Munich Reinsurance Company of Australasia Limited – New Zealand Branch

Annual Financial Report
31 December 2012

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

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Statement of Comprehensive Income for the year ended 31 December 2012

	Note	2012 $'000	2011 $'000
Revenue from operating activities	5	72,996	75,439
Expenses from operating activities	6(b)	(78,121)	(70,635)
Finance costs	6(c)	(1,354)	(1,743)
(Loss)/profit before tax		(6,479)	3,061
Income tax benefit/(expense)	8(a)	1,465	(1,502)
Total comprehensive (expense)/income for the year		(5,014)	1,559

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

Statement of Financial Position as at 31 December 2012

	Note	2012 $'000	2011 $'000
Current assets			
Cash and cash equivalents	9	3,684	401
Outstanding premiums	10	24,670	21,933
Receivables	11	2,439	3,608
Other financial assets	12	536	19,900
Retrocessionaires' share of life reinsurance contract liabilities	14	546	228
Deposit retained from related retrocessionaire	21	-	40
Other	13	92	-
Income tax receivable	8(c)	-	626
Total current assets		31,967	46,736
Non-current assets			
Other financial assets	12	90,721	71,972
Retrocessionaires' share of life reinsurance contract liabilities	14	32,344	29,897
Deferred tax assets	15	4,611	2,256
Other	16	1,683	-
Total non-current assets		129,359	104,125
Total assets		161,326	150,861
Current liabilities			
Payables	17	13,243	16,409
Provisions	18	11,291	14,327
Life reinsurance contract liabilities	19	3,418	1,039
Other	21	288	-
Total current liabilities		28,240	31,775
Non-current liabilities			
Life reinsurance contract liabilities	19	85,699	74,586
Other	22	33,505	29,092
Payables	23	36	48
Total non-current liabilities		119,240	103,726
Total liabilities		147,480	135,501
Net assets		13,846	15,360
Equity			
Capital reserves	24	19,000	15,500
Retained profits	24	(5,154)	(140)
Total equity		13,846	15,360

The Statement of financial position 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 2012

	Note	Capital reserve $'000	Retained profits $'000	Total $'000
Balance at 1 January 2011		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 shareholder's fund		-	(12,565)	(12,565)
Balance at 31 December 2011	24	15,500	(140)	15,360
Total comprehensive income for the year				
(Loss) after tax for the year		-	(5,014)	(5,014)
Transfer from the shareholder's fund		3,500	-	3,500
Balance at 31 December 2012		19,000	(5,154)	13,846

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 2012

	Note	2012 $'000	2011 $'000
Cash flows from operating activities			
Treaty reinsurance		2,222	6,562
Retrocession paid		(3,745)	(2,704)
Income tax paid		(77)	(154)
Management and administrative expenses		(3,652)	(3,743)
Net cash from operating activities	32(a)	(5,252)	(39)
Cash flows from investing activities			
Interest received		4,032	4,432
Payments for investments		(36,714)	(179,745)
Proceeds from sale of investments		37,774	184,249
Investment expense		(57)	(69)
Net cash from investing activities		5,035	8,867
Cash flows from financing activities			
Transfer to Australian statutory fund		-	(12,565)
Transfer from the shareholder's fund		3,500	-
Net cash from financing activities		3,500	(12,565)
Net increase/(decrease) in cash held		3,283	(3,737)
Cash and cash equivalents at 1 January		401	4,138
Cash and cash equivalents at 31 December	32(b)	3,684	401

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 2012 for Munich Reinsurance Company of Australasia Limited – New Zealand branch ("Branch"). These policies have been consistently applied to all years presented, unless otherwise stated. The Company which is domiciled and incorporated in Australia, is registered in New Zealand to carry on business as a foreign company.

The financial report was authorised for issue by the Directors on 26 March 2013.

(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 carried at the bid price of the instrument.
- Unlisted fixed interest securities are recorded at amounts based on valuations using rates of interest equivalent to the yields obtainable on comparable investments at balance date.
- Receivables are carried at book value, which is the best estimate of fair value, as they are settled within a short period.
- Deposits retained by ceding companies are recorded at fair value of the amount deposited.

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

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

(o) Impairment of assets

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

(p) Receivables

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

(q) Payables

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

2. Critical accounting estimates and judgements

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

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

(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 provisions takes into account the recently reported claims and the number of bordereaux outstanding for that treaty. Allowance for Incurred But Not Reported (IBNR) claims are incorporated into the calculation of the life reinsurance policy liability.

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

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

The effective date of the actuarial report on life reinsurance contract liabilities and solvency requirements is 31 December 2012. 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. 2012: 2.6% - 4.0% p.a. (2011: 2.7% - 4.3% p.a.)
Maintenance expenses	The allowance for future expenses is a percentage of inforce premiums based on the Branch's planned expenses in 2013.
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. 2012: 2.75% p.a. (2011: 2.75% p.a.)
Voluntary discontinuance	The Branch's own experience. 2012: 4.25% - 16.0% p.a. (2011: 5.5% - 15.0% p.a.)
Surrender values	Ceding company values.
Mortality & morbidity	Loss ratios based on investigations into the Branch's own recent experience. The key assumptions are rates of terminations of disability, which were set following an investigation into MRA's own recent experience. 2012: 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 MRA's own recent experience are used. (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 MRA's own recent experience are used.)

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

(b) Actuarial assumptions (continued)

IBNR	Allowance was made for inherent delays in reporting claims based on investigations into the Branch's own recent experience. 2012 and 2011: IBNR determined using an adjusted chain-ladder method.

(c) Effects of changes in actuarial assumptions

	31 December 2011 to 31 December 2012	
Assumption category	Effect on net profit margins $'000 increase / (decrease)	Effect on net life reinsurance contract liabilities $'000 increase / (decrease)
Discount rates & inflation	1,750	3,813
Maintenance expenses	(1,735)	427
Voluntary discontinuance	(145)	-
Total	(130)	(4,240)

(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	
		2012	2011
	Note	$'000	$'000
Cash and cash equivalents	9	3,684	401
Other financial assets at fair value through profit or loss - Debt securities	12	91,257	91,872
Amount due from ceding companies in respect of outstanding premium	10	24,670	21,933
Receivables	11	2,439	3,608
Retrocessionaires' share of life reinsurance contract liabilities	14	32,890	30,125
Related retrocessionaire's share of unrealised loss on investments	13 & 16	1,775	-
Deposit retained from related retrocessionaire	21	-	40
Current tax receivable	8(c)	-	626
Total		156,715	148,605

No financial assets are either past due or impaired.

Grade 1-3 (Standard & Poor's A- to AAA)		156,487	147,831
Grade 4-5 (Unrated or Standard & Poor's BB+ to BBB+)		228	774
Total		156,715	148,605

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 at carrying value, 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
2012				
Amount due to ceding companies	7,709	36	-	7,745
Amount due to related retrocessionaire	1,045	-	-	1,045
Amount due to related entities	4,264	-	-	4,264
Amount due to non-related retrocessionaire	215	-	-	215
Outstanding claims	11,099	-	-	11,099
Non-resident withholding tax	192	-	-	192
Life reinsurance contract liabilities	3,418	16,593	69,106	89,117
Deposit retained from related retrocessionaire	288	4,254	25,560	30,102
Related retrocessionaire's share of unrealised gains on investments	-	-	3,693	3,693
Sundry payables	10	-	-	10
Total	28,240	20,883	98,359	147,482
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

(iii) Market risk

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

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

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

  An integral part of the ALM framework is the investment mandate of the Company. On an annual basis the investment mandate is reassessed and updated, after which the MRA Board reviews and approves this document before implementation. This review 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.

Interest rate risk

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

4. Risk management policies and procedures (continued)

(a) Financial risks (continued)

(iii) Market risk (continued)

Ignoring taxation impacts, at 31 December 2012, an increase in interest rates of 100 basis points would increase profit and equity by $1,500,000. A corresponding decrease of 100 basis points would decrease profit and equity by $2,243,000.

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:

	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
2012						
Cash	2.05%	1,134	-	-	-	1,134
Deposits at call	2.50%	2,550	-	-	-	2,550
Investments						
Government bonds	5.76%	-	536	38,727	51,994	91,257
Total		3,684	536	38,727	51,994	94,941
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

Currency risk

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

Other price risk

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

(b) Capital management

(i) Regulatory capital

Externally imposed capital requirements for the Branch are set and regulated by the Australian Prudential Regulation Authority (APRA) and the Reserve Bank of New Zealand. These requirements are put in place to ensure sufficient solvency margins are held within the statutory fund in respect of the life insurance business of the Branch. The solvency requirements of Professional Standard 5 of the New Zealand Society of Actuaries also affects the capital held. 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 MRA 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 (MR-AG) (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 company was issued with a provisional licence by the Reserve Bank of New Zealand in 2012.

4. Risk management policies and procedures (continued)

(b) Capital management (continued)

(i) Regulatory capital (continued)

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 20.

(ii) Ratings capital

MRA and hence the branch is classified as a core entity of MR-AG and therefore obtains the same credit rating as MR-AG based on ratings published by Standard & Poor's Ratings services at 31 December 2012. The Branch manages its capital rating by performing periodical analysis using Standard & Poor's Capital model. The ratings help to reflect the financial strength of the Branch and demonstrates to stakeholders the ability to pay claims for the long term.

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

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

Portfolio of risks

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

Risk management strategy

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

Exposure to risk

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

(d) Terms and conditions of reinsurance contracts

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

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

4. Risk management policies and procedures (continued)

(e) Concentrations of insurance risk

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

(f) Claims development

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

	2012 $'000	2011 $'000
Net claims incurred		
Expected	26,865	25,419
Actual	28,666	24,495

5. Revenue from operating activities

Reinsurance revenue		
Reinsurance premium revenue	52,863	49,978
Retrocession recoveries from reinsurance contracts	15,563	15,085
Total reinsurance revenue	68,426	65,063
Investment revenue		
Interest	4,288	4,480
Net realised and unrealised gains	282	5,896
Total investment revenue	4,570	10,376
Total revenue from operating activities	72,996	75,439

6. Expenses from operating activities

	2012 $'000	2011 $'000
(a) Claims expense		
Gross reinsurance claims expense	36,168	31,922
(b) Other expenses		
Retrocession premium expense	20,739	19,296
Movement in life reinsurance contract liabilities	13,492	10,555
Policy acquisition costs		
Rebate	1,706	614
Other costs	332	185
Total policy acquisition costs	2,038	799
Policy maintenance costs		
Rebate	3,462	5,827
Other costs	2,164	1,985
Total policy maintenance costs	5,626	7,812
Investment expense	57	69
Foreign exchange losses	1	182
Total	58	251
Total other expenses	41,953	38,713
Total expenses from operating activities	78,121	70,635
(c) Finance costs		
Interest payable on deposit retained from related retrocessionaire	1,354	1,743
Total claims, other expenses & finance costs	79,475	72,378

7. Operating profit

Sources of shareholder's operating profit of statutory fund

Operating profit after income tax arose from:

	2012 $'000	2011 $'000
Components of shareholder's profit related to movement in life reinsurance contract liabilities (non investment-linked business)		
• Planned margins of revenues over expenses released	1,605	2,806
• Experience (loss)	(5,623)	(1,482)
• (Capitalisation of expected future losses)/reversal of capitalised losses	(1,449)	(1,480)
• Investment earnings on assets in excess of life reinsurance contract liabilities	453	1,715
Operating (loss)/profit after income tax of statutory fund (note 24)	(5,014)	1,559

	2012 $'000	2011 $'000

8. Income tax

(a) Income tax expense

	2012 $'000	2011 $'000
Current taxes – current year	890	3,373
Deferred taxes – current year	(2,355)	(1,871)
Under provision in prior year – current tax	4	-
Over provision in prior year – deferred tax	(4)	-
Income tax (benefit)/expense	(1,465)	1,502

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

	2012 $'000	2011 $'000
(Loss)/profit from operating activities before income tax	(6,479)	3,062
Prima facie tax payable at 28%	(1,814)	857
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenses	500	645
Non-assessable items	(151)	-
Income tax (expense)/benefit	(1,465)	1,502

(c) Income tax receivable

	2012 $'000	2011 $'000
Opening balance at 1 January	626	626
Additional provisions recognised - current year	(890)	(3,373)
Transfer of tax credits	890	3,373
Settlement of receivable	(626)	-
Closing balance at 31 December	-	626

9. Current assets – cash and cash equivalents

	2012 $'000	2011 $'000
Cash at bank	1,134	351
Deposits at call	2,550	50
Total	3,684	401

(a) Cash at bank

Cash at bank is currently bearing floating interest rates of 1.95% to 2.25% p.a. during the financial year (2011: 2.00% to 2.25% p.a.).

(b) Deposits at call

The deposits at call are bearing floating interest rates between 2.50% to 2.50% p.a. during the financial year (2011: 2.50% to 3.00% p.a.).

10. Current assets – outstanding premiums

	2012 $'000	2011 $'000
Amount due from ceding companies	24,670	21,933

11. Current assets – receivables

	2012 $'000	2011 $'000
Recoveries due from non-related retrocessionaire	171	-
Amount due from ceding companies	1,399	3,038
Accrued income	825	570
GST receivable	44	-
Total	2,439	3,608

12. Other financial assets

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

	2012 $'000	2011 $'000
Debt securities – unsecured, including bills of exchange	91,257	91,872
Total other financial assets – fair value through profit or loss	91,257	91,872
Current other financial assets	536	19,900
Non-current other financial assets	90,721	71,972
Total other financial assets – fair value through profit or loss	91,257	91,872

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 $500,000 are held with the Public Trust as a requirement for the Branch to operate in New Zealand.

13. Current assets – others

	2012 $'000	2011 $'000
Accrual of related retrocessionaire's share of unrealised loss on investments	92	-

14. Retrocessionaires' share of life reinsurance contract liabilities

	2012 $'000	2011 $'000
Current		
Recoveries due from/(to) related retrocessionaire in respect of life reinsurance contract liabilities	288	(40)
Recoveries due from non-related retrocessionaire in respect of life reinsurance contract liabilities	258	268
Total	546	228
Non-current		
Recoveries due from related retrocessionaire in respect of life reinsurance contract liabilities	29,814	26,995
Recoveries due from non-related retrocessionaire in respect of life reinsurance contract liabilities	2,530	2,902
Total	32,344	29,897
Total		
Recoveries due from related retrocessionaire in respect of life reinsurance contract liabilities	30,101	26,955
Recoveries due from non-related retrocessionaire in respect of life reinsurance contract liabilities	2,789	3,170
Total – note 19(a)(i)	32,890	30,125

15. Non-current assets – deferred tax asset

	2012 $'000	2011 $'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	889	845
Components of life reinsurance contract liabilities	3,722	1,411
Deferred tax asset	4,611	2,256
Movements:		
Opening balance at 1 January	2,256	385
Charged to the statement of comprehensive income	2,355	1,871
Closing balance at 31 December	4,611	2,256

16. Non-current assets – others

	2012 $'000	2011 $'000
Accrual of related retrocessionaire's share of unrealised loss on investments	1,683	-

17. Current liabilities – payables

	2012 $'000	2011 $'000
Amount due to ceding companies	7,709	10,344
Amount due to related retrocessionaire (refer note 31(e))	1,045	2,598
Amount due to non-related retrocessionaire	215	43
Amount due to related entities (refer note 31(e))	4,264	3,373
GST payables	-	25
Sundry payables	10	26
Total	13,243	16,409

The amount due to related retrocessionaire represents the Branch's net contractual rights under retrocession agreements with MR-AG (refer note 31).

18. Current liabilities – provisions

	2012 $'000	2011 $'000
Outstanding claims	11,099	13,887
Non-resident withholding tax	192	440
Total	11,291	14,327

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 2012	13,887	440	14,327
Additional provisions recognised	36,169	192	36,361
Liabilities paid	(38,957)	(440)	(39,397)
Closing balance at 31 December 2012	11,099	192	11,291

19. Life reinsurance contract liabilities

	2012 $'000	2011 $'000
Gross life reinsurance contract liabilities		
Current	3,418	1,039
Non-current	85,699	74,586
Total Gross life reinsurance contract liabilities assumed – see below (a) and (b)	89,117	75,625

(a) (i) Life reinsurance contract liabilities assumed

	2012 $'000	2011 $'000
Reinsured life reinsurance contract liabilities:		
Gross life reinsurance contract liabilities assumed	89,117	75,625
Gross life reinsurance contract liabilities ceded – note 14	(32,890)	(30,125)
Net life reinsurance contract liabilities	56,227	45,500

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

	2012 $'000	2011 $'000
Opening balance gross life reinsurance contract liabilities at 1 January	75,625	65,070
Increase in gross life reinsurance contract liabilities	13,492	10,555
Closing balance gross life reinsurance contract liabilities at 31 December	89,117	75,625
Opening balance retroceded life reinsurance contract liabilities at 1 January	30,125	26,164
Increase in retroceded life reinsurance contract liabilities	2,765	3,961
Closing balance retroceded life reinsurance contract liabilities at 31 December	32,890	30,125
Opening balance net life reinsurance contract liabilities at 1 January	45,500	38,906
Increase in net life reinsurance contract liabilities	10,727	6,594
Closing balance net life reinsurance contract liabilities at 31 December	56,227	45,500

(b) Components of net life reinsurance contract liabilities

	2012 Current basis $'000	2012 Previous basis $'000	2011 Previous basis $'000
Best estimate liability for non investment-linked business			
Value of future policy benefits	283,240	284,466	262,955
Value of future expenses	55,449	53,521	61,360
Value of future premiums	(310,351)	(311,957)	(305,941)
Total	28,338	26,030	18,374
Value of future profits for non investment-linked business			
Shareholder profit margins	27,889	29,770	27,126
Net life reinsurance contract liabilities	56,227	55,800	45,500

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

20. 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.

	2012 $000	2011 $'000
Solvency requirement	122,775	114,169
Represented by:		
Minimum termination value	52,623	45,895
Other liabilities	56,544	59,475
Solvency reserve	13,608	8,799
Total	122,775	114,169
Assets available for solvency reserve	17,450	14,965
Comprised as:		
Excess/(deficit) of net policy liability over minimum termination value	3,604	(395)
Net assets	13,846	15,360
Total	17,450	14,965
Solvency reserve %	12.5%	8.4%
Coverage of solvency reserve	1.28	1.70

21. Current liabilities - other

Deposit retained from/(to) related retrocessionaire	288	(40)
	288	(40)

22. Non-current liabilities – other

Accrual of related retrocessionaire's share of unrealised gains on investments	3,692	2,096
Deposit retained from related retrocessionaire	29,813	26,996
	33,505	29,092

23. Non-current liabilities – payables

Amount due to ceding companies	36	48

24. Reserves and retained profits

Summary of shareholder's interests

Net (loss)/profit for the year	(5,014)	1,559
Retained (loss)/profit at 1 January	(140)	10,866
Transfer to the Australian statutory fund	-	(12,565)
Retained loss at 31 December (overseas and non-participating)	(5,154)	(140)
Capital reserve	19,000	15,500
Shareholder's equity	13,846	15,360

25. Dividends

No dividend was paid for the year ended 31 December 2012. (2011: nil).

26. Remuneration of auditors

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

	2012 $	2011 $
KPMG Australia:		
Audit and review of financial reports under the Companies Act 1993	29,347	26,800
Total remuneration for audit services	29,347	26,800

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

27. Directors' disclosure

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

(i) Chairman – non-executive

E G Tollifson

(ii) Executive Director

A H Eder

(iii) Non-executive Directors

R Eckl
B Edwards (appointed 16 May 2012)
A Rear
O Shub
J B Shewan

28. Contingencies

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

29. 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.

30. Events occurring after the balance sheet date

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

31. Related party transactions

(a) Parent entities

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

(b) Directors

Disclosures relating to Directors are set out in note 27.

A director, J.B. Shewan was a partner of PricewaterhouseCoopers in New Zealand until 30 June 2012. PricewaterhouseCoopers has provided taxation services to related entities during the year on normal commercial terms and conditions, and at market rates.

	2012 $	2011 $
(c) Key management personnel compensation		
Short term employee benefits	102,694	170,199
Post employment benefits	48,321	18,898
Total	151,015	189,097

(d) Transactions with related parties

The following transactions occurred with related parties:

	2012 $	2011 $
Transactions in respect of retrocession of reinsurance contracts with:		
MR-AG	(1,468,742)	805,941
Transactions in respect of recharges of expenses incurred by the Branch with:		
MHA	3,363,227	2,946,856
Other related entities	140,969	136,686
Transaction in respect of transfer from the New Zealand statutory fund to the Australian statutory fund	-	(12,564,635)
Transaction in respect of transfer from the shareholder's fund to the New Zealand statutory fund	3,500,000	-
Transactions in respect of expenses paid on behalf of the Branch by:		
MRA	55,523	(15,535)
Transactions in respect of transfer of tax losses from:		
MR-AG	2,429,861	3,373,366

(e) Outstanding balances

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

	2012 $	2011 $
Current payables in respect of retrocession of reinsurance contracts	(1,044,913)	(2,598,411)
Current receivables/(payables) in respect of GST liabilities	43,998	(25,265)
Current payables in respect of transfer of tax losses	(4,263,683)	(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.

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

	2012 $'000	2011 $'000
(a) Reconciliation of profit after income tax to the net cash flows from operating activities:		
(Loss)/profit from operating activities after income tax	(5,014)	1,559
Movements in:		
Trade debtors	1,640	(2,302)
Outstanding premiums due from ceding companies	(2,736)	(4,271)
Trade creditors	(2,646)	1,758
Retrocessionaires' current account	(1,732)	806
Other retrocession debtors / creditors	3	83
GST - acquisitions	(69)	(395)
Provision for tax	371	-
Related entities	890	3,373
Provision for non-resident withholding tax	7	31
Deferred taxes	(2,356)	(1,871)
Gross policy liabilities	13,492	10,555
Related retrocession policy liabilities	(2,766)	(3,961)
Outstanding claims reserve	(2,790)	2,870
Deposit retained from related retrocessionaire	3,146	4,109
Sundry creditors	(16)	13
Adjustments for:		
Gain on revaluation of investments	(445)	(7,985)
Investment revenue	(4,288)	(4,480)
Investment expense	57	69
Net cash flows from operating activities	(5,252)	(39)

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:

	2012 $'000	2011 $'000
Cash	1,134	351
Deposits at call	2,550	50
Total per cash flow statement	3,684	401

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 2012 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 2012.

Signed in Sydney on 26 March 2013 in accordance with a resolution of the Directors:

E G Tollifson
Director

A H Eder
Director

KPMG

Independent Auditor's Report

To the Shareholders of Munich Reinsurance Company of Australasia Limited - the New Zealand Branch

Report on the Financial Statements

We have audited the accompanying financial statements of Munich Reinsurance Company of Australasia Limited - the New Zealand Branch ("the branch") on pages 1 to 23. The financial statements comprise the balance sheet as at 31 December 2012 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

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

- comply with generally accepted accounting practice in New Zealand;

KPMG

- give a true and fair view of the financial position of the branch as at 31 December 2012 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 - the New Zealand Branch as far as appears from our examination of those records.

KPMG

KPMG

Sydney

26 March 2012

Munich RE

Munich Reinsurance Company of Australasia Limited (MRA)
New Zealand Branch
Appointed Actuary's Report

1. This report is prepared in compliance with Section 78 of the Insurance (Prudential Supervision) Act 2010 (the Act), and with the exemption issued to MRA by the Reserve Bank of New Zealand under Section 59 of the Act, dated 18 October 2012.

2. This is the first such report produced in respect of MRA.

3. The report refers to a review carried out by me into the actuarial information included in the 2012 financial statements of MRA and of its New Zealand Branch.

4. A comprehensive review of MRA's business during 2012 and of its financial position at 31 December 2012, covering its operations in both Australia and New Zealand, has been carried out by me and documented in my Financial Condition Report (2012 FCR), dated 12 March 2013.

5. In relation to the items specified in Section 78 of the Act, I report as follows:
   a) My name is Murray Glase. I am a Fellow of the New Zealand Society of Actuaries and a Fellow of the Institute of Actuaries of Australia.
   b) I am the appointed actuary of MRA and of its New Zealand Branch. The work I perform for MRA encompasses:
      i) the regular analysis of experience for purposes of setting valuation assumptions,
      ii) the determination of policy liabilities,
      iii) the determination of capital requirements in compliance with prudential regulations,
      iv) analysis of the financial condition of MRA,
      v) the reporting of all of the above to MRA,
      vi) other analytical and advisory functions for the Board and management of MRA.
   c) I have determined the policy liabilities of MRA, including those of its New Zealand Branch, as at 31 December 2012. These policy liabilities include amounts in respect of reinsurance recoveries and those arising from the deferral of acquisition costs. In determining these amounts I have carried out all such investigations as I have considered necessary and appropriate, including reviews of premium and other revenue, premium rates and business statistics. Consistent with MRA's established policy and practice, these policy liabilities have been adopted for inclusion in the 2012 financial statements of MRA and of its New Zealand Branch. Details of that process are documented in my 2012 FCR.
   d) I am employed by Munich Holdings of Australasia Pty Ltd, the parent entity of MRA, in my capacity as appointed actuary of MRA. I have no other relationship with MRA or any of its associated companies.

e) I have received all information and explanations I have required during the course of my work described above.

f) In my opinion the actuarial information contained in and used in the preparation of the 2012 financial statements of MRA and of its New Zealand Branch have been included and used appropriately in the preparation of those statements.

g) In my opinion MRA has continued to comply with the requirements of APRA prudential standards LPS2.04, LPS3.04 and PS3 throughout 2012 and has maintained adequate solvency margins.

h) In my opinion MRA has continued to comply with the requirements of APRA prudential standards LPS2.04, LPS3.04 and PS3 throughout 2012 and has maintained adequate solvency margins in respect of each of its statutory and general funds.

M. P. Glase

Murray Glase
Fellow of the New Zealand Society of Actuaries
Fellow of the Institute of Actuaries of Australia
12 March 2013

Munich Reinsurance Company of Australasia Limited
ABN 51 004 804 013

Annual Financial Report 31 December 2012

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 2012.

Directors

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

E G Tollifson (Chairman)	
R Eckl	
A H Eder	
B Edwards	(Appointed 16 May 2012)
A Rear	
O Shub	
J B Shewan	

Principal activities

The Company's principal activity is life reinsurance.

Review of operations

The 2012 business year produced an operating profit after tax of $30,054,000 in comparison with a loss of $89,196,000 in 2011. 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 (2011: nil) to its parent entity, Munich Holdings of Australasia Pty Ltd ("MHA").

Insurance of officers

During the financial year, the parent entity paid a premium of $96,000 (2011: $97,000) 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)	
B Edwards	(Appointed 16 May 2012)
E G Tollifson	
O Shub	

Risk and Compliance Committee

O Shub (Chairman)	
A H Eder	
B Edwards	(Appointed 16 May 2012)
E G Tollifson	
J B Shewan	

In accordance with the Prudential Standard CPS 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

The company increased its share capital by $29,000,000 during the year. Other than this there were no significant changes in the state of affairs of the Company during the financial year.

Environmental regulations

The operations of the Company are not subject to any particular or significant environmental regulations under Australian and New Zealand 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 2012 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 2012

Directors' benefits

Other than transactions disclosed in note 32, 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 2012.

Signed at Sydney on 26 March 2013 in accordance with a resolution of the Directors.

E G Tollifson Director	A H Eder Director

KPMG

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

To: the directors of Munich Reinsurance Company of Australasia Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2012 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

P Ruiz
Partner

Sydney

26 March 2013

Munich Reinsurance Company of Australasia Limited

Statement of Comprehensive Income for the year ended 31 December 2012

	Note	2012 $'000	2011 $'000
Revenue from operating activities	5	1,021,055	1,004,902
Expenses from operating activities	6	(981,542)	(1,113,462)
Finance costs	6	(13,529)	(12,004)
Profit/(loss) before income tax		25,984	(120,564)
Income tax benefit	8(a)	4,070	31,368
Profit/(loss) after tax		30,054	(89,196)
Other comprehensive income/(expense)			
Foreign currency translation	25	478	100
Total comprehensive income/(expense) for the year		30,532	(89,096)

The Statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 8 to 314

Munich Reinsurance Company of Australasia Limited
Statement of Financial Position as at 31 December 2012

	Note	2012 $'000	2011 $'000
Current assets			
Cash and cash equivalents	9	34,646	17,719
Outstanding premiums	10	155,078	131,989
Receivables	11	48,260	145,421
Other financial assets	12	55,559	88,745
Other	13	19,464	11,118
Retrocessionaires' share of life reinsurance contract liabilities	14	305	371
Life reinsurance contract assets	20	20,296	2,634
Deposit retained from related retrocessionaire	13	15,537	10,368
Income tax receivable	8(c)	-	479
Total current assets		349,145	408,844
Non-current assets			
Other financial assets	12	1,117,729	892,460
Retrocessionaires' share of life reinsurance contract liabilities	14	345,116	304,935
Deferred tax assets	15	34,822	11,347
Total non-current assets		1,497,667	1,208,742
Total assets		1,846,812	1,617,586
Current liabilities			
Payables	16	54,488	47,728
Provisions	17	145,882	140,618
Retrocessionaires' share of life reinsurance contract liabilities	14	15,537	10,368
Other	18	-	15
Total current liabilities		215,907	198,729
Non-current liabilities			
Payables	23	845	642
Life reinsurance contract liabilities	20	893,839	784,416
Other	22	357,663	314,773
Total non-current liabilities		1,252,347	1,099,831
Total liabilities		1,468,254	1,298,560
Net assets		378,558	319,026
Equity			
Share capital	24	289,000	260,000
Reserves	25	(3,684)	(4,162)
Retained profits	25	93,242	63,188
Total equity		378,558	319,026

Munich Reinsurance Company of Australasia Limited
Statement of Changes in Equity for the year ended 31 December 2012

	Note	Share capital $'000	Retained profits $'000	Foreign currency translation reserve $'000	Total $'000
Balance at 1 January 2011		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	25	-	-	100	100
Transactions with owners, recorded directly in equity					
Issue of ordinary shares	24	210,000	-	-	210,000
Balance at 31 December 2011		260,000	63,188	(4,162)	319,026
Total comprehensive income for the year					
Profit after tax for the year		-	30,054	-	30,054
Other comprehensive income					
Foreign currency translation	25	-	-	478	478
Transactions with owners, recorded directly in equity					
Issue of ordinary shares	24	29,000	-	-	29,000
Balance at 31 December 2012		289,000	93,242	(3,684)	378,558

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 2012

	Note	2012 $'000	2011 $'000
Cash flows from operating activities			
Treaty reinsurance		51,478	48,611
Retrocession received/(paid)		70,098	(35,836)
Income tax transferred/(paid)		2,632	(12,786)
Management and administrative expenses		(25,776)	(24,692)
Other income		535	3
Net cash from operating activities	33(a)	98,967	(24,700)
Cash flows from investing activities			
Interest received		52,268	37,434
Payments for investments		(668,840)	(1,340,006)
Proceeds from sale of investments		506,492	1,112,556
Investment expenses paid		(992)	(670)
Net cash from investing activities		(111,072)	(190,686)
Cash flows from financing activities			
Capital injection	24	29,000	210,000
Net cash from financing activities		29,000	210,000
Net increase/(decrease) in cash held		16,895	(5,386)
Cash and cash equivalents at 1 January		17,719	23,012
Effect of exchange rate fluctuation on cash held		32	93
Cash and cash equivalents at 31 December	9	34,646	17,719

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 2012. These policies have been consistently applied to all years presented, unless otherwise stated.

For the purposes of preparing the financial statements, the Company is a for-profit entity.

The financial report was authorised for issue by the Directors on 26 March 2013.

(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* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9* includes requirements for the classification, measurement and derecognition of financial assets and financial liabilities replacing the requirements in AASB 139 *Financial Instruments: Recognition and Measurement*. The IASB and the AASB have deferred the application date of IFRS 9 and AASB 9 until 1 January 2015. Retrospective application is generally required, although there are exceptions. As the Company currently classifies its financial assets at fair value through the profit and loss, no material impact is expected on the Company's financial performance or financial position on adoption of this standard, however, the Company continues to monitor the impact of this standard.

- AASB 13 *Fair Value Measurement* establishes a single source of guidance under AASB for determining the fair value of assets and liabilities. AASB 13 does not change when the Company is required to use fair value but rather provides guidance on how to determine fair value when fair value is required or permitted. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. No material impact is expected on the Company's financial performance or financial position.

- AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*, AASB 2012-3 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities* are effective 1 July 2013. AASB 2012-2 and AASB 2012-3 amend AASB 7 *Financial Instruments*: Disclosures by revising and clarifying the criteria where financial instruments can be offset in the financial statements. The Company does not expect any material impact on the Company's financial performance or financial position on adoption of this standard.

- AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle* is effective 1 July 2013. AASB 2012-5 comprises a number of minor amendments to AASB 1, 101, 116, 132 and 134. The Company is currently assessing the impact of these standard however does not expect any material impact on the Company's financial performance or financial position on adoption of this standard.

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.

Other than discussed above, all other accounting policies have been applied consistently by the Company.

1. Summary of significant accounting policies (continued)

(c) Principles for life reinsurance business

The life reinsurance operations of the Company are conducted within separate statutory funds as required by the Life Insurance Act (1995) and are reported in aggregate with the shareholder's fund in the statement of comprehensive income, balance sheet, statement of changes in equity and statement of cash flows of the Company. The life reinsurance operations of the Company comprise the reinsurance of life insurance contracts.

Life reinsurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernable effect on the economics of the transaction). Products that do not meet the definition of a life reinsurance contract are classified as life investment contracts. Reinsurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness.

All of the Company's reinsurance contracts are classified as life insurance contracts. None are investment linked or other life investment type contracts.

(d) Premium revenue and recognition

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

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

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

(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.

For financial reporting purposes 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.

1. Summary of significant accounting policies (continued)

(j) Income tax (continued)

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

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

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

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

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

The Company does not issue participating policies, thus all profits are allocated to the shareholder. The amount transferred to/from the statutory funds from/to the shareholder's fund is determined after receiving written advice from the Appointed Actuary, including confirmation that the transfer will not breach the solvency and capital adequacy requirements in accordance with the requirements in Section 62 of the Life Insurance Act (1995).

(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 carried at the bid price of the instrument.
- Unlisted fixed interest securities are recorded at amounts based on valuations using rates of interest equivalent to the yields obtainable on comparable investments at balance date.
- Receivables are carried at book value, which is the best estimate of fair value, as they are settled within a short period.
- Deposits retained by ceding companies are recorded at fair value of the amount deposited.

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

1. Summary of significant accounting policies (continued)

(n) Financial assets (continued)

(i) Assets backing life reinsurance contract liabilities **(continued)**

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

(ii) Assets not backing life reinsurance contract liabilities

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

(o) Impairment of assets

All assets other than those which are outside the scope of AASB 136 *Impairment of Assets* (i.e. financial assets that are within the scope of AASB 139 *Financial Instruments: Recognition and Measurement*, deferred tax assets within the scope of AASB 112 *Income Taxes*, and deferred acquisition costs within the scope of AASB 4 *Insurance Contracts* and AASB 1038 *Life Insurance Contracts)* are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

(p) Receivables

Receivables are initially recognised and subsequently measured at book value less provision for doubtful debts, which is the best estimate of fair value. The collectability of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Company will not be able to collect all amounts that are due in accordance with the original terms of the receivable. The 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.

2. Critical accounting estimates and judgements (continued)

(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 provisions takes into account the recently reported claims and the number of bordereaux outstanding for that treaty. Allowance for Incurred But Not Reported (IBNR) claims are incorporated into the calculation of the life reinsurance policy liability.

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

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

The effective date of the actuarial report on life reinsurance contract liabilities and solvency requirements is 31 December 2012. 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 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. 2012: Aust 2.7% - 3.7% p.a., NZ 2.6% - 4.0% p.a. (2011: Aust 3.1% - 4.0% p.a., NZ 2.7% - 4.3% p.a.)
Maintenance expenses	The allowance for future expenses is a percentage of in-force premiums based on the Company's planned expenses in 2013.
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. 2012: Aust 2.75% p.a., NZ 2.75% p.a. (2011: Aust 2.75% p.a., NZ 2.75% p.a.)
Voluntary discontinuance	The Company's own experience. 2012: 4.25% -16.0% p.a. (2011: 4.25% -15.0% p.a.)
Surrender values	Ceding company values.
Mortality & morbidity	Loss ratios based on investigations into the Company's own recent experience. The key assumptions are rates of terminations of disability, which were set following an investigation into MRA's own recent experience. 2012: 20% - 135% of IAD (Institute of Actuaries Disability Income) 89-93 for claims duration up to 10 years. For claims duration above 10 years age dependent rates based on investigations into MRA's own recent experience are used. (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 MRA's own recent experience are used)
IBNR	Allowance was made for inherent delays in reporting claims based on investigations into the Company's own recent experience. 2012 and 2011: IBNR determined using an adjusted chain-ladder method.

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

(c) Effects of changes in actuarial assumptions

	31 December 2011 to 31 December 2012	
Assumption category	Effect on net profit margins $'000 increase / (decrease)	Effect on net life reinsurance contract liabilities $'000 increase / (decrease)
Discount rates & inflation	8,317	36,790
Maintenance expenses	(5,012)	2,333
Voluntary discontinuance	(2,447)	-
Mortality & morbidity	(20,073)	-
Total	(19,215)	39,123

(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.

4. Risk management policies and procedures (continued)

(a) Financial risks (continued)

(i) Credit risk (continued)

- 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 10% 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.

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 2012	Carrying amount $'000 2011
Cash and cash equivalents	9	34,646	17,719
Amount due from ceding companies in respect of outstanding premiums	10	155,078	131,989
Receivables	11	48,260	145,421
Other financial assets at fair value through profit or loss			
- Debt securities	12	1,173,288	981,205
Deposit retained by ceding company	13	19,202	11,118
Related retrocessionaire's share of unrealised loss on investments			
- Current	13	262	-
Deposit retained from related retrocessionaire	13	15,537	10,368
Retrocessionaires' share of life reinsurance contract liabilities	14	345,421	305,306
Life reinsurance contract assets	20	20,296	2,634
Income tax receivable	8(c)	-	479
Total		1,811,990	1,606,239
Grade 1-3 (Standard & Poor's A- to AAA)		1,811,544	1,605,297
Grade 4-5 (Unrated or Standard & Poor's BB+ to BBB+)		446	942
Total		1,811,990	1,606,239

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.

4. Risk management policies and procedures (continued)

(a) Financial risks (continued)

(ii) Liquidity Risk (continued)

The table below summarises the maturity profile of the financial liabilities of the Company at carrying value, 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
2012				
Amount due to ceding companies	40,483	845	-	41,328
Amount due to related retrocessionaire	10,141	-	-	10,141
Amount due to related entities	3,576	-	-	3,576
Amount due to non-related retrocessionaire	170	-	-	170
GST and sundry payable	118	-	-	118
Outstanding claims	143,667	-	-	143,667
Non-resident withholding tax	2,215	-	-	2,215
Life reinsurance contract liabilities	-	57,246	836,593	893,839
Retrocessionaire's share of life reinsurance contract liabilities	15,537	6,469	-	22,006
Deposit retained from related retrocessionaire	-	-	348,798	348,798
Related retrocessionaire's share of unrealised gain on investments	-	1,480	13,858	15,338
Total	215,907	66,040	1,199,249	1,481,196

	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

(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 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 MRA 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.

4. Risk management policies and procedures (continued)

(a) Financial risks (continued)

(iii) Market risk (continued)

Interest rate risk (continued)

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 2012 an increase in interest rates of 100 basis points would increase profit and equity by $7,719,000. A corresponding decrease of 100 basis points would decrease profit and equity by $17,336,000.

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
2012						
Cash	2.07%	4,069	-	-	-	4,069
Deposits at call	2.97%	30,577	-	-	-	30,577
Investments		-				
Government bonds	5.86%	-	30,137	196,831	895,559	1,122,527
Debentures	5.42%	-	25,422	19,675	5,664	50,761
Total		34,646	55,559	216,506	901,223	1,207,934
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

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 in local currency.

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 MRA 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 (MR-AG) (refer note 32(a)) in order to maximise shareholder value.

The Company manages its capital requirements by assessing economic conditions and risk characteristics of the Company's business activities on a regular basis to ensure that the above regulatory requirements and business objectives are met. The capital structure is maintained or adjusted by the amount of dividends paid or capital repatriations/(injections) to/(by) its parent company MHA.

4. Risk management policies and procedures (continued)

(b) Capital management (continued)

(i) Regulatory capital (continued)

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.

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

(ii) Ratings capital

MRA is classified as a core entity of MR-AG and therefore obtains the same credit rating as MR-AG based on ratings published by Standard & Poor's Ratings services at 31 December 2012. MRA manages its capital rating by performing periodical analysis using Standard & Poor's Capital model. The ratings help to reflect the financial strength of MRA and demonstrates to stakeholders the ability to pay claims for the long term.

(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.

(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 MR-AG review the underwriting and claims management processes to ensure adequate controls are in place and that they are effective. Strict claims management procedures ensure the timely and correct payment of claims in accordance with treaty conditions. Active claims management is particularly necessary for disability income business. All large losses are reported to the MRA Board.

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 MR-AG.

(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.

The results shown for 2011 did not include the impact from change of disability assumptions which occurred at the end of 2011.

	2012 $'000	2011 $'000
Net claims incurred		
Expected	446,924	279,040
Actual	442,647	309,693

	2012 $'000	2011 $'000
5. Revenue from operating activities		
Reinsurance revenue		
Reinsurance premium revenue	781,313	656,947
Retrocession recoveries from reinsurance contracts	164,372	262,101
Total reinsurance revenue	945,685	919,048
Investment revenue		
Interest	54,938	43,326
Net realised and unrealised gains	19,429	42,511
Foreign exchange gains	-	-
Total investment revenues	74,367	85,837
Other revenue		
Other income	1,003	17
Total other revenue	1,003	17
Total revenue from operating activities	1,021,055	1,004,902

6. Expenses from operating activities

	2012 $'000	2011 $'000
(a) Claims expense		
Gross reinsurance claims expense	326,637	328,718
(b) Other expenses		
Retrocession premium expense	364,648	300,870
Movement in life reinsurance contract liabilities	89,038	313,783
Policy acquisition costs		
Rebate	79,760	58,904
Other costs	6,326	6,459
Total policy acquisition costs	86,086	65,363
Policy maintenance costs		
Rebate	102,574	92,851
Other costs	11,554	11,046
Total policy maintenance costs	114,128	103,897
Investment management expenses	992	670
Foreign exchange losses	2	148
Other expenses	11	13
Total	1,005	831
Total other expenses	654,905	784,744
Total expenses from operating activities	981,542	1,113,462
(c) Finance costs		
Interest payable on deposit retained from related retrocessionaire	13,529	11,673
Interest payable on amounts due to non-related retrocessionaire	-	331
Total interest payable	13,529	12,004
Total claims, other expenses & finance costs	995,071	1,125,466

7. Operating profit

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

	2012 $'000	2011 $'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	10,924	25,681
• Experience gain/(loss)	6,568	(9,641)
• Capitalisation of expected future losses	(4,874)	(124,233)
Investment earnings on assets in excess of life reinsurance contract liabilities	16,900	18,234
Operating profit/(loss) after income tax of statutory funds (note 25)	29,518	(89,959)

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

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

(c) Operating and retained profit

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

8. Income tax

(a) Income tax benefit

	2012 $'000	2011 $'000
Current tax – current year	(1,720)	(20,283)
Deferred tax – current year	(2,367)	(11,086)
Under provided in prior year – current tax	73	33
(Over) provided in prior year – deferred tax	(56)	(32)
Income tax benefit	(4,070)	(31,368)

(b) Reconciliation of prima facie tax payable/(receivable) to income tax benefit

	2012 $'000	2011 $'000
Profit/(loss) from operating activities before income tax	25,984	(120,564)
Prima facie tax payable/(receivable) at the Australian tax rate of 30% (2011: 30%)	7,795	(36,169)
Effect of tax rates in foreign jurisdictions	102	(47)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible expenses	32,594	28,142
Non-assessable items	(38,981)	(63,578)
Under provision prior year	17	-
(Decrease)/increase in unrecognised deferred tax asset	(5,597)	40,284
Income tax benefit	(4,070)	(31,368)

8. Income tax (continued)

(c) Receivable / (Provision) for income tax

	2012 $'000	2011 $'000
Opening balance at 1 January	479	478
Additional assets recognised – current year	1,720	20,282
Liabilities paid	(295)	-
Currency revaluation	1	18
Tax consolidation transfers	(2,343)	(22,833)
Transfer of tax losses	707	2,567
Additional provisions recognised – prior year	(269)	(33)
Closing balance at 31 December	-	479

(d) Dividend franking account

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

(e) Tax consolidation legislation

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

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

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

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

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

(f) Unrecognised deferred tax assets

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

	2012 $'000	2011 $'000
Unused tax losses and deductible temporary differences	115,627	139,024

Deferred tax assets have not been recognised in respect of unused tax losses and deductible temporary differences because it is not probable that future profit will be available against which the tax consolidated group can utilise the benefits therefrom.

9. Current assets – cash and cash equivalents

	2012 $'000	2011 $'000
Cash at bank	4,069	3,372
Deposits at call	30,577	14,347
Total	34,646	17,719

(a) Cash at bank

Cash at bank bears floating interest rates between 2.05% to 2.10% p.a. during the financial year (2011: 3.75% to 4.25% p.a.).

(b) Deposits at call

The deposits at call bear floating interest rates between 2.50% to 3.00% p.a. during the financial year (2011: 2.50% to 4.25% p.a.).

10. Current assets – outstanding premiums

	2012 $'000	2011 $'000
Amount due from ceding companies	155,078	131,989

11. Current assets – receivables

	2012 $'000	2011 $'000
Recoveries due from related retrocessionaire (note 32(e))	-	93,593
Recoveries due from non-related retrocessionaires	1,396	1,010
Amount due from ceding companies	26,975	11,188
Amount due from related entities	4,647	27,151
Sundry debtors and prepayments	231	194
Accrued income	14,976	12,285
GST receivable	35	-
Total	48,260	145,421

12. Other financial assets

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

	2012 $'000	2011 $'000
Debt securities – unsecured, including bills of exchange	1,173,288	981,205
Total other financial assets – fair value through profit or loss	1,173,288	981,205
Current other financial assets	55,559	88,745
Non-current other financial assets	1,117,729	892,460
Total other financial assets – fair value through profit or loss	1,173,288	981,205

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$500,000 are held with the NZ Public Trust as a requirement for the Company to operate in New Zealand.

13. Current assets – other

	2012 $'000	2011 $'000
Deposit retained by ceding company	19,202	11,118
Related retrocessionaire's share of unrealised loss on investments	262	-
	19,464	11,118
Deposit retained from related retrocessionaire	15,537	10,368
	35,001	21,486

14. Retrocessionaires' share of life reinsurance contract liabilities

	2012 $'000	2011 $'000
Current		
(Payables) due to related retrocessionaire in respect of life reinsurance contract liabilities	(15,537)	(10,368)
Recoveries due from non-related retrocessionaires in respect of life reinsurance contract liabilities	305	371
Total	(15,232)	(9,997)
Non-current		
Recoveries due from related retrocessionaire in respect of life reinsurance contract liabilities	342,325	302,117
Recoveries due from non-related retrocessionaires in respect of life reinsurance contract liabilities	2,791	2,818
Total	345,116	304,935
Total		
Recoveries due from related retrocessionaire in respect of life reinsurance contract liabilities	326,788	291,749
Recoveries due from non-related retrocessionaires in respect of life reinsurance contract liabilities	3,096	3,189
Total – note 20(a)(i)	329,884	294,938

15. Non-current assets – deferred tax assets

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

	2012 $'000	2011 $'000
Accrued expense	6,769	4,643
Investment items	(16,979)	-
Components of life reinsurance contract liabilities	60,131	46,988
Others	(2,143)	-
Unrecognised deferred tax asset	(12,956)	(40,284)
Total	34,822	11,347
Movements:		
Opening balance at 1 January	11,347	292
Set off of tax (note 19)	-	(55)
Debited to the statement of comprehensive income	2,423	11,119
Currency revaluation	106	(9)
Intercompany transfer	20,946	-
Closing balance at 31 December	34,822	11,347

16. Current liabilities – payables

	2012 $'000	2011 $'000
Amount due to ceding companies	40,483	42,726
Amount due to related retrocessionaire (note 32(e))	10,141	1,977
Amount due to related entities	3,576	2,755
Amount due to non-related retrocessionaires	170	-
GST payables	-	19
Sundry payables	118	251
Total	54,488	47,728

The amount due to related retrocessionaire represents the Company's net contractual rights under retrocession agreements with MR-AG. Refer note 32.

17. Current liabilities – provisions

	2012 $'000	2011 $'000
Outstanding claims	143,667	139,074
Non-resident withholding tax	2,215	1,544
Total	145,882	140,618

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 2012	139,074	1,544	140,618
Additional provisions recognised	327,052	2,021	329,073
Liabilities paid	(322,478)	(1,350)	(323,828)
Currency revaluation	19	-	19
Closing balance at 31 December 2012	143,667	2,215	145,882

18. Current liabilities – other

	2012 $'000	2011 $'000
Related retrocessionaire's share of unrealised gain on investments	-	15
Total	-	15

19. Non-current liabilities – deferred tax liabilities

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

	2012 $'000	2011 $'000
Accrued expense/(income)	-	-
Unrealised investment items	-	-
Other	-	-
Total	-	-
Movements:		
Opening balance at 1 January	-	55
Set off of tax (note 15)	-	(55)
Credited/(debited) to the statement of comprehensive income	-	-
Closing balance at 31 December	-	-

20. Life reinsurance contract liabilities

	2012 $'000	2011 $'000
Gross life reinsurance contract (assets)/liabilities		
Current	(20,296)	(2,634)
Non–current	893,839	784,416
Total	873,543	781,782
Life reinsurance contract liabilities assumed – see below (a) and (b)	873,543	781,782

(a) (i) Life reinsurance contract liabilities assumed

	2012 $'000	2011 $'000
Reinsured life reinsurance contract liabilities:		
Gross life reinsurance contract liabilities assumed	873,543	781,782
Gross life reinsurance contract liabilities ceded – note 14	(329,884)	(294,938)
Net life reinsurance contract liabilities	543,659	486,844

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

	2012 $'000	2011 $'000
Gross life reinsurance contract liabilities at 1 January	781,782	473,875
Increase in gross life reinsurance contract liabilities	89,038	308,037
Currency fluctuation in gross life reinsurance contract liabilities	2,723	(130)
Gross life reinsurance contract liabilities at 31 December	873,543	781,782
Retroceded life reinsurance contract liabilities at 1 January	294,938	177,716
Increase in retroceded life reinsurance contract liabilities	33,895	117,273
Currency fluctuation in retroceded life reinsurance contract liabilities	1,051	(51)
Retroceded life reinsurance contract liabilities at 31 December	329,884	294,938
Net life reinsurance contract liabilities at 1 January	486,844	296,159
Net increase in life reinsurance contract liabilities	55,143	190,764
Currency fluctuation in life reinsurance contract liabilities	1,672	(79)
Net life reinsurance contract liabilities at 31 December	543,659	486,844

(b) Components of life reinsurance contract liabilities

	2012 Current Basis $'000	2012 Previous basis $'000	2011 Previous basis $'000
Best estimate liability for non investment-linked business			
Value of future policy benefits	2,423,834	2,411,875	2,003,909
Value of future expenses	1,673,207	1,675,621	1,159,033
Value of future premiums	(3,696,932)	(3,717,253)	(2,816,437)
Total	400,109	370,243	346,505
Value of future profits for non investment-linked business			
Shareholder profit margins	143,550	171,083	140,339
Total	143,550	171,083	140,339
Net life reinsurance contract liabilities	543,659	541,326	486,844

21. Solvency and capital requirements

(a) Solvency requirements of the life statutory funds

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

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

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

	2012			2011		
	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	1,244,410	97,565	1,341,975	1,140,937	86,871	1,227,808
Represented by:						
Minimum termination value	703,148	41,817	744,965	636,573	34,922	671,495
Other liabilities	497,923	44,933	542,856	447,763	45,253	493,016
Solvency reserve	43,339	10,815	54,154	56,601	6,696	63,297
Total	1,244,410	97,565	1,341,975	1,140,937	86,871	1,227,808
Assets available for solvency reserve	149,736	13,867	163,603	109,877	11,387	121,264
Comprised as:						
(Deficit)/excess of net policy liability over minimum termination value	(204,170)	2,864	(201,306)	(184,349)	(300)	(184,649)
Net assets	353,906	11,003	364,909	294,226	11,687	305,913
Total	149,736	13,867	163,603	109,877	11,387	121,264
Solvency reserve %	3.6%	12.5%	4.2%	5.2%	8.4%	5.4%
Coverage of solvency reserve	3.46	1.28	3.02	1.94	1.70	1.92

(b) Capital requirements of the shareholder's fund

	Shareholder's Fund 2012 $'000	Shareholder's Fund 2011 $'000
Capital requirement	10,000	10,000
Being the greater of:		
Management capital reserve		
Determined as:		
Management capital requirement	285	356
Less: Total liabilities	(279)	(344)
	6	12
And		
Minimum capital requirement	10,000	10,000
Assets available for capital requirements	13,649	13,113
Management capital reserve %	2.2%	3.5%
Coverage of capital requirement	1.4	1.3

The methodology for calculating the company's statutory capital requirements changed from 1 January 2013 in order to comply with APRA's new capital standards (LAGIC) which take effect from this date.

22. Non-current liabilities – other

	2012 $'000	2011 $'000
Deposit retained from related retrocessionaire	342,325	302,118
Related retrocessionaire's share of unrealised gain on investments	15,338	12,655
Total	357,663	314,773

23. Non-current liabilities – payables

	2012 $'000	2011 $'000
Amount due to ceding companies	845	642
Total	845	642

24. Share capital

	2012 $'000	2011 $'000
Authorised and issued capital of 29,000,000 (2011: 210,000,000) ordinary shares		
Balance at 1 January	260,000	50,000
Issue of ordinary shares	29,000	210,000
Balance at 31 December	289,000	260,000

During the year ended 31 December 2012, the Company's parent entity increased its investment through the purchase of 29,000,000 fully paid ordinary shares for a total cost of $29,000,000. (2011: MHA increased its investment through the purchase of 210,000,000 fully paid ordinary shares for a total cost of $210,000,000).

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

	2012 Statutory Funds $'000	2012 Shareholder's Fund $'000	2012 Total $'000	2011 Statutory Funds $'000	2011 Shareholder's Fund $'000	2011 Total $'000
Net profit for the year	29,518	536	30,054	(89,959)	763	(89,196)
Retained profit at 1 January	30,605	32,583	63,188	119,764	32,620	152,384
Transfers between funds	-	-	-	800	(800)	-
Retained profit at 31 December (overseas and non-participating)	60,123	33,119	93,242	30,605	32,583	63,188
Foreign currency translation reserve at 1 January	(3,295)	(867)	(4,162)	(3,395)	(867)	(4,262)
Movement during the year	478	-	478	100	-	100
Foreign currency translation reserve at 31 December	(2,817)	(867)	(3,684)	(3,295)	(867)	(4,162)
Issued share capital at 1 January	-	260,000	260,000	-	50,000	50,000
Movement during the year (note 24)	-	29,000	29,000	-	210,000	210,000
Issued share capital at 31 December	-	289,000	289,000	-	260,000	260,000
Capital transfers to statutory funds	307,603	(307,603)	-	278,603	(278,603)	-
Shareholder's equity	364,909	13,649	378,558	305,913	13,113	319,026

26. Dividends

No dividend was paid for the year ended 31 December 2012 to MHA (2011: nil).

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

27. Remuneration of auditors

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

	2012 $	2011 $
(a) Audit and assurance services		
KPMG Australia:		
Audit and review of financial reports under the Corporations Act 2001	310,805	303,775
Total remuneration for audit and assurance services	310,805	303,775
(b) Advisory services		
KPMG Australia:		
Review of group life experience study report	6,400	2,900
Review of embedded value report	78,396	60,303
Advice on projects	-	89,780
Lump sum experience investigation	40,702	-
Total remuneration for advisory services	125,498	152,983
Total	436,303	456,758

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

28. Directors' disclosure

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

(i) Chairman – non-executive

E G Tollifson

(ii) Executive Director

A H Eder

(iii) Non-executive Directors

R Eckl
B Edwards (Appointed 16 May 2012)
A Rear
O Shub
J B Shewan

29. Contingencies

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

30. 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.

31. Events occurring after the balance sheet date

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

32. Related party transactions

(a) Parent entities

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

(b) Directors

Disclosures relating to Directors are set out in note 28.

A director, J B Shewan, was a partner of PricewaterhouseCoopers in New Zealand until 30 June 2012. PricewaterhouseCoopers has provided taxation services to related entities during the year on normal commercial terms and conditions, and at market rates.

32. Related party transactions (continued)

(c) Key management personnel compensation

	2012 $	2011 $
Short term employee benefits	1,286,040	1,196,393
Post employment benefits	368,198	150,807
Total	1,654,238	1,347,200

The payments were effected by MHA.

(d) Transactions with related parties

The following transactions occurred with related parties:

	2012 $	2011 $
Transactions in respect of retrocession of reinsurance contracts with:		
MR-AG	104,178,557	(121,604,698)
Transactions on normal commercial terms and conditions with:		
MHA in respect of:		
i) recharges of expenses incurred by the Company.	23,028,521	21,328,603
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)).	(18,602,013)	34,598,989
MR-AG in relation to tax loss transfer	(1,900,497)	(2,566,761)
Commonly controlled entity in respect of :		
Recharges of expenses incurred by the Company's New Zealand branch	110,258	104,667
Capital injection received from:		
MHA – note 24	29,000,000	210,000,000

(e) Outstanding balances

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

	2012 $	2011 $
Current (payables) in respect of retrocession of reinsurance contracts with:		
MR-AG	(10,140,926)	(1,977,106)
Current receivables in respect of retrocession of reinsurance contracts with:		
MR-AG	-	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:		
MHA	4,458,982	26,962,679
MR-AG	(3,274,262)	(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).

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

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

	2012 $'000	2011 $'000
Profit/(loss) from operating activities after income tax	30,054	(89,196)
Movements in:		
Outstanding premiums due from ceding companies	(22,314)	(10,711)
Trade debtors	(15,705)	(2,491)
Trade creditors	(2,356)	4,873
Other retrocession debtors/creditors	(218)	(551)
Related entities	23,200	(32,016)
Retrocessionaires' current account	101,688	(134,313)
Sundry debtors	(37)	(145)
Sundry creditors	(134)	113
GST – acquisitions	(53)	(304)
Income tax receivable/payable	290	-
Deferred taxes	(23,369)	(11,119)
Provision for non resident withholding tax	859	331
Technical provisions	61,640	236,355
Deposit retained from related retrocessionaire	34,091	118,287
Deposit retained by cedants	(8,084)	(5,892)
Adjustments for:		
Gain on revaluation of investments	(26,639)	(55,265)
Investment revenue	(54,938)	(43,326)
Investment expense	992	670
Net cash flows from operating activities	98,967	(24,700)

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

	2012 $'000	2011 $'000
Cash	4,069	3,372
Deposits at call	30,577	14,347
Balances per statement of cash flows	34,646	17,719

34. Disaggregated information of life insurance business by fund

	Australian Statutory Fund No. 1 2012	New Zealand Statutory Fund No. 2 2012	Shareholder's Fund 2012	Total 2012	Australian Statutory Fund No. 1 2011	New Zealand Statutory Fund No. 2 2011	Shareholder's Fund 2011	Total 2011
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Other financial assets	1,087,952	72,518	12,818	1,173,288	898,458	69,905	12,842	981,205
Other assets	262,855	28,134	1,019	292,008	295,711	21,901	458	318,070
Retrocessionaires' share of life reinsurance contract liabilities	303,748	26,136	-	329,884	272,016	22,922	-	294,938
Life reinsurance contract liabilities	(802,725)	(70,817)	-	(873,543)	(724,239)	(57,543)	-	(781,782)
Other liabilities	(497,923)	(44,968)	(188)	(543,079)	(447,719)	(45,497)	(189)	(493,405)
Retained earnings	63,346	(3,223)	33,119	93,242	29,906	699	32,583	63,188
Net premium revenue	391,540	25,125	-	416,665	332,582	23,495	-	356,077
Investment revenue	70,104	3,573	688	74,365	76,670	7,805	1,214	85,689
Other Income	1,003	-	-	1,003	-	-	-	-
Net claims expense	(146,149)	(16,116)	-	(162,265)	(53,724)	(12,892)	-	(66,616)
Other operating expenses	(286,111)	(17,650)	(23)	(303,784)	(479,628)	(16,063)	(23)	(495,714)
Profit/(loss) before tax	30,387	(5,068)	665	25,984	(124,100)	2,345	1,191	(120,564)
Profit/(loss) after tax	33,440	(3,922)	536	30,054	(91,153)	1,194	763	(89,196)
Transfers between funds	-	-	-	-	(10,500)	9,700	800	-
Capital transfers to statutory funds	290,561	17,042	(307,603)	-	264,321	14,282	(278,603)	-

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 2012 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 26 March 2013 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 2012, 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 34 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 statements comply 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 2012 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

P Ruiz
Partner

Sydney

26 March 2013