

**Munich Reinsurance Company of Australasia
Limited – New Zealand Branch
Annual Financial Report
31 December 2013**

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

Munich Reinsurance Company of Australasia Limited – New Zealand Branch

Statement on Corporate Governance

Munich Reinsurance Company of Australasia Limited (MRA) is an Australian company which operates in New Zealand through a branch. MRA is authorised by the Australian Prudential Regulation Authority to conduct life insurance business in Australia. The Company is also authorised by the Reserve Bank of New Zealand to conduct life reinsurance business in New Zealand.

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

- a) approve and monitor the Company's corporate strategies;
- b) ensure best practice corporate governance;
- c) monitor the performance of the Company's management;
- d) adopt appropriate risk management systems, internal control and reporting systems and compliance frameworks and monitor their operation;
- e) approve the Company's financial results, including those of the New Zealand branch;
- f) approve decisions concerning the Company's capital, including capital restructure, and dividend policy;
- g) monitor compliance with the reporting and other requirements of the Corporations Act, Life Insurance Act and other applicable legislation, including legislation concerning the New Zealand Branch; and
- h) review the preparation of financial reports and statements, including those of the New Zealand branch.

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

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

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

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

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

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

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

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

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

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Statement of Comprehensive Income for the year ended 31 December 2013

	Note	2013 \$'000	2012 \$'000
Revenue from operating activities	5	64,916	72,996
Expenses from operating activities	6(b)	(60,168)	(78,121)
Finance costs	6(c)	(1,316)	(1,354)
Profit/(loss) before tax		3,432	(6,479)
Income tax (expense)/benefit	8(a)	(1,145)	1,465
Total comprehensive income/(expense) for the year		2,287	(5,014)

The Statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 7 to 27.

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Statement of Financial Position as at 31 December 2013

	Note	2013 \$'000	2012 \$'000
Current assets			
Cash and cash equivalents	9	3,037	3,684
Outstanding premiums	10	18,024	24,670
Receivables	11	2,981	2,439
Other financial assets	12	-	536
Retrocessionaires' share of life reinsurance contract liabilities	14	340	546
Other	13	372	92
Total current assets		24,754	31,967
Non-current assets			
Other financial assets	12	107,820	90,721
Retrocessionaires' share of life reinsurance contract liabilities	14	30,092	32,344
Deferred tax assets	15	3,737	4,611
Other	16	338	1,683
Total non-current assets		141,987	129,359
Total assets		166,741	161,326
Current liabilities			
Payables	17	18,765	13,243
Provisions	18	13,656	11,291
Life reinsurance contract liabilities	19	544	3,418
Other	21	-	288
Retrocessionaires' share of life reinsurance contract liabilities	14	372	-
Income tax payable	8(c)	271	-
Total current liabilities		33,608	28,240
Non-current liabilities			
Life reinsurance contract liabilities	19	80,110	85,699
Other	22	27,819	33,505
Payables	23	3	36
Total non-current liabilities		107,932	119,240
Total liabilities		141,540	147,480
Net assets		25,201	13,846
Equity			
Capital reserves	25	26,872	19,000
Retained profits	25	(1,671)	(5,154)
Total equity		25,201	13,846

The Statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 7 to 27.

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Statement of Changes in Equity for the year ended 31 December 2013

	Note	Capital reserve \$'000	Retained profits \$'000	Total \$'000
Balance at 1 January 2012		15,500	(140)	15,360
Total comprehensive income for the year				
(Loss) after tax for the year		-	(5,014)	(5,014)
Transfer to the shareholder's fund		3,500	-	3,500
Balance at 31 December 2012	25	19,000	(5,154)	13,846
Total comprehensive income for the year				
Profit after tax for the year		-	2,287	2,287
Transfer from the shareholder's fund		7,872	1,196	9,068
Balance at 31 December 2013	25	26,872	(1,671)	25,201

The Statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 7 to 27.

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Statement of Cash Flows for the year ended 31 December 2013

	Note	2013 \$'000	2012 \$'000
Cash flows from operating activities			
Treaty reinsurance		16,634	2,222
Retrocession paid		587	(3,745)
Income tax paid		(4,716)	(77)
Management and administrative expenses paid		(2,773)	(3,652)
Other income		19	-
Net cash from operating activities	33(a)	9,751	(5,252)
Cash flows from investing activities			
Interest received		4,865	4,032
Payments for investments		(46,682)	(36,714)
Proceeds from sale of investments		22,368	37,774
Investment expense		(17)	(57)
Net cash from investing activities		(19,466)	5,035
Cash flows from financing activities			
Transfer from the shareholder's fund		9,068	3,500
Net cash from financing activities		9,068	3,500
Net (decrease)/increase in cash held		(647)	3,283
Cash and cash equivalents at 1 January		3,684	401
Cash and cash equivalents at 31 December	33(b)	3,037	3,684

The Statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 7 to 27.

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2013

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 2013 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 2014.

(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, which is the Branch's presentation and functional currency.

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

Adoption of new standards and changes in accounting policies

The following accounting standards and interpretation has been adopted by the Branch for the financial year ended 31 December 2013.

- NZ IFRS 13 Fair Value Measurement

An assessment of the impact of the standard is set out below:

NZ IFRS 13 Fair Value Measurement establishes a single source of guidance under New Zealand Accounting Standards for determining the fair value of assets and liabilities. NZ IFRS 13 does not change when the Branch is required to use fair value but rather provides guidance on how to determine fair value when fair value is required or permitted. NZ IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. There was no impact to the Branch's financial performance or financial position on adoption of this standard.

The following accounting standard and interpretation was issued but is not yet mandatory and has not been adopted by the Branch for the financial year ended 31 December 2013. An assessment of the impact of the new standard is set out below:

NZ IFRS 9 Financial Instruments includes requirements for the classification, measurement and de-recognition of financial assets and financial liabilities replacing the requirements in NZ IAS 139 Financial Instruments: Recognition and Measurement. The IASB has deferred the application date of IFRS 9 until 1 January 2015. Retrospective application is generally required, although there are exceptions. As the Branch currently classifies its financial assets at fair value through the profit and loss, no material impact is expected on the Branch's financial performance or financial position on adoption of this standard, however, the Branch continues to monitor the impact of this standard.

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

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

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

The accounting policies have been applied consistently by the Branch.

(c) Principles for life insurance business

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

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

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

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2013

1. Summary of significant accounting policies (continued)

(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.

(g) Retrocession expense

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

(h) Retrocession and other recoveries

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

(i) Foreign currency translation

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

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

(j) Income tax

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

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

(k) Allocation and distribution of profit of statutory fund

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

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

(l) Expense apportionment

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

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

- (i) Direct expenses, e.g. premium rebates are allocated to the products to which they relate.
- (ii) Indirect expenses are allocated on the basis of net revenue received taking into account that the expenses per product line are not of equal weighting.

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2013

1. Summary of significant accounting policies (continued)

(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:

- 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.

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2013

2. Critical accounting estimates and judgements (continued)

(a) Life reinsurance contract liabilities (continued)

- Discontinuance experience, which affects the Branch's ability to recover the cost of acquiring new business over the lives of the contracts.
- Data supplied by ceding companies in relation to the underlying policies being reinsured.
- The discount rate and inflation assumption applied to calculate the present value of future benefits.
- The historic delay pattern in the time taken between the date claims are incurred and the date they are notified to the Branch.

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

(b) Premium, claims and experience refund provisions

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

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

The methodology used to 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 2013. 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, unrecovered 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. 2013: 3.0% - 5.5% p.a. (2012: 2.6% - 4.0% p.a.)
Maintenance expenses	The allowance for future expenses is a percentage of inforce premiums based on the Branch's planned expenses in 2014.
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. 2013: 2.75% p.a. (2012: 2.75% p.a.)
Voluntary discontinuance	The Branch's own experience. 2013: 4.25% - 26.91% p.a. (2012: 4.25% - 16.0% p.a.)
Surrender values	Ceding company values.

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2013

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

(b) Actuarial assumptions (continued)

Mortality & morbidity	<p>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.</p> <p>2013: 50% - 105% 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. 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.</p>
IBNR	<p>Allowance was made for inherent delays in reporting claims based on investigations into the Branch's own recent experience.</p> <p>2012 and 2013: IBNR determined using an adjusted chain-ladder method.</p>

(c) Effects of changes in actuarial assumptions

Assumption category	31 December 2012 to 31 December 2013	
	Effect on net profit margins	Effect on net life reinsurance contract liabilities
	\$'000 increase / (decrease)	\$'000 increase / (decrease)
Discount rates & inflation	(1,937)	(4,574)
Mortality and Morbidity	(5,494)	(2,641)
Voluntary discontinuance	(1,357)	(341)
Total	(8,788)	(7,556)

(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 limits the exposure of the Branch to a minimum of the Standard & Poor's rating of A-. In most cases, if the rating of a security within the portfolio falls below A- it will be sold within three months. In some instances the security will be maintained within the portfolio 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.

	Note	Carrying amount	
		2013 \$'000	2012 \$'000
Cash and cash equivalents	9	3,037	3,684
Other financial assets at fair value through profit or loss			
- Debt securities	12	107,820	91,257
Amount due from ceding companies in respect of outstanding premium	10	18,024	24,670
Receivables	11	2,981	2,439
Retrocessionaires' share of life reinsurance contract liabilities	14	30,432	32,890
Related retrocessionaire's share of unrealised loss on investments	13 & 16	338	1,775
Deposit retained from related retrocessionaire	13	372	-
Total		163,004	156,715
No financial assets are either past due or impaired.			
Grade 1-3 (Standard & Poor's A- to AAA)		162,734	156,487
Grade 4-5 (Unrated or Standard & Poor's BB+ to BBB+)		270	228
Total		163,004	156,715

All financial assets carried at fair value through profit or loss are categorised as level 1 of the fair value measurement hierarchy. The fair value of level 1 financial assets are measured by using quoted prices (unadjusted) in active markets for identical assets. 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
2013				
Amount due to ceding companies	11,647	3	-	11,650
Amount due to related retrocessionaire	6,425	-	-	6,425
Amount due to non-related retrocessionaire	195	-	-	195
Outstanding claims	13,244	-	-	13,244
Non-resident withholding tax	412	-	-	412
Life reinsurance contract liabilities	544	20,202	59,908	80,654
Deposit retained from related retrocessionaire	-	6,148	21,671	27,819
Retrocessionaire's share of life reinsurance contract liabilities	372	-	-	372
Sundry payables	12	-	-	12
GST payable	486	-	-	486
Income tax payable	271	-	-	271
Total	33,608	26,353	81,579	141,540
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

(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.

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2013

4. Risk management policies and procedures (continued)

(a) Financial risks (continued)

(iii) Market risk (continued)

Ignoring taxation impacts, at 31 December 2013, an increase in interest rates of 100 basis points would increase profit and equity by \$850,000. A corresponding decrease of 100 basis points would decrease profit and equity by \$412,000.

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:----			Total \$'000
			Up to 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	
2013						
Cash	2.05%	1,207	-	-	-	1,207
Deposits at call	2.50%	1,830	-	-	-	1,830
Investments						
Government bonds	5.37%	-	-	15,902	91,918	107,820
Total		3,037	-	15,902	91,918	110,857
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

Currency risk

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

Other price risk

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

(b) Capital management

(i) Regulatory capital

Under the Life (Prudential Supervision) Act 2010, MRA was issued with a full licence by the Reserve Bank of New Zealand in 2013. In accordance with the Act, it is the licensed entity, MRA, and not the Branch that must comply with the solvency requirements.

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

The amount of capital required to be held by the Branch is based primarily upon the regulatory capital requirements and buffer capital policy. In order to minimise the risk of breaching the regulatory capital requirements, the level of capital held by the Branch is regularly monitored relative to a MRA Board approved ICAAP (with effect from 1 January 2013). It also takes into account the longer term strategic objectives of its ultimate parent company Münchener Rückversicherungs-Gesellschaft (MR-AG) in order to maximise shareholder value.

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

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2013

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, other than the introduction of ICAAP as noted above. 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 2013. The ratings help to reflect the financial strength of the Branch and demonstrates to stakeholders the ability to pay claims for the long term.

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

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

Portfolio of risks

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

Risk management strategy

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

Exposure to risk

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

Management reporting

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

Retrocessions

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

Underwriting and claims management procedures

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

(d) Terms and conditions of reinsurance contracts

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

Type of contract	Detail of contract workings	Nature of compensation for claims	Key variables that affect the timing and uncertainty of future cash flows
Non-participating life reinsurance contracts with fixed and guaranteed terms	Guaranteed benefits paid on death, survival or disability that are fixed and guaranteed and not at the discretion of the issuer	Benefits, defined by the reinsurance contract, are determined by the contract and are not directly affected by the performance of underlying assets or the performance of the contracts as a whole.	Mortality Morbidity Market earning rates Interest rates Discontinuance rates Expenses
<ul style="list-style-type: none"> Term life Disability (income and lump sum) Catastrophe Medical expenses 			

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2013

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.

	2013 \$'000	2012 \$'000
Net claims incurred		
Expected	32,901	26,865
Actual	30,573	28,666

5. Revenue from operating activities

Reinsurance revenue

Reinsurance premium revenue	47,572	52,863
Retrocession recoveries from reinsurance contracts	12,237	15,563
Total reinsurance revenue	59,809	68,426

Investment revenue

Interest	5,088	4,288
Net realised and unrealised gains	-	282
Foreign exchange gains	19	-
Total investment revenue	5,107	4,570

Total revenue from operating activities	64,916	72,996
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Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2013

	2013 \$'000	2012 \$'000
6. Expenses from operating activities		
(a) Claims expense		
Gross reinsurance claims expense	37,735	36,168
(b) Other expenses		
Retrocession premium expense	19,568	20,739
Movement in life reinsurance contract liabilities	(8,463)	13,492
Policy acquisition costs		
Rebate	845	1,706
Other costs	266	332
Total policy acquisition costs	1,111	2,038
Policy maintenance costs		
Rebate	2,686	3,462
Other costs	2,034	2,164
Total policy maintenance costs	4,720	5,626
Investment expense	17	57
Net realised and unrealised loss	5,480	-
Foreign exchange losses	-	1
Total	5,497	58
Total other expenses	22,433	41,953
Total expenses from operating activities	60,168	78,121
(c) Finance costs		
Interest payable on deposit retained from related retrocessionaire	1,316	1,354
Total claims, other expenses & finance costs	61,484	79,475
7. Operating profit		
Sources of shareholder's operating profit of statutory fund		
Operating profit after income tax arose from:		
Components of shareholder's profit related to movement in life reinsurance contract liabilities (non investment-linked business)		
• Planned margins of revenues over expenses released	1,862	1,605
• Experience (loss)	(747)	(5,623)
• (Capitalisation of expected future losses)/reversal of capitalised losses	1,673	(1,449)
• Investment earnings on assets in excess of life reinsurance contract liabilities	(501)	453
Operating profit /(loss) after income tax of statutory fund (note 25)	2,287	(5,014)

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2013

	2013 \$'000	2012 \$'000
8. Income tax		
(a) Income tax expense		
Current taxes – current year	-	890
Deferred taxes – current year	1,288	(2,355)
Under provision in prior year – current tax	271	4
Over provision in prior year – deferred tax	(414)	(4)
Income tax expense/(benefit)	<u>1,145</u>	<u>(1,465)</u>
(b) Reconciliation of prima facie tax payable to income tax expense		
Profit/(loss)/ from operating activities before income tax	<u>3,432</u>	<u>(6,479)</u>
Prima facie tax payable at 28%	961	(1,814)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenses	478	500
Non-assessable items	(151)	(151)
Over provision in prior year	(143)	-
Income tax expense/(benefit)	<u>1,145</u>	<u>(1,465)</u>
(c) Income tax payable		
Opening balance at 1 January	-	626
Additional provisions recognised - current year	-	(890)
Additional provision recognised – prior year	(271)	-
Transfer of tax credits	-	890
Settlement of receivable	-	(626)
Closing balance at 31 December	<u>(271)</u>	<u>-</u>
9. Current assets – cash and cash equivalents		
Cash at bank	1,207	1,134
Deposits at call	<u>1,830</u>	<u>2,550</u>
Total	<u>3,037</u>	<u>3,684</u>
(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 (2012: 1.95% to 2.25% p.a.).		
(b) Deposits at call		
The deposits at call are bearing floating interest rates at 2.50% p.a. during the financial year (2012: 2.50% to 2.50% p.a.).		
10. Current assets – outstanding premiums	2013 \$'000	2012 \$'000
Amount due from ceding companies	<u>18,024</u>	<u>24,670</u>
11. Current assets – receivables		
Recoveries due from non-related retrocessionaire	219	171
Amount due from ceding companies	1,684	1,399
Accrued income	1,048	825
GST receivable	-	44
Sundry debtors	<u>30</u>	<u>-</u>
Total	<u>2,981</u>	<u>2,439</u>

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2013

2013
\$'000

2012
\$'000

12. Other financial assets

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

Debt securities – unsecured, including bills of exchange	107,820	91,257
Total other financial assets – fair value through profit or loss	107,820	91,257
Current other financial assets	-	536
Non-current other financial assets	107,820	90,721
Total other financial assets – fair value through profit or loss	107,820	91,257

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.

2013
\$'000

2012
\$'000

13. Current assets – others

Accrual of related retrocessionaire's share of unrealised loss on investments
Deposit retained to related retrocessionaire

-	92
372	-
372	92

14. Retrocessionaires' share of life reinsurance contract liabilities

Current

Recoveries due (to)/from related retrocessionaire in respect of life reinsurance contract liabilities	(372)	288
Recoveries due from non-related retrocessionaire in respect of life reinsurance contract liabilities	340	258
Total	(32)	546

Non-current

Recoveries due from related retrocessionaire in respect of life reinsurance contract liabilities	27,819	29,814
Recoveries due from non-related retrocessionaire in respect of life reinsurance contract liabilities	2,273	2,530
Total	30,092	32,344

Total

Recoveries due from related retrocessionaire in respect of life reinsurance contract liabilities	27,447	30,101
Recoveries due from non-related retrocessionaire in respect of life reinsurance contract liabilities	2,613	2,789
Total – note 19(a)(i)	30,060	32,890

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2013

	2013 \$'000	2012 \$'000
15. Non-current assets – deferred tax asset		
Deferred tax asset relates to timing differences and comprises the tax effect of the following amounts recognised in the profit or loss:		
Accrued expenses	254	889
Components of life reinsurance contract liabilities	718	3,722
Other	(9)	-
Unused tax losses	2,774	-
Deferred tax asset	<u>3,737</u>	<u>4,611</u>
Movements:		
Opening balance at 1 January	4,611	2,256
Charged to the statement of comprehensive income	<u>(874)</u>	<u>2,355</u>
Closing balance at 31 December	<u>3,737</u>	<u>4,611</u>

16. Non-current assets – others

Accrual of related retrocessionaire's share of unrealised loss on investments

	<u>338</u>	<u>1,683</u>
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17. Current liabilities – payables

Amount due to ceding companies	11,647	7,709
Amount due to related retrocessionaire (refer note 32(e))	6,425	1,045
Amount due to non-related retrocessionaire	195	215
Amount due to related entities (refer note 32(e))	-	4,264
GST payables	486	-
Sundry payables	<u>12</u>	<u>10</u>
Total	<u>18,765</u>	<u>13,243</u>

The amount due to the related retrocessionaire represents the Branch's net contractual rights under retrocession agreements with MR-AG (refer note 32).

2013 \$'000	2012 \$'000
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18. Current liabilities – provisions

Outstanding claims	13,244	11,099
Non-resident withholding tax	<u>412</u>	<u>192</u>
Total	<u>13,656</u>	<u>11,291</u>

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 2013	11,099	192	11,291
Additional provisions recognised	37,735	412	38,147
Liabilities paid	<u>(35,590)</u>	<u>(192)</u>	<u>(35,782)</u>
Closing balance at 31 December 2013	<u>13,244</u>	<u>412</u>	<u>13,656</u>

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2013

	2013 \$'000	2012 \$'000
19. Life reinsurance contract liabilities		
Gross life reinsurance contract liabilities		
Current	544	3,418
Non-current	80,110	85,699
Total Gross life reinsurance contract liabilities assumed – see below (a) and (b)	80,654	89,117

(a) (i) Life reinsurance contract liabilities assumed

Reinsured life reinsurance contract liabilities:		
Gross life reinsurance contract liabilities assumed	80,654	89,117
Gross life reinsurance contract liabilities ceded – note 14	(30,060)	(32,890)
Net life reinsurance contract liabilities	50,594	56,227

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

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

Opening balance gross life reinsurance contract liabilities at 1 January	89,117	75,625
(Decrease)/increase in gross life reinsurance contract liabilities	(8,463)	13,492
Closing balance gross life reinsurance contract liabilities at 31 December	80,654	89,117
Opening balance retroceded life reinsurance contract liabilities at 1 January	32,890	30,125
(Decrease)/increase in retroceded life reinsurance contract liabilities	(2,830)	2,765
Closing balance retroceded life reinsurance contract liabilities at 31 December	30,060	32,890
Opening balance net life reinsurance contract liabilities at 1 January	56,227	45,500
(Decrease)/increase in net life reinsurance contract liabilities	(5,633)	10,727
Closing balance net life reinsurance contract liabilities at 31 December	50,594	56,227

2013 Current basis \$'000	2013 Previous basis \$'000	2012 \$'000
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(b) Components of net life reinsurance contract liabilities

Best estimate liability for non investment-linked business			
Value of future policy benefits	283,053	284,162	283,240
Value of future expenses	49,615	54,415	55,449
Value of future premiums	(302,236)	(312,015)	(310,351)
Total	30,432	26,562	28,338
Value of future profits for non investment-linked business			
Shareholder profit margins	20,162	27,014	27,889
Net life reinsurance contract liabilities	50,594	53,576	56,227

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

The 2013 "Previous Basis" has been determined using the 2012 non-economic assumptions and 2013 economic assumptions.

Munich Reinsurance Company of Australasia Limited – New Zealand Branch

Notes to the financial statements for the year ended 31 December 2013

20. Solvency requirement of the life statutory fund

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

The Branch determines capital requirements in accordance with APRA's LPS110 which prescribes the minimum capital requirement for the statutory fund and the minimum level of assets required to be held in the statutory fund. The Capital Adequacy multiple in the table below show the number of times there is coverage for the Branch representing the excess assets available over the prescribed capital amount.

	2013 \$'000
Capital Base	
Net Assets as per Life Insurance Act	22,809
Total regulatory adjustments to net assets	25,201
Tier 2 capital	2,392
Total regulatory adjustments to Tier 2 capital	-
Total capital base (A)	<u>22,809</u>
Prescribed capital	
Insurance risk capital; charge	10,872
Asset risk capital charge	4,818
Asset concentration risk charge	-
Operational risk charge	985
Less aggregation benefit	(2,948)
Combined stress scenario adjustment	2,918
Total Prescribed capital amount (PCA) (B)	<u>16,645</u>
Capital adequacy multiple (A/B)	<u>1.37</u>

Prior to 1 January 2013, Life insurers were required to hold prudential reserves based on the greater of the requirements under solvency and capital adequacy standards. These were specified in the Life Insurance Act 1995, the previous LPS 2.04 Solvency Standard and LPS 3.01 Capital adequacy Standard. In the prior financial year, the solvency requirements and the ratios in respect of those requirements were as follows:

	2012 \$'000
Solvency requirement	122,775
Represented by:	
Minimum termination value	52,623
Other liabilities	56,544
Solvency reserve	13,608
Total	<u>122,775</u>
Assets available for solvency reserve	17,450
Comprised as:	
Excess of net policy liability over minimum termination value	3,604
Net assets	13,846
Total	<u>17,450</u>
Solvency reserve %	12.5%
Coverage of solvency reserve	1.28

2013	2012
\$'000	\$'000

21. Current liabilities - other

Deposit retained from related retrocessionaire	-	288
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22. Non-current liabilities – other

Accrual of related retrocessionaire's share of unrealised gains on investments	-	3,692
Deposit retained from related retrocessionaire	27,819	29,813
	<u>27,819</u>	<u>33,505</u>

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2013

2013 2012
\$'000 \$'000

23. Non-current liabilities – payables

Amount due to ceding companies

3 36

24. Determination of fair values

(a) Fair value hierarchy

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

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

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

(b) Recognised fair value measurements

As at 31 December 2013, the Branch held the following classes of assets and liabilities measured at fair value:

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Debt securities	107,820	-	-	107,820
Deposit retained from related retrocessionaire	372	-	-	372
Total	108,192	-	-	108,192
Financial liabilities				
Deposit retained from related retrocessionaire	27,819	-	-	27,819
Total	27,819	-	-	27,819

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

(c) Fair values vs carrying amounts

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

	Note	2013		2012	
		Carrying value \$'000	Fair value \$'000	Carrying value \$'000	Fair value \$'000
Financial assets					
Cash and cash equivalents	9	3,037	3,037	3,684	3,684
Debt securities – unsecured	12(a)	107,820	107,820	91,257	91,257
Deposit retained from related retrocessionaire	13	372	372	-	-
Total		111,229	111,229	94,941	94,941
Financial liabilities					
Deposit retained from related retrocessionaire	22	27,819	27,819	30,101	30,101

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2013

	2013 \$'000	2012 \$'000
25. Reserves and retained profits		
Summary of shareholder's interests		
Net profit/(loss) for the year	2,287	(5,014)
Retained loss at 1 January	(5,154)	(140)
Transfer from Shareholders Fund	1,196	-
Retained loss at 31 December (overseas and non-participating)	(1,671)	(5,154)
Capital reserve	26,872	19,000
Shareholder's equity	25,201	13,846

26. Dividends

No dividend was paid for the year ended 31 December 2013. (2012: nil).

27. 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:

	2013 \$	2012 \$
KPMG Australia:		
Audit and review of financial reports under the Companies Act 1993	21,574	29,347
Total remuneration for audit services	21,574	29,347

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

28. Directors' disclosure

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

(i) Chairman – non-executive - independent

E G Tollifson

Other Directorships

- Genworth Financial Mortgage Insurance Pty Limited
- Genworth Financial Mortgage Insurance Holdings Pty Limited
- Genworth Financial Mortgage Indemnity Limited
- Genworth Financial Mortgage Insurance Australia Pty Limited
- RAC Insurance Pty Limited
- Campus Living Funds Management Limited

Advisory Board Member

- Salvos Youth Foundation

Chairman

- Munich Holdings of Australasia Pty Limited
- Corion Pty Limited

(ii) Executive Director

A H Eder

Other Directorships

- Insurance Council of Australia Limited
- The Insurance Institute of Australia and New Zealand
- Corion Pty Limited
- Rural Affinity Insurance Agency Pty Ltd
- DAS Legal Protection Pty Ltd
- Munichre New Zealand Service Limited

(iii) Non-executive Directors

R Eckl

Other Directorships

- Munich Holdings of Australasia Pty Limited
- Corion Pty Limited
- Rural Affinity Insurance Agency Pty Ltd
- Munichre New Zealand Service Limited

B Edwards - independent

Other Directorships

- Munich Holdings of Australasia Pty Limited
- Corion Pty Ltd
- A.L.I. Group Pty Ltd
- ClearView Wealth Limited (Group)

A Rear

Other Directorships and positions held

Director

- Munich Holdings of Australasia Pty Limited
- Munich Reinsurance Company of Africa Limited
- Munich Re Life and Health (UK) Plc

Chairman

- Munichre UK Services Limited
- Munich Re Automation Solutions Limited
- Group Risk Services Limited

J B Shewan - independent

Other Directorships and positions held

Director

- Munich Holdings of Australasia Pty Limited
- Corion Pty Ltd

Chairman

- Munichre New Zealand Service Limited
- Wellington Regional Stadium Trust
- Fonterra Shareholders' Fund

Deputy Chairman

- Partnership Schools Authorisation Board

O Shub - independent

Other Directorships and positions held

Director

- Munich Reinsurance Company of Australasia Limited (MRA)
- Munich Holdings of Australasia Pty Limited (MHA)
- Corion Pty Ltd
- Oz Harvest

Member

- NSW Civil and Administrative Tribunal (NCAT)
- Superannuation Complaints Tribunal

29. Contingencies

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

30. 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.

31. Events occurring after the balance sheet date

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

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2013

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.

	2013 \$	2012 \$
(c) Key management personnel compensation		
Short term employee benefits	103,478	102,694
Post employment benefits	27,875	48,321
Total	131,353	151,015

(d) Transactions with related parties

The following transactions occurred with related parties:

Transactions in respect of retrocession of reinsurance contracts with: MR-AG	3,454,766	(1,468,742)
Transactions in respect of recharges of expenses incurred by the Branch with: MHA	3,023,610	3,363,227
Other related entities	201,830	140,969
Transaction in respect of transfer from the shareholder's fund to the New Zealand statutory fund	9,068,243	3,500,000
Transactions in respect of expenses paid on behalf of the Branch by: MRA	17,073	55,523
Transactions in respect of transfer of tax losses from: MR-AG	260,374	2,429,861

(e) Outstanding balances

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

Current payables in respect of retrocession of reinsurance contracts	(6,425,187)	(1,044,913)
Current (payables)/receivables in respect of GST liabilities	(486,058)	43,998
Current payables in respect of transfer of tax losses	-	(4,263,683)

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

(f) Guarantees

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

(g) Terms and conditions

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

Outstanding balances are unsecured and are repayable in cash.

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2013

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

	2013 \$'000	2012 \$'000
(a) Reconciliation of profit after income tax to the net cash flows from operating activities:		
Profit/(loss) from operating activities after income tax	2,287	(5,014)
<i>Movements in:</i>		
Trade debtors	(285)	1,640
Outstanding premiums due from ceding companies	6,646	(2,736)
Trade creditors	3,905	(2,646)
Retrocessionaires' current account	3,125	(1,732)
Other retrocession debtors / creditors	(68)	3
GST - acquisitions	530	(69)
Provision for tax	271	371
Related entities	(4,264)	890
Provision for non-resident withholding tax	220	7
Deferred taxes	874	(2,356)
Gross policy liabilities	(8,463)	13,492
Related retrocession policy liabilities	2,830	(2,766)
Outstanding claims reserve	2,145	(2,790)
Deposit retained from related retrocessionaire	(2,654)	3,146
Sundry creditors	(28)	(16)
<i>Adjustments for:</i>		
Gain on revaluation of investments	7,751	(445)
Investment revenue	(5,088)	(4,288)
Investment expense	17	57
Net cash flows from operating activities	<u>9,751</u>	<u>(5,252)</u>

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

(b) Cash and cash equivalents:

Cash	1,207	1,134
Deposits at call	<u>1,830</u>	<u>2,550</u>
Total per cash flow statement	<u>3,037</u>	<u>3,684</u>

Munich Reinsurance Company of Australasia Limited – New Zealand Branch

Directors' Declaration

The Directors are pleased to present the financial statements of Munich Reinsurance Company of Australasia Limited – New Zealand Branch for the year ended 31 December 2013.


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 27:

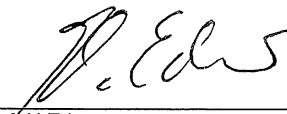
- (a) comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Branch as at 31 December 2013 and the results of operations for the year ended on that date;
- (b) have been prepared using the appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

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

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

Signed in Sydney on 26 March 2014 in accordance with a resolution of the Directors:



E G Tollison
Director

A H Eder
Director



Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Munich Reinsurance Company of Australasia Limited - New Zealand Branch ("the Branch") on pages 3 to 27. The financial statements comprise the statement of financial position as at 31 December 2013 and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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



Opinion

In our opinion the financial statements of Munich Reinsurance Company of Australasia Limited - New Zealand Branch on pages 3 to 27:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of the Branch as at 31 December 2013 and of its financial performance for the year ended on that date.

Report on Other Legal and Regulatory Requirements

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

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

KPMG

KPMG

Sydney

26 March 2014

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. The report refers to a review carried out by Murray Glase into the actuarial information included in the 2013 financial statements of MRA and of its New Zealand Branch. The previous appointed actuary's report prepared in respect of the year ended 31 December 2012 was also prepared by Murray Glase
3. A comprehensive review of MRA's business during 2013 and of its financial position at 31 December 2013, covering its operations in both Australia and New Zealand, has been carried out by me and documented in my Financial Condition Report (2013 FCR), dated 13 March 2013.
4. In relation to the items specified in Section 78 of the Act, I report as follows:
 - a) The appointed actuary's report in respect of the review under section 77 was performed by Murray Glase, 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. I have reviewed the actuarial information contained in and used in the preparation of the financial statements of MRA including:
 - i) Policy liabilities including provision for deferral of acquisition costs,
 - ii) Reinsurance and other recovery assets relevant to the policy liabilities,
 - iii) Capital and solvency results.
 - c) I have determined the policy liabilities of MRA, including those of its New Zealand Branch, as at 31 December 2013. 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 2013 financial statements of MRA and of its New Zealand Branch. Details of that process are documented in my 2013 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 2013 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 standard LPS 110 and associated capital standards and PS3 throughout 2013 and has maintained adequate solvency margins.
 - h) In my opinion MRA has continued to comply with the requirements of APRA prudential standard LPS 110 and associated capital standards and PS3 throughout 2013 and has maintained adequate solvency margins in respect of each of its statutory and general funds.

Murray Glase

Fellow of the New Zealand Society of Actuaries

Fellow of the Institute of Actuaries of Australia

13 March 2014

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

**Annual Financial Report
31 December 2013**

**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 2013.

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)	(Appointed 27 October 2006)
R Eckl	(Appointed 22 November 2010)
A H Eder	(Appointed 1 November 2005)
B Edwards	(Appointed 16 May 2012)
A Rear	(Appointed 22 November 2010)
J B Shewan	(Appointed 1 January 2012)
O Shub	(Appointed 22 November 2010)

Principal activities

The Company's principal activity is life reinsurance.

Review of operations

The 2013 business year produced an operating loss after tax of \$56,225,000 in comparison with a profit of \$30,054,000 in 2012. The Company is rated AA- by Standard & Poor's.

Statutory

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

Dividends

No dividends were paid or declared by the Company during the financial year (2012: 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 \$95,000 (2012: \$96,000) to insure the Directors and Officers of the Company and some of its Australasian based related entities.

The liabilities insured include costs and expenses 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

B Edwards (Chairman)
J B Shewan
O Shub
E G Tollifson

Risk and Compliance Committee

B Edwards (Chairman)
A H Eder
J B Shewan
O Shub
E G Tollifson

In accordance with the Prudential Standard CPS 510 *Governance*, the Company is required to have a Remuneration Committee. With the approval of APRA, the Company relies on the Remuneration Committee established by its parent entity, Munich Holdings of Australasia Pty Limited (MHA), to discharge its obligations under CPS 510.

Likely developments

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

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

Significant changes in the state of affairs

The company increased its share capital by \$335,000,000 during the year through the issue of 335,000,000 fully paid ordinary shares to the parent entity, Munich Holdings of Australasia Pty Limited ("MHA").

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 2013 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 2013

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 2013.

Signed at Sydney on 26 March 2014 in accordance with a resolution of the Directors.


E G Tollison
Director


A H Eder
Director



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

To: the directors of Munch 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 2013 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 2014

Munich Reinsurance Company of Australasia Limited

Statement of Comprehensive Income for the year ended 31 December 2013

	Note	2013 \$'000	2012 \$'000
Revenue from operating activities	5	1,129,571	1,021,055
Expenses from operating activities	6	(1,176,883)	(981,542)
Finance costs	6	(12,060)	(13,529)
(Loss)/profit before income tax		(59,372)	25,984
Income tax benefit	8(a)	3,147	4,070
(Loss)/profit after tax		(56,225)	30,054
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation	25	2,237	478
Total items that may be reclassified subsequently to profit or loss		2,237	478
Other comprehensive income for the year (net of income tax)		2,237	478
Total comprehensive (expense)/income for the year		(53,988)	30,532

The Statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 8 to 33.

Munich Reinsurance Company of Australasia Limited
Statement of Financial Position as at 31 December 2013

	Note	2013 \$'000	2012 \$'000
Current assets			
Cash and cash equivalents	9	37,854	34,646
Outstanding premiums	10	211,148	155,078
Receivables	11	53,058	48,260
Other financial assets	12	117,424	55,559
Other	13	24,647	19,464
Retrocessionaires' share of life reinsurance contract liabilities	14	581	305
Life reinsurance contract assets	19	23,856	20,296
Deposit retained from related retrocessionaire	13	25,490	15,537
Total current assets		494,058	349,145
Non-current assets			
Other financial assets	12	1,248,941	1,117,729
Retrocessionaires' share of life reinsurance contract liabilities	14	297,067	345,116
Deferred tax assets	15	36,356	34,822
Other	16	2,099	-
Total non-current assets		1,584,463	1,497,667
Total assets		2,078,521	1,846,812
Current liabilities			
Payables	17	101,273	54,488
Provisions	18	170,862	145,882
Retrocessionaires' share of life reinsurance contract liabilities	14	25,490	15,537
Income tax payable	8(c)	249	-
Total current liabilities		297,874	215,907
Non-current liabilities			
Payables	22	1,022	845
Life reinsurance contract liabilities	19	826,057	893,839
Other	21	293,998	357,663
Total non-current liabilities		1,121,077	1,252,347
Total liabilities		1,418,951	1,468,254
Net assets		659,570	378,558
Equity			
Share capital	24	624,000	289,000
Reserves	25	(1,447)	(3,684)
Retained profits	25	37,017	93,242
Total equity		659,570	378,558

The Statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 8 to 33.

Munich Reinsurance Company of Australasia Limited
Statement of Changes in Equity for the year ended 31 December 2013

	Note	Share capital \$'000	Retained profits \$'000	Foreign currency translation reserve \$'000	Total \$'000
Balance at 1 January 2012		260,000	63,188	(4,162)	319,026
Total comprehensive expense 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
Total comprehensive income for the year					
(Loss) after tax for the year		-	(56,225)	-	(56,225)
Other comprehensive income					
Foreign currency translation	25	-	-	2,237	2,237
Transactions with owners, recorded directly in equity					
Issue of ordinary shares	24	335,000	-	-	335,000
Balance at 31 December 2013		624,000	37,017	(1,447)	659,570

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 33.

Munich Reinsurance Company of Australasia Limited
Statement of Cash Flows for the year ended 31 December 2013

	Note	2013 \$'000	2012 \$'000
Cash flows from operating activities			
Treaty reinsurance		(118,204)	51,478
Retrocession received		205	70,098
Income tax (paid)/transferred		(1,720)	2,632
Management and administrative expenses		(29,874)	(25,776)
Other income		455	535
Net cash from operating activities	33(a)	<u>(149,138)</u>	<u>98,967</u>
Cash flows from investing activities			
Interest received		58,735	52,268
Payments for investments		(859,099)	(668,840)
Proceeds from sale of investments		617,954	506,492
Investment expenses paid		(368)	(992)
Net cash from investing activities		<u>(182,778)</u>	<u>(111,072)</u>
Cash flows from financing activities			
Issue of shares	24	<u>335,000</u>	<u>29,000</u>
Net cash from financing activities		<u>335,000</u>	<u>29,000</u>
Net increase in cash held		<u>3,084</u>	<u>16,895</u>
Cash and cash equivalents at 1 January		34,646	17,719
Effect of exchange rate fluctuation on cash held		<u>124</u>	<u>32</u>
Cash and cash equivalents at 31 December	9	<u><u>37,854</u></u>	<u><u>34,646</u></u>

The Statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 8 to 33.

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 2013. 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 2014.

(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.

Adoption of new standards and changes in accounting policies

The following accounting standards and interpretation has been adopted by the Company for the financial year ended 31 December 2013.

- *AASB 13 Fair Value Measurement*

An assessment of the impact of the standard is set out below:

AASB 13 Fair Value Measurement establishes a single source of guidance under Australian Accounting Standards 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. There was no impact to the Company's financial performance or financial position on adoption of this standard.

The following accounting standard and interpretation was issued but is not yet mandatory and has not been adopted by the Company for the financial year ended 31 December 2013. An assessment of the impact of the new standard is set out below:

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 2018. 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.

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.

Munich Reinsurance Company of Australasia Limited
Notes to the financial statements for the year ended 31 December 2013

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, statement of financial position, 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 discernible 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.

Munich Reinsurance Company of Australasia Limited
Notes to the financial statements for the year ended 31 December 2013

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 2013. 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, unrecovered 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. 2013: Aust 2.4% - 6.1% p.a., NZ 3.0% - 5.5% p.a. (2012: Aust 2.7% - 6.5% p.a., NZ 2.6% - 4.9% p.a.) Forward rates instead of spot rates were used following the introduction of LAGIC.
Maintenance expenses	The allowance for future expenses is a percentage of in-force premiums based on the Company's planned expenses in 2014.
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. 2013: Aust 2.75% p.a., NZ 2.75% p.a. (2012: Aust 2.75% p.a., NZ 2.75% p.a.)
Voluntary discontinuance	The Company's own experience. 2013: 4.25% -26.91% p.a. (2012: 4.25% -16.0% p.a)
Surrender values	Ceding company values.
Mortality & morbidity	Loss ratios based on investigations into the Company's own recent experience. Other key assumptions are rates of terminations of disability, which were set following an investigation into MRA's own recent experience. 2013: 22% - 105% 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. (2012: 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. 2013 and 2012: 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

Assumption category	31 December 2012 to 31 December 2013	
	Effect on net profit margins \$'000 increase / (decrease)	Effect on net life reinsurance contract liabilities \$'000 increase / (decrease)
Discount rates & inflation	(17,674)	(83,520)
Voluntary discontinuance	4,124	(13,495)
Mortality & morbidity	(1,370)	56,458
Total	(14,920)	(40,557)

(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.

Munich Reinsurance Company of Australasia Limited

Notes to the financial statements for the year ended 31 December 2013

4. Risk management policies and procedures (continued)

(a) Financial risks (continued)

(i) Credit risk (continued)

- A mandate is in place that limits the 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). 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 2013	Carrying amount \$'000 2012
Cash and cash equivalents	9	37,854	34,646
Amount due from ceding companies in respect of outstanding premiums	10	211,148	155,078
Receivables	11	53,058	48,260
Other financial assets at fair value through profit or loss			
- Debt securities	12	1,366,365	1,173,288
Deposit retained by ceding company	13	24,645	19,202
Related retrocessionaire's share of unrealised loss on investments			
- Current	13	2	262
- Non-current	16	2,099	-
Deposit retained from related retrocessionaire	13	25,490	15,537
Retrocessionaires' share of life reinsurance contract liabilities	14	297,648	345,421
Life reinsurance contract assets	19	23,856	20,296
Total		2,042,165	1,811,990
Grade 1-3 (Standard & Poor's A- to AAA)		2,041,895	1,811,544
Grade 4-5 (Unrated or Standard & Poor's BB+ to BBB+)		270	446
Total		2,042,165	1,811,990

No financial assets are either past due or impaired.

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.

Munich Reinsurance Company of Australasia Limited
Notes to the financial statements for the year ended 31 December 2013

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
2013				
Amount due to ceding companies	64,113	1,022	-	65,135
Amount due to related retrocessionaire	36,361	-	-	36,361
Amount due to non-related retrocessionaire	212	-	-	212
GST and sundry payable	587	-	-	587
Outstanding claims	169,478	-	-	169,478
Non-resident withholding tax	1,384	-	-	1,384
Life reinsurance contract liabilities	-	104,029	722,028	826,057
Retrocessionaire's share of life reinsurance contract liabilities	25,490	-	-	25,490
Deposit retained from related retrocessionaire	-	2,523	291,475	293,998
Income tax payable	249	-	-	249
Total	297,874	107,574	1,013,503	1,418,951

	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

(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.

Munich Reinsurance Company of Australasia Limited

Notes to the financial statements for the year ended 31 December 2013

4. Risk management policies and procedures (continued)

(a) Financial risks (continued)

Interest rate risk

The Company has determined that all assets held within its statutory funds are assets backing life reinsurance contract liabilities. The investment income of the Company will decrease as interest rates decrease. This is predominantly offset 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 2013 an increase in interest rates of 100 basis points would increase profit and equity by \$14,309,000 (2012: \$7,719,000). A corresponding decrease of 100 basis points would decrease profit and equity by \$8,309,000 (2012: \$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:----			Total \$'000
			Up to 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	
2013						
Cash	2.01%	4,929	-	-	-	4,929
Deposits at call	2.50%	32,925	-	-	-	32,925
Term deposits	2.81%	-	115,000	-	-	115,000
Investments						
Government bonds	4.88%	-	2,424	246,204	977,793	1,226,421
Debentures	5.71%	-	-	19,435	5,509	24,944
Total		37,854	117,424	265,639	983,302	1,404,219
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

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 required to be held by MRA is based primarily upon the regulatory prescribed capital amount (PCA) and buffer capital requirements. In order to minimise the risk of breaching the regulatory capital requirements, the level of capital held by MRA is regularly monitored relative to an MRA Board approved ICAAP (with effect from 1 January 2013). It also takes into account the longer term strategic objectives of the Group's parent company Münchener Rückversicherungs-Gesellschaft (MR-AG) in order to maximise shareholder's 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.

Munich Reinsurance Company of Australasia Limited
Notes to the financial statements for the year ended 31 December 2013

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, other than the introduction of ICAAP as noted above.

For detailed information on the capital being managed and required capital by APRA, refer note 20.

(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 2013. The ratings help to reflect the financial strength of MRA and demonstrate 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, 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	Guaranteed benefits paid on death, survival or disability that are fixed and guaranteed and not at the discretion of the issuer.	Benefits, defined by the reinsurance contract, are determined by the contract and are not directly affected by the performance of underlying assets or the performance of the contracts as a whole.	Mortality Morbidity Market earning rates Interest rates Discontinuance rates Expenses
<ul style="list-style-type: none"> • Term Life • Disability (income and lump sum) • Annuities • Catastrophe • Medical expenses 			

(e) Concentrations of insurance risk

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

	2013 \$'000	2012 \$'000
Net claims incurred		
Expected	519,099	446,924
Actual	555,987	442,647

Munich Reinsurance Company of Australasia Limited
Notes to the financial statements for the year ended 31 December 2013

	2013 \$'000	2012 \$'000
5. Revenue from operating activities		
Reinsurance revenue		
Reinsurance premium revenue	961,111	781,313
Retrocession recoveries from reinsurance contracts	110,526	164,372
Total reinsurance revenue	<u>1,071,637</u>	<u>945,685</u>
Investment revenue		
Interest	56,883	54,938
Net realised and unrealised gains	-	19,429
Foreign exchange gains	17	-
Total investment revenues	<u>56,900</u>	<u>74,367</u>
Other revenue		
Other income	1,034	1,003
Total other revenue	<u>1,034</u>	<u>1,003</u>
Total revenue from operating activities	<u>1,129,571</u>	<u>1,021,055</u>
6. Expenses from operating activities		
(a) Claims expense		
Gross reinsurance claims expense	<u>414,704</u>	<u>326,637</u>
(b) Other expenses		
Retrocession premium expense	<u>445,779</u>	<u>364,648</u>
Movement in life reinsurance contract liabilities	<u>(81,918)</u>	<u>89,038</u>
Policy acquisition costs		
Rebate	189,341	79,760
Other costs	7,048	6,326
Total policy acquisition costs	<u>196,389</u>	<u>86,086</u>
Policy maintenance costs		
Rebate	141,559	102,574
Other costs	14,251	11,554
Total policy maintenance costs	<u>155,810</u>	<u>114,128</u>
Investment management expenses	368	992
Net realised and unrealised loss	45,750	-
Foreign exchange losses	1	2
Other expenses	-	11
Total	<u>46,119</u>	<u>1,005</u>
Total other expenses	<u>762,179</u>	<u>654,905</u>
Total expenses from operating activities	<u>1,176,883</u>	<u>981,542</u>
(c) Finance costs		
Interest payable on deposit retained from related retrocessionaire	12,060	13,529
Total interest payable	<u>12,060</u>	<u>13,529</u>
Total claims, other expenses & finance costs	<u>1,188,943</u>	<u>995,071</u>

Munich Reinsurance Company of Australasia Limited
Notes to the financial statements for the year ended 31 December 2013

	2013 \$'000	2012 \$'000
7. Operating profit		
(a) Sources of shareholder's operating (loss)/profit of statutory funds		
Operating (loss)/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	9,021	10,924
• Experience (loss)/gain	(19,588)	6,568
• Capitalisation of expected future losses	(45,104)	(4,874)
• Investment earnings on assets (below)/in excess of life reinsurance contract liabilities	(676)	16,900
Operating (loss)/profit after income tax of statutory funds (note 25)	(56,347)	29,518

(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.

	2013 \$'000	2012 \$'000
8. Income tax		
(a) Income tax benefit		
Current tax – current year	(2,468)	(1,720)
Deferred tax – current year	(665)	(2,367)
Under provided in prior year – current tax	338	73
(Over) provided in prior year – deferred tax	(352)	(56)
Income tax benefit	(3,147)	(4,070)
(b) Reconciliation of prima facie tax receivable to income tax benefit		
(Loss)/profit from operating activities before income tax	(59,372)	25,984
Prima facie tax (receivable)/payable at the Australian tax rate of 30% (2012: 30%)	(17,812)	7,795
Effect of tax rates in foreign jurisdictions	(58)	102
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible expenses	20,262	32,594
Non-assessable items	(25,137)	(38,981)
(Over)/under provision prior year	(14)	17
Increase/(decrease) in unrecognised deferred tax asset	19,612	(5,597)
Income tax benefit	(3,147)	(4,070)

Munich Reinsurance Company of Australasia Limited
Notes to the financial statements for the year ended 31 December 2013

	2013 \$'000	2012 \$'000
8. Income tax (continued)		
(c) Income tax (payable)/receivable		
Opening balance at 1 January	-	479
Additional assets recognised – current year	2,468	1,720
Liabilities paid	-	(295)
Currency revaluation	(19)	1
Tax consolidation transfers – current year	(2,468)	(2,343)
Transfer of tax losses	-	707
Underprovisioned – prior year	(338)	(269)
Tax consolidation transfers – prior year	108	-
	<hr/>	<hr/>
Closing balance at 31 December	(249)	-

(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:

	2013 \$'000	2012 \$'000
Unused tax losses and deductible temporary differences	181,463	115,627

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.

Munich Reinsurance Company of Australasia Limited
Notes to the financial statements for the year ended 31 December 2013

	2013 \$'000	2012 \$'000
9. Current assets – cash and cash equivalents		
Cash at bank	4,929	4,069
Deposits at call	32,925	30,577
Total	37,854	34,646

(a) Cash at bank

Cash at bank bears floating interest rates between 2.00% to 2.05% during the financial year (2012: 2.05% to 2.10% p.a.).

(b) Deposits at call

The deposits at call bear floating interest rates at 2.50% during the financial year (2012: 2.50% to 3.00% p.a.).

	2013 \$'000	2012 \$'000
10. Current assets – outstanding premiums		
Amount due from ceding companies	211,148	155,078
11. Current assets – receivables		
Recoveries due from non-related retrocessionaires	1,400	1,396
Amount due from ceding companies	35,785	26,975
Amount due from related entities	2,468	4,647
Sundry debtors and prepayments	162	231
Accrued income	13,243	14,976
GST receivable	-	35
Total	53,058	48,260

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

Debt securities – unsecured, including bills of exchange	1,366,365	1,173,288
Total	1,366,365	1,173,288
Current other financial assets	117,424	55,559
Non-current other financial assets	1,248,941	1,117,729
Total	1,366,365	1,173,288

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.

	2013 \$'000	2012 \$'000
13. Current assets – other		
Deposit retained by ceding company	24,645	19,202
Related retrocessionaire's share of unrealised loss on investments	2	262
	24,647	19,464
Deposit retained from related retrocessionaire	25,490	15,537
Total	50,137	35,001

Munich Reinsurance Company of Australasia Limited

Notes to the financial statements for the year ended 31 December 2013

	2013 \$'000	2012 \$'000
14. Retrocessionaires' share of life reinsurance contract liabilities		
Current		
(Payables) due to related retrocessionaire in respect of life reinsurance contract liabilities	(25,490)	(15,537)
Recoveries due from non-related retrocessionaires in respect of life reinsurance contract liabilities	581	305
Total	(24,909)	(15,232)
Non-current		
Recoveries due from related retrocessionaire in respect of life reinsurance contract liabilities	293,998	342,325
Recoveries due from non-related retrocessionaires in respect of life reinsurance contract liabilities	3,069	2,791
Total	297,067	345,116
Total		
Recoveries due from related retrocessionaire in respect of life reinsurance contract liabilities	268,508	326,788
Recoveries due from non-related retrocessionaires in respect of life reinsurance contract liabilities	3,650	3,096
Total – note 19(a)(i)	272,158	329,884
15. Non-current assets – deferred tax assets		
Deferred tax assets comprise the tax effect of the following amounts recognised in profit or loss:		
Accrued expense	2,457	6,769
Investment items	1,494	(16,979)
Components of life reinsurance contract liabilities	62,486	60,131
Others	(2,212)	(2,143)
Unrecognised deferred tax asset	(30,421)	(12,956)
Tax loss	2,552	-
Total	36,356	34,822
Movements:		
Opening balance at 1 January	34,822	11,347
Debited to the statement of comprehensive income	1,018	2,423
Currency revaluation	516	106
Intercompany transfer	-	20,946
Closing balance at 31 December	36,356	34,822
16. Non-current assets – other		
Related retrocessionaire's share of unrealised loss on investments	2,099	-
Total	2,099	-

Munich Reinsurance Company of Australasia Limited

Notes to the financial statements for the year ended 31 December 2013

	2013 \$'000	2012 \$'000
17. Current liabilities – payables		
Amount due to ceding companies	64,113	40,483
Amount due to related retrocessionaire (note 32(e))	36,361	10,141
Amount due to related entities	-	3,576
Amount due to non-related retrocessionaires	212	170
GST payables	447	-
Sundry payables	140	118
Total	101,273	54,488

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

	2013 \$'000	2012 \$'000
18. Current liabilities – provisions		
Outstanding claims	169,478	143,667
Non-resident withholding tax	1,384	2,215
Total	170,862	145,882

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 2013	143,667	2,215	145,882
Additional provisions recognised	416,801	1,384	418,185
Liabilities paid	(392,234)	(2,215)	(394,449)
Currency revaluation	1,244	-	1,244
Closing balance at 31 December 2013	169,478	1,384	170,862

Munich Reinsurance Company of Australasia Limited

Notes to the financial statements for the year ended 31 December 2013

	2013 \$'000	2012 \$'000
19. Life reinsurance contract liabilities		
Gross life reinsurance contract (assets)/liabilities		
Current	(23,856)	(20,296)
Non-current	826,057	893,839
Total	802,201	873,543
Life reinsurance contract liabilities assumed – see below (a) and (b)	802,201	873,543

(a) (i) Life reinsurance contract liabilities assumed

Reinsured life reinsurance contract liabilities:		
Gross life reinsurance contract liabilities assumed	802,201	873,543
Gross life reinsurance contract liabilities ceded – note 14	(272,158)	(329,884)
Net life reinsurance contract liabilities	530,043	543,659

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

Gross life reinsurance contract liabilities at 1 January	873,543	781,782
(Decrease)/increase in gross life reinsurance contract liabilities	(81,918)	89,038
Currency fluctuation in gross life reinsurance contract liabilities	10,576	2,723
Gross life reinsurance contract liabilities at 31 December	802,201	873,543
Retroceded life reinsurance contract liabilities at 1 January	329,884	294,938
(Decrease)/increase in retroceded life reinsurance contract liabilities	(61,650)	33,895
Currency fluctuation in retroceded life reinsurance contract liabilities	3,924	1,051
Retroceded life reinsurance contract liabilities at 31 December	272,158	329,884
Net life reinsurance contract liabilities at 1 January	543,659	486,844
Net increase in life reinsurance contract liabilities	(20,268)	55,143
Currency fluctuation in life reinsurance contract liabilities	6,652	1,672
Net life reinsurance contract liabilities at 31 December	530,043	543,659

2013 Current Basis \$'000	2013 Previous Basis \$'000	2012 \$'000
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(b) Components of life reinsurance contract liabilities

Best estimate liability for non investment-linked business			
Value of future policy benefits	2,921,308	2,816,678	2,423,834
Value of future expenses	1,897,181	1,850,037	1,673,207
Value of future premiums	(4,474,355)	(4,362,791)	(3,696,932)
Total	344,134	303,924	400,109
Value of future profits for non investment-linked business			
Shareholder profit margins	185,909	183,155	143,550
Total	185,909	183,155	143,550
Net life reinsurance contract liabilities	530,043	487,079	543,659

The 2013 "Previous Basis" has been determined using the 2012 non-economic assumptions and 2013 economic assumptions.

Munich Reinsurance Company of Australasia Limited

Notes to the financial statements for the year ended 31 December 2013

20. Solvency and capital requirements

Solvency requirements of the life statutory funds

Under the Life Insurance Act 1995, a life insurer holds reserves in excess of its life insurance contract liabilities and other liabilities in order to satisfy the life insurer's capital requirements and to provide a buffer against adverse experience. MRA determines its capital requirements in accordance with APRA's LPS110 which prescribes the minimum capital requirement for each fund and the minimum level of assets required to be held in each fund. The Capital Adequacy multiple in the table below show the number of times there is coverage for MRA representing the excess assets available over the prescribed capital amount.

	2013			Total \$'000
	Australian Statutory Fund 1 \$'000	New Zealand Statutory Fund 2 \$'000	Shareholder's Fund \$'000	
Capital Base	338,764	20,982	2,765	362,511
Net Assets as per Life Insurance Act	633,616	23,183	2,771	659,570
Total regulatory adjustments to net assets	294,852	2,201	6	297,059
Tier 2 capital	-	-	-	-
Total regulatory adjustments to Tier 2 capital;	-	-	-	-
Total capital base (A)	338,764	20,982	2,765	362,511
Prescribed capital				
Insurance risk capital; charge	108,356	10,003	-	118,359
Asset risk capital charge	53,996	4,432	11	58,439
Asset concentration risk charge	-	-	-	-
Operational risk charge	19,077	906	-	19,983
Less aggregation benefit	(31,980)	(2,712)	-	(34,692)
Combined stress scenario adjustment	71,175	2,684	16	73,875
Total Prescribed capital amount (PCA) (B)	220,624	15,313	27	235,964
Capital adequacy multiple (A/B)	1.54	1.37	102.37	1.54

Prior to 1 January 2013, Life insurers were required to hold prudential reserves based on the greater of the requirements under solvency and capital adequacy standards. These were specified in the Life Insurance Act 1995, the previous LPS 2.04 Solvency Standard and LPS 3.01 Capital adequacy Standard. In the prior financial year, the solvency requirements and the ratios in respect of those requirements were as follows:

Solvency requirements of the statutory funds

	2012		
	Australian Statutory Fund 1 \$'000	New Zealand Statutory Fund 2 \$'000	Total \$'000
Solvency requirement	1,244,410	97,565	1,341,975
Represented by:			
Minimum termination value	703,148	41,817	744,965
Other liabilities	497,923	44,933	542,856
Solvency reserve	43,339	10,815	54,154
Total	1,244,410	97,565	1,341,975
Assets available for solvency reserve	149,736	13,867	163,603
Comprised as:			
(Deficit)/excess of net policy liability over minimum termination value	(204,170)	2,864	(201,306)
Net assets	353,906	11,003	364,909
Total	149,736	13,867	163,603
Solvency reserve %	3.6%	12.5%	4.2%
Coverage of solvency reserve	3.46	1.28	3.02

Munich Reinsurance Company of Australasia Limited
Notes to the financial statements for the year ended 31 December 2013

20. Solvency and capital requirements

Solvency requirements of the life statutory funds (continued)

Capital requirements of the shareholder's fund

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

Munich Reinsurance Company of Australasia Limited

Notes to the financial statements for the year ended 31 December 2013

	2013 \$'000	2012 \$'000
21. Non-current liabilities – other		
Deposit retained from related retrocessionaire	293,998	342,325
Related retrocessionaire's share of unrealised gain on investments	-	15,338
Total	293,998	357,663

22. Non-current liabilities – payables		
Amount due to ceding companies	1,022	845
Total	1,022	845

23. Determination of fair values

(a) Fair value hierarchy

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

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

(b) Recognised fair value measurements

As at 31 December 2013, the Company held the following classes of assets and liabilities measured at fair value:

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Debt securities	1,366,365	-	-	1,366,365
Deposit retained by ceding company	24,645	-	-	24,645
Deposit retained from related retrocessionaire	25,490	-	-	25,490
Total	1,416,500	-	-	1,416,500
Liabilities				
Deposit retained from related retrocessionaire	293,998	-	-	293,998
Total	293,998	-	-	293,998

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

(c) Fair values vs carrying amounts

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

		2013		2012	
	Note	Carrying value \$'000	Fair value \$'000	Carrying value \$'000	Fair value \$'000
Assets					
Cash and cash equivalents	9	37,854	37,854	34,646	34,646
Debt securities – unsecured	12(a)	1,366,365	1,366,365	1,173,288	1,173,288
Deposit retained by ceding company	13	24,645	24,645	19,202	19,202
Deposit retained from related retrocessionaire	13	25,490	25,490	15,537	15,537
Total		1,454,354	1,454,354	1,242,673	1,242,673
Liabilities					
Deposit retained from related retrocessionaire	21	293,998	293,998	342,325	342,325

Munich Reinsurance Company of Australasia Limited
Notes to the financial statements for the year ended 31 December 2013

	2013 \$'000	2012 \$'000
24. Share capital		
Balance at 1 January	289,000	260,000
Issue of ordinary shares	335,000	29,000
Balance at 31 December	624,000	289,000

During the year ended 31 December 2013, the Company's parent entity increased its investment through the purchase of 335,000,000 fully paid ordinary shares for a total cost of \$335,000,000. (2012: MHA increased its investment through the purchase of 29,000,000 fully paid ordinary shares for a total cost of \$29,000,000).

	Statutory Funds \$'000	2013 Shareholder's Fund \$'000	Total \$'000	Statutory Funds \$'000	2012 Shareholder's Fund \$'000	Total \$'000
25. Reserves and retained profits						
Summary of shareholder's interests						
Net (loss)/profit for the year	(56,347)	122	(56,225)	29,518	536	30,054
Retained profit at 1 January	60,123	33,119	93,242	30,605	32,583	63,188
Transfers between funds	11,000	(11,000)	-	-	-	-
Retained profit at 31 December (overseas and non-participating)	14,776	22,241	37,017	60,123	33,119	93,242
Foreign currency translation reserve at 1 January	(2,817)	(867)	(3,684)	(3,295)	(867)	(4,162)
Movement during the year	2,237	-	2,237	478	-	478
Foreign currency translation reserve at 31 December	(580)	(867)	(1,447)	(2,817)	(867)	(3,684)
Issued share capital at 1 January	-	289,000	289,000	-	260,000	260,000
Movement during the year (note 24)	-	335,000	335,000	-	29,000	29,000
Issued share capital at 31 December	-	624,000	624,000	-	289,000	289,000
Capital transfers to statutory funds	642,603	(642,603)	-	307,603	(307,603)	-
Shareholder's equity	656,799	2,771	659,570	364,909	13,649	378,558

26. Dividends

No dividend was paid for the year ended 31 December 2013 to MHA (2012: 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:

	2013 \$	2012 \$
(a) Audit and assurance services		
<i>KPMG Australia:</i>		
Audit and review of financial reports under the Corporations Act 2001	295,003	310,805
Total remuneration for audit and assurance services	295,003	310,805
(b) Advisory services		
<i>KPMG Australia:</i>		
Review of group life experience study report	6,700	6,400
Review of embedded value report	57,255	78,396
Disability income investigation	90,801	-
Lump sum experience investigation	-	40,702
Total remuneration for advisory services	154,756	125,498
Total	449,759	436,303

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

Munich Reinsurance Company of Australasia Limited
Notes to the financial statements for the year ended 31 December 2013

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

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.

Munich Reinsurance Company of Australasia Limited
Notes to the financial statements for the year ended 31 December 2013

	2013 \$	2012 \$
32. Related party transactions (continued)		
(c) Key management personnel compensation		
Short term employee benefits	2,145,650	1,286,040
Post employment benefits	512,768	368,198
Total	2,658,418	1,654,238
The payments were effected by MHA.		
(d) Transactions with related parties		
The following transactions occurred with related parties:		
Transactions in respect of retrocession of reinsurance contracts with: MR-AG	8,776,581	104,178,557
Transactions on normal commercial terms and conditions with: MHA in respect of:		
i) recharges of expenses incurred by the Company.	27,231,678	23,028,521
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)).	2,337,983	(18,602,013)
MR-AG in relation to tax loss transfer	-	(1,900,497)
Corion in relation to tax loss transfer	22,109	-
Commonly controlled entity in respect of: Recharges of expenses incurred by the Company's New Zealand branch	171,573	110,258
Capital injection received from: MHA – note 24	335,000,000	29,000,000
(e) Outstanding balances		
The following balances are outstanding at the reporting date in relation to transactions with related parties:		
Current (payables) in respect of retrocession of reinsurance contracts with: MR-AG	(36,360,554)	(10,140,926)
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	2,445,597	4,458,982
MR-AG	-	(3,274,262)
Corion	22,109	-
(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).		

Munich Reinsurance Company of Australasia Limited
Notes to the financial statements for the year ended 31 December 2013

2013
\$'000

2012
\$'000

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

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

(Loss)/profit from operating activities after income tax	(56,225)	30,054
<i>Movements in:</i>		
Outstanding premiums due from ceding companies	(53,443)	(22,314)
Trade debtors	(8,615)	(15,705)
Trade creditors	22,563	(2,356)
Other retrocession debtors/creditors	37	(218)
Related entities	(1,633)	23,200
Retrocessionaires' current account	25,713	101,688
Sundry debtors	71	(37)
Sundry creditors	21	(134)
GST – acquisitions	450	(53)
Income tax payable	231	290
Deferred taxes	(1,018)	(23,369)
Provision for non resident withholding tax	(870)	859
Technical provisions	(13,255)	61,640
Deposit retained from related retrocessionaire	(61,867)	34,091
Deposit retained by cedants	(5,443)	(8,084)
<i>Adjustments for:</i>		
Loss/(gain) on revaluation of investments	60,660	(26,639)
Investment revenue	(56,883)	(54,938)
Investment expense	368	992
Net cash flows from operating activities	(149,138)	98,967

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

(b) Cash and cash equivalents

Cash	4,929	4,069
Deposits at call	32,925	30,577
Balances per statement of cash flows	37,854	34,646

Munich Reinsurance Company of Australasia Limited
Notes to the financial statements for the year ended 31 December 2013

34. Disaggregated information of life insurance business by fund

	Australian Statutory Fund No. 1 2013 \$'000	New Zealand Statutory Fund No. 2 2013 \$'000	Shareholder's Fund 2013 \$'000	Total 2013 \$'000	Australian Statutory Fund No. 1 2012 \$'000	New Zealand Statutory Fund No. 2 2012 \$'000	Shareholder's Fund 2012 \$'000	Total 2012 \$'000
Other financial assets	1,264,751	99,190	2,424	1,366,365	1,087,952	72,518	12,818	1,173,288
Other assets	338,949	25,867	346	365,162	262,855	28,134	1,019	292,008
Retrocessionaires' share of life reinsurance contract liabilities	244,503	27,655	-	272,158	303,748	26,136	-	329,884
Life reinsurance contract liabilities	(728,002)	(74,199)	-	(802,201)	(802,725)	(70,817)	-	(873,543)
Other liabilities	(486,585)	(55,329)	-	(541,914)	(497,923)	(44,968)	(188)	(543,079)
Retained earnings	15,054	(278)	22,241	37,017	63,346	(3,223)	33,119	93,242
Net premium revenue	491,526	23,806	-	515,332	391,540	25,125	-	416,665
Investment revenue	11,285	(317)	182	11,150	70,104	3,573	688	74,365
Other Income	1,034	-	-	1,034	1,003	-	-	1,003
Net claims expense	(282,502)	(21,676)	-	(304,178)	(146,149)	(16,116)	-	(162,265)
Other operating expenses	(283,807)	1,104	(7)	(282,710)	(286,111)	(17,650)	(23)	(303,784)
Profit/(loss) before tax	(62,464)	2,917	175	(59,372)	30,387	(5,068)	665	25,984
Profit/(loss) after tax	(58,292)	1,945	122	(56,225)	33,440	(3,922)	536	30,054
Transfers between funds	10,000	1,000	(11,000)	-	-	-	-	-
Capital transfers to statutory funds	618,561	24,042	(642,603)	-	290,561	17,042	(307,603)	-
Capital adequacy multiple	1.54	1.37	102.37	1.54	-	-	-	-
Solvency reserve multiple	-	-	-	-	3.46	1.28	-	3.02
Capital requirement multiple	-	-	-	-	-	-	1.4	1.4

Munich Reinsurance Company of Australasia Limited

Directors' Declaration

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 4 to 33 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 2013 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 2014 in accordance with a resolution of the Directors.



E G Tollison
Director

A H Eder
Director

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

Report on the financial report

We have audited the accompanying financial report of Munich Reinsurance Company of Australasia Limited (the Company), which comprises the statement of financial position as at 31 December 2013, 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(a), 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.



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 2013 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(a).

KPMG

P. Ruiz
Partner

Sydney

26 March 2014

