAM
J D Shale
E G Tollifson

25. Contingencies

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

26. Commitments

(a) Capital commitments

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

(b) Lease commitments

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

27. Events occurring after the balance sheet date

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

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2009

28. 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, a company incorporated in Germany with limited liability.

(b) Directors

Disclosures relating to Directors are set out in note 24.

	2009 \$	2008 \$
(c) Key management personnel compensation		
Short term employee benefits	81,722	105,476
Post employment benefits	8,571	12,288
Long term benefits	7,563	9,669
Total	97,856	127,433

(d) Transactions with related parties

The following transactions occurred with related parties:

Transactions in respect of retrocession of reinsurance contracts with:

Ultimate parent entity	2,394,711	1,838,594
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Transactions in respect of recharges of expenses incurred by the Branch with:

Parent entity in Australia	3,226,451	3,214,788
Other related entities	146,856	121,130

(e) Outstanding balances

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

Current payables in respect of retrocession of reinsurance contracts	(2,817,331)	(2,228,649)
Current payables in respect of transfers from the New Zealand statutory fund to the Australian statutory fund	(3,707,923)	-

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.

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2009

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

	2009 \$'000	2008 \$'000
(a) Reconciliation of profit after income tax to the net cash flows from operating activities:		
Profit from operating activities after income tax	2,716	2,465
Movements in:		
Trade debtors	(505)	(938)
Outstanding premiums due from ceding companies	(553)	(317)
Trade creditors	3,474	(4,877)
Expense refunds	474	(1,523)
Retrocessionaire's current account	588	193
Other retrocession debtors / creditors - other	145	223
Other retrocession debtors / creditors – outstanding claims	(55)	(158)
Other retrocession debtors / creditors – outstanding premiums	(399)	(139)
GST - acquisitions	70	(150)
Provision for tax	(2,541)	(206)
Provision for non-resident withholding tax	45	307
Deferred tax	554	(2,264)
Gross policy liabilities	664	10,723
Related retro policy liabilities	(1,349)	(3,095)
Other retro policy liabilities	(96)	(55)
Outstanding claims reserve	1,565	(295)
Deposit retained from retrocessionaire	1,350	3,095
Loss/ (gain) on revaluation of investments	3,686	(6,759)
Investment revenue	(4,957)	(5,147)
Investment expense	83	79
Net cash flows from operating activities	<u>4,959</u>	<u>(8,838)</u>
(b) Cash and cash equivalents:		
Cash	875	1,049
Deposits at call	2,000	3,000
Bills of exchange	<u>12,969</u>	<u>-</u>
Total per cash flow statement	<u>15,844</u>	<u>4,049</u>

Munich Reinsurance Company of Australasia Limited – New Zealand Branch

Directors' Declaration

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 23:

- (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 2009 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.

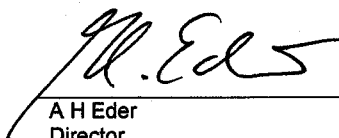
The Directors consider that they have taken adequate steps to safeguard the assets of the Branch, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide reasonable assurance as to the integrity and reliability of the financial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

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 2009.

Signed in Sydney on 24 March 2010 in accordance with a resolution of the Directors:



L P Minehan
Director



A H Eder
Director



Audit report

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

We have audited the financial statements on pages 1 to 23. The financial statements provide information about the past financial performance of the New Zealand branch and its financial position as at 31 December 2009. This information is stated in accordance with the accounting policies set out in note 1.

Directors' responsibilities

The Directors of the company are responsible for the preparation of financial statements which give a true and fair view of the financial position of the branch as at 31 December 2009 and the results of its operations for the year ended on that date.

Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Directors of the company in the preparation of the financial statements;
- whether the accounting policies are appropriate to the branch's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.



Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the branch as far as appears from our examination of those records;
- the financial statements on pages 1 to 23:
 - comply with New Zealand generally accepted accounting practice;
 - give a true and fair view of the financial position of the branch as at 31 December 2009 and the results of its operations for the ended on that date.

Our audit was completed on 24 March 2010 and our unqualified opinion is expressed as at that date.

KPMG
KPMG

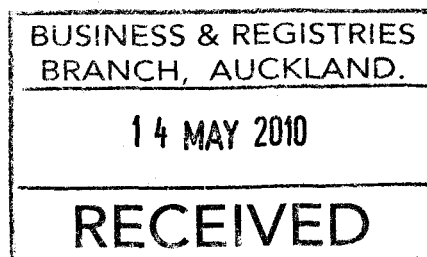
Sydney
24 March 2010

**Munich Reinsurance Company of
Australasia Limited
ABN 51 004 804 013**

**Annual Financial Report
31 December 2009**

**Registered Office
143 Macquarie Street, Sydney, NSW 2000, Australia**

Munich Reinsurance Company of Australasia Limited is a company limited by shares.



Munich Reinsurance Company of Australasia Limited

ABN 51 004 804 013

Directors' Report

The Directors present their report together with the financial report of Munich Reinsurance Company of Australasia Limited ("the Company") for the year ended 31 December 2009.

Directors

The names of the Directors during the whole of the financial year and up to the date of this report are as follows:

P D R Isherwood, AO (Chairman)	(Retired 31 December 2009)
L P Minehan (Chairman)	(Appointed 1 January 2010)
A H Eder	
B Gierl	
J Ludbrook	
N J Milne, OAM	
J D Shale	
E G Tollifson	

Principal activities

The Company's principal activity is life reinsurance.

Review of operations

The 2009 business year produced an operating profit after tax of \$4,356,000 in comparison with a profit of \$27,569,000 in 2008. Investment market conditions drove substantially lower investment revenue and realised and unrealised investment losses, partially offset by a reduction in policy liabilities from the increased discount rate assumed.

The Company is rated AA- by Standard & Poor's.

Statutory

The Company is domiciled in Australia and is a public company incorporated in Australia with its registered address at 143 Macquarie Street, Sydney.

Dividends

No dividends were paid or declared by the Company during the course of the financial year (2008: \$15,000,000) to its parent entity, Munich Holdings of Australasia Pty Ltd ("MHA").

Insurance of officers

During the financial year, the parent entity paid a premium of \$87,347 (2008: \$83,443) to insure the Directors and Officers of the Company and its Australasian based related entities.

The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against Directors and Officers of the Company.

Board Committees

As at the date of this report the Company has two Board Committees; an Audit Committee and a Risk & Compliance Committee consisting of the following Directors:

Audit Committee

E G Tollifson (Chairman)
L P Minehan
N J Milne, OAM
J D Shale

Risk & Compliance Committee

N J Milne, OAM (Chairman)
A H Eder
L P Minehan
E G Tollifson

As allowed under the Life Prudential Standards LPS 510, the Company relies on the Board Remuneration Committee established by its parent entity MHA to discharge its remuneration governance responsibilities.

Likely developments

In the opinion of the Directors it would prejudice the interests of the Company to comment on any likely developments in the operations of the Company and the effect these developments would have on the results of the Company in subsequent financial years.

Munich Reinsurance Company of Australasia Limited
Directors' Report (continued)

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Company during the financial year. During the year ended 31 December 2009, the Company's parent entity, Munich Holdings of Australasia Pty Limited ("MHA") increased its investment in Munich Reinsurance of Australasia Limited ("MRA") through the purchase of 10,000,000 fully paid ordinary shares for a total cost of \$10,000,000.

Environmental regulations

The operations of the Company are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100 dated 10 July 1998 and issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

Matters subsequent to the end of the financial year

The Directors are not aware, at the date of this report, of any matter or circumstance which has arisen since 31 December 2009 that has significantly affected or may significantly affect:

- (i) the operations of the Company;
- (ii) the results of those operations; or
- (iii) the state of affairs of the Company in the financial years subsequent to 31 December 2009.

Directors' benefits

Since the end of the period covered by the last report no Director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest. Refer note 32.

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 3 and forms part of this Directors' report for financial year 2009.

Signed at Sydney on 24 March 2010 in accordance with a resolution of the Directors.



L P Minehan
Director



A H Eder
Director



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

To: the directors of Munich Reinsurance Company of Australasia Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2009 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

A handwritten signature in black ink, appearing to read 'B Greig'.

Brian Greig
Partner

Sydney
24 March 2010

Munich Reinsurance Company of Australasia Limited**Statement of Comprehensive Income for the year ended 31 December 2009**

	Note	2009 \$'000	2008 \$'000
Revenue from operating activities	5	607,481	532,415
Expenses from operating activities	6	593,822	489,700
Finance costs	6	8,196	9,479
Profit from operating activities before income tax		5,463	33,236
Income tax expense attributable to operating profit	8(a)	1,107	5,667
Profit from operating activities after income tax		4,356	27,569
Other comprehensive income			
Foreign currency translation	25	(780)	(958)
Total comprehensive income for the year		3,576	26,611

The Statement of Comprehensive Income is to be read in conjunction with the notes to the financial statements set out on pages 8 to 30.

Munich Reinsurance Company of Australasia Limited
Balance Sheet as at 31 December 2009

	Note	2009 \$'000	2008 \$'000
Current assets			
Cash and cash equivalents	9	28,541	14,676
Outstanding premiums	10	86,073	84,721
Receivables	11	35,948	28,489
Other financial assets	12	170,326	56,791
Retrocessionaires' share of life reinsurance contract liabilities	13	46,907	52,772
Income tax receivable	8(c)	1,495	-
Total current assets		369,290	237,449
Non-current assets			
Other financial assets	12	426,029	508,376
Retrocessionaires' share of life reinsurance contract liabilities	13	139,194	118,173
Other	15	4,543	4,954
Deferred tax assets	14	2,479	3,033
Total non-current assets		572,245	634,536
Total assets		941,535	871,985
Current liabilities			
Payables	16	45,319	51,448
Provisions	17	102,470	80,134
Life reinsurance contract liabilities	20	101,588	109,501
Income tax payable	8(c)	-	581
Other	18	45,436	41,716
Total current liabilities		294,813	283,380
Non-current liabilities			
Payables	23	3,517	4,005
Life reinsurance contract liabilities	20	347,923	307,113
Other	22	133,210	125,812
Deferred tax liabilities	19	606	3,785
Total non-current liabilities		485,256	440,715
Total liabilities		780,069	724,095
Net assets		161,466	147,890
Equity			
Share capital	24	20,000	10,000
Reserves	25	(2,980)	(2,200)
Retained profits	25	144,446	140,090
Total equity		161,466	147,890

The Balance Sheet is to be read in conjunction with the notes to the financial statements set out on pages 8 to 30.

Munich Reinsurance Company of Australasia Limited
Statement of Changes in Equity for the year ended 31 December 2009

	Note	Share capital \$'000	Retained profits \$'000	Foreign currency translation reserve \$'000	Total \$'000
Balance at 1 January 2008		10,000	127,521	(1,242)	136,279
Total comprehensive income for the year					
Profit after tax for the year		-	27,569	-	27,569
Other comprehensive income					
Foreign currency translation		-	-	(958)	(958)
Transactions with owners, recorded directly in equity					
Dividends paid	26	-	(15,000)	-	(15,000)
Balance at 31 December 2008		10,000	140,090	(2,200)	147,890
Total comprehensive income for the year					
Profit after tax for the year		-	4,356	-	4,356
Other comprehensive income					
Foreign currency translation	25	-	-	(780)	(780)
Transactions with owners, recorded directly in equity					
Issue of ordinary shares	24	10,000	-	-	10,000
Balance at 31 December 2009		20,000	144,446	(2,980)	161,466

The Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements set out on pages 8 to 30.

Munich Reinsurance Company of Australasia Limited

Statement of Cash Flows for the year ended 31 December 2009

	Note	2009 \$'000	2008 \$'000
Cash flows from operating activities			
Treaty reinsurance		54,005	17,758
Retrocession		7,978	(117)
Income tax paid / transferred		2,193	(8,136)
Management and administrative expenses		(21,225)	(19,224)
Other income		4	504
Net cash from operating activities	33(a)	42,955	(9,215)
Cash flows from investing activities			
Interest received		32,725	32,169
Payments for investments		(360,051)	(308,018)
Proceeds from sale of investments		299,282	302,157
Investment expenses paid		(523)	(480)
Net cash from investing activities		(28,567)	25,828
Cash flows from financing activities			
Dividends paid	26	-	(15,000)
Capital injection	24	10,000	-
Net cash from financing activities		10,000	(15,000)
Net increase in cash held		24,388	1,613
Cash and cash equivalents at 1 January		14,676	13,135
Effect of exchange rate fluctuation on cash held		(30)	(72)
Cash and cash equivalents at 31 December	33(b)	39,034	14,676

The Statement of Cash Flows is to be read in conjunction with the notes to the financial statements set out on pages 8 to 30.

Munich Reinsurance Company of Australasia Limited

Notes to the financial statements for the year ended 31 December 2009

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 2009. These policies have been consistently applied to all years presented, unless otherwise stated.

The financial report was authorised for issue by the Directors on 24 March 2010.

(a) Statement of compliance

This financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, adopted by the Accounting Standards Board ("AASB") and the Corporations Act 2001. International Financial Reporting Standards ("IFRS") form the basis of Australian Accounting Standards adopted by the AASB, being Australian equivalents to IFRS ("AIFRS"). The financial report of the Company also complies with IFRS and interpretations adopted by the International Accounting Standards Board.

(b) Basis of preparation

The financial report is presented in Australian Dollars.

The company has decided not to early adopt the following standards:

- AASB 2009-5 *Further amendments to Australian Accounting Standards* arising from the Annual Improvements Process affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Company's 31 December 2010 financial statements, are not expected to have a significant impact on the financial statements.
- AASB 9 *Financial Instruments* (2009) requires financial assets to be classified on initial recognition as measured at amortised cost or fair value. This standard eliminates the existing AASB 139 *Financial Instruments: Recognition and Measurement* categories of held to maturity, available for sale and loans and receivables. AASB 9 is applicable for annual reporting periods beginning on or after 1 January 2013 with early adoption permitted for annual reporting periods ending on or after 31 December 2009. The Company has not yet determined the potential effect of the revised standard on the Company's financial statements.

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

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 Company.

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

Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in note 2. The accounting policies have been applied consistently by the Company.

(c) Principles for life reinsurance business

The life reinsurance operations of the Company are conducted within separate statutory funds as required by the Life Insurance Act (1995) and are reported in aggregate with the shareholder's fund in the statement of comprehensive income, balance sheet, statement of changes in equity and statement of cash flows of the Company. The life reinsurance operations of the Company 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 discernable effect on the economics of the transaction). Products that do not meet the definition of a life reinsurance contract are classified as life investment contracts. Reinsurance 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 Company'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 Life Insurance Act (1995). Claims incurred relating to life reinsurance contracts (providing services and bearing risks) are treated as expenses.

Munich Reinsurance Company of Australasia Limited

Notes to the financial statements for the year ended 31 December 2009

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, 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 Australian dollars, which is the Company'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.

Assets and liabilities expressed in another functional currency are translated to the presentation currency using the closing rate at the reporting date and income and expenses are translated using the average exchange rate for the year. Foreign exchange gains and losses resulting from this translation are recognised in equity.

(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 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.

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. Deferred tax assets and deferred tax liabilities have been offset in the balance sheet in accordance with AASB 112 *Income Taxes*. AASB 112 requires an entity to offset deferred tax assets against deferred tax liabilities where the entity has a legally enforceable right to set-off current tax assets against current tax liabilities and where the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

Australian tax consolidation legislation

The Company continues to be a member of the tax consolidated group, whose head entity is Munich Holdings of Australasia Pty Ltd ("MHA"). The Company continues to be a party to the tax sharing agreement and the tax funding agreement with other members of the tax consolidated group. Details about these agreements are disclosed in note 8(e).

The Company continues to account for its own current and deferred tax amounts. In accordance with the provisions of the tax funding agreement, these tax amounts are measured as if the Company continues to be a stand-alone taxpayer in its own right, with the exception that the Company does not recognise tax amounts in respect of dividends received from or paid to other member entities of the tax consolidated group.

Assets or liabilities in relation to the Company assumed by MHA under the tax funding agreement as head entity of the tax consolidated group are recognised as amounts receivable from or payable to MHA. Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) MHA, in accordance with the requirements of Australian Interpretation 1052 *Tax Consolidation Accounting*.

The Company's New Zealand branch is not a member of the tax consolidated group and therefore is not a party to the tax sharing agreement and tax funding agreement.

(k) Allocation and distribution of profit of the statutory funds

The Company does not issue participating policies, thus all profits are allocated to the shareholder. The amount transferred to/from the statutory funds from/to the shareholder's fund 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 Life Insurance Act (1995).

Munich Reinsurance Company of Australasia Limited

Notes to the financial statements for the year ended 31 December 2009

1. Summary of significant accounting policies (continued)

(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 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

The Company is of a kind referred to in Class Order 98/100 dated 10 July 1998 and issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

(n) Financial assets

(i) Assets backing life reinsurance contract liabilities

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

Financial assets 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 in the statement of comprehensive income.

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.
- Fair value of shares, fixed interest securities and units listed on stock exchanges is taken as 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.

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 Company 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 Company has transferred substantially all the risks and rewards of ownership.

(ii) Assets not backing life reinsurance contract liabilities

Financial assets held within the shareholder's fund do not back life reinsurance contract liabilities. To ensure consistency across the Company, and except where specifically stated otherwise, all financial assets are recognised at fair value to the extent permitted under accounting standards. Adjustments to the value of such assets are recognised in the statement of comprehensive income when the corresponding accounting standards allow such treatment.

(o) Impairment of assets

All assets other than those which are outside the scope of AASB 136 *Impairment of Assets* (i.e. financial assets that are within the scope of AASB 139 *Financial Instruments: Recognition and Measurement*, deferred tax assets within the scope of AASB 112 *Income Taxes*, and deferred acquisition costs within the scope of AASB 4 *Insurance Contracts* and AASB 1038 *Life Insurance Contracts*) 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 Company will not be able to collect all amounts that are due in accordance with the original terms of the receivable. The

Munich Reinsurance Company of Australasia Limited

Notes to the financial statements for the year ended 31 December 2009

1. Summary of significant accounting policies (continued)

(p) Receivables (continued)

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 Company prior to the end of the financial year that were unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Also included in Payables is the amount of tax payables calculated under the tax funding agreement which is settled upon the finalisation of the group income tax return.

2. Critical accounting estimates and judgements

The Company 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.

(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 funds. 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 Company's ability to recover the cost of acquiring new business over the lives of the contracts.
- Data supplied by ceding companies in relation to the underlying policies being reinsured.
- The 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 company.

In addition, factors such as regulations, competition, interest rates, taxes, securities market conditions and general economic conditions affect the level of these liabilities. Details of specific actuarial policies and methods are set out in note 3.

(b) Premium, claims & experience refund provisions

Premium provisions (net of premium rebate), 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 provide for claim payments takes into account the expected claim payments from claims that have been notified to the Company from cedant companies and, for those treaties with regular payment benefits, the average monthly claim bordereau payment. Allowance for Incurred But Not Reported (IBNR) claims are incorporated into the calculation of the life reinsurance contract 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 funds

The effective date of the actuarial report on life reinsurance contract liabilities and solvency requirements is 31 December 2009. The actuarial report was prepared by Mr Lindsay Smartt 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 applicable accounting and actuarial standards. Life reinsurance contract liabilities for life insurance contracts are valued in accordance with AASB 1038 *Life Insurance Contracts*. In respect of the Company's business, there are no differences between the valuation requirements of the accounting standards and those of the Life Insurance Act (1995), which includes applicable APRA prudential requirements.

Munich Reinsurance Company of Australasia Limited

Notes to the financial statements for the year ended 31 December 2009

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

(a) Actuarial valuation methods

A number of business segments were valued using the projection method. In other cases the accumulation method was used, being the sum of the following reserves:

- Unexpired risk reserve;
- IBNR and disabled lives reserves;
- An offset for unrecouped acquisition costs; and
- A reserve for premium payback.

The major product groups are individual lump sum, group lump sum and disability income business. The number of major product groups was reduced during the year by combining those groups exhibiting similar characteristics. There is also a small volume of annuity business. Claims is the profit carrier in all cases except for one treaty which uses premiums as 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. 2009: Aust 4.6% - 6.0% p.a, NZ 5.7% - 6.2% p.a. (2008: Aust 3.1% - 4.2% p.a, NZ 4.6% - 4.7% p.a.)
Maintenance expenses	The allowance for future expenses is a percentage of in-force premiums based on the Company's experience in 2009.
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. 2009: Aust 2.5% p.a, NZ 2.5% p.a. (2008: Aust 2.5% p.a, NZ 2.0% p.a.)
Voluntary discontinuance	The Company's own experience. 2009: 2.0% -15.0% p.a. (2008: 2.0% -15.0% p.a.)
Surrender values	Ceding company values.
Mortality & morbidity (lump sum benefits)	For business valued using the projection method, a percentage of standard industry or company tables (including IA 90-92, ALT 00-02, NZLT 00-02, US IAMF 2000), the percentages being an adjustment to reflect recent company and industry experience. For business valued using the accumulation method, loss ratios based on investigations into the Company's own recent experience.
Morbidity (Income benefits)	The key assumptions are rates of termination of disability, which were set following an investigation into the company's own recent experience. 2009: 35% - 145% (2008: 45% - 246%) of IAD 89 – 93.
IBNR	Allowance was made for inherent delays in reporting claims based on investigations into the Company's own recent experience. 2009 (and 2008): 17% - 99% of one year's expected incurred claims.

(c) Effects of changes in actuarial assumptions

Assumption category	31 December 2008 to 31 December 2009	
	Effect on net profit margins \$'000 increase / (decrease)	Effect on net life reinsurance contract liabilities \$'000 increase / (decrease)
Discount rates & inflation	(5,416)	(17,181)
Maintenance expenses	947	17
Voluntary discontinuance	(441)	10
Mortality & morbidity	3,836	(376)
Total	(1,074)	(17,530)

Munich Reinsurance Company of Australasia Limited

Notes to the financial statements for the year ended 31 December 2009

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

(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 Company.

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 Company 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, as 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.
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 company 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 Company are affected by a number of key financial and non-financial risks. Financial risks include interest rate risk, currency risk, 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 Company. The Company'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 Company's exposure to credit and concentration risks:

- A mandate is in place that restricts the purchase of an investment by the Company to those securities with a minimum 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 and its performance closely monitored.
- The credit risk in respect of client balances: Premium paid by cedants are paid net of commission so that no commission liability exists until a premium is paid. Additionally claim payments may be deferred where there are outstanding client balances.
- A mandate is in place that restricts exposure to any non-Australian state or federal government issuer (New Zealand excepted) to 5% of total assets and investments in non-Australian domiciled issuers to a maximum limit of 15% with regard to Australian dollar bonds. All New Zealand dollar investments must be in New Zealand government bonds.

Munich Reinsurance Company of Australasia Limited

Notes to the financial statements for the year ended 31 December 2009

4. Risk management policies and procedures (continued)

(a) Financial risks (continued)

(i) Credit risk (continued)

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 balance sheet.

	Note	Carrying amount \$'000 2009	Carrying amount \$'000 2008
Cash and cash equivalents	9	28,541	14,676
Other financial assets at fair value through profit or loss			
- Debt securities	12	596,355	565,167
Amount due from ceding companies in respect of outstanding premium	10	86,073	84,721
Receivables	11	35,948	28,489
Retrocessionaires' share of life reinsurance contract liabilities	13	186,101	170,945
Deposit retained by ceding company	15	4,543	4,954
Total		937,561	868,952
Grade 1-3 (Standard & Poor's A- to AAA)		929,773	867,685
Grade 4-5 (Unrated or Standard & Poor's BB+ to BBB+)		7,788	1,267
Total		937,561	868,952

No financial assets are either past due or impaired. 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 (as prices) or indirectly (derived from prices).

The Company has no significant concentration of credit risk.

(ii) Liquidity 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 Group's exposure to liquidity risk:

- The Company 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 Company's reputation.
- The Company maintains financial assets with similar duration as the underlying reinsurance liabilities of the business in order to ensure sufficient funding is available to meet reinsurance contract obligations.

The table below summarises the maturity profile of the financial liabilities of the Company based on remaining undiscounted contractual obligations, except for reinsurance contract liabilities when maturity profiles are determined on the discounted estimated timing of net cash outflows.

	Up to a year \$'000	1-5 years \$'000	Over 5 years \$'000	Total \$'000
2009				
Amount due to ceding companies	35,355	3,517	-	38,872
Amount due to related retrocessionaires	9,797	-	-	9,797
GST payable	73	-	-	73
Outstanding claims	100,971	-	-	100,971
Non-resident withholding tax	1,499	-	-	1,499
Life reinsurance contract liabilities	101,588	199,849	148,074	449,511
Deposit retained from related retrocessionaire	45,410	76,481	56,339	178,230
Accrual of related retrocessionaire's share of unrealised gain	26	74	316	416
Sundry payable	94	-	-	94
Total	294,813	279,921	204,729	779,463

Munich Reinsurance Company of Australasia Limited

Notes to the financial statements for the year ended 31 December 2009

4. Risk management policies and procedures (continued)

(a) Financial risks (continued)

(ii) Liquidity Risk (continued)

	Up to a year \$'000	1-5 years \$'000	Over 5 years \$'000	Total \$'000
2008				
Amount due to ceding companies	49,718	4,005	-	53,723
Amount due to non-related retrocessionaires	1,722	-	-	1,722
GST payable	8	-	-	8
Income tax payable	581	-	-	581
Outstanding claims	79,097	-	-	79,097
Non-resident withholding tax	1,037	-	-	1,037
Life reinsurance contract liabilities	109,501	152,719	154,394	416,614
Deposit retained from related retrocessionaire	41,306	57,035	56,515	154,856
Accrual of related retrocessionaire's share of unrealised gain	410	12,262	-	12,672
Total	283,380	226,021	210,909	720,310

(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 three types of risk: interest rate risk, currency risk and other price risk.

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

- The Company manages its risk within an Asset and Liability Management (ALM) framework. The ALM framework forms an integral part of the reinsurance risk management policy and ensures the Company maintains financial assets with similar duration and cash flow characteristics as the underlying reinsurance liabilities of the business. This minimises the risk of interest rate movements resulting in a mis-match between the value of the assets and the liabilities.
- The Company 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 Company has determined that all assets held within its statutory funds are assets backing life reinsurance contract liabilities. The investment income of the Company 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, as the asset and liability profile is closely matched.

The Company'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:

	Weighted average interest rate	Floating Interest rate \$'000	---- Fixed interest maturing in:----			Total \$'000
			Up to 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	
2009						
Cash	3.02%	2,733	-	-	-	2,733
Short term deposits	3.62%	25,808	-	-	-	25,808
Bills of exchange – bank endorsed	2.86%	-	10,493	-	-	10,493
Investments						
Government bonds	5.82%	-	144,867	146,304	269,995	561,166
Debentures	6.17%	-	14,966	5,070	4,660	24,696
Total		28,541	170,326	151,374	274,655	624,896
2008						
Cash	4.24%	1,885	-	-	-	1,885
Short term deposits	4.36%	12,791	-	-	-	12,791
Investments						
Government bonds	6.10%	-	39,214	205,878	277,036	522,128
Debentures	5.94%	-	17,577	20,281	5,181	43,039
Total		14,676	56,791	226,159	282,217	579,843

Munich Reinsurance Company of Australasia Limited

Notes to the financial statements for the year ended 31 December 2009

4. Risk management policies and procedures (continued)

(a) Financial risks (continued)

(ii) Market risk (continued)

Currency risk

The Company operates predominantly in Australia and New Zealand. Assets are maintained in each of these locations in the local currency to match the expected reinsurance contract liabilities. Hence the Company's currency risk is not considered to be of a material nature.

Other price risk

The Company 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

Externally imposed capital requirements for the Company are set and regulated by the Australian Prudential Regulation Authority (APRA). These requirements are put in place to ensure sufficient solvency margins within the life company statutory funds.

The amount of capital allocated to the Company's business activity 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 Company is regularly monitored relative to a Board approved buffer capital policy. It also takes into account the fit of the activity with the longer term strategic objectives of the ultimate parent company Münchener Rückversicherungs-Gesellschaft (refer note 32(a)) in order to maximise shareholder value.

The Company manages its capital requirements by assessing economic conditions and risk characteristics of the Company's 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 dividends paid or capital repatriations/(injections) to/(by) its parent company MHA.

The Company fully 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. The company has increased its capital base by issuing 10,000,000 fully paid ordinary shares for a total costs of \$10,000,000 to its parent entity, Munich Holdings of Australasia Pty Limited ("MHA") on 23 December 2009.

For detailed information on the capital being managed and required capital by APRA, refer note 21.

(ii) Ratings capital

The Company maintains the capital strength by reference to a target financial strength rating from an independent ratings agency. The ratings help to reflect the financial strength of the Company and demonstrate to the stakeholders the ability to pay claims for the long term. Rating agencies assess the financial strength of the Munich Re Group. The Company is classified as a core entity of Munich Re Group. Therefore the Company obtained the same rating as Munich Re Group based on ratings published by Standard & Poor's Ratings services at 31 December 2009. The Company manages its capital rating by performing periodical analysis using Standard & Poor's Capital model.

(iii) Economic capital

In conjunction with the considerations set out above, which are important to the functioning business, consideration is given to the operational capital needs of the business. The capital objectives are achieved through the use of a risk based capital adequacy framework for capital needs that relies on explicit quantification of uncertainty of risk, and the use of modelling techniques to provide valuable input to the capital management process and provide the capacity to quantify and understand this risk/return trade-off.

The Company reports financial and operational results quarterly and undertakes regular experience analysis to monitor emerging trends.

(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 Company issues reinsurance contracts covering term life, accident and disability (income and lump sum) on an individual or group basis; annuity; catastrophe and medical expenses business. The Company does not write investment linked business.

Risk management strategy

The Company's risk management strategy 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.

4. Risk management policies and procedures (continued)

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

Exposure to risk

In an effort to protect and enhance shareholder value, the Company 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 such as working to a target business mix established in the annual business plan, 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 Company reports financial and operational results quarterly and undertakes regular experience analysis to monitor emerging trends. The Company's functional managers prepare monthly reports which are provided to the General Manager, Life and ultimately to a member of the Board.

Retrocessions

The Company's retrocession programme reduces the Company's 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 Procedures Manual and include limits to delegated authorities and signing powers. Internal auditors from the ultimate parent entity 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 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	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
<ul style="list-style-type: none"> Term Life Disability (income and lump sum) Annuities Catastrophe Medical expenses 			

(e) Concentrations of insurance risk

The Company'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 Company to a higher risk of loss in the event of an accident affecting the location where the reinsured employees work. The Company conducts analysis of single-event exposures on an ongoing basis and continues to be well within the limits mandated by its ultimate parent entity.

(f) Claims development

Information about actual claims compared to previous estimates is provided below for claims for business, besides annuity business, for which uncertainty about the amount and timing of claim payments is not typically resolved within one year. For the Company, such claims include disability income claims and claims for certain group life business where significant claim reporting delays are typically experienced.

	2009 \$'000	2008 \$'000
Gross claims incurred		
Expected	222,882	196,109
Actual	245,204	201,724
Net claims incurred		
Expected	139,639	123,601
Actual	158,351	129,661

Munich Reinsurance Company of Australasia Limited
Notes to the financial statements for the year ended 31 December 2009

	2009 \$'000	2008 \$'000
5. Revenue from operating activities		
Reinsurance revenue		
Reinsurance premium revenue	464,041	357,152
Retrocession recoveries from reinsurance contracts	109,671	101,690
Total reinsurance revenue	<u>573,712</u>	<u>458,842</u>
Investment revenue		
Interest	33,595	31,298
Realised and unrealised gains	-	41,601
Total investment revenues	<u>33,595</u>	<u>72,899</u>
Other revenue		
Other income	174	674
Total other revenue	<u>174</u>	<u>674</u>
Total revenue from operating activities	<u>607,481</u>	<u>532,415</u>
6. Expenses from operating activities		
(a) Claims expense		
Gross reinsurance claims expense	<u>217,426</u>	<u>187,192</u>
(b) Other expenses		
Retrocession premium expense	<u>199,970</u>	<u>157,385</u>
Movement in life reinsurance contract liabilities	<u>34,821</u>	<u>59,282</u>
Policy acquisition costs		
Commission	44,358	27,054
Other costs	4,858	5,738
Total policy acquisition costs	<u>49,216</u>	<u>32,792</u>
Policy maintenance costs		
Commission	56,384	44,958
Other costs	10,093	7,587
Total policy maintenance costs	<u>66,477</u>	<u>52,545</u>
Investment management expenses	523	480
Net realised and unrealised losses	25,381	-
Foreign exchange losses	-	2
Other expenses	8	22
Total	<u>25,912</u>	<u>504</u>
Total other expenses	<u>376,396</u>	<u>302,508</u>
Total expenses from operating activities	<u>593,822</u>	<u>489,700</u>
(c) Finance costs		
Interest payable on deposit retained from related retrocessionaire	<u>8,196</u>	<u>9,479</u>
Total claims, other expenses & finance costs	<u>602,018</u>	<u>499,179</u>

Munich Reinsurance Company of Australasia Limited
Notes to the financial statements for the year ended 31 December 2009

	2009 \$'000	2008 \$'000
7. Operating profit		
(a) Sources of shareholder's operating profit of statutory funds		
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	14,058	14,251
• Experience loss	(10,977)	(2,549)
• Capitalisation of expected future losses	-	(1,102)
Investment earnings on assets in excess of life reinsurance contract liabilities	1,029	15,749
Operating profit after income tax (note 25)	<u>4,110</u>	<u>26,349</u>

(b) Reconciliation of reported results with Life Insurance Act (1995) results

In respect of the Company's life reinsurance contracts business, there are no differences between the valuation requirements of the Accounting Standards (in particular, AASB 1038: *Life Insurance Contracts*) and those of the Life Insurance Act (1995), which includes prudential standards (refer note 3) as all assets in the statutory funds are reported at fair value. Thus, the Company profit reported for the period being solely shareholder's interests is the same under the Accounting Standards and the Life Insurance Act (1995). Note that the Company only has life reinsurance contracts and does not have any investment linked or other life investment type contracts. Further, as there has been no difference between the valuation requirements for many years, the retained profits at the end of the period are also the same under the Accounting Standards and the Life Insurance Act (1995).

(c) Operating and retained profit

The source of the Company's operating profit is Life reinsurance contracts – non-participating business. The Company only has life reinsurance contracts and does not have any investment linked or other life investment type contracts.

	2009 \$'000	2008 \$'000
8. Income tax		
(a) Income tax expense		
Current tax – current year	3,841	(3,302)
Deferred tax – current year	(2,734)	8,662
Under provided in prior year – current tax	-	1,750
(Over) provided in prior year – deferred tax	-	(1,443)
Income tax expense	<u>1,107</u>	<u>5,667</u>
(b) Reconciliation of prima facie tax payable to income tax expense		
Profit from operating activities before income tax	<u>5,463</u>	<u>33,236</u>
Prima facie tax payable at the Australian tax rate of 30% (2008: 30%)	1,639	9,971
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible expenses	18,892	12,358
Non-assessable items	(19,424)	(16,969)
Under provision prior year	-	307
Income tax expense	<u>1,107</u>	<u>5,667</u>

Munich Reinsurance Company of Australasia Limited
Notes to the financial statements for the year ended 31 December 2009

	2009 \$'000	2008 \$'000
8. Income tax (continued)		
(c) Receivable / (Provision) for income tax		
Opening balance at 1 January	(581)	(789)
Additional provisions recognised – current year	(3,841)	3,302
Liabilities paid	1,275	1,301
Currency revaluation	27	37
Tax consolidation transfers	4,615	(4,716)
Transfer of tax credits	-	2,034
Additional provisions recognised – prior year	-	(1,750)
Closing balance at 31 December	1,495	(581)

(d) Dividend franking account

Franking credits accrue to MHA as the head entity of the tax consolidation group.

(e) Tax consolidation legislation

The Company is governed by the income tax consolidation legislation. The accounting policy in relation to this legislation is set out in note 1(j).

The tax sharing and tax funding aspects were divided into two separate agreements. The tax sharing agreement limits the joint and several liability of the Company in the event of a default by the head entity, MHA, in respect of a group tax liability.

The tax funding agreement, which is consistent with Australian Interpretation 1052, provides for the Company to fully compensate MHA for any current tax payable assumed by MHA as head entity and attributable to the Company; and to be compensated by MHA for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to MHA under the tax consolidation legislation. The funding amounts are measured as if the Company continues to be a stand-alone taxpayer in its own right, with the exception that the Company does not recognise tax amounts in respect of dividends received from or paid to other members of the tax consolidated group.

The Australian tax amounts receivable or payable under the tax funding agreement are calculated by MHA as soon as practicable after the end of each financial year and advised to the Company. The funding amounts are recognised as current receivables or payables (refer notes 11 and 16).

The Company's New Zealand branch is not a member of the tax consolidated group and therefore is not a party to the tax funding agreement.

	2009 \$'000	2008 \$'000
9. Current assets – cash and cash equivalents		
Cash at bank	2,733	1,885
Deposits at call	25,808	12,791
Total	28,541	14,676

(a) Cash at bank

Cash at bank accounts bear floating interest rates between 2.25% to 3.75% p.a. (2008: 3.75% to 4.75%).

(b) Deposits at call

The deposits at call bear floating interest rates between 2.50% to 3.70% p.a. (2008: 4.20% to 5.00%).

10. Current assets – outstanding premiums

Amount due from ceding companies	86,073	84,721
----------------------------------	--------	--------

11. Current assets – receivables

Amount due from related retrocessionaire	-	2,626
Recoveries due from non-related retrocessionaires	2,686	-
Amount due from ceding companies	21,735	7,600
Amount due from related entities	4,302	11,901
Sundry debtors and prepayments	60	45
Accrued income	7,165	6,317
Total	35,948	28,489

The amount due from related retrocessionaire represents the Company's net contractual rights under retrocession agreements with its ultimate parent entity, Münchener Rückversicherungs-Gesellschaft. Refer note 32.

Munich Reinsurance Company of Australasia Limited
Notes to the financial statements for the year ended 31 December 2009

	2009 \$'000	2008 \$'000
12. Other financial assets		
(a) Other financial assets – fair value through profit or loss		
Debt securities – unsecured, including Bills of Exchange	596,355	565,167
Total financial assets – fair value through profit or loss	596,355	565,167
Current other financial assets	170,326	56,791
Non-current other financial assets	426,029	508,376
Total other financial assets – fair value through profit or loss	596,355	565,167

Changes in the fair value of other financial assets through profit or loss 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 funds can only be used within the restrictions imposed under the 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. Securities with a minimum value of NZD\$1,000,000 are held with the NZ Public Trustee as a requirement for the Company to operate in New Zealand.

	2009 \$'000	2008 \$'000
13. Retrocessionaires' share of life reinsurance contract liabilities		
Current		
Recoveries due from related retrocessionaire in respect of life reinsurance contract liabilities	45,410	41,306
Recoveries due from non-related retrocessionaires in respect of life reinsurance contract liabilities	1,497	11,466
Total	46,907	52,772
Non-current		
Recoveries due from related retrocessionaire in respect of life reinsurance contract liabilities	132,820	113,550
Recoveries due from non-related retrocessionaires in respect of life reinsurance contract liabilities	6,374	4,623
Total	139,194	118,173
Total		
Recoveries due from related retrocessionaire in respect of life reinsurance contract liabilities	178,230	154,856
Recoveries due from non-related retrocessionaires in respect of life reinsurance contract liabilities	7,871	16,089
Total – note 20(a)(i)	186,101	170,945

14. Non-current assets – deferred tax assets

Deferred tax assets relate to timing differences and comprise the tax effect of the following amounts recognised in the profit or loss:

Accrued expense	179	399
Components of life reinsurance contract liabilities	2,300	2,634
Total	2,479	3,033
Movements:		
Opening balance at 1 January	3,033	6,520
(Credited)/ debited to the statement of comprehensive income	(445)	1,900
Currency revaluation	(109)	(53)
Set off of tax (note 19)	-	(5,334)
Closing balance at 31 December	2,479	3,033

Munich Reinsurance Company of Australasia Limited
Notes to the financial statements for the year ended 31 December 2009

	2009 \$'000	2008 \$'000
15. Non-current assets – other		
Deposit retained by ceding company	4,543	4,954
Total	4,543	4,954

16. Current liabilities – payables

Amount due to ceding companies	35,355	49,718
Amount due to related retrocessionaire (note 32(e))	9,797	-
Amount due to non-related retrocessionaires	-	1,722
GST payables	73	8
Sundry payables	94	-
Total	45,319	51,448

17. Current liabilities – provisions

Outstanding claims	100,971	79,097
Non-resident withholding tax	1,499	1,037
Total	102,470	80,134

Movements:

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

	Outstanding claims \$'000	Non-resident withholding tax \$'000	Total \$'000
Opening balance at 1 January 2009	79,097	1,037	80,134
Additional provisions recognised	195,219	1,499	196,718
Liabilities paid	(173,235)	(1,037)	(174,272)
Currency revaluation	(110)	-	(110)
Closing balance at 31 December 2009	100,971	1,499	102,470

	2009 \$'000	2008 \$'000
18. Current liabilities – other		
Deposit retained from related retrocessionaire	45,410	41,306
Accrual of related retrocessionaire's share of unrealised gain on investments	26	410
Total	45,436	41,716

19. Non-current liabilities – deferred tax liabilities

Deferred tax liabilities relate to timing differences and comprise the tax effect of the following amounts recognised in the profit or loss:

Accrued expense/ (income)	1,245	(1,152)
Components of life reinsurance contract liabilities	-	(3,926)
Unrealised investment items	(1,460)	9,380
Other	821	(517)
Total	606	3,785

Movements:

Opening balance at 1 January	3,785	-
(Debited)/ credited to the statement of comprehensive income	(3,179)	9,119
Set off of tax (note 14)	-	(5,334)
Closing balance at 31 December	606	3,785

Munich Reinsurance Company of Australasia Limited
Notes to the financial statements for the year ended 31 December 2009

	2009 \$'000	2008 \$'000
20. Life reinsurance contract liabilities		
Gross life reinsurance contract liabilities		
Current	101,588	109,501
Non-current	347,923	307,113
Total	449,511	416,614
Life reinsurance contract liabilities assumed – see below (a) and (b)	449,511	416,614
(a) (i) Life reinsurance contract liabilities assumed		
Reinsured life reinsurance contract liabilities:		
Gross life reinsurance contract liabilities assumed	449,511	416,614
Gross life reinsurance contract liabilities ceded – note 13	(186,101)	(170,945)
Net life reinsurance contract liabilities	263,410	245,669
(ii) Reconciliation of changes in life reinsurance contract liabilities and retrocession assets		
Gross life reinsurance contract liabilities at 1 January	416,614	359,465
Increase in gross life reinsurance contract liabilities	34,821	59,282
Currency fluctuation in gross life reinsurance contract liabilities	(1,924)	(2,133)
Gross life reinsurance contract liabilities at 31 December	449,511	416,614
Retroceded life reinsurance contract liabilities at 1 January	170,945	150,385
Increase in retroceded life reinsurance contract liabilities	15,916	21,456
Currency fluctuation in retroceded life reinsurance contract liabilities	(760)	(896)
Retroceded life reinsurance contract liabilities at 31 December	186,101	170,945
Net life reinsurance contract liabilities at 1 January	245,669	209,080
Net increase in life reinsurance contract liabilities	18,905	37,826
Currency fluctuation in life reinsurance contract liabilities	(1,164)	(1,237)
Net life reinsurance contract liabilities at 31 December	263,410	245,669
(b) Components of life reinsurance contract liabilities		
Best estimate liability for non investment-linked business		
Value of future policy benefits	380,277	403,585
Value of future expenses	130,445	189,997
Value of unrecouped acquisition expenses	(84,748)	(40,689)
Value of future premiums	(245,599)	(361,192)
Total	200,375	191,701
Value of future profits for non investment-linked business		
Shareholder profit margins	63,035	53,968
Total	63,035	53,968
Net life reinsurance contract liabilities	263,410	245,669

Munich Reinsurance Company of Australasia Limited

Notes to the financial statements for the year ended 31 December 2009

21. Solvency and capital requirements

(a) Solvency requirements of the life statutory funds

These are the amounts required to meet the prudential standards specified by the Life Insurance Act (1995) to provide protection against the impact of fluctuations and unexpected adverse circumstances on the life statutory funds.

The methodology and basis for determining the solvency requirements are in accordance with the requirements of Prudential Standard LPS 2.04, Solvency Standard, under section 230A of the Life Insurance Act (1995).

The coverage of solvency reserve figures in the table below represent the number of times there is coverage for each fund of the assets that are available for solvency over the solvency reserve.

	2009			2008		
	Statutory Fund 1 \$'000	Statutory Fund 2 \$'000	Total \$'000	Statutory Fund 1 \$'000	Statutory Fund 2 \$'000	Total \$'000
Solvency requirements of the statutory funds						
Solvency requirement	602,501	86,482	688,983	565,058	84,932	649,990
Represented by:						
Minimum termination value	257,928	24,835	282,763	218,454	24,629	243,083
Other liabilities	290,040	43,160	333,200	273,888	37,647	311,535
Solvency reserve	54,533	18,487	73,020	72,716	22,656	95,372
Total	602,501	86,482	688,983	565,058	84,932	649,990
Assets available for solvency reserve	101,216	28,091	129,307	104,724	31,689	136,413
Comprised as:						
(Deficit)/excess of net policy liability over minimum termination value	(26,027)	6,676	(19,351)	(6,086)	8,671	2,585
Net assets	127,243	21,415	148,658	110,810	23,018	133,828
Total	101,216	28,091	129,307	104,724	31,689	136,413
Solvency reserve %	10.0%	27.2%	11.9%	14.8%	36.4%	17.2%
Coverage of solvency reserve	1.86	1.52	1.77	1.44	1.40	1.43

(b) Capital requirements of the shareholder's fund

	Shareholder's Fund 2009 \$'000	Shareholder's Fund 2008 \$'000
Capital requirement	10,000	10,000
Being the greater of:		
Management capital reserve		
Determined as:		
Management capital requirement	1,913	530
Less: Total liabilities	(1,887)	(512)
	26	18
And		
Minimum capital requirement	10,000	10,000
Assets available for capital requirements	12,808	14,062
Management capital reserve %	530.0%	1,952.2%
Coverage of capital requirement	1.3	1.4

Munich Reinsurance Company of Australasia Limited

Notes to the financial statements for the year ended 31 December 2009

	2009 \$'000	2008 \$'000
22. Non-current liabilities – other		
Deposit retained from related retrocessionaire	132,820	113,550
Accrual of related retrocessionaire's share of unrealised gain on investments	390	12,262
Total	133,210	125,812

23. Non-current liabilities – payables		
Amount due to ceding companies	3,517	4,005
Total	3,517	4,005

24. Share capital		
Authorised and issued capital of 20,000,000 (2008: 10,000,000) ordinary shares		
Balance at 1 January	10,000	10,000
Issue of ordinary shares	10,000	-
Balance at 31 December	20,000	10,000

During the year ended 31 December 2009, the Company's parent entity increased its investment through the purchase of 10,000,000 fully paid ordinary shares for a total cost of \$10,000,000. (2008: There was no movement in share capital during the financial year).

	Statutory Funds \$'000	2009 Shareholder's Fund \$'000	Total \$'000	Statutory Funds \$'000	2008 Shareholder's Fund \$'000	Total \$'000
25. Reserves and retained profits						
Summary of shareholder's interests						
Net profit for the year	4,110	246	4,356	26,349	1,220	27,569
Retained profit at 1 January	106,558	33,532	140,090	95,209	32,312	127,521
Transfers between funds	1,500	(1,500)	-	(15,000)	15,000	-
Dividends paid	-	-	-	-	(15,000)	(15,000)
Retained profit at 31 December (overseas and non-participating)	112,168	32,278	144,446	106,558	33,532	140,090
Foreign currency translation reserve at 1 January	(1,333)	(867)	(2,200)	(375)	(867)	(1,242)
Movement during the year	(780)	-	(780)	(958)	-	(958)
Foreign currency translation reserve at 31 December	(2,113)	(867)	(2,980)	(1,333)	(867)	(2,200)
Issued share capital at 1 January	-	10,000	10,000	-	10,000	10,000
Movement during the year (note 24)	-	10,000	10,000	-	-	-
Issued share capital at 31 December	-	20,000	20,000	-	10,000	10,000
Capital transfers to statutory funds	38,603	(38,603)	-	28,603	(28,603)	-
Shareholder's equity	148,658	12,808	161,466	133,828	14,062	147,890

26. Dividends

No dividend was paid for the year ended 31 December 2009. (2008: \$15,000,000 paid on 28 May 2008).

All franking credits have been transferred to MHA as the head entity of the tax consolidation group. Refer note 8(e).

Munich Reinsurance Company of Australasia Limited

Notes to the financial statements for the year ended 31 December 2009

27. Remuneration of auditors

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

	2009 \$	2008 \$
(a) Audit and assurance services		
<i>KPMG Australia:</i>		
Audit and review of financial reports under the Corporations Act 2001	257,859	201,674
Total remuneration for audit and assurance services	<u>257,859</u>	<u>201,674</u>
(b) Advisory services		
<i>KPMG Australia:</i>		
Review of group life experience study report	14,500	5,179
Advice and review of expatriate agreements	10,971	5,058
Review of embedded value report	60,000	-
Advice on projects	72,281	-
Total remuneration for advisory services	<u>157,752</u>	<u>10,237</u>
Total	<u><u>415,611</u></u>	<u><u>211,911</u></u>

The arrangement and payment for the above services was undertaken by MHA on behalf of the Company.

28. Directors' disclosure

The following persons were Directors of the Company during the financial year:

(i) Chairman – non-executive

P D R Isherwood, AO

(ii) Executive Director

A H Eder

(iii) Non-executive Directors

B Gierl

J Ludbrook

N J Milne, OAM

J D Shale

E G Tollifson

29. Contingencies

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

Munich Reinsurance Company of Australasia Limited
Notes to the financial statements for the year ended 31 December 2009

30. Commitments

(a) Capital commitments

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

	2009 \$'000	2008 \$'000
(b) Lease commitments		
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	40	361
Later than one year but not later than five years	-	40
Total	40	401

The Company has a non-cancellable operating lease which expires in February 2010. The lease agreement will be transferred to its parent entity, MHA in March 2010.

The Company does not have any financing leases.

31. Events occurring after the balance sheet date

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

32. 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, a company incorporated in Germany with limited liability.

(b) Directors

Disclosures relating to Directors are set out in note 28.

(c) Key management personnel compensation

	2009 \$	2008 \$
Short term employee benefits	937,238	999,534
Post employment benefits	118,384	111,678
Long term benefits	87,850	93,039
Total	1,143,472	1,204,251

The payments were effected by MHA.

(d) Transactions with related parties

The following transactions occurred with related parties:

Transactions in respect of retrocession of reinsurance contracts with:

Ultimate parent entity	5,244,245	(2,142,565)
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Transactions on normal commercial terms and conditions with:

Parent entity in Australia in respect of:

i) recharges of expenses incurred by the Company.	18,595,842	16,366,701
ii) income tax transactions with MHA, the head entity of the tax consolidated group in Australia. The tax payable or receivable is settled in full upon the finalisation of the consolidated income tax return in accordance with the tax sharing and tax funding agreements under Australian Interpretation 1052 (note 8(e)).	(7,598,923)	11,431,560

Commonly controlled entity in respect of:

Recharges of expenses incurred by the Company's New Zealand branch	117,713	101,639
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Dividends paid to:

Parent entity in Australia – note 26	-	15,000,000
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Capital injection received from:

Parent entity in Australia – note 24	10,000,000	-
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Munich Reinsurance Company of Australasia Limited
Notes to the financial statements for the year ended 31 December 2009

2009 2008
 \$ \$

32. Related party transactions (continued)

(e) Outstanding balances

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

Current (payables)/ receivables in respect of retrocession of reinsurance contracts with:		
Ultimate parent entity	(9,796,774)	2,625,878
Current receivables in respect of income tax payable assumed by MHA and attributable to the Company and other normal business transactions (including New Zealand branch) with:		
Parent entity in Australia	4,302,035	11,900,958

(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.

The Company has guaranteed the rental lease commitment of a related entity which expires in February 2010.

(g) Terms and conditions

All other 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.

(h) Tax sharing agreement

The Company continues to be a party to the tax sharing agreement and the tax funding agreement with other members of the Australian tax consolidated group, whose head entity is MHA. Details about these agreements are disclosed in note 8(e).

Munich Reinsurance Company of Australasia Limited

Notes to the financial statements for the year ended 31 December 2009

2009
\$'000

2008
\$'000

33. 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:

Profit from operating activities after income tax	4,356	27,569
Movements in:		
Outstanding premiums due from ceding companies	(1,866)	(18,696)
Trade debtors	(14,170)	(1,606)
Trade creditors	(13,410)	6,871
Other retrocession debtors / creditors	(4,413)	462
Related entities	7,599	(9,897)
Retrocessionaire's current account	12,483	(659)
Sundry debtors	(17)	(31)
Sundry creditors	94	-
GST – acquisitions	65	(134)
Income tax receivable / payable	(2,037)	(173)
Deferred taxes	(2,734)	7,218
Provision for non resident withholding tax	472	382
Technical provisions	39,782	31,470
Deposit retained from related retrocessionaire	24,031	20,016
Deposit retained by cedants	411	411
Loss/ (gain) on revaluation of investments	25,381	(41,601)
Investment revenue	(33,595)	(31,298)
Investment expense	523	481
Net cash flows from operating activities	42,955	(9,215)

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

Cash	2,733	1,885
Deposits at call	25,808	12,791
Bills of exchange – bank endorsed	10,493	-
Balances per statement of cash flows	39,034	14,676

Munich Reinsurance Company of Australasia Limited
Notes to the financial statements for the year ended 31 December 2009

34. Disaggregated information of life insurance business by fund

	Australian Statutory Fund No. 1 2009 \$'000	New Zealand Statutory Fund No. 2 2009 \$'000	Shareholder's Fund 2009 \$'000	Total 2009 \$'000	Australian Statutory Fund No. 1 2008 \$'000	New Zealand Statutory Fund No. 2 2008 \$'000	Shareholder's Fund 2008 \$'000	Total 2008 \$'000
Other financial assets	509,856	72,868	13,631	596,355	480,832	70,607	13,728	565,167
Other assets	134,827	23,551	701	159,079	116,187	21,490	618	138,295
Retrocessionaires' share of life reinsurance contract liabilities	163,503	22,598	-	186,101	148,745	22,200	-	170,945
Life reinsurance contract liabilities	(395,403)	(54,108)	-	(449,511)	(361,114)	(55,500)	-	(416,614)
Other liabilities	(285,540)	(43,494)	(1,524)	(330,558)	(273,840)	(35,779)	(284)	(309,903)
Retained earnings	88,640	23,528	32,278	144,446	82,207	24,351	33,532	140,090
Net premium revenue	241,281	22,790	-	264,071	176,763	23,004	-	199,767
Investment revenue	28,835	3,973	787	33,595	61,132	9,990	1,777	72,899
Other Income	174	-	-	174	674	-	-	674
Net claims expense	(92,203)	(15,552)	-	(107,755)	(90,442)	(16,516)	-	(106,958)
Other operating expenses	(174,823)	(9,364)	(435)	(184,622)	(119,967)	(13,145)	(34)	(133,146)
Profit / (loss) before tax	3,264	1,847	352	5,463	28,160	3,333	1,743	33,236
Profit / (loss) after tax	1,933	2,177	246	4,356	24,281	2,068	1,220	27,569
Transfers between funds	4,500	(3,000)	(1,500)	-	(15,000)	-	15,000	-
Capital transfers to statutory funds	38,603	-	(38,603)	-	28,603	-	(28,063)	-

Munich Reinsurance Company of Australasia Limited
Directors' Declaration

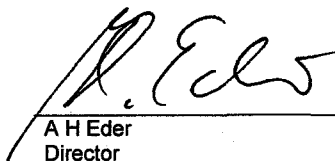
In the Directors' opinion:

- (a) the financial statements and notes set out on pages 4 to 30 are in accordance with the *Corporations Act 2001* including:
 - (i) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
 - (ii) giving a true and fair view of the Company's financial position as at 31 December 2009 and of its performance for the financial year ended on that date;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1; and
- (c) there are reasonable grounds to believe that, as at the time this statement is made, the shareholder's fund of the Company and each of the statutory funds of the Company, will be able to pay all debts or claims as and when they are referable to it.

Signed at Sydney on 24 March 2010 in accordance with a resolution of the Directors.



L P Minehan
Director



A H Eder
Director



Independent auditor's report to the members of Munich Reinsurance Company of Australasia Limited

Report on the financial report

We have audited the accompanying financial report of Munich Reinsurance Company of Australasia Limited (the Company), which comprises the balance sheet as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration set out on pages 4 to 31.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's financial position and of its performance.

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



Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of Munich Reinsurance Company of Australasia Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's financial position as at 31 December 2009 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

KPMG

KPMG

Brian Greig
Partner

Sydney
24 March 2010