Munich Reinsurance Company of Australasia Limited – New Zealand Branch

Annual Financial Report
31 December 2011

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 2011

	Note	2011 $'000	2010 $'000
Revenue from operating activities	5	75,439	64,991
Expenses from operating activities	6(b)	(70,635)	(55,428)
Finance costs	6(c)	(1,743)	(1,300)
Profit before tax		3,061	8,263
Income tax expense	8(a)	(1,502)	(4,874)
Total comprehensive income for the year		1,559	3,389

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 2011

	Note	2011 $'000	2010 $'000
Current assets			
Cash and cash equivalents	9	401	4,138
Outstanding premiums	10	21,933	17,663
Receivables	11	3,608	1,298
Other financial assets	12	19,900	19,011
Retrocessionaires' share of life reinsurance contract liabilities	13	228	1,301
Deposit retained from related retrocessionaire	19	40	-
Income tax receivable	8(c)	626	626
Total current assets		46,736	44,037
Non-current assets			
Other financial assets	12	71,972	69,379
Retrocessionaires' share of life reinsurance contract liabilities	13	29,897	24,863
Deferred tax assets	14	2,256	385
Total non-current assets		104,125	94,627
Total assets		150,861	138,664
Current liabilities			
Payables	15	16,409	12,520
Provisions	16	14,327	11,426
Life reinsurance contract liabilities	17	1,039	2,802
Other	19	-	948
Total current liabilities		31,775	27,696
Non-current liabilities			
Life reinsurance contract liabilities	17	74,586	62,268
Other	20	29,092	22,236
Payables	21	48	98
Total non-current liabilities		103,726	84,602
Total liabilities		135,501	112,298
Net assets		15,360	26,366
Equity			
Capital reserves	22	15,500	15,500
Retained profits	22	(140)	10,866
Total equity		15,360	26,366

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 2011

	Note	Capital reserve $'000	Retained profits $'000	Total $'000
Balance at 1 January 2010		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 shareholder's fund		-	(3,493)	(3,493)
Balance at 31 December 2010	22	15,500	10,866	26,366
Total comprehensive income for the year				
Profit after tax for the year		-	1,559	1,559
Transfer to the Australian statutory fund		-	(12,565)	(12,565)
Balance at 31 December 2011	22	15,500	(140)	15,360

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 2011

	Note	2011 $'000	2010 $'000
Cash flows from operating activities			
Treaty reinsurance		6,562	7,870
Retrocession paid		(2,704)	(2,341)
Income tax paid		(154)	(1,385)
Management and administrative expenses		(3,743)	(2,878)
Other income		-	2
Net cash from operating activities	30(a)	(39)	1,268
Cash flows from investing activities			
Interest received		4,432	4,547
Payments for investments		(179,745)	(187,783)
Proceeds from sale of investments		184,249	177,538
Investment expenses		(69)	(75)
Net cash from investing activities		8,867	(5,773)
Cash flows from financing activities			
Transfer to Australian statutory fund		(12,565)	(3,708)
Transfer to shareholder's fund		-	(3,493)
Net cash from financing activities		(12,565)	(7,201)
Net (decrease)/increase in cash held		(3,737)	(11,706)
Cash and cash equivalents at 1 January		4,138	15,844
Cash and cash equivalents at 31 December	30(b)	401	4,138

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 2011 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 28 March 2012.

(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.
- Shares, fixed interest securities and units listed on stock exchanges are 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 is 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 2011. The actuarial report was prepared by Mr Murray Glase FIAA, the Appointed Actuary. The actuarial report indicates that the Appointed Actuary is satisfied as to the accuracy of data upon which the life reinsurance contract liabilities and solvency requirements have been determined.

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

(a) Actuarial valuation methods

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

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

(b) Actuarial assumptions

Assumption	Basis of assumption
Discount rates	Risk-free discount rates based on the current observable, objective rates that relate to the nature, structure and term of the future liability cash flows. 2011: 2.7% - 4.3% p.a. (2010: 3.4% - 5.8% p.a.)
Maintenance expenses	The allowance for future expenses is a percentage of inforce premiums based on the Branch's planned expenses in 2012.
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. 2011: 2.75% p.a. (2010: 2.5% p.a.)
Voluntary discontinuance	The Branch's own experience. 2011: 5.5% - 15.0% p.a. (2010: 4.25% - 15.0% p.a.)
Surrender values	Ceding company values.
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. 2011: 50% - 135% of IAD 89 - 93 for claims duration up to 10 years. For claims duration above 10 years, age dependent rates based on investigations into the Branch's own recent experience are used.(2010: 35% - 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. 2011 and 2010: IBNR determined using an adjusted chain-ladder method.

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

(c) Effects of changes in actuarial assumptions

	31 December 2010 to 31 December 2011	
Assumption category	Effect on net profit margins $'000 increase / (decrease)	Effect on net life reinsurance contract liabilities $'000 increase / (decrease)
Discount rates & inflation	4,287	5,538
New Zealand tax	(602)	-
Maintenance expenses	(1,527)	-
Voluntary discontinuance	(508)	-
Mortality & morbidity	(4,306)	1,480
Total	(2,656)	7,018

(d) Sensitivity of financial results

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

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

4. Risk management policies and procedures

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

(a) Financial risks

(i) Credit risk

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

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

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

		Carrying amount	
	Note	2011 $'000	2010 $'000
Cash and cash equivalents	9	401	4,138
Other financial assets at fair value through profit or loss			
- Debt securities	12	91,872	88,390
Amount due from ceding companies in respect of outstanding premium	10	21,933	17,663
Receivables	11	3,608	1,298
Retrocessionaires' share of life reinsurance contract liabilities	13	30,125	26,164
Deposit retained to related retrocessionaire	19	40	-
Current tax receivable	8(c)	626	626
Total		148,605	138,279

No financial assets are either past due or impaired.

	2011 $'000	2010 $'000
Grade 1-3 (Standard & Poor's A- to AAA)	147,831	135,953
Grade 4-5 (Unrated or Standard & Poor's BB+ to BBB+)	774	2,326
Total	148,605	138,279

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 is 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.

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

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

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

4. Risk management policies and procedures (continued)

(a) Financial risks (continued)

(ii) Liquidity risk

The table below summarises the maturity profile of the financial liabilities of the Branch 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 1 year $'000	1-5 years $'000	Over 5 years $'000	Total $'000
2011				
Amount due to ceding companies	10,344	48	-	10,392
Amount due to related retrocessionaire	2,598	-	-	2,598
Amount due to related entities	3,373	-	-	3,373
Amount due to non-related retrocessionaire	43	-	-	43
GST payables	25	-	-	25
Outstanding claims	13,887	-	-	13,887
Non-resident withholding tax	440	-	-	440
Life reinsurance contract liabilities*	1,039	18,490	56,096	75,625
Deposit retained from related retrocessionaire*	-	6,052	20,944	26,996
Related retrocessionaire's share of unrealised gains on investments	-	4	2,092	2,096
Sundry payables	26	-	-	26
Total	31,775	24,594	79,132	135,501
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

*: The increase in duration is due to the change in actuarial assumptions (refer note 3(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 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 manage the effect of interest rate movements on the assets of the Branch. At the balance sheet date the assets are invested with somewhat shorter duration than the liabilities, hence there would be an impact on profits and equity as a result of interest rate movements.

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

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

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 and equity will be minimal for investment assets backing most life reinsurance contract liabilities, when the asset and liability profile is closely matched. However in respect of investment assets in excess of life reinsurance contract liabilities and other long term life reinsurance contract liabilities where close assets/liability matching is not possible, there will be an impact on profit and equity when interest rates change.

Ignoring taxation impacts, at 31 December 2011, an increase in interest rates of 100 basis points would increase profit and equity by $1,200,000. A corresponding decrease of 100 basis points would decrease profit and equity by $1,600,000.

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

			---- Fixed interest maturing in:----			
	Weighted average interest rate	Floating interest rate $'000	Up to 1 year $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
2011						
Cash	2.25%	351	-	-	-	351
Deposits at call	2.50%	50	-	-	-	50
Bills of exchange – government endorsed	2.31%	-	19,900	-	-	19,900
Investments						
Government bonds	5.83%	-	-	9,723	62,249	71,972
Total		401	19,900	9,723	62,249	92,273
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 deposit	4.48%	-	18,500	-	-	18,500
Total		4,138	19,011	12,079	57,300	92,528

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 capital management plan. 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 objectives, policies and processes from the previous year.

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

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 2011. 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. In addition the Branch has conventional catastrophe and medical expenses business either in run off or written on an annual, non-guaranteed renewable basis. The Branch does not write investment-linked business.

Risk management strategy

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

Exposure to risk

In an effort to protect and enhance shareholder value, the Branch actively manages its exposure to risks so that it can react in a timely manner to changes in insurance market conditions, economic and political environments and financial markets. Risk exposures are managed using various analysis and valuation techniques 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.

Retrocessions

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

Underwriting and claims management procedures

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

	2011 $'000	2010 $'000
Net claims incurred		
Expected	25,419	22,405
Actual	24,495	21,444

5. Revenue from operating activities

Reinsurance revenue		
Reinsurance premium revenue	49,978	47,084
Retrocession recoveries from reinsurance contracts	15,085	12,535
Total reinsurance revenue	65,063	59,619
Investment revenue		
Interest	4,480	4,493
Net realised and unrealised gains	5,896	877
Foreign exchange gains	-	2
Total investment revenue	10,376	5,372
Total revenue from operating activities	75,439	64,991

	2011 $'000	2010 $'000
6. Expenses from operating activities		
(a) Claims expense		
Gross reinsurance claims expense	31,922	32,655
(b) Other expenses		
Retrocession premium expense	19,296	18,420
Movement in life reinsurance contract liabilities	10,555	(1,806)
Policy acquisition costs		
Rebate	614	617
Other costs	185	153
Total policy acquisition costs	799	770
Policy maintenance costs		
Rebate	5,827	3,234
Other costs	1,985	2,080
Total policy maintenance costs	7,812	5,314
Investment management expenses	69	75
Foreign exchange losses	182	-
Total	251	75
Total other expenses	38,713	22,773
Total expenses from operating activities	70,635	55,428
(c) Finance costs		
Interest payable on deposit retained from related retrocessionaire	1,743	1,300
Total claims, other expenses & finance costs	72,378	56,728

7. Operating profit

Sources of shareholder's operating profit of statutory fund

Operating profit after income tax arose from:

	2011 $'000	2010 $'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	2,806	1,418
• Experience (loss)/profit	(1,482)	1,248
• (Capitalisation of expected future losses)/reversal of capitalised losses	(1,480)	-
Investment earnings/(losses) on assets in excess of life reinsurance contract liabilities	1,715	723
Operating profit after income tax of statutory fund (note 22)	1,559	3,389

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2011

8. Income tax

(a) Income tax expense

	2011 $'000	2010 $'000
Current taxes – current year	3,373	1,539
Deferred taxes – current year	(1,871)	3,279
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	1,502	4,874

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

	2011 $'000	2010 $'000
Profit from operating activities before income tax	3,062	8,263
Prima facie tax payable at 28% (2010: 30%)	857	2,479
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible expenses	645	4,090
Non-assessable items	-	(1,750)
Under provision in prior year	-	27
Effect of change in tax rate	-	28
Income tax expense	1,502	4,874

(c) Income tax receivable

	2011 $'000	2010 $'000
Opening balance at 1 January	626	1,847
Additional provisions recognised - current year	(3,373)	(1,539)
Additional provisions recognised - prior year	-	(655)
Transfer of tax credits	3,373	-
Liabilities paid	-	973
Closing balance at 31 December	626	626

9. Current assets – cash and cash equivalents

	2011 $'000	2010 $'000
Cash at bank	351	988
Deposits at call	50	3,150
Total	401	4,138

(a) Cash at bank

Cash at bank is currently bearing floating interest rates of 2.00% to 2.25% p.a. during the financial year (2010: 2.25% to 2.75% 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 (2010: 2.50% to 3.00% p.a.).

10. Current assets – outstanding premiums

	2011 $'000	2010 $'000
Amount due from ceding companies	21,933	17,663

11. Current assets – receivables

	2011 $'000	2010 $'000
Recoveries due from non-related retrocessionaire	-	40
Amount due from ceding companies	3,038	736
Accrued income	570	522
Total	3,608	1,298

12. Other financial assets

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

	2011 $'000	2010 $'000
Debt securities – unsecured, including bills of exchange	91,872	88,390
Total other financial assets – fair value through profit or loss	91,872	88,390
Current other financial assets	19,900	19,011
Non-current other financial assets	71,972	69,379
Total other financial assets – fair value through profit or loss	91,872	88,390

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

	2011 $'000	2010 $'000
Current		
Recoveries due (to)/from related retrocessionaire in respect of life reinsurance contract liabilities	(40)	948
Recoveries due from non-related retrocessionaire in respect of life reinsurance contract liabilities	268	353
Total	228	1,301
Non-current		
Recoveries due from related retrocessionaire in respect of life reinsurance contract liabilities	26,995	21,899
Recoveries due from non-related retrocessionaire in respect of life reinsurance contract liabilities	2,902	2,964
Total	29,897	24,863
Total		
Recoveries due from related retrocessionaire in respect of life reinsurance contract liabilities	26,955	22,847
Recoveries due from non-related retrocessionaire in respect of life reinsurance contract liabilities	3,170	3,317
Total – note 17(a)(i)	30,125	26,164

The increase in duration is due to the change in actuarial assumptions (refer note 3(b)).

14. Non-current assets – deferred tax asset

	2011 $'000	2010 $'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	845	258
Components of life reinsurance contract liabilities	1,411	127
Deferred tax asset	2,256	385
Movements:		
Opening balance at 1 January	385	3,064
Credited/(Debited) to the statement of comprehensive income	1,871	(2,679)
Closing balance at 31 December	2,256	385

15. Current liabilities – payables

	2011 $'000	2010 $'000
Amount due to ceding companies	10,344	8,535
Amount due to related retrocessionaire (refer note 29(e))	2,598	3,551
Amount due to non-related retrocessionaire	43	-
Amount due to related entities (refer note 29(e))	3,373	-
GST payables	25	420
Sundry payables	26	14
Total	16,409	12,520

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

	2011 $'000	2010 $'000
Outstanding claims	13,887	11,017
Non-resident withholding tax	440	409
Total	14,327	11,426

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 2011	11,017	409	11,426
Additional provisions recognised	31,921	440	32,361
Liabilities paid	(29,051)	(409)	(29,460)
Closing balance at 31 December 2011	13,887	440	14,327

17. Life reinsurance contract liabilities

	2011 $'000	2010 $'000
Gross life reinsurance contract liabilities		
Current	1,039	2,802
Non-current	74,586	62,268
Total Gross life reinsurance contract liabilities assumed – see below (a) and (b)	75,625	65,070

The increase in duration is due to the change in actuarial assumptions (refer note 3(b)).

(a) (i) Life reinsurance contract liabilities assumed

	2011 $'000	2010 $'000
Reinsured life reinsurance contract liabilities:		
Gross life reinsurance contract liabilities assumed	75,625	65,070
Gross life reinsurance contract liabilities ceded – note 13	(30,125)	(26,164)
Net life reinsurance contract liabilities	45,500	38,906

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

	2011 $'000	2010 $'000
Opening balance gross life reinsurance contract liabilities at 1 January	65,070	66,877
Increase/(Decrease) in gross life reinsurance contract liabilities	10,555	(1,807)
Closing balance gross life reinsurance contract liabilities at 31 December	75,625	65,070
Opening balance retroceded life reinsurance contract liabilities at 1 January	26,164	27,930
Increase/(Decrease) in retroceded life reinsurance contract liabilities	3,961	(1,766)
Closing balance retroceded life reinsurance contract liabilities at 31 December	30,125	26,164
Opening balance net life reinsurance contract liabilities at 1 January	38,906	38,947
Increase/(Decrease) in net life reinsurance contract liabilities	6,594	(41)
Closing balance net life reinsurance contract liabilities at 31 December	45,500	38,906

(b) Components of net life reinsurance contract liabilities

	2011 Current basis $'000	2011 Previous basis $'000	2010 Previous basis $'000
Best estimate liability for non investment-linked business			
Value of future policy benefits	262,955	275,083	233,160
Value of future expenses	61,360	66,676	55,369
Value of future premiums	(305,941)	(331,807)	(277,373)
Total	18,374	9,952	11,156
Value of future profits for non investment-linked business			
Shareholder profit margins	27,126	34,068	27,750
Net life reinsurance contract liabilities	45,500	44,020	38,906

The change in components of life reinsurance contract liabilities is due to the change in actuarial assumptions (refer note 3(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 65 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.

	2011 $000	2010 $'000
Solvency requirement	114,169	93,016
Represented by:		
Minimum termination value	45,895	39,811
Other liabilities	59,475	46,917
Solvency reserve	8,799	6,288
Total	114,169	93,106
Assets available for solvency reserve	14,965	25,461
Comprised as:		
(Deficit)/Excess of net policy liability over minimum termination value	(395)	(905)
Net assets	15,360	26,366
Total	14,965	25,461
Solvency reserve %	8.4%	7.3%
Coverage of solvency reserve	1.70	4.05

19. Current liabilities - other

Deposit retained (from)/to related retrocessionaire	(40)	948

20. Non-current liabilities – other

Related retrocessionaire's share of unrealised gains on investments	2,096	337
Deposit retained from related retrocessionaire	26,996	21,899
	29,092	22,236

21. Non-current liabilities – payables

Amount due to ceding companies	48	98

22. Reserves and retained profits

Summary of shareholder's interests

Net profit for the year	1,559	3,389
Retained profit at 1 January	10,866	10,970
Transfer to the Australian statutory fund	(12,565)	-
Transfer to the shareholder's fund	-	(3,493)
Retained profit at 31 December (overseas and non-participating)	(140)	10,866
Capital reserve	15,500	15,500
Shareholder's equity	15,360	26,366

23. Dividends

No dividend was paid for the year ended 31 December 2011 (2010: Munich Reinsurance Company of Australasia Limited paid a dividend of Australian dollars $8,500,000 on 11 May 2010) 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:

	2011 $	2010 $
KPMG Australia:		
Audit and review of financial reports under the Companies Act 1993	26,800	26,146
Total remuneration for audit services	26,800	26,146

The arrangement and payment for audit and other assurance 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	(Until 28 December 2011)
E G Tollifson	(Appointed as Chairman 23 February 2012)

(ii) Executive Director

A H Eder

(iii) Non-executive Directors

R Eckl	
N J Milne, OAM	(Retired 31 December 2011)
A Rear	
O Shub	
J B Shewan	(Appointed 1 January 2012)

26. Contingencies

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

27. Commitments

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

28. Events occurring after the balance sheet date

No 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, was a partner with the firm Allens Arthur Robinson, Solicitors, during the year. Allens Arthur Robinson provided legal services related entities during the year on normal commercial terms and conditions, and at market rates. As at the date of this report, O. Shub is no longer a partner with Allens Arthur Robinson.

A director, J.B. Shewan is a partner of PricewaterhouseCoopers in New Zealand. PricewaterhouseCoopers has provided taxation services to related entities during the year on normal commercial terms and conditions, and at market rates.

	2011 $	2010 $
(c) Key management personnel compensation		
Short term employee benefits	170,199	142,138
Post employment benefits	18,898	13,965
Long term benefits	-	10,203
Total	189,097	166,306
(d) Transactions with related parties		
The following transactions occurred with related parties:		
Transactions in respect of retrocession of reinsurance contracts with:		
Ultimate parent entity	805,941	771,511
Transactions in respect of recharges of expenses incurred by the Branch with:		
Parent entity in Australia	2,946,856	2,993,207
Other related entities	136,686	163,255
Transaction in respect of transfer from the New Zealand statutory fund to the Australian statutory fund	(12,564,635)	-
Transactions in respect of expenses paid on behalf of the Branch by:		
Parent entity in Australia	(15,535)	(6,792)
Transactions in respect of transfer of tax losses from:		
Ultimate parent entity	3,373,366	-
(e) Outstanding balances		
The following balances are outstanding at the reporting date in relation to transactions with related parties:		
Current payables in respect of retrocession of reinsurance contracts	(2,598,411)	(3,551,251)
Current payables in respect of GST liabilities	(25,265)	(420,414)
Current payables in respect of transfer of tax losses	(3,373,366)	-

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

	2011 $'000	2010 $'000
(a) Reconciliation of profit after income tax to the net cash flows from operating activities:		
Profit from operating activities after income tax	1,559	3,389
Movements in:		
Trade debtors	(2,302)	1,100
Outstanding premiums due from ceding companies	(4,271)	687
Trade creditors	1,758	(113)
Retrocessionaires' current account	806	734
Other retrocession debtors / creditors	83	558
GST - acquisitions	(395)	330
Provision for tax	-	1,221
Related entities	3,373	-
Provision for non-resident withholding tax	31	(3)
Deferred taxes	(1,871)	2,679
Gross policy liabilities	10,555	(1,807)
Related retrocession policy liabilities	(3,961)	1,409
Other retrocession policy liabilities	-	357
Outstanding claims reserve	2,870	(2,411)
Deposit retained from related retrocessionaire	4,109	(1,409)
Sundry creditors	13	14
Adjustments for:		
(Gain)/loss on revaluation of investments	(7,985)	(1,049)
Investment revenue	(4,480)	(4,493)
Investment expense	69	75
Net cash flows from operating activities	(39)	1,268

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:

	2011 $'000	2010 $'000
Cash	351	988
Deposits at call	50	3,150
Total per cash flow statement	401	4,138

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 2011 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 2011.

Signed in Sydney on ~~28~~ 29 March 2012 in accordance with a resolution of the Directors:

E G Tollison
Director

A H Eder
Director

Independent Auditor's report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Munich Reinsurance Company of Australasia Limited – New Zealand Branch ("the Branch") on pages 1 to 23. The financial statements comprise the balance sheet as at 31 December 2011 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.

KPMG

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 2011 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
29 March 2012

Munich Reinsurance Company of Australasia Limited
ABN 51 004 804 013

Annual Financial Report
31 December 2011

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 2011.

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)	(Until 28 December 2011)
E G Tollifson (Chairman)	(Appointed as Chairman 23 February 2012)
R Eckl	
A H Eder	
N J Milne, OAM	(Retired 31 December 2011)
A Rear	
O Shub	
J B Shewan	(Appointed 1 January 2012)

Principal activities

The Company's principal activity is life reinsurance.

Review of operations

The 2011 business year produced an operating loss after tax of $89,196,000 in comparison with a profit of $16,438,000 in 2010. The Company is rated AA- by Standard & Poor's.

Statutory

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

Dividends

No dividends were paid or declared by the Company during the financial year (2010: $8,500,000) to its parent entity, Munich Holdings of Australasia Pty Ltd ("MHA").

Insurance of officers

During the financial year, the parent entity paid a premium of $97,000 (2010: $108,000) 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 and Compliance Committee consisting of the following Directors:

Audit Committee

J B Shewan (Chairman)	(Appointed as Chairman 23 February 2012)
E G Tollifson	
O Shub	

Risk and Compliance Committee

O Shub (Chairman)
A H Eder
E G Tollifson
J B Shewan (Appointed 1 January 2012)

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.

Significant changes in the state of affairs

Significant changes in the state of affairs of the Company during the financial year were as follows:
The assumptions used to determine disability income policy liabilities were strengthened during the year following a review of claims experience, resulting in a significant increase in policy liabilities. This deterioration necessitated a capital injection by the Company's parent entity, Munich Holdings of Australasia Pty Limited ("MHA") which increased its investment in Munich Reinsurance Company of Australasia Limited ("MRA") through the purchase of 210,000,000 fully paid ordinary shares for a total cost of $210,000,000.

Environmental regulations

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

Rounding of amounts

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

Matters subsequent to the end of the financial year

The directors are not aware, at the date of this report, of any matter or circumstance which has arisen since 31 December 2011 that has significantly affected or may significantly affect:

(i) the operations of the Company;

(ii) the results of those operations; or

(iii) the state of affairs of the Company in the financial years subsequent to 31 December 2011

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 2011.

Signed at Sydney on ~~28~~ 29 March 2012 in accordance with a resolution of the Directors.

E G Tollifson
Director

A H Eder
Director

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

To: the Directors of Munich Reinsurance Company of Australasia Limited

I declare that to the best of my knowledge and belief in relation to the audit for the year ended 31 December 2011, there have been:

(i) no contraventions of the auditor independence requirements of 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
~~28~~ March 2012
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Munich Reinsurance Company of Australasia Limited

Statement of Comprehensive Income for the year ended 31 December 2011

	Note	2011 $'000	2010 $'000
Revenue from operating activities	5	1,004,902	687,833
Expenses from operating activities	6	(1,113,462)	(647,752)
Finance costs	6	(12,004)	(11,058)
(Loss)/profit before income tax		(120,564)	29,023
Income tax benefit/(expense)	8(a)	31,368	(12,585)
(Loss)/profit after tax		(89,196)	16,438
Other comprehensive income/(expense)			
Foreign currency translation	26	100	(1,282)
Total comprehensive (expense)/income for the year		(89,096)	15,156

The Statement of Comprehensive Income is to be read in conjunction with the notes to the financial statements set out on pages 8 to 31.

Munich Reinsurance Company of Australasia Limited
Balance Sheet as at 31 December 2011

	Note	2011 $'000	2010 $'000
Current assets			
Cash and cash equivalents	9	17,719	23,012
Outstanding premiums	10	131,989	121,320
Receivables	11	145,421	15,610
Other financial assets	12	88,745	253,157
Other	13	11,118	5,233
Retrocessionaires' share of life reinsurance contract liabilities	14	371	24,249
Life reinsurance contract assets	21	2,634	-
Deposit retained from related retrocessionaire	19	10,368	-
Income tax receivable	8(c)	479	478
Total current assets		408,844	443,059
Non-current assets			
Other financial assets	12	892,460	445,456
Retrocessionaires' share of life reinsurance contract liabilities	14	304,935	153,467
Other	16	-	5
Deferred tax assets	15	11,347	292
Total non-current assets		1,208,742	599,220
Total assets		1,617,586	1,042,279
Current liabilities			
Payables	17	47,728	85,059
Provisions	18	140,618	107,414
Life reinsurance contract liabilities	21	-	69,010
Retrocessionaires' share of life reinsurance contract liabilities	14	10,368	-
Other	19	15	22,998
Total current liabilities		198,729	284,481
Non-current liabilities			
Payables	24	642	4,244
Life reinsurance contract liabilities	21	784,416	404,865
Other	23	314,773	150,512
Deferred tax liabilities	20	-	55
Total non-current liabilities		1,099,831	559,676
Total liabilities		1,298,560	844,157
Net assets		319,026	198,122
Equity			
Share capital	25	260,000	50,000
Reserves	26	(4,162)	(4,262)
Retained profits	26	63,188	152,384
Total equity		319,026	198,122

The Balance Sheet is to be read in conjunction with the notes to the financial statements set out on pages 8 to 31.

Munich Reinsurance Company of Australasia Limited

Statement of Changes in Equity for the year ended 31 December 2011

	Note	Share capital $'000	Retained profits $'000	Foreign currency translation reserve $'000	Total $'000
Balance at 1 January 2010		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 expense					
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
Total comprehensive expense for the year					
Loss after tax for the year		-	(89,196)	-	(89,196)
Other comprehensive income					
Foreign currency translation	26	-	-	100	100
Transactions with owners, recorded directly in equity					
Issue of ordinary shares	25	210,000	-	-	210,000
Balance at 31 December 2011		260,000	63,188	(4,162)	319,026

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 31.

Munich Reinsurance Company of Australasia Limited
Statement of Cash Flows for the year ended 31 December 2011

	Note	2011 $'000	2010 $'000
Cash flows from operating activities			
Treaty reinsurance		48,611	66,975
Retrocession paid		(35,836)	(4,473)
Income tax paid/transferred		(12,786)	374
Management and administrative expenses		(24,692)	(20,629)
Other income		3	11
Net cash from operating activities	34(a)	(24,700)	42,258
Cash flows from investing activities			
Interest received		37,434	37,127
Payments for investments		(1,340,006)	(860,043)
Proceeds from sale of investments		1,112,556	744,150
Investment expenses paid		(670)	(584)
Net cash from investing activities		(190,686)	(79,350)
Cash flows from financing activities			
Dividends paid	27	-	(8,500)
Capital injection	25	210,000	30,000
Net cash from financing activities		210,000	21,500
Net (decrease)/increase in cash held		(5,386)	(15,592)
Cash and cash equivalents at 1 January		23,012	39,034
Effect of exchange rate fluctuation on cash held		93	(430)
Cash and cash equivalents at 31 December	9	17,719	23,012

The Statement of Cash Flows is to be read in conjunction with the notes to the financial statements set out on pages 8 to 31.

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 2011. These policies have been consistently applied to all years presented, unless otherwise stated.

The financial report was authorised for issue by the Directors on 28 March 2012.

(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. The Company has not yet determined the potential effect of the standard on the Company's financial report.

- AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income* requires entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). These amendments do not remove the option to present profit or loss and other comprehensive income in two statements. AASB 2011-9 will become mandatory for the Company's 31 December 2013 financial statements. The Company has not yet determined the potential effect of the standard on the Company's financial report.

- AASB 13 *Fair Value Measurement* includes a definition of fair value and provides guidance on fair value measurement . AASB 13 will become mandatory for the Company's 31 December 2013 financial statements. This standard is applied prospectively. 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.

1. Summary of significant accounting policies (continued)

(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.

(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

1. Summary of significant accounting policies (continued)

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

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).

(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.
- Shares, fixed interest securities and units listed on stock exchanges are based on 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.

1. Summary of significant accounting policies (continued)

(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 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 is 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 2011. The actuarial report was prepared by Mr Murray Glase 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.

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

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.

(a) Actuarial valuation methods

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

The major product groups are 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 annuity business, 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. 2011: Aust 3.1% - 4.0% p.a., NZ 2.7% - 4.3% p.a. (2010: Aust 4.8% - 5.7% p.a, NZ 3.4% - 5.8% p.a.)
Maintenance expenses	The allowance for future expenses is a percentage of in-force premiums based on the Company's planned expenses in 2012.
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. 2011: Aust 2.75% p.a., NZ 2.75% p.a. (2010: Aust 2.75% p.a, NZ 2.5% p.a.)
Voluntary discontinuance	The Company's own experience. 2011: 4.25% -15.0% p.a. (2010: 4.25% -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. 2011: 20% - 135% of IAD 89-93 for claims duration up to 10 years. For claims duration above 10 years age dependent rates based on investigations into the Company's own recent experience are used. (2010: 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. 2011 and 2010: IBNR determined using an adjusted chain-ladder method.

(c) Effects of changes in actuarial assumptions

	31 December 2010 to 31 December 2011	
Assumption category	Effect on net profit margins $'000 increase / (decrease)	Effect on net life reinsurance contract liabilities $'000 increase / (decrease)
Discount rates & inflation	30,304	64,030
New Zealand tax	(458)	-
Maintenance expenses	14,602	-
Voluntary discontinuance	(5,673)	-
Mortality & morbidity	(103,861)	124,226
Total	(65,086)	188,256

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. At the balance sheet date the assets are invested with somewhat shorter duration than the liabilities, hence there would be an impact on profits and equity as a result of interest rate movements.
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 rebate so that no rebate 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 an 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 2011	Carrying amount $'000 2010
Cash and cash equivalents	9	17,719	23,012
Other financial assets at fair value through profit or loss			
- Debt securities	12	981,205	698,613
Amount due from ceding companies in respect of outstanding premiums	10	131,989	121,320
Receivables	11	145,421	15,610
Deposit retained by ceding company	13	11,118	5,226
Related retrocessionaire's share of unrealised loss on investments			
- Current	13	-	7
- Non-current	16	-	5
Retrocessionaires' share of life reinsurance contract liabilities	14	305,306	177,716
Deposit retained from related retrocessionare	19	10,368	-
Life reinsurance contract assets	21	2,634	-
Income tax receivable	8(c)	479	478
Total		1,606,239	1,041,987
Grade 1-3 (Standard & Poor's A- to AAA)		1,605,297	1,039,219
Grade 4-5 (Unrated or Standard & Poor's BB+ to BBB+)		942	2,768
Total		1,606,239	1,041,987

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 is 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 1 year $'000	1-5 years $'000	Over 5 years $'000	Total $'000
2011				
Amount due to ceding companies	42,726	642	-	43,368
Amount due to related retrocessionaire	1,977	-	-	1,977
Amount due to related entities	2,755	-	-	2,755
GST and sundry payable	270	-	-	270
Outstanding claims	139,074	-	-	139,074
Non-resident withholding tax	1,544	-	-	1,544
Life reinsurance contract liabilities*	-	64,463	719,953	784,416
Retrocessionaire's share of life reinsurance contract liabilities	10,368	-	-	10,368
Deposit retained from related retrocessionaire*	-	2,219	299,899	302,118
Related retrocessionaire's share of unrealised gain on investments	15	1,302	11,353	12,670
Total	198,729	68,626	1,031,205	1,298,560

4. Risk management policies and procedures (continued)

(a) Financial risks (continued)

(ii) Liquidity Risk (continued)

	Up to 1 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

*: The increase in duration is due to the change in actuarial assumptions (refer note 3(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 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 manage the effects of interest rate movements on the net assets of the Company. At the balance sheet date the assets are invested with somewhat shorter duration than the liabilities, hence there would be an impact on profits and equity as a result of interest rate movements.

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

- The 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.

However 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, there will be an impact on profit and equity when interest rates changes.

Ignoring taxation impacts, at 31 December 2011 an increase in interest rates of 100 basis points would increase profit and equity by $25,600,000. A corresponding decrease of 100 basis points would decrease profit and equity by $36,000,000.

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
2011						
Cash	3.71%	3,372	-	-	-	3,372
Deposits at call	4.25%	14,347	-	-	-	14,347
Bills of exchange – government endorsed	2.31%	-	15,142	-	-	15,142
Investments						
Government bonds	5.76%	-	73,603	297,804	584,883	956,290
Debentures	6.14%	-	-	4,748	5,025	9,773
Total		17,719	88,745	302,552	589,908	998,924
2010						
Cash	4.07%	3,918	-	-	-	3,918
Deposits at call	4.49%	19,094	-	-	-	19,094
Investments	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

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 any 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 capital management plan. 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 210,000,000 fully paid ordinary shares for a total cost of $210,000,000 to its parent entity, Munich Holdings of Australasia Pty Limited ("MHA") on 27 September 2011.

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 2011. 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. In addition the Company has some annuity, conventional, catastrophe and medical expenses business either in run off or written on an annual, non-guaranteed renewable basis. 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.

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 process documentation 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.

	2011 $'000	2010 $'000
Net claims incurred		
Expected	279,040	233,105
Actual	309,693	254,101

Munich Reinsurance Company of Australasia Limited
Notes to the financial statements for the year ended 31 December 2011

5. Revenue from operating activities

	2011 $'000	2010 $'000
Reinsurance revenue		
Reinsurance premium revenue	656,947	551,335
Retrocession recoveries from reinsurance contracts	262,101	98,659
Total reinsurance revenue	919,048	649,994
Investment revenue		
Interest	43,326	36,381
Net realised and unrealised gains	42,511	1,017
Foreign exchange gains	-	1
Total investment revenues	85,837	37,399
Other revenue		
Other income	17	440
Total other revenue	17	440
Total revenue from operating activities	1,004,902	687,833

6. Expenses from operating activities

(a) Claims expense

	2011 $'000	2010 $'000
Gross reinsurance claims expense	328,718	252,008

(b) Other expenses

	2011 $'000	2010 $'000
Retrocession premium expense	300,870	241,135
Movement in life reinsurance contract liabilities	313,783	27,465
Policy acquisition costs		
Rebate	58,904	51,163
Other costs	6,459	4,350
Total policy acquisition costs	65,363	55,513
Policy maintenance costs		
Rebate	92,851	60,903
Other costs	11,046	10,135
Total policy maintenance costs	103,897	71,038
Investment management expenses	670	584
Foreign exchange losses	148	-
Other expenses	13	9
Total	831	593
Total other expenses	784,744	395,744
Total expenses from operating activities	1,113,462	647,752

(c) Finance costs

	2011 $'000	2010 $'000
Interest payable on deposit retained from related retrocessionaire	11,673	11,058
Interest payable on amounts due to non-related retrocessionaire	331	-
Total interest payable	12,004	11,058
Total claims, other expenses & finance costs	1,125,466	658,810

7. Operating profit

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

	2011 $'000	2010 $'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	25,681	17,782
• Experience loss	(9,641)	(5,867)
• Capitalisation of expected future losses	(124,233)	-
Investment earnings on assets in excess of life reinsurance contract liabilities	18,234	4,181
Operating profit after income tax of statutory funds (note 26)	(89,959)	16,096

(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/(loss) 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

	2011 $'000	2010 $'000
Current tax – current year	(20,283)	10,519
Deferred tax – current year	(11,086)	2,023
Under provided in prior year – current tax	33	514
(Over) provided in prior year – deferred tax	(32)	(493)
Effect of change in tax rate in New Zealand	-	22
Income tax (benefit)/expense	(31,368)	12,585

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

	2011 $'000	2010 $'000
(Loss)/profit from operating activities before income tax	(120,564)	29,023
Prima facie tax (receivable)/payable at the Australian tax rate of 30% (2010: 30%)	(36,169)	8,707
Effect of tax rates in foreign jurisdictions	(47)	-
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible expenses	28,142	23,814
Non-assessable items	(63,578)	(19,979)
Under provision prior year	-	21
Effect of change in tax rate in New Zealand	-	22
Current year temporary differences for which no deferred tax asset was recognised	40,284	-
Income tax (benefit)/expense	(31,368)	12,585

8. Income tax (continued)

(c) Receivable / (Provision) for income tax

	2011 $'000	2010 $'000
Opening balance at 1 January	478	1,495
Additional assets/(provisions) recognised – current year	20,282	(10,519)
Liabilities paid	-	742
Currency revaluation	18	(37)
Tax consolidation transfers	(22,833)	9,311
Transfer of tax losses	2,567	-
Additional provisions recognised – prior year	(33)	(514)
Closing balance at 31 December	479	478

(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) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2011 $'000	2010 $'000
Current year temporary differences	139,024	-

In accordance with the probability test requirements under International Accounting Standard 12, the Company has determined not to recognise deferred tax assets as disclosed. Tax losses do not expire under current Australian and New Zealand tax legislations.

9. *Current assets – cash and cash equivalents*

	2011 $'000	2010 $'000
Cash at bank	3,372	3,918
Deposits at call	14,347	19,094
Total	17,719	23,012

(a) Cash at bank

Cash at bank accounts bears floating interest rates between 3.75% to 4.25% p.a. during the financial year (2010: 2.60% to 4.75% p.a.).

(b) Deposits at call

The deposits at call bear floating interest rates between 2.50% to 4.25% p.a. during the financial year (2010: 3.00% to 4.70% p.a.).

	2011 $'000	2010 $'000

10. Current assets – outstanding premiums

Amount due from ceding companies	131,989	121,320

11. Current assets – receivables

Recoveries due from related retrocessionaire (note 33(e))	93,593	-
Recoveries due from non-related retrocessionaires	1,010	458
Amount due from ceding companies	11,188	8,709
Amount due from related entities	27,151	-
Sundry debtors and prepayments	194	50
Accrued income	12,285	6,393
Total	145,421	15,610

12. Other financial assets

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

Debt securities – unsecured, including bills of exchange	981,205	698,613
Total other financial assets – fair value through profit or loss	981,205	698,613
Current other financial assets	88,745	253,157
Non-current other financial assets	892,460	445,456
Total other financial assets – fair value through profit or loss	981,205	698,613

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.

13. Current assets – other

	2011 $'000	2010 $'000
Deposit retained by ceding company	11,118	5,226
Related retrocessionaire's share of unrealised loss on investments	-	7
	11,118	5,233

	2011 $'000	2010 $'000
14. Retrocessionaires' share of life reinsurance contract liabilities		
Current		
(Payables)/recoveries due to/from related retrocessionaire in respect of life reinsurance contract liabilities	(10,368)	22,998
Recoveries due from non-related retrocessionaires in respect of life reinsurance contract liabilities	371	1,251
Total	(9,997)	24,249
Non-current		
Recoveries due from related retrocessionaire in respect of life reinsurance contract liabilities	302,117	150,512
Recoveries due from non-related retrocessionaires in respect of life reinsurance contract liabilities	2,818	2,955
Total	304,935	153,467
Total		
Recoveries due from related retrocessionaire in respect of life reinsurance contract liabilities	291,749	173,510
Recoveries due from non-related retrocessionaires in respect of life reinsurance contract liabilities	3,189	4,206
Total – note 21(a)(i)	294,938	177,716

15. Non-current assets – deferred tax assets

	2011 $'000	2010 $'000
Deferred tax assets comprise the tax effect of the following amounts recognised in the profit or loss:		
Accrued expense	4,643	196
Components of life reinsurance contract liabilities	46,988	96
Unrecognised deferred tax asset	(40,284)	-
Total	11,347	292
Movements:		
Opening balance at 1 January	292	2,479
Set off of tax (note 20)	(55)	-
Debited/(credited) to the statement of comprehensive income	11,119	(2,081)
Currency revaluation	(9)	(84)
Effect of change in tax rate in New Zealand	-	(22)
Closing balance at 31 December	11,347	292

16. Non-current assets – other

	2011 $'000	2010 $'000
Related retrocessionaire's share of unrealised loss on investments	-	5
Total	-	5

17. Current liabilities – payables

	2011 $'000	2010 $'000
Amount due to ceding companies	42,726	34,269
Amount due to related retrocessionaire (note 33(e))	1,977	42,696
Amount due to related entities	2,755	7,636
GST payables	19	320
Sundry payables	251	138
Total	47,728	85,059

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

	2011 $'000	2010 $'000
Outstanding claims	139,074	106,200
Non-resident withholding tax	1,544	1,214
Total	140,618	107,414

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 2011	106,200	1,214	107,414
Additional provisions recognised	328,819	1,544	330,363
Liabilities paid	(295,817)	(1,214)	(297,031)
Currency revaluation	(128)	-	(128)
Closing balance at 31 December 2011	139,074	1,544	140,618

19. Current liabilities – other

	2011 $'000	2010 $'000
Deposit retained from related retrocessionaire	(10,368)	22,998
Related retrocessionaire's share of unrealised gain on investments	15	-
Total	(10,353)	22,998

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:

	2011	2010
Accrued expense/(income)	-	1,125
Unrealised investment items	-	(1,746)
Other	-	676
Total	-	55
Movements:		
Opening balance at 1 January	55	606
Set off of tax (note 15)	(55)	-
Credited/(debited) to the statement of comprehensive income	-	(551)
Closing balance at 31 December	-	55

21. Life reinsurance contract liabilities

	2011 $'000	2010 $'000
Gross life reinsurance contract (assets)/liabilities		
Current	(2,634)	69,010
Non–current	784,416	404,865
Total	781,782	473,875
Life reinsurance contract liabilities assumed – see below (a) and (b)	781,782	473,875

The increase in duration is due to the change in actuarial assumptions (refer note 3(b)).

(a) (i) Life reinsurance contract liabilities assumed

	2011 $'000	2010 $'000
Reinsured life reinsurance contract liabilities:		
Gross life reinsurance contract liabilities assumed	781,782	473,875
Gross life reinsurance contract liabilities ceded – note 14	(294,938)	(177,716)
Net life reinsurance contract liabilities	486,844	296,159

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

	2011 $'000	2010 $'000
Gross life reinsurance contract liabilities at 1 January	473,875	449,511
Increase in gross life reinsurance contract liabilities	308,037	27,465
Currency fluctuation in gross life reinsurance contract liabilities	(130)	(3,101)
Gross life reinsurance contract liabilities at 31 December	781,782	473,875
Retroceded life reinsurance contract liabilities at 1 January	177,716	186,101
Increase/(decrease) in retroceded life reinsurance contract liabilities	117,273	(7,113)
Currency fluctuation in retroceded life reinsurance contract liabilities	(51)	(1,272)
Retroceded life reinsurance contract liabilities at 31 December	294,938	177,716
Net life reinsurance contract liabilities at 1 January	296,159	263,410
Net increase in life reinsurance contract liabilities	190,764	34,578
Currency fluctuation in life reinsurance contract liabilities	(79)	(1,829)
Net life reinsurance contract liabilities at 31 December	486,844	296,159

(b) Components of life reinsurance contract liabilities

	2011 Current basis $'000	2011 Previous basis $'000	2010 Previous basis $'000
Best estimate liability for non investment-linked business			
Value of future policy benefits	2,003,909	1,818,598	1,260,882
Value of future expenses	1,159,033	1,197,408	744,226
Value of future premiums	(2,816,437)	(2,889,118)	(1,896,375)
Total	346,505	126,888	108,733
Value of future profits for non investment-linked business			
Shareholder profit margins	140,339	235,729	187,426
Total	140,339	235,729	187,426
Net life reinsurance contract liabilities	486,844	362,617	296,159

The change in components of life reinsurance contract liabilities is due to the change in actuarial assumptions (refer note 3(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.

	2011			2010		
	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	1,140,937	86,871	1,227,808	724,078	70,888	794,966
Represented by:						
Minimum termination value	636,573	34,922	671,495	380,250	30,341	410,591
Other liabilities	447,763	45,253	493,016	334,425	35,755	370,180
Solvency reserve	56,601	6,696	63,297	9,403	4,792	14,195
Total	1,140,937	86,871	1,227,808	724,078	70,888	794,666
Assets available for solvency reserve	109,877	11,387	121,264	51,138	19,404	70,542
Comprised as:						
(Deficit)/excess of net policy liability over minimum termination value	(184,349)	(300)	(184,649)	(113,741)	(689)	(114,430)
Net assets	294,226	11,687	305,913	164,879	20,093	184,972
Total	109,877	11,387	121,264	51,138	19,404	70,542
Solvency reserve %	5.2%	8.4%	5.4%	1.3%	7.3%	1.8%
Coverage of solvency reserve	1.94	1.70	1.92	5.44	4.05	4.97

(b) Capital requirements of the shareholder's fund

	Shareholder's Fund 2011 $'000	Shareholder's Fund 2010 $'000
Capital requirement	10,000	10,000
Being the greater of:		
Management capital reserve		
Determined as:		
Management capital requirement	356	264
Less: Total liabilities	(344)	(252)
	12	12
And		
Minimum capital requirement	10,000	10,000
Assets available for capital requirements	13,113	13,150
Management capital reserve %	3.5%	4.8%
Coverage of capital requirement	1.3	1.3

23. Non-current liabilities – other

	2011 $'000	2010 $'000
Deposit retained from related retrocessionaire	302,118	150,512
Related retrocessionaire's share of unrealised gain on investments	12,655	-
Total	314,773	150,512

24. Non-current liabilities – payables

	2011 $'000	2010 $'000
Amount due to ceding companies	642	4,244
Total	642	4,244

25. Share capital

	2011 $'000	2010 $'000
Authorised and issued capital of 210,000,000 (2010: 50,000,000) ordinary shares		
Balance at 1 January	50,000	20,000
Issue of ordinary shares	210,000	30,000
Balance at 31 December	260,000	50,000

During the year ended 31 December 2011, the Company's parent entity increased its investment through the purchase of 210,000,000 fully paid ordinary shares for a total cost of $210,000,000. (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).

26. Reserves and retained profits
Summary of shareholder's interests

	2011 Statutory Funds $'000	2011 Shareholder's Fund $'000	2011 Total $'000	2010 Statutory Funds $'000	2010 Shareholder's Fund $'000	2010 Total $'000
Net profit for the year	(89,959)	763	(89,196)	16,096	342	16,438
Retained profit at 1 January	119,764	32,620	152,384	112,168	32,278	144,446
Transfers between funds	800	(800)	-	(8,500)	8,500	-
Dividends paid	-	-	-	-	(8,500)	(8,500)
Retained profit at 31 December (overseas and non-participating)	30,605	32,583	63,188	119,764	32,620	152,384
Foreign currency translation reserve at 1 January	(3,395)	(867)	(4,262)	(2,113)	(867)	(2,980)
Movement during the year	100	-	100	(1,282)	-	(1,282)
Foreign currency translation reserve at 31 December	(3,295)	(867)	(4,162)	(3,395)	(867)	(4,262)
Issued share capital at 1 January	-	50,000	50,000	-	20,000	20,000
Movement during the year (note 25)	-	210,000	210,000	-	30,000	30,000
Issued share capital at 31 December	-	260,000	260,000	-	50,000	50,000
Capital transfers to statutory funds	278,603	(278,603)	-	68,603	(68,603)	-
Shareholder's equity	305,913	13,113	319,026	184,972	13,150	198,122

27. Dividends

No dividend was paid for the year ended 31 December 2011 (2010: $8,500,000 was paid on 11 May 2010) 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:

	2011 $	2010 $
(a) Audit and assurance services		
KPMG Australia:		
Audit and review of financial reports under the Corporations Act 2001	303,775	248,260
Total remuneration for audit and assurance services	303,775	248,260
(b) Advisory services		
KPMG Australia:		
Review of group life experience study report	2,900	35,343
Review of embedded value report	60,303	70,399
Advice on projects	89,780	5,000
Total remuneration for advisory services	152,983	110,742
Total	456,758	359,002

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 (Until 28 December 2011)
E G Tollifson (Appointed as Chairman 23 February 2012)

(ii) Executive Director

A H Eder

(iii) Non-executive Directors

R Eckl
N J Milne, OAM (Retired 31 December 2011)
A Rear
O Shub
J B Shewan (Appointed 1 January 2012)

30. Contingencies

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

31. 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.

32. Events occurring after the balance sheet date

No 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, was a partner with the firm Allens Arthur Robinson, Solicitors. Allens Arthur Robinson provided legal services to related entities during the year on normal commercial terms and conditions, and at market rates. As at the date of this report, O. Shub is no longer a partner with Allens Arthur Robinson.

A director, J. B. Shewan, is a partner of PricewaterhouseCoopers in New Zealand. PricewaterhouseCoopers has provided taxation services to related entities during the year on normal commercial terms and conditions, and at market rates.

33. Related party transactions (continued)

(c) Key management personnel compensation

	2011 $	2010 $
Short term employee benefits	1,196,393	1,100,719
Post employment benefits	150,807	124,342
Long term benefits	-	82,297
Total	1,347,200	1,307,358

The payments were effected by MHA.

(d) Transactions with related parties

The following transactions occurred with related parties:

	2011 $	2010 $
Transactions in respect of retrocession of reinsurance contracts with:		
Ultimate parent entity	(121,604,698)	32,702,535
Transactions on normal commercial terms and conditions with:		
Parent entity in Australia in respect of:		
i) recharges of expenses incurred by the Company.	21,328,603	19,992,516
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)).	34,598,989	(11,938,345)
Ultimate parent entity in relation to tax loss transfer	(2,566,761)	-
Commonly controlled entity in respect of :		
Recharges of expenses incurred by the Company's New Zealand branch	104,667	128,141
Dividends paid to:		
Parent entity in Australia – note 27	-	8,500,000
Capital injection received from:		
Parent entity in Australia – note 25	210,000,000	30,000,000

(e) Outstanding balances

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

	2011 $	2010 $
Current (payables) in respect of retrocession of reinsurance contracts with:		
Ultimate parent entity	(1,977,106)	(42,696,308)
Current receivables in respect of retrocession of reinsurance contracts with:		
Ultimate parent entity	93,592,563	-
Current receivables/(payables) in respect of income tax payable assumed by MHA and attributable to the Company and other normal business transactions (including the New Zealand branch) with:		
Parent entity in Australia	26,962,679	(7,636,310)
Ultimate parent entity	(2,566,761)	-

(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 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:

	2011 $'000	2010 $'000
(Loss)/profit from operating activities after income tax	(89,196)	16,438
Movements in:		
Outstanding premiums due from ceding companies	(10,711)	(36,093)
Trade debtors	(2,491)	12,964
Trade creditors	4,873	49
Other retrocession debtors/creditors	(551)	1,799
Related entities	(32,016)	11,938
Retrocessionaire's current account	(134,313)	33,049
Sundry debtors	(145)	14
Sundry creditors	113	44
GST – acquisitions	(304)	259
Income tax receivable/payable	-	958
Deferred taxes	(11,119)	1,552
Provision for non resident withholding tax	331	(266)
Technical provisions	236,355	40,383
Deposit retained from related retrocessionaire	118,287	(3,613)
Deposit retained by cedants	(5,892)	(682)
Adjustments for:		
Gain on revaluation of investments	(55,265)	(738)
Investment revenue	(43,326)	(36,381)
Investment expense	670	584
Net cash flows from operating activities	(24,700)	42,258

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

	2011 $'000	2010 $'000
Cash	3,372	3,918
Deposits at call	14,347	19,094
Balances per statement of cash flows	17,719	23,012

35. Disaggregated information of life insurance business by fund

	Australian Statutory Fund No. 1 2011	New Zealand Statutory Fund No. 2 2011	Shareholder's Fund 2011	Total 2011	Australian Statutory Fund No. 1 2010	New Zealand Statutory Fund No. 2 2010	Shareholder's Fund 2010	Total 2010
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Other financial assets	898,458	69,905	12,842	981,205	618,784	67,362	12,467	698,613
Other assets	295,711	21,901	458	318,070	146,982	18,117	851	165,950
Retrocessionaires' share of life reinsurance contract liabilities	272,016	22,922	-	294,938	157,777	19,939	-	177,716
Life reinsurance contract liabilities	(724,239)	(57,543)	-	(781,782)	(424,285)	(49,590)	-	(473,875)
Other liabilities	(447,719)	(45,497)	(189)	(493,405)	(334,379)	(35,735)	(168)	(370,282)
Retained earnings	29,906	699	32,583	63,188	110,559	9,205	32,620	152,384
Net premium revenue	332,582	23,495	-	356,077	287,701	22,499	-	310,200
Investment revenue	76,670	7,805	1,214	85,689	32,674	4,216	509	37,399
Other Income	-	-	-	-	440	-	-	440
Net claims expense	(53,724)	(12,892)	-	(66,616)	(137,556)	(15,793)	-	(153,349)
Other operating expenses	(479,628)	(16,063)	(23)	(495,714)	(161,210)	(4,436)	(21)	(165,667)
(Loss)/profit before tax	(124,100)	2,345	1,191	(120,564)	22,049	6,486	488	29,023
(Loss)/profit after tax	(91,153)	1,194	763	(89,196)	13,436	2,660	342	16,438
Transfers between funds	(10,500)	9,700	800	-	5,800	2,700	(8,500)	-
Capital transfers to statutory funds	264,321	14,282	(278,603)	-	54,321	14,282	(68,603)	-

Munich Reinsurance Company of Australasia Limited

Directors' Declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 4 to 31 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 2011 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 ~~28~~ 29 March 2012 in accordance with a resolution of the Directors.

E G Tollifson
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 2011, 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 Company 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 2011 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

P Ruiz
Partner

Sydney
29 March 2012