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Munich Reinsurance Company of Australasia Limited – New Zealand Branch

Annual Financial Report
31 December 2010

Principal Place of Business
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 2010

	Note	2010 $'000	2009 $'000
Revenue from operating activities	5	64,991	64,810
Expenses from operating activities	6(b)	(55,428)	(61,474)
Finance costs	6(c)	(1,300)	(1,031)
Profit before tax		8,263	2,305
Income tax (expense)/credit	8(a)	(4,874)	411
Total comprehensive income for the year		3,389	2,716

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 2010

	Note	2010 $'000	2009 $'000
Current assets			
Cash and cash equivalents	9	4,138	2,875
Outstanding premiums	10	17,663	18,350
Receivables	11	1,298	2,975
Other financial assets	12	19,011	12,969
Retrocessionaires' share of life reinsurance contract liabilities	13	1,301	7,462
Income tax receivable	8(c)	626	1,847
Total current assets		44,037	46,478
Non-current assets			
Other financial assets	12	69,379	77,094
Retrocessionaires' share of life reinsurance contract liabilities	13	24,863	20,468
Deferred tax assets	14	385	3,064
Total non-current assets		94,627	100,626
Total assets		138,664	147,104
Current liabilities			
Payables	15	12,520	15,361
Provisions	16	11,426	13,840
Life reinsurance contract liabilities	17	2,802	18,150
Other	19	948	6,877
Total current liabilities		27,696	54,228
Non-current liabilities			
Life reinsurance contract liabilities	17	62,268	48,727
Other	20	22,236	17,679
Payables	21	98	-
Total non-current liabilities		84,602	66,406
Total liabilities		112,298	120,634
Net assets		26,366	26,470
Equity			
Capital reserves	22	15,500	15,500
Retained profits	22	10,866	10,970
Total equity		26,366	26,470

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 2010

	Note	Capital reserve $'000	Retained profits $'000	Total $'000
Balance at 1 January 2009		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	22	15,500	10,970	26,470
Total comprehensive income for the year				
Profit after tax for the year		-	3,389	3,389
Transfer to the shareholders fund		-	(3,493)	(3,493)
Balance at 31 December 2010	22	15,500	10,866	26,366

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 2010

	Note	2010 $'000	2009 $'000
Cash flows from operating activities			
Treaty reinsurance		7,870	12,207
Retrocession		(2,341)	(2,368)
Income tax paid		(1,385)	(1,530)
Management and administrative expenses		(2,878)	(3,350)
Other income		2	-
Net cash from operating activities	30(a)	1,268	4,959
Cash flows from investing activities			
Interest received		4,547	5,088
Payments for investments		(187,783)	(51,572)
Proceeds from sale of investments		177,538	53,403
Investment expenses		(75)	(83)
Net cash from investing activities		(5,773)	6,836
Cash flows from financing activities			
Transfer to Australian statutory fund		(3,708)	-
Transfer to shareholders fund		(3,493)	-
Net cash from financing activities		(7,201)	-
Net (decrease)/increase in cash held		(11,706)	11,795
Cash and cash equivalents at 1 January		15,844	4,049
Cash and cash equivalents at 31 December	30(b)	4,138	15,844

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.

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 2010 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 2011.

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

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 or loss.

(j) Income tax

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

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantially enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and assessable temporary differences to measure the deferred tax asset or liability. Deferred tax assets are recognised for deductible temporary differences only if it is probable that future taxable amounts will be available to utilise those temporary differences. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(k) Allocation and distribution of profit of statutory fund

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

The amount transferred to/from the New Zealand statutory fund from/to 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 backing life reinsurance contract liabilities are classified as fair value through profit or loss. Initial recognition and subsequent measurement is at fair value. Unrealised profits and losses on subsequent measurement to fair value are recognised as profit or loss.

Fair value by asset category is measured as follows:

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.

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 2010. 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

All product groups have been valued using the projection method (previously the majority of the business was valued using an accumulation method). The projection method includes appropriate allowance for all reserves including IBNR, disabled lives, unrecouped acquisition costs and other reserves.

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

(b) Actuarial assumptions

Assumption	Basis of assumption
Discount rates	Risk-free discount rates based on the current observable, objective rates that relate to the nature, structure and term of the future liability cash flows. 2010: 3.4% - 5.8% p.a. (2009: 5.7% - 6.2% p.a.)
Maintenance expenses	The allowance for future expenses is a percentage of inforce premiums based on the Branch's planned expenses in 2011.
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. 2010: 2.5% p.a. (2009: 2.5% p.a.)
Voluntary discontinuance	The Branch's own experience. 2010: 4.25% -15.0% p.a. (2009: 2.0% -15.0% p.a.)
Surrender values	Ceding company values.

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

(b) Actuarial assumptions (continued)

Assumption	Basis of assumption
Mortality & morbidity (Lump sum benefits)	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. 2010: 35% - 145% (2009: 85% - 145%) of IAD 89 – 93.
IBNR	Allowance was made for inherent delays in reporting claims based on investigations into the branch's own recent experience. 2010 : IBNR determined using an adjusted chain-ladder method (2009: 51% - 88% of one year's expected incurred claims).

(c) Effects of changes in actuarial assumptions

	31 December 2009 to 31 December 2010	
Assumption category	Effect on net profit margins $'000 increase / (decrease)	Effect on net life reinsurance contract liabilities $'000 increase / (decrease)
Discount rates & inflation	758	892
New Zealand tax	323	0
Maintenance expenses	4,796	0
Voluntary Discontinuance	(461)	0
Age related premium increases	5,131	0
Mortality & morbidity	(546)	0
Total	10,001	892

(d) Sensitivity of financial results

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

Variable	Impact of variable
Expense risk	An increase in the level or inflationary growth of expenses over assumed levels will decrease profit and equity.
Interest rate risk	The investment income of the Branch will decrease as interest rates decrease. This is offset to an extent by corresponding changes in the market value of fixed interest investments. The impact on profit and equity will be minimal for investment assets backing most life reinsurance contract liabilities, when the asset and liability profile is closely matched. However there will be an impact in respect of investment assets in excess of life reinsurance contract liabilities and annuity and other long term life reinsurance contract liabilities where close asset/liability matching is not possible.
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.

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 requires all investments to be in New Zealand government bonds or deposits with major banks.

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.

		Carrying amount	
		2010	2009
	Note	$'000	$'000
Cash and cash equivalents	9	4,138	2,875
Other financial assets at fair value through profit or loss			
- Debt securities	12	88,390	90,063
Amount due from ceding companies in respect of outstanding premium	10	17,663	18,350
Receivables	11	1,298	2,975
Retrocessionaires' share of life reinsurance contract liabilities	13	26,164	27,930
Current tax receivable	8(c)	626	1,847
Total		138,279	144,040

No financial assets are either past due or impaired.

Grade 1-3 (Standard & Poor's A- to AAA)	135,953	141,717
Grade 4-5 (Unrated or Standard & Poor's BB+ to BBB+)	2,326	2,323
Total	138,279	144,040

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). There were no transfers between levels in the current or prior year.

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

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
2010				
Amount due to ceding companies	8,535	98	-	8,633
Amount due to related retrocessionaire	3,551	-	-	3,551
GST payables	420	-	-	420
Outstanding claims	11,017	-	-	11,017
Non-resident withholding tax	409	-	-	409
Life reinsurance contract liabilities*	2,802	16,890	45,378	65,070
Deposit retained from related retrocessionaire*	948	5,494	16,405	22,847
Related retrocessionaire's share of unrealised gains on investments	-	127	210	337
Sundry payables	14	-	-	14
Total	27,696	22,609	61,993	112,298
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
Related retrocessionaire's share of unrealised gains on investments	-	27	273	300
Total	54,228	24,717	41,689	120,634

*: The increase in duration is due to the change in actuarial valuation method (refer notes 3(a) and (b)).

(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 which aims to ensure that the Branch maintains financial assets with similar duration and cash flow characteristics as the underlying life reinsurance contract liabilities of the business. This framework aims to minimise the effect of interest rate movements on the assets of the Branch.

  An integral part of the ALM framework is the investment mandate of the Company. On an annual basis the investment mandate is reassessed and updated, after which the Board reviews and approves this document before implementation. This review incorporates any changes which have occurred within the liabilities and results in modification to the asset allocation to realign the assets to the latest liability profile.
- The Branch does not trade in derivatives or use derivatives to manage exposures to interest rate risk, foreign currency risk and other price risk.

4. Risk management policies and procedures (continued)

(a) Financial risks (continued)

(iii) Market risk (continued)

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, when the asset and liability profile is closely matched.

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:---- Up to 1 year $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
2010						
Cash	2.65%	988	-	-	-	988
Deposits at call	3.00%	3,150	-	-	-	3,150
Investments						
Government bonds	5.94%	-	511	12,079	57,300	69,890
Term deposits	4.48%	-	18,500	-	-	18,500
Total		4,138	19,011	12,079	57,300	92,528
2009						
Cash	2.25%	875	-	-	-	875
Deposits at call	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

Currency risk

The Branch operates 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 29(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 transfers to or capital reduction/(injections) to/(by) its parent company Munich Holdings of Australasia 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 20.

4. Risk management policies and procedures (continued)

(b) Capital management (continued)

(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. Therefore the Branch obtained the same rating as Munich Re Group based on ratings published by Standard & Poor's Ratings services as 31 December 2010. The Branch manages its capital rating by performing periodical analysis using Standard & Poor's Capital model.

(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 bi-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 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 • Term life • Disability (income and lump sum) • Catastrophe • Medical expenses	Guaranteed benefits paid on death, survival or disability that are fixed and guaranteed and not at the discretion of the issuer	Benefits, defined by the reinsurance contract, are determined by the contract and are not directly affected by the performance of underlying assets or the performance of the contracts as a whole.	Mortality Morbidity Market earning rates Interest rates Discontinuance rates Expenses

4. Risk management policies and procedures (continued)

(e) Concentrations of insurance risk

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

(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.

	2010 $'000	2009 $'000
Net claims incurred		
Expected	22,405	12,024
Actual	21,444	7,688

5. Revenue from operating activities

Reinsurance revenue		
Reinsurance premium revenue	47,084	46,423
Retrocession recoveries from reinsurance contracts	12,535	13,430
Total reinsurance revenue	59,619	59,853
Investment revenue		
Interest	4,493	4,957
Net realised and unrealised gains	877	-
Foreign exchange gains	2	-
Total investment revenue	5,372	4,957
Total revenue from operating activities	64,991	64,810

6. Expenses from operating activities

	2010 $'000	2009 $'000
(a) Claims expense		
Gross reinsurance claims expense	32,655	32,833
(b) Other expenses		
Retrocession premium expense	18,420	17,991
Movement in life reinsurance contract liabilities	(1,806)	664
Policy acquisition costs		
Commission	617	677
Other costs	153	155
Total policy acquisition costs	770	832
Policy maintenance costs		
Commission	3,234	3,146
Other costs	2,080	2,239
Total policy maintenance costs	5,314	5,385
Investment management expenses	75	83
Net realised and unrealised losses	-	3,686
Total	75	3,769
Total other expenses	22,773	28,641
Total expenses from operating activities	55,428	61,474
(c) Finance costs		
Interest payable on deposit retained from related retrocessionaire	1,300	1,031
Total claims, other expenses & finance costs	56,728	62,505

7. Operating profit

Sources of shareholder's operating profit of statutory fund

Operating profit after income tax arose from:

	2010 $'000	2009 $'000
Components of shareholder's profit related to movement in life reinsurance contract liabilities (non investment linked business)		
• Planned margins of revenues over expenses released	1,418	2,187
• Experience profit	1,248	586
Investment earnings/(losses) on assets in excess of life reinsurance contract liabilities	723	(57)
Operating profit after income tax of statutory fund (note 22)	3,389	2,716

8. Income tax

(a) Income tax expense

	2010 $'000	2009 $'000
Current taxes – current year	1,539	(965)
Deferred taxes – current year	3,279	554
Under provision in prior year – current tax	655	-
Over provision in prior year – deferred tax	(627)	-
Effect of change in tax rate	28	
Income tax expense/(credit)	4,874	(411)

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

	2010 $'000	2009 $'000
Profit from operating activities before income tax	8,263	2,305
Prima facie tax payable at 30% (2009: 30%)	2,479	692
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible expenses	4,090	220
Non-assessable items	(1,750)	(1,323)
Under provision in prior year	27	-
Effect of change in tax rate	28	-
Income tax (credit)/expense	4,874	(411)

(c) Income tax receivable

	2010 $'000	2009 $'000
Opening balance at 1 January	1,847	(694)
Additional provisions recognised – current year	(1,539)	965
Additional provisions recognised - prior year	(655)	-
Liabilities paid	973	1,576
Closing balance at 31 December	626	1,847

(d) Tax rate change

Income tax legislation has been passed reducing the New Zealand corporate tax rate from 30% to 28% which will have effect for the Branch from 1 January 2011. The deferred tax assets and liabilities recognized in the financial statements for the year ended 31 December 2010 have been calculated using the new corporate tax rate.

(e) New Tax framework for life insurance business

Income tax legislation was passed introducing a new taxation framework for life insurance business in New Zealand. Such rules were designed to ensure that term insurance business is taxed on actual profits and applies to life insurance policies incepting on or after 1 July 2010. Term life insurance policies in force at 30 June 2010 are grandfathered (for a limited period) and taxed under the previous rules. However, an election exists whereby such policies may be taxed under the new rules. The Branch has chosen to grandfather approximately one third of its treaties and the income tax expense for the period has been calculated on this basis.

It should be noted that the new rules do not apply to the Branch's accident and disability business, which is currently taxed as general insurance.

9. Current assets – cash and cash equivalents

	2010 $'000	2009 $'000
Cash at bank	988	875
Deposits at call	3,150	2,000
Total	4,138	2,875

(a) Cash at bank

Cash at bank is currently bearing floating interest rates of 2.25% to 2.75% p.a. during the financial year (2009: 2.25% to 4.75% p.a.).

(b) Deposits at call

The deposits at call are bearing floating interest rates between 2.50% to 3.00% p.a. during the financial year (2009: 2.50% to 5.00% p.a.).

	2010 $'000	2009 $'000

10. Current assets – outstanding premiums

	2010 $'000	2009 $'000
Amount due from ceding companies	17,663	18,350

11. Current assets – receivables

	2010 $'000	2009 $'000
Recoveries due from non-related retrocessionaires	40	561
Amount due from ceding companies	736	1,837
Accrued income	522	577
Total	1,298	2,975

12. Other financial assets

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

	2010 $'000	2009 $'000
Debt securities – unsecured, including Bills of Exchange	88,390	90,063
Total other financial assets – fair value through profit or loss	88,390	90,063
Current other financial assets	19,011	12,969
Non-current other financial assets	69,379	77,094
Total other financial assets – fair value through profit or loss	88,390	90,063

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

	2010 $'000	2009 $'000
Current		
Recoveries due from related retrocessionaire in respect of life reinsurance contract liabilities	948	6,877
Recoveries due from non-related retrocessionaire in respect of life reinsurance contract liabilities	353	585
Total	1,301	7,462
Non-current		
Recoveries due from related retrocessionaire in respect of life reinsurance contract liabilities	21,899	17,379
Recoveries due from non-related retrocessionaire in respect of life reinsurance contract liabilities	2,964	3,089
Total	24,863	20,468
Total		
Recoveries due from related retrocessionaire in respect of life reinsurance contract liabilities	22,847	24,256
Recoveries due from non-related retrocessionaire in respect of life reinsurance contract liabilities	3,317	3,674
Total – note 17(a)(i)	26,164	27,930

The increase in duration is due to the change in actuarial valuation method (refer notes 3(a) and (b)).

14. Non-current assets – deferred tax asset

	2010 $'000	2009 $'000
Deferred tax asset relates to timing differences and comprises the tax effect of the following amounts recognised in the profit or loss:		
Accrued expenses	258	221
Components of life reinsurance contract liabilities	127	2,843
Deferred tax asset	385	3,064
Movements:		
Opening balance at 1 January	3,064	3,618
Credited to the statement of comprehensive income	(2,679)	(554)
Closing balance at 31 December	385	3,064

15. Current liabilities – payables

	2010 $'000	2009 $'000
Amount due to ceding companies	8,535	8,746
Amount due to related retrocessionaire (refer note 29(e))	3,551	2,817
Amount due to related entities (refer note 29(e))	-	3,708
GST payables	420	90
Sundry payables	14	-
Total	12,520	15,361

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 29).

16. Current liabilities – provisions

	2010 $'000	2009 $'000
Outstanding claims	11,017	13,428
Non-resident withholding tax	409	412
Total	11,426	13,840

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 2010	13,428	412	13,840
Additional provisions recognised	32,655	409	33,064
Liabilities paid	(35,066)	(412)	(35,478)
Closing balance at 31 December 2010	11,017	409	11,426

17. Life reinsurance contract liabilities

	2010 $'000	2009 $'000
Gross life reinsurance contract liabilities		
Current	2,802	18,150
Non-current	62,268	48,727
Total Gross life reinsurance contract liabilities assumed – see below (a) and (b)	65,070	66,877

The increase in duration is due to the change in actuarial valuation method (refer notes 3(a) and (b)).

(a) (i) Life reinsurance contract liabilities assumed

	2010 $'000	2009 $'000
Reinsured life reinsurance contract liabilities:		
Gross life reinsurance contract liabilities assumed	65,070	66,877
Gross life reinsurance contract liabilities ceded – note 13	(26,164)	(27,930)
Net life reinsurance contract liabilities	38,906	38,947

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

	2010 $'000	2009 $'000
Opening balance gross life reinsurance contract liabilities at 1 January	66,877	66,213
(Decrease)/increase in gross life reinsurance contract liabilities	(1,807)	664
Closing balance gross life reinsurance contract liabilities at 31 December	65,070	66,877
Opening balance retroceded life reinsurance contract liabilities at 1 January	27,930	26,485
(Decrease)/increase in retroceded life reinsurance contract liabilities	(1,766)	1,445
Closing balance retroceded life reinsurance contract liabilities at 31 December	26,164	27,930
Opening balance net life reinsurance contract liabilities at 1 January	39,947	39,728
Decrease in net life reinsurance contract liabilities	(41)	(781)
Closing balance net life reinsurance contract liabilities at 31 December	38,906	38,947

(b) Components of net life reinsurance contract liabilities

	2010 $'000	2009 $'000
Best estimate liability for non investment-linked business		
Value of future policy benefits	233,160	65,886
Value of future expenses	55,369	18,531
Value of unrecouped acquisition expenses	-	(4,080)
Value of future premiums	(277,373)	(48,649)
Total	11,156	31,688
Value of future profits for non investment-linked business		
Shareholder profit margins	27,750	7,259
Net life reinsurance contract liabilities	38,906	38,947

The change in components of life reinsurance contract liabilities is due to the change in actuarial valuation method (refer notes 3(a) and (b)).

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.

	2010 $'000	*2009* $'000
Solvency requirement	93,016	106,889
Represented by:		
Minimum termination value	39,811	30,696
Other liabilities	46,917	53,345
Solvency reserve	6,288	22,848
Total	93,016	106,889
Assets available for solvency reserve	25,461	34,720
Comprised as:		
(Deficit)/ Excess of net policy liability over minimum termination value	(905)	8,250
Net assets	26,366	26,470
Total	25,461	34,720
Solvency reserve %	7.3%	27.2%
Coverage of solvency reserve	4.05	1.52

19. Current liabilities - other

Deposit retained from related retrocessionaire	948	6,877

20. Non-current liabilities – other

Related retrocessionaire's share of unrealised gains on investments	337	300
Deposit retained from related retrocessionaire	21,899	17,379
	22,236	17,679

21. Non-current liabilities – payables

Amount due to ceding companies	98	-

22. Reserves and retained profits

Summary of shareholder's interests

Net profit for the year	3,389	2,716
Retained profit at 1 January	10,970	11,962
Transfer to the Australian statutory fund	-	(3,708)
Transfer to the shareholders fund	(3,493)	-
Retained profit at 31 December (overseas and non-participating)	10,866	10,970
Capital reserve	15,500	15,500
Shareholder's equity	26,366	26,470

23. Dividends

Munich Reinsurance Company of Australasia Limited paid a dividend of Australian $8,500,000 on 11 May 2010 (2009: nil) to its parent entity, Munich Holdings of Australasia Pty Ltd ("MHA").

24. 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:

	2010 $	2009 $
(a) Audit and assurance services		
KPMG Australia:		
Audit and review of financial reports under the Companies Act 1993	26,146	15,227
Total remuneration for audit and other assurance services	26,146	15,227
(b) Advisory services		
KPMG Australia:		
Advice and review of expatriate agreements	-	2,526
Total remuneration for advisory services	-	2,526
Total	26,146	17,753

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

25. Directors' disclosure

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

(i) Chairman – non-executive

L P Minehan

(ii) Executive Directors

A H Eder

(iii) Non-executive Directors

K Eckl	(Appointed 22 November 2010)
B Gierl	(Retired 30 November 2010)
J Ludbrook	(Retired 22 November 2010)
N J Milne, OAM	
A Rear	(Appointed 22 November 2010)
J D Shale	(Retired 30 June 2010)
O Shub	(Appointed 22 November 2010)
E G Tollifson	

26. Contingencies

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

27. 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.

28. Events occurring after the balance sheet date

On 22 February 2011, an earthquake or aftershock to the September 2010 earthquake occurred in Christchurch, New Zealand, which caused significant loss of life. The Branch potentially has exposure to the event. Whilst some claims are expected, the Branch does not expect a material impact on its state of affairs, operations or results from that event.

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

29. 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 25.

A director, O. Shub, is a partner with the firm Allens Arthur Robinson, Solicitors. Allens Arthur Robinson has provided legal services to Munich Reinsurance America Inc., a subsidiary of the ultimate parent entity during the year on normal commercial terms and conditions, and at market rates.

	2010 $	2009 $
(c) Key management personnel compensation		
Short term employee benefits	142,138	81,722
Post employment benefits	13,965	8,571
Long term benefits	10,203	7,563
Total	166,306	97,856
(d) Transactions with related parties		
The following transactions occurred with related parties:		
Transactions in respect of retrocession of reinsurance contracts with:		
Ultimate parent entity	771,511	(1,036,194)
Transactions in respect of recharges of expenses incurred by the Branch with:		
Parent entity in Australia	2,993,207	3,226,451
Other related entities	163,255	146,856
Transactions in respect of expenses paid on behalf of the Branch by:		
Parent entity in Australia	(6,792)	-
(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	(3,551,251)	(2,817,331)
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.

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

	2010 $'000	2009 $'000
(a) Reconciliation of profit after income tax to the net cash flows from operating activities:		
Profit from operating activities after income tax	3,389	2,716
Movements in:		
Trade debtors	1,100	(31)
Outstanding premiums due from ceding companies	687	(553)
Trade creditors	(113)	3,474
Retrocessionaire's current account	734	588
Other retrocession debtors / creditors	558	(309)
GST - acquisitions	330	70
Provision for tax	1,221	(2,541)
Provision for non-resident withholding tax	(3)	45
Deferred tax	2,679	554
Gross policy liabilities	(1,807)	664
Related retro policy liabilities	1,409	(1,349)
Other retro policy liabilities	357	(96)
Outstanding claims reserve	(2,411)	1,565
Deposit retained from retrocessionaire	(1,409)	1,350
Sundry creditors	14	-
Adjustments for:		
(Gain)/loss on revaluation of investments	(1,049)	3,686
Investment revenue	(4,493)	(4,957)
Investment expense	75	83
Net cash flows from operating activities	1,268	4,959

(b) Cash and cash equivalents:

	2010 $'000	2009 $'000
Cash	988	875
Deposits at call	3,150	2,000
Bills of exchange	-	12,969
Total per cash flow statement	4,138	15,844

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 2010 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 2010.

Signed in Sydney on 24 March 2011 in accordance with a resolution of the Directors:

L P Minehan
Director

A H Eder
Director

KPMG

Audit report

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

Report on the Financial Statements

We have audited the financial statements of Munich Reinsurance Company of Australasia Limited – New Zealand Branch ("the Branch") on pages 1 to 23. The financial statements comprise the statement of financial position as at 31 December 2010 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

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

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

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

Other than in our capacity as auditors we have no relationship with, or interests in, the Branch.

Opinion

In our opinion the financial statements of Munich Reinsurance Company of Australasia Limited – New Zealand Branch on pages 1 to 23:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of the Branch as at 31 December 2010 and of its financial performance and cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of section 16(1)(d) and section 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations we have required; and
- in our opinion proper accounting records have been kept by Munich Reinsurance Company of Australasia Limited – New Zealand Branch as far as appears from our examination of those records.

KPMG

KPMG

Sydney
24 March 2011

Munich Reinsurance Company of Australasia Limited
ABN 51 004 804 013

Annual Financial Report
31 December 2010

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 2010.

Directors

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

L P Minehan (Chairman)	
R Eckl	(Appointed 22 November 2010)
A H Eder	
B Gierl	(Retired 30 November 2010)
J Ludbrook	(Retired 22 November 2010)
N J Milne, OAM	
A Rear	(Appointed 22 November 2010)
J D Shale	(Retired 30 June 2010)
O Shub	(Appointed 22 November 2010)
E G Tollifson	

Principal activities

The Company's principal activity is life reinsurance.

Review of operations

The 2010 business year produced an operating profit after tax of $16,438,000 in comparison with a profit of $4,356,000 in 2009. 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

The Company paid a dividend of $8,500,000 on 11 May 2010 (2009: nil) 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 $108,000 (2009: $87,000) 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	Risk & Compliance Committee
E G Tollifson (Chairman)	N J Milne, OAM (Chairman)
L P Minehan	A H Eder
N J Milne, OAM	L P Minehan
O Shub	E G Tollifson
	O Shub

In accordance with the Life Prudential Standards LPS 510 *Governance*, 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 2010, the Company's parent entity, Munich Holdings of Australasia Pty Limited ("MHA") increased its investment in Munich Reinsurance Company of Australasia Limited ("MRA") through the purchase of 30,000,000 fully paid ordinary shares for a total cost of $30,000,000.

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

On 22 February 2011, an earthquake or aftershock to the September 2010 earthquake occurred in Christchurch, New Zealand, which caused significant loss of life. The Company potentially has exposure to the event. Whilst some claims are expected, the Company does not expect a material impact on its state of affairs, operations or results from that event.

Directors' benefits

Other than transactions disclosed in note 33, 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.

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 2010.

Signed at Sydney on 24 March 2011 in accordance with a resolution of the Directors.

L P Minehan
Director

A H Eder
Director

KPMG

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 beliefs, in relation to the audit for the year ended 31 December 2010, 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

Paul Ruiz
Partner

Sydney
24 March 2011

Munich Reinsurance Company of Australasia Limited
Statement of Comprehensive Income for the year ended 31 December 2010

	Note	2010 $'000	2009 $'000
Revenue from operating activities	5	687,833	607,481
Expenses from operating activities	6	(647,752)	(593,822)
Finance costs	6	(11,058)	(8,196)
Profit before income tax		29,023	5,463
Income tax expense	8(a)	(12,585)	(1,107)
Profit after tax		16,438	4,356
Other comprehensive income			
Foreign currency translation	26	(1,282)	(780)
Total comprehensive income for the year		15,156	3,576

The Statement of Comprehensive Income is to be read in conjunction with the notes to the financial statements set out on pages 8 to 32.

Munich Reinsurance Company of Australasia Limited

Balance Sheet as at 31 December 2010

	Note	2010 $'000	2009 $'000
Current assets			
Cash and cash equivalents	9	23,012	28,541
Outstanding premiums	10	121,320	86,073
Receivables	11	15,610	35,948
Other financial assets	12	253,157	170,326
Other	13	5,233	4,543
Retrocessionaires' share of life reinsurance contract liabilities	14	24,249	46,907
Income tax receivable	8(c)	478	1,495
Total current assets		443,059	373,833
Non-current assets			
Other financial assets	12	445,456	426,029
Retrocessionaires' share of life reinsurance contract liabilities	14	153,467	139,194
Other	16	5	-
Deferred tax assets	15	292	2,479
Total non-current assets		599,220	567,702
Total assets		1,042,279	941,535
Current liabilities			
Payables	17	85,059	45,319
Provisions	18	107,414	102,470
Life reinsurance contract liabilities	21	69,010	101,588
Other	19	22,998	45,436
Total current liabilities		284,481	294,813
Non-current liabilities			
Payables	24	4,244	3,517
Life reinsurance contract liabilities	21	404,865	347,923
Other	23	150,512	133,210
Deferred tax liabilities	20	55	606
Total non-current liabilities		559,676	485,256
Total liabilities		844,157	780,069
Net assets		198,122	161,466
Equity			
Share capital	25	50,000	20,000
Reserves	26	(4,262)	(2,980)
Retained profits	26	152,384	144,446
Total equity		198,122	161,466

The Balance Sheet is to be read in conjunction with the notes to the financial statements set out on pages 8 to 32.

Munich Reinsurance Company of Australasia Limited
Statement of Changes in Equity for the year ended 31 December 2010

	Note	Share capital $'000	Retained profits $'000	Foreign currency translation reserve $'000	Total $'000
Balance at 1 January 2009		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	26	-	-	(780)	(780)
Transactions with owners, recorded directly in equity					
Issue of ordinary shares	25	10,000	-	-	10,000
Balance at 31 December 2009		20,000	144,446	(2,980)	161,466
Total comprehensive income for the year					
Profit after tax for the year		-	16,438	-	16,438
Other comprehensive income					
Foreign currency translation	26		-	(1,282)	(1,282)
Transactions with owners, recorded directly in equity					
Dividends paid	27	-	(8,500)	-	(8,500)
Issue of ordinary shares	25	30,000	-	-	30,000
Balance at 31 December 2010		50,000	152,384	(4,262)	198,122

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 32.

Munich Reinsurance Company of Australasia Limited

Statement of Cash Flows for the year ended 31 December 2010

	Note	2010 $'000	2009 $'000
Cash flows from operating activities			
Treaty reinsurance		66,975	54,005
Retrocession (paid)/ received		(4,473)	7,978
Income tax paid / transferred		374	2,193
Management and administrative expenses		(20,629)	(21,225)
Other income		11	4
Net cash from operating activities	34(a)	42,258	42,955
Cash flows from investing activities			
Interest received		37,127	32,725
Payments for investments		(860,043)	(360,051)
Proceeds from sale of investments		744,150	299,282
Investment expenses paid		(584)	(523)
Net cash from investing activities		(79,350)	(28,567)
Cash flows from financing activities			
Dividends paid	27	(8,500)	-
Capital injection	25	30,000	10,000
Net cash from financing activities		21,500	10,000
Net (decrease) / increase in cash held		(15,592)	24,388
Cash and cash equivalents at 1 January		39,034	14,676
Effect of exchange rate fluctuation on cash held		(430)	(30)
Cash and cash equivalents at 31 December	34(b)	23,012	39,034

The Statement of Cash Flows is to be read in conjunction with the notes to the financial statements set out on pages 8 to 32.

Munich Reinsurance Company of Australasia Limited

Notes to the financial statements for the year ended 31 December 2010

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 2010. *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 2011.

(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 Australian 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 9 *Financial Instruments* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement.* AASB 9 will become mandatory for the Company's 31 December 2013 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 31 December 2011 or earlier. The Company has not yet determined the potential effect of the standard on the Company's financial report.

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.

1. Summary of significant accounting policies (continued)

(f) Acquisition costs

Acquisition costs are recognised in line with the premiums to which they relate. The fixed and variable costs of acquiring new business include premium rebates, underwriting costs and sundry other costs. The actual acquisition costs are recorded in the statement of comprehensive income as incurred. The Appointed Actuary, in determining the life reinsurance contract liabilities, implicitly takes account of the deferral and future recovery of acquisition costs resulting in life reinsurance contract liabilities being presented net of such costs and those costs being amortised over the period that they are projected to be recoverable.

(g) Retrocession expense

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

(h) Retrocession and other recoveries

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

(i) Foreign currency translation

The financial statements are presented in 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 or loss.

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).

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

Fair value by asset category is measured as follows:

- Cash assets are carried at face value of the amounts deposited. The carrying amounts of cash assets approximate their fair value. For the purposes of the statement of cash flows, cash includes cash on hand, deposits held at call with banks and investments in money market instruments, such as Bills of Exchange.
- 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 profit or loss 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

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 2010. 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.

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

(a) Actuarial valuation methods

All product groups have been valued using the projection method (previously the majority of the business was valued using an accumulation method). The projection method includes appropriate allowance for all reserves including IBNR, disabled lives, unrecouped acquisition costs and other reserves.

The major product groups are individual lump sum, group lump sum and disability income business. There is also a small volume of annuity business. For one large industry group life treaty, disability income and annuities, the profit carrier is claims. For all other business the profit carrier is premiums.

(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. 2010: Aust 4.8% - 5.7% p.a., NZ 3.4% - 5.8% p.a. (2009: Aust 4.6% - 6.0% p.a, NZ 5.7% - 6.2% p.a.)
Maintenance expenses	The allowance for future expenses is a percentage of in-force premiums based on the Company's planned expenses in 2011.
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. 2010: Aust 2.75% p.a., NZ 2.5% p.a. (2009: Aust 2.5% p.a, NZ 2.5% p.a.)
Voluntary discontinuance	The Company's own experience. 2010: 4.25% -15.0% p.a. (2009: 2.0% -15.0% p.a.)
Surrender values	Ceding company values.
Mortality & morbidity (lump sum benefits)	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. 2010 and 2009: 35% - 145% of IAD 89 – 93.
IBNR	Allowance was made for inherent delays in reporting claims based on investigations into the Company's own recent experience. 2010: IBNR determined using an adjusted chain-ladder method (2009: 17% - 99% of one year's expected incurred claims).

(c) Effects of changes in actuarial assumptions

	31 December 2009 to 31 December 2010	
Assumption category	Effect on net profit margins $'000 increase / (decrease)	Effect on net life reinsurance contract liabilities $'000 increase / (decrease)
Discount rates & inflation	(4,515)	(8,936)
New Zealand tax	246	0
Maintenance expenses	4,789	0
Voluntary discontinuance	(29,939)	0
Age related premium increases	13,635	0
Mortality & morbidity	(11,255)	0
Total	(27,039)	(8,936)

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, when the asset and liability profile is closely matched. However there will be an impact in respect of investment assets in excess of life reinsurance contract liabilities and annuity and other long term life reinsurance contract liabilities where close asset/liability matching is not possible.
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 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 Australian Dollar denominated "corporate issuer"(being any issuer other than Australian state, the Australian federal government or issues with an explicit Australian Government guarantee) to 5% of total investments, except for a maximum exposure of 20% of the investment assets to each of the following banks: Australia and New Zealand Banking Group Limited, Commonwealth Bank Limited, National Australia Bank Limited and Westpac Banking Corporation. The mandate restricts exposure to investments in non-Australian domiciled issuers held in the Australian portfolios to a maximum limit of 30% with regard to Australian dollar investments.
- A mandate is in place that limits New Zealand dollar fixed interest investments to New Zealand government bonds, treasury bills or bank bills. In addition the mandate allows cash investments of New Zealand Dollar Term deposits.

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 2010	Carrying amount $'000 2009
Cash and cash equivalents	9	23,012	28,541
Other financial assets at fair value through profit or loss			
- Debt securities	12	698,613	596,355
Amount due from ceding companies in respect of outstanding premiums	10	121,320	86,073
Receivables	11	15,610	35,948
Deposit retained by ceding company	13	5,226	4,543
Related retrocessionaire's share of unrealised loss on investments			
- Current	13	7	-
- Non-current	16	5	-
Retrocessionaires' share of life reinsurance contract liabilities	14	177,716	186,101
Income tax receivable	8(c)	478	1,495
Total		1,041,987	939,056
Grade 1-3 (Standard & Poor's A- to AAA)		1,039,219	931,268
Grade 4-5 (Unrated or Standard & Poor's BB+ to BBB+)		2,768	7,788
Total		1,041,987	939,056

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). There were no transfers between levels in the current or prior year.

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 Company's exposure to liquidity risk:

- The Company maintains cash balances which are generally sufficient to meet immediate short term liquidity needs.
- 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*
2010				
Amount due to ceding companies	34,269	4,244	-	38,513
Amount due to related retrocessionaires	42,696	-	-	42,696
Amount due to related entities	7,636	-	-	7,636
GST payable	320	-	-	320
Outstanding claims	106,200	-	-	106,200
Non-resident withholding tax	1,214	-	-	1,214
Life reinsurance contract liabilities*	69,010	87,302	317,563	473,875
Deposit retained from related retrocessionaire*	22,998	21,481	129,031	173,510
Sundry payable	138	-	-	138
Total	284,481	113,027	446,594	844,102

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
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**	*101,566*	*199,849*	*148,074*	*449,511*
Deposit retained from related retrocessionaire*	45,410	76,481	56,339	178,230
Related retrocessionaire's share of unrealised gain	26	74	316	416
Sundry payable	94	-	-	94
Total	294,813	279,921	204,729	779,463

*: The increase in duration is due to the change in actuarial valuation method (refer notes 3(a) and (b)).

(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 which aims to ensure that the Company maintains financial assets with similar duration and cash flow characteristics as the underlying reinsurance liabilities of the business. This framework aims to minimise the effects of interest rate movements on the net assets of the Company.

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

- 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, when the asset and liability profile is closely matched.

4. Risk management policies and procedures (continued)

(a) Financial risks (continued)

(iii) Market risk (continued)

Interest rate risk (continued)

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:---- Up to 1 year $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
2010						
Cash	4.07%	3,918	-	-	-	3,918
Deposits at call	4.49%	19,094	-	-	-	19,094
Investments						
Term deposits	5.40%	-	220,099	-	-	220,099
Government bonds	5.80%	-	28,030	153,112	287,587	468,729
Debentures	6.01%	-	5,028	4,757	-	9,785
Total		23,012	253,157	157,869	287,587	721,625
2009						
Cash	3.02%	2,733	-	-	-	2,733
Deposits at call	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

Currency risk

The Company operates 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 minimum 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 minimum 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 33(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 30,000,000 fully paid ordinary shares for a total cost of $30,000,000 to its parent entity, Munich Holdings of Australasia Pty Limited ("MHA") on 10 November 2010.

For detailed information on the capital being managed and required capital by APRA, refer note 22.

4. Risk management policies and procedures (continued)

(b) Capital management (continued)

(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 2010. 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.

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 bi-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.

4. Risk management policies and procedures (continued)

(d) Terms and conditions of reinsurance contracts

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

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

(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.

	2010 $'000	2009 $'000
Net claims incurred		
Expected	233,105	139,639
Actual	254,101	158,351

Munich Reinsurance Company of Australasia Limited

Notes to the financial statements for the year ended 31 December 2010

	2010 $'000	2009 $'000
5. Revenue from operating activities		
Reinsurance revenue		
Reinsurance premium revenue	551,335	464,041
Retrocession recoveries from reinsurance contracts	98,659	109,671
Total reinsurance revenue	649,994	573,712
Investment revenue		
Interest	36,381	33,595
Net realised and unrealised gains	1,017	-
Foreign exchange gains	1	-
Total investment revenues	37,399	33,595
Other revenue		
Other income	440	174
Total other revenue	440	174
Total revenue from operating activities	687,833	607,481

6. Expenses from operating activities

	2010 $'000	2009 $'000
(a) Claims expense		
Gross reinsurance claims expense	252,008	217,426
(b) Other expenses		
Retrocession premium expense	241,135	199,970
Movement in life reinsurance contract liabilities	27,465	34,821
Policy acquisition costs		
Commission	51,163	44,358
Other costs	4,350	4,858
Total policy acquisition costs	55,513	49,216
Policy maintenance costs		
Commission	60,903	56,384
Other costs	10,135	10,093
Total policy maintenance costs	71,038	66,477
Investment management expenses	584	523
Net realised and unrealised losses	-	25,381
Other expenses	9	8
Total	593	25,912
Total other expenses	395,744	376,396
Total expenses from operating activities	647,752	593,822
(c) Finance costs		
Interest payable on deposit retained from related retrocessionaire	11,058	8,196
Total claims, other expenses & finance costs	658,810	602,018

7. Operating profit

(a) Sources of shareholder's operating profit of statutory funds

	2010 $'000	2009 $'000
Operating profit after income tax arose from:		
Components of shareholder's profit related to movement in life reinsurance contract liabilities (non investment linked business)		
• Planned margins of revenues over expenses released	17,782	14,058
• Experience loss	(5,867)	(10,977)
• Capitalisation of expected future losses	-	-
Investment earnings on assets in excess of life reinsurance contract liabilities	4,181	1,029
Operating profit after income tax of statutory funds (note 26)	16,096	4,110

(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.

8. Income tax

(a) Income tax expense

	2010 $'000	2009 $'000
Current tax – current year	10,519	3,841
Deferred tax – current year	2,023	(2,734)
Under provided in prior year – current tax	514	-
(Over) provided in prior year – deferred tax	(493)	-
Effect of change in tax rate in New Zealand	22	-
Income tax expense	12,585	1,107

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

	2010 $'000	2009 $'000
Profit from operating activities before income tax	29,023	5,463
Prima facie tax payable at the Australian tax rate of 30% (2009: 30%)	8,707	1,639
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible expenses	23,814	18,892
Non-assessable items	(19,979)	(19,424)
Under provision prior year	21	-
Effect of change in tax rate in New Zealand	22	-
Income tax expense	12,585	1,107

8. Income tax (continued)

(c) Receivable / (Provision) for income tax

	2010 $'000	2009 $'000
Opening balance at 1 January	1,495	(581)
Additional provisions recognised – current year	(10,519)	(3,841)
Liabilities paid	742	1,275
Currency revaluation	(37)	27
Tax consolidation transfers	9,311	4,615
Additional provisions recognised – prior year	(514)	-
Closing balance at 31 December	478	1,495

(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 17).

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.

(f) *New Zealand tax rate change*

Income tax legislation has been passed reducing the New Zealand corporate tax rate from 30% to 28% with effect from 1 January 2011. The deferred tax assets and liabilities recognised in the financial statements for the year ended 31 December 2010 (relating to the New Zealand Branch) have been calculated using the new corporate tax rate.

(g) New Zealand tax framework for life insurance business

Income tax legislation was passed introducing a new taxation framework for life insurance business in New Zealand. Such rules were designed to ensure that term insurance business is taxed on actual profits and applies to New Zealand life insurance policies incepting on or after 1 July 2010. Term life insurance policies in force at 30 June 2010 are grandfathered (for a limited period) and taxed under the previous rules. However, an election exists whereby such policies may be taxed under the new rules. The Company's New Zealand Branch has chosen to grandfather approximately one third of its treaties and the income tax expense for the period has been calculated on this basis.

It should be noted that the new rules do not apply to the Branch's accident and disability business, which is currently taxed as general insurance.

9. Current assets – cash and cash equivalents

	2010 $'000	2009 $'000
Cash at bank	3,918	2,733
Deposits at call	19,094	25,808
Total	23,012	28,541

(a) Cash at bank

Cash at bank accounts bears floating interest rates between 2.60% to 4.75% p.a. during the financial year (2009: 2.25% to 3.75% p.a.).

(b) Deposits at call

The deposits at call bear floating interest rates between 3.00% to 4.70% p.a. during the financial year (2009: 2.50% to 3.70% p.a.).

	2010 $'000	2009 $'000
10. Current assets – outstanding premiums		
Amount due from ceding companies	121,320	86,073
11. Current assets – receivables		
Recoveries due from non-related retrocessionaires	458	2,686
Amount due from ceding companies	8,709	21,735
Amount due from related entities	-	4,302
Sundry debtors and prepayments	50	60
Accrued income	6,393	7,165
Total	15,610	35,948

12. Other financial assets

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

	2010 $'000	2009 $'000
Debt securities – unsecured, including Bills of Exchange	698,613	596,355
Total other financial assets – fair value through profit or loss	698,613	596,355
Current other financial assets	253,157	170,326
Non-current other financial assets	445,456	426,029
Total other financial assets – fair value through profit or loss	698,613	596,355

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.

	2010 $'000	2009 $'000
13. Current assets – other		
Deposit retained by ceding company	5,226	4,543
Related retrocessionaire's share of unrealised loss on investments	7	-
	5,233	4,543

	2010 $'000	2009 $'000
14. Retrocessionaires' share of life reinsurance contract liabilities		
Current		
Recoveries due from related retrocessionaire in respect of life reinsurance contract liabilities	22,998	45,410
Recoveries due from non-related retrocessionaires in respect of life reinsurance contract liabilities	1,251	1,497
Total	24,249	46,907
Non-current		
Recoveries due from related retrocessionaire in respect of life reinsurance contract liabilities	150,512	132,820
Recoveries due from non-related retrocessionaires in respect of life reinsurance contract liabilities	2,955	6,374
Total	153,467	139,194
Total		
Recoveries due from related retrocessionaire in respect of life reinsurance contract liabilities	173,510	178,230
Recoveries due from non-related retrocessionaires in respect of life reinsurance contract liabilities	4,206	7,871
Total – note 21(a)(i)	177,716	186,101

15. Non-current assets – deferred tax assets

Deferred tax assets comprise the tax effect of the following amounts recognised in the profit or loss:

	2010 $'000	2009 $'000
Accrued expense	196	179
Components of life reinsurance contract liabilities	96	2,300
Total	292	2,479
Movements:		
Opening balance at 1 January	2,479	3,033
(Credited) to the statement of comprehensive income	(2,081)	(445)
Currency revaluation	(84)	(109)
Effect of change in tax rate in New Zealand	(22)	-
Closing balance at 31 December	292	2,479

16. Non-current assets – other

	2010 $'000	2009 $'000
Related retrocessionaire's share of unrealised loss on investments	5	-
Total	5	-

17. Current liabilities – payables

	2010 $'000	2009 $'000
Amount due to ceding companies	34,269	35,355
Amount due to related retrocessionaire (note 33(e))	42,696	9,797
Amount due to related entities	7,636	-
GST payables	320	73
Sundry payables	138	94
Total	85,059	45,319

The amount due to related retrocessionaire represents the Company's net contractual rights under retrocession agreements with its ultimate parent entity, Münchener Rückversicherungs-Gesellschaft. Refer note 33.

18. Current liabilities – provisions

	2010 $'000	2009 $'000
Outstanding claims	106,200	100,971
Non-resident withholding tax	1,214	1,499
Total	107,414	102,470

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 2010	100,971	1,499	102,470
Additional provisions recognised	251,602	1,214	252,816
Liabilities paid	(246,203)	(1,499)	(247,702)
Currency revaluation	(170)	-	(170)
Closing balance at 31 December 2010	106,200	1,214	107,414

19. Current liabilities – other

	2010 $'000	2009 $'000
Deposit retained from related retrocessionaire	22,998	45,410
Related retrocessionaire's share of unrealised gain on investments	-	26
Total	22,998	45,436

20. 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:

	2010 $'000	2009 $'000
Accrued expense/ (income)	1,125	1,245
Unrealised investment items	(1,746)	(1,460)
Other	676	821
Total	55	606
Movements:		
Opening balance at 1 January	606	3,785
(Debited) to the statement of comprehensive income	(551)	(3,179)
Closing balance at 31 December	55	606

21. Life reinsurance contract liabilities

	2010 $'000	2009 $'000
Gross life reinsurance contract liabilities		
Current	69,010	101,588
Non–current	404,865	347,923
Total	473,875	449,511
Life reinsurance contract liabilities assumed – *see below (a) and (b)*	473,875	449,511

The increase in duration is due to the change in actuarial valuation method (refer notes 3(a) and (b)).

(a) (i) Life reinsurance contract liabilities assumed

	2010 $'000	2009 $'000
Reinsured life reinsurance contract liabilities:		
Gross life reinsurance contract liabilities assumed	473,875	449,511
Gross life reinsurance contract liabilities ceded – note 14	(177,716)	(186,101)
Net life reinsurance contract liabilities	296,159	263,410

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

	2010 $'000	2009 $'000
Gross life reinsurance contract liabilities at 1 January	449,511	416,614
Increase in gross life reinsurance contract liabilities	27,465	34,821
Currency fluctuation in gross life reinsurance contract liabilities	(3,101)	(1,924)
Gross life reinsurance contract liabilities at 31 December	473,875	449,511
Retroceded life reinsurance contract liabilities at 1 January	186,101	170,945
(Decrease)/increase in retroceded life reinsurance contract liabilities	(7,113)	15,916
Currency fluctuation in retroceded life reinsurance contract liabilities	(1,272)	(760)
Retroceded life reinsurance contract liabilities at 31 December	177,716	186,101
Net life reinsurance contract liabilities at 1 January	263,410	245,669
Net increase in life reinsurance contract liabilities	34,578	18,905
Currency fluctuation in life reinsurance contract liabilities	(1,829)	(1,164)
Net life reinsurance contract liabilities at 31 December	296,159	263,410

(b) Components of life reinsurance contract liabilities

	2010 $'000	2009 $'000
Best estimate liability for non investment-linked business		
Value of future policy benefits	1,260,882	380,277
Value of future expenses	744,226	130,445
Value of unrecouped acquisition expenses	-	(64,748)
Value of future premiums	(1,896,375)	(245,599)
Total	108,733	200,375
Value of future profits for non investment-linked business		
Shareholder profit margins	187,426	63,035
Total	187,426	63,035
Net life reinsurance contract liabilities	296,159	263,410

The change in components of life reinsurance contract liabilities is due to the change in actuarial valuation method (refer notes 3(a) and (b)).

22. 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.

	2010			2009		
	Australian Statutory Fund 1 $'000	New Zealand Statutory Fund 2 $'000	Total $'000	Australian Statutory Fund 1 $'000	New Zealand Statutory Fund 2 $'000	Total $'000
Solvency requirements of the statutory funds						
Solvency requirement	724,078	70,888	794,966	602,501	86,482	688,983
Represented by:						
Minimum termination value	380,250	30,341	410,591	257,928	24,835	282,763
Other liabilities	334,425	35,755	370,180	290,040	43,160	333,200
Solvency reserve	9,403	4,792	14,195	54,533	18,487	73,020
Total	724,078	70,888	794,666	602,501	86,482	688,983
Assets available for solvency reserve	51,138	19,404	70,542	101,216	28,091	129,305
Comprised as:						
(Deficit)/excess of net policy liability over minimum termination value	(113,741)	(689)	(114,430)	(26,027)	6,676	(19,353)
Net assets	164,879	20,093	184,972	127,243	21,415	148,658
Total	51,138	19,404	70,542	101,216	28,091	129,305
Solvency reserve %	1.3%	7.3%	1.8%	10.0%	27.2%	11.9%
Coverage of solvency reserve	5.44	4.05	4.97	1.86	1.52	1.77

(b) Capital requirements of the shareholder's fund

		Shareholder's Fund 2010 $'000	Shareholder's Fund 2009 $'000
Capital requirement		10,000	10,000
Being the greater of:			
Management capital reserve			
Determined as:			
	Management capital requirement	264	1,913
Less:	Total liabilities	(252)	(1,887)
		12	26
And			
Minimum capital requirement		10,000	10,000
Assets available for capital requirements		13,150	12,808
Management capital reserve %		3,976.0%	530.0%
Coverage of capital requirement		1.3	1.3

23. Non-current liabilities – other

	2010 $'000	2009 $'000
Deposit retained from related retrocessionaire	150,512	132,820
Related retrocessionaire's share of unrealised gain on investments	-	390
Total	150,512	133,210

24. Non-current liabilities – payables

	2010 $'000	2009 $'000
Amount due to ceding companies	4,244	3,517
Total	4,244	3,517

25. Share capital

	2010 $'000	2009 $'000
Authorised and issued capital of 50,000,000 (2009: 20,000,000) ordinary shares		
Balance at 1 January	20,000	10,000
Issue of ordinary shares	30,000	10,000
Balance at 31 December	50,000	20,000

During the year ended 31 December 2010, the Company's parent entity increased its investment through the purchase of 30,000,000 fully paid ordinary shares for a total cost of $30,000,000. (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).

26. *Reserves and retained profits*

Summary of shareholder's interests

	2010 Statutory Funds $'000	2010 Shareholder's Fund $'000	2010 Total $'000	2009 Statutory Funds $'000	2009 Shareholder's Fund $'000	2009 Total $'000
Net profit for the year	16,096	342	16,438	4,110	246	4,356
Retained profit at 1 January	112,168	32,278	144,446	106,558	33,532	140,090
Transfers between funds	(8,500)	8,500	-	1,500	(1,500)	-
Dividends paid	-	(8,500)	(8,500)	-	-	-
Retained profit at 31 December (overseas and non-participating)	119,764	32,620	152,384	112,168	32,278	144,446
Foreign currency translation reserve at 1 January	(2,113)	(867)	(2,980)	(1,333)	(867)	(2,200)
Movement during the year	(1,282)	-	(1,282)	(780)	-	(780)
Foreign currency translation reserve at 31 December	(3,395)	(867)	(4,262)	(2,113)	(867)	(2,980)
Issued share capital at 1 January	-	20,000	20,000	-	10,000	10,000
Movement during the year (note 25)	-	30,000	30,000	-	10,000	10,000
Issued share capital at 31 December	-	50,000	50,000	-	20,000	20,000
Capital transfers to statutory funds	68,603	(68,603)	-	38,603	(38,603)	-
Shareholder's equity	184,972	13,150	198,122	148,658	12,808	161,466

27. Dividends

The Company paid a dividend of $8,500,000 on 11 May 2010 (2009: nil) to its parent entity, Munich Holdings of Australasia Pty Ltd ("MHA").

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

28. *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:

	2010 $	2009 $
(a) Audit and assurance services		
KPMG Australia:		
Audit and review of financial reports under the Corporations Act 2001	248,260	257,859
Total remuneration for audit and assurance services	248,260	257,859
(b) Advisory services		
KPMG Australia:		
Review of group life experience study report	35,343	14,500
Advice and review of expatriate agreements	-	10,971
Review of embedded value report	70,399	60,000
Advice on projects	5,000	72,281
Total remuneration for advisory services	110,742	157,752
Total	359,002	415,611

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

29. Directors' disclosure

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

(i) Chairman – non-executive

L P Minehan

(ii) Executive Director

A H Eder

(iii) Non-executive Directors

R Eckl	(Appointed 22 November 2010)
B Gierl	(Retired 30 November 2010)
J Ludbrook	(Retired 22 November 2010)
N J Milne, OAM	
A Rear	(Appointed 22 November 2010)
J D Shale	(Retired 30 June 2010)
O Shub	Appointed 22 November 2010)
E G Tollifson	

30. Contingencies

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

31. 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

	2010 $'000	2009 $'000
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	-	40
Total	-	40

The Company had a non-cancellable operating lease which expired in February 2010. The lease agreement was transferred to its parent entity, MHA in March 2010.

The Company does not have any financing leases.

32. Events occurring after the balance sheet date

On 22 February 2011, an earthquake or aftershock to the September 2010 earthquake occurred in Christchurch, New Zealand, which caused significant loss of life. The Company potentially has exposure to the event. Whilst some claims are expected, the Company does not expect a material impact on its state of affairs, operations or results from that event.

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

33. 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 29.

A director, O. Shub, is a partner with the firm Allens Arthur Robinson, Solicitors. Allens Arthur Robinson has provided legal services to Munich Reinsurance America Inc., a subsidiary of the ultimate parent entity during the year on normal commercial terms and conditions, and at market rates.

(c) Key management personnel compensation

	2010 $	2009 $
Short term employee benefits	1,100,719	937,238
Post employment benefits	124,342	118,384
Long term benefits	82,297	87,850
Total	1,307,358	1,143,472

The payments were effected by MHA.

33. Related party transactions (continued)

(d) Transactions with related parties

The following transactions occurred with related parties:

	2010 $	2009 $
Transactions in respect of retrocession of reinsurance contracts with:		
Ultimate parent entity	32,702,535	288,215
Transactions on normal commercial terms and conditions with:		
Parent entity in Australia in respect of:		
i) recharges of expenses incurred by the Company.	19,992;516	18,595,842
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)).	(11,938,345)	(7,598,923)
Commonly controlled entity in respect of :		
Recharges of expenses incurred by the Company's New Zealand branch	128,141	117,713
Dividends paid to:		
Parent entity in Australia – note 27	8,500,000	-
Capital injection received from:		
Parent entity in Australia – note 25	30,000,000	10,000,000

(e) Outstanding balances

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

	2010 $	2009 $
Current (payables) in respect of retrocession of reinsurance contracts with:		
Ultimate parent entity	(42,696,308)	(9,796,774)
Current (payables)/ 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	(7,636,310)	4,302,035

(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 expired 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).

34. 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:

	2010 $'000	2009 $'000
Profit from operating activities after income tax	16,438	4,356
Movements in:		
Outstanding premiums due from ceding companies	(36,093)	(1,866)
Trade debtors	12,964	(14,170)
Trade creditors	49	(13,410)
Other retrocession debtors / creditors	1,799	(4,413)
Related entities	11,938	7,599
Retrocessionaire's current account	33,049	12,483
Sundry debtors	14	(17)
Sundry creditors	44	94
GST – acquisitions	259	65
Income tax receivable / payable	958	(2,037)
Deferred taxes	1,552	(2,734)
Provision for non resident withholding tax	(266)	472
Technical provisions	40,383	39,782
Deposit retained from related retrocessionaire	(3,613)	24,031
Deposit retained by cedants	(682)	411
Adjustments for:		
Loss/ (gain) on revaluation of investments	(738)	25,381
Investment revenue	(36,381)	(33,595)
Investment expense	584	523
Net cash flows from operating activities	42,258	42,955

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

	2010 $'000	2009 $'000
Cash	3,918	2,733
Deposits at call	19,094	25,808
Bills of exchange – bank endorsed	-	10,493
Balances per statement of cash flows	23,012	39,034

35. Disaggregated information of life insurance business by fund

	Australian Statutory Fund No. 1 2010	New Zealand Statutory Fund No. 2 2010	Shareholder's Fund 2010	Total 2010	Australian Statutory Fund No. 1 2009	New Zealand Statutory Fund No. 2 2009	Shareholder's Fund 2009	Total 2009
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Other financial assets	618,784	67,362	12,467	698,613	509,856	72,868	13,631	596,355
Other assets	146,982	18,117	851	165,950	134,827	23,551	701	159,079
Retrocessionaires' share of life reinsurance contract liabilities	157,777	19,939	-	177,716	163,503	22,598	-	186,101
Life reinsurance contract liabilities	(424,285)	(49,590)	-	(473,875)	(395,403)	(54,108)	-	(449,511)
Other liabilities	(334,379)	(35,735)	(168)	(370,282)	(285,540)	(43,494)	(1,524)	(330,558)
Retained earnings	110,559	9,205	32,620	152,384	88,640	23,528	32,278	144,446
Net premium revenue	287,701	22,499	-	310,200	241,281	22,790	-	264,071
Investment revenue	32,674	4,216	509	37,399	28,835	3,973	787	33,595
Other Income	440	-	-	440	174	-	-	174
Net claims expense	(137,556)	(15,793)	-	(153,349)	(92,203)	(15,552)	-	(107,755)
Other operating expenses	(161,210)	(4,436)	(21)	(165,667)	(174,823)	(9,364)	(435)	(184,622)
Profit / (loss) before tax	22,049	6,486	488	29,023	3,264	1,847	352	5,463
Profit / (loss) after tax	13,436	2,660	342	16,438	1,933	2,177	246	4,356
Transfers between funds	5,800	2,700	(8,500)	-	4,500	(3,000)	(1,500)	-
Capital transfers to statutory funds	68,603	-	(68,603)	-	38,603	-	(38,603)	-

Munich Reinsurance Company of Australasia Limited
Directors' Declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 4 to 32 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 2010 and of its performance for the financial year ended on that date; and

(b) 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.

The Directors draw attention to note 1 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed at Sydney on 24 March 2011 *in accordance with a resolution of the Directors.*

L P Minehan
Director

A H Eder
Director

KPMG

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 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 35 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' responsibility for the financial report

The directors of the Munich Reinsurance Company of Australasia Limited are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report 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 of the financial report that gives a true and fair view 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, a true and fair 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.

KPMG

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 2010 and of its performance for the year ended on that date; and

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

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

KPMG

KPMG

Paul Ruiz
Partner

Sydney
24 March 2011