Munich Reinsurance Company of Australasia Limited – New Zealand Branch

Annual Financial Report
31 December 2014

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 2014

	Note	2014 $'000	2013* $'000
Revenue from operating activities	5	85,344	65,467
Expenses from operating activities	6(b)	(86,754)	(61,622)
Finance costs	6(c)	(1,952)	(1,316)
(Loss)/profit before tax		(3,362)	2,529
Income tax benefit/(expense)	8(a)	653	(1,145)
Total comprehensive (expense)/income for the year		(2,709)	1,384

*Re-stated, see note 1(b)

The Statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 7 to 28.

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Statement of Financial Position as at 31 December 2014

	Note	2014 $'000	2013* $'000	2012* $'000
Current assets				
Cash and cash equivalents	9	2,009	3,037	3,684
Outstanding premiums	10	21,394	18,024	24,670
Receivables	11	12,671	2,981	2,439
Other financial assets	12	-	-	536
Retrocessionaires' share of life reinsurance contract liabilities	14	490	340	546
Other	13	9,837	2,281	1,822
Total current assets		46,401	26,663	33,697
Non-current assets				
Other financial assets	12	124,986	107,820	90,721
Retrocessionaires' share of life reinsurance contract liabilities	14	39,733	30,092	32,344
Deferred tax assets	15	5,821	3,737	4,611
Other	16	-	338	1,683
Total non-current assets		170,540	141,987	129,359
Total assets		216,941	168,650	163,056
Current liabilities				
Payables	17	11,945	16,484	11,513
Provisions	18	27,469	19,790	15,972
Life reinsurance contract liabilities	19	2,595	544	3,418
Other	21	10,165	1,909	2,017
Retrocessionaires' share of life reinsurance contract liabilities	14	-	372	-
Income tax payable	8(c)	-	271	-
Total current liabilities		52,174	39,370	32,920
Non-current liabilities				
Life reinsurance contract liabilities	19	100,740	80,110	85,699
Other	22	38,867	27,819	33,505
Payables	23	217	3	36
Total non-current liabilities		139,824	107,932	119,240
Total liabilities		191,998	147,302	152,160
Net assets		24,943	21,348	10,896
Equity				
Retained (loss)/profits	25	(8,233)	(5,524)	(8,104)
Capital reserves	25	33,176	26,872	19,000
Total equity		24,943	21,348	10,896

*Re-stated, see note 1(b)

The Statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 7 to 28.

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Statement of Changes in Equity for the year ended 31 December 2014

	Note	Capital reserve $'000	Retained profits $'000*	Total $'000*
Balance at 1 January 2013		19,000	(8,104)	10,896
Total comprehensive income for the year				
Profit after tax for the year		-	1,384	1,384
Transfer to the shareholder's fund		7,872	1,196	9,068
Balance at 31 December 2013	25	26,872	(5,524)	21,348
Total comprehensive income for the year				
(Loss) after tax for the year		-	(2,709)	(2,709)
Transfer from the shareholder's fund		6,304		6,304
Balance at 31 December 2014	25	33,176	(8,233)	24,943

*Re-stated, see note 1(b)

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 28.

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Statement of Cash Flows for the year ended 31 December 2014

	Note	2014 $'000	2013 $'000
Cash flows from operating activities			
Treaty reinsurance		10,791	16,634
Retrocession paid		(6,912)	587
Income tax paid		(683)	(4,716)
Management and administrative expenses paid		(3,611)	(2,773)
Other income		-	19
Net cash from operating activities	33(a)	(415)	9,751
Cash flows from investing activities			
Interest received		5,482	4,865
Payments for investments		(61,084)	(46,682)
Proceeds from sale of investments		48,775	22,368
Investment expense		(91)	(17)
Net cash from investing activities		(6,918)	(19,466)
Cash flows from financing activities			
Transfer from the shareholder's fund		6,305	9,068
Net cash from financing activities		6,305	9,068
Net (decrease)/increase in cash held		(1,028)	(647)
Cash and cash equivalents at 1 January		3,037	3,684
Cash and cash equivalents at 31 December	33(b)	2,009	3,037

The Statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 7 to 28.

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 2014 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 23 March 2015.

(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. This financial report has also been prepared in compliance with the Financial Reporting Act 1993 and Insurance (Prudential Supervision) Act 2010.

(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.

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 2014. 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 2018. 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.

(i) Prior year restatement

In 2014 the Branch revised its methodology for measuring fast close claims provisions because the previous methodology understated those claims by not considering all the available information, consequently each financial statement line item in the comparative periods have been restated.

The following table summarises the financial effects of the correction for each period presented in the financial statements of the Branch:

Prior year restatement

Statement of comprehensive income (extract)	**2013 (Previously stated) $'000**	**Increase/ (Decrease) $'000**	**2013 (Re-stated) $'000**
Revenue from operating activities	64,916	551	65,467
Retrocession recoveries from reinsurance contracts	*12,236*	*551*	*12,787*
Expenses from operating activities	(60,168)	(1,454)	(61,622)
Gross reinsurance claims expenses	*(37,735)*	*(1,454)*	*(39,189)*
Finance costs	(1,316)	-	(1,316)
Profit from operating activities before income tax	3,432	(903)	2,529
Income tax (expense)/benefit	(1,145)	-	(1,145)
Total comprehensive income for the year	2,287	(903)	1,384

Munich Reinsurance Company of Australasia Limited – New Zealand Branch
Notes to the financial statements for the year ended 31 December 2014

1. Summary of significant accounting policies (continued)

(b) Basis of preparation (continued)

(i) Prior year restatement (continued)

Prior year restatement
Statement of Financial position (extract)

	31 Dec 2013 (Previously stated) $'000	Increase/ (Decrease) $'000	31 Dec 2013 (Re-stated) $'000
Current assets – others	**372**	**1,909**	**2,281**
Claims recoveries on related retrocessionaire	-	*2,281*	*2,281*
Deposit retained from related retrocessionaire	*372*	*(372)*	-
Total current assets	**24,754**	**1,909**	**26,663**
Total non-current assets	**141,987**	-	**141,987**
Total assets	**166,741**	**1,909**	**168,650**
Current liabilities – payables	**18,765**	**(2,281)**	**16,484**
Amount due to related retrocessionaire	*6,425*	*(2,281)*	*4,144*
Current liabilities-Provisions	**13,656**	**6,134**	**19,790**
Outstanding claims	*13,244*	*6,134*	*19,378*
Current liabilities – other	-	**1,909**	**1,909**
Deposit retained from related retrocessionaire	-	*1,909*	*1,909*
Total current liabilities	**33,608**	**5,762**	**39,370**
Total non-current liabilities	**107,932**	-	**107,932**
Total liabilities	**141,540**	**5,762**	**147,302**
Net assets	**25,201**	**(3,853)**	**21,348**
Retained profits	(1,671)	(3,853)	(5,524)
Reserves	26,872	-	26,872
Total equity	**25,201**	**(3,853)**	**21,348**

Prior year restatement
Statement of Financial position (extract)

	1 Jan 2013 (Previously stated) $'000	Increase/ (Decrease) $'000	1 Jan 2013 (Re-stated) $'000
Current assets – others	**92**	**1,730**	**1,822**
Claims recoveries on related retrocessionaire	-	*1,730*	*1,730*
Total current assets	**31,967**	**1,730**	**33,697**
Total non-current assets	**129,359**	-	**129,359**
Total assets	**161,326**	**1,730**	**163,056**
Current liabilities – payables	**13,243**	**(1,730)**	**11,513**
Amount due to related retrocessionaire	*1,046*	*(1,730)*	*(684)*
Current liabilities – Provisions	**11,291**	**4,680**	**15,971**
Outstanding claims	*11,099*	*4,680*	*15,779*
Current liabilities – other	**288**	**1,730**	**2,018**
Deposit retained from related retrocessionaire	*288*	*1,730*	*2,018*
Total current liabilities	**28,240**	**4,680**	**32,920**
Total non-current liabilities	**119,240**	-	**119,240**
Total liabilities	**147,480**	**4,680**	**152,160**
Net assets	**13,846**	**(2,950)**	**10,896**
Retained profits	(5,154)	(2,950)	(8,104)
Reserves	19,000	-	19,000
Total equity	**13,846**	**(2,950)**	**10,896**

1. Summary of significant accounting policies (continued)

(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.

(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.

1. Summary of significant accounting policies (continued)

(l) Expense apportionment

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

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

(i) Direct expenses, e.g. premium rebates are allocated to the products to which they relate.

(ii) Indirect expenses are allocated on the basis of net revenue received taking into account that the expenses per product line are not of equal weighting.

(m) Rounding of amounts

Amounts in the financial report have been rounded off to the nearest thousand dollars.

(n) Assets backing life reinsurance contract liabilities

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

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

Fair value by asset category is measured as follows:

- 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.

2. Critical accounting estimates and judgements (continued)

(a) Life reinsurance contract liabilities

Life reinsurance contract liabilities are determined by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles as detailed in note 3 Summary of significant actuarial methods and assumptions – statutory fund. The methodology takes into account the risks and uncertainties of the particular classes of life reinsurance contracts accepted from cedants.

The key factors that affect the estimation of these liabilities and related assets are:

- The cost of providing benefits and administering the reinsurance of these insurance contracts together with the related retrocession arrangements.
- Mortality and morbidity experience on life reinsurance products.
- Discontinuance experience, which affects the Branch's ability to recover the cost of acquiring new business over the lives of the contracts.
- Data supplied by ceding companies in relation to the underlying policies being reinsured.
- The discount rate and inflation assumption applied to calculate the present value of future benefits.
- The historic delay pattern in the time taken between the date claims are incurred and the date they are notified to the Branch.

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 estimate claim provisions takes into account the recently reported claims up to the fast close date, the number of bordereaux outstanding for a treaty and the expected average monthly claims payments between fast close date and valuation date. 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 2014. The actuarial report was prepared by Mr Stuart Blackhall 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

The company undertook a transformation project during 2014 that included the implementation of new processes and systems for the collection and storage of data, analysis of experience, setting of assumptions and cash flow modelling. The project led to a significant strengthening of reinsurance contract liabilities.

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

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

(b) Actuarial assumptions

Assumption	Basis of assumption
Discount rates	Risk-free discount rates based on the current observable, objective rates that relate to the nature, structure and term of the future liability cash flows. 2014: 3.6% - 5.0% p.a.(2013:3.0%-5.5% p.a)

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

(b) Actuarial assumptions (continued)

Assumption	Basis of assumption
Maintenance expenses	The allowance for future expenses is a percentage of inforce premiums based on the Branch's planned expenses in 2015.
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. 2014: 2.75% p.a.(2013:2.75 p.a)
Voluntary discontinuance	The Branch's own experience. 2014: 0%-90% p.a. (2013:2.75%p.a.)
Surrender values	Ceding company values.
Mortality & morbidity	Biometric assumptions based on the company's own experience, supplemented by other experience sources in areas where own experience lacks credibility. For rates of termination of disability the same approach has been used in 2014 as for 2013. 2014: Rates based on MRA own experience. 2013: 50% - 105% 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 Branch's own recent experience. 2013 and 2014: IBNR determined using an adjusted chain-ladder method.

(c) Effects of changes in actuarial assumptions

Assumption category	31 December 2013 to 31 December 2014 Effect on net profit margins $'000 increase / (decrease)	Effect on net life reinsurance contract liabilities $'000 increase / (decrease)
Discount rates & inflation	1,486	7,187
Model change (move to Biometric Assumptions)	1,896	9,573
Total	3,382	16,760

(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 2014 $'000	Carrying amount 2013* $'000
Cash and cash equivalents	9	2,009	3,037
Other financial assets at fair value through profit or loss - Debt securities	12	124,986	107,820
Amount due from ceding companies in respect of outstanding premium	10	21,394	18,024
Receivables	11	12,671	2,981
Retrocessionaires' share of life reinsurance contract liabilities	14	40,223	30,432
Related retrocessionaire's share of unrealised loss on investments	16	-	338
Claims recoveries from related retro	13	9,837	2,281
Total		211,120	164,913

No financial assets are either past due or impaired.

	2014 $'000	2013* $'000
Grade 1-3 (Standard & Poor's A- to AAA)	210,978	164,643
Grade 4-5 (Unrated or Standard & Poor's BB+ to BBB+)	142	270
Total	211,120	164,913

*Re-stated, see note 1(b)

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.

	Up to 1 year $'000	1-5 years $'000	Over 5 years $'000	Total $'000
2014				
Amount due to ceding companies	24,915	217	-	25,132
Amount due to related retrocessionaire	-	-	-	-
Amount due to related entities	1,431	-	-	1,431
Amount due to non-related retrocessionaire	-	-	-	-
Outstanding claims	27,054	-	-	27,054
Non-resident withholding tax	415	-	-	415
Life reinsurance contract liabilities	2,595	19,686	81,054	103,335
Deposit retained from related retrocessionaire	10,165	6,654	31,187	48,006
Related retrocessionaire's share of unrealised gains on investments	-	32	994	1,026
Sundry payables	21	-	-	21
Total	66,596	26,589	113,235	206,420
2013*				
Amount due to ceding companies	17,778	3	-	17,781
Amount due to related retrocessionaire	4,144	-	-	4,144
Amount due to non-related retrocessionaire	195	-	-	195
Outstanding claims	19,378	-	-	19,378
Non-resident withholding tax	412	-	-	412
Life reinsurance contract liabilities	544	20,202	59,908	80,654
Deposit retained from related retrocessionaire	1,909	6,148	21,671	29,728
Retrocessionaire's share of life reinsurance contract liabilities	-	-	-	-
Sundry payables	12	-	-	12
GST payable	486	-	-	486
Income tax payable	271	-	-	271
Total	45,129	26,353	81,579	153,061

*Re-stated, see note 1(b)

(iii) Market risk

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

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

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

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

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

Interest rate risk

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

4. Risk management policies and procedures (continued)

(a) Financial risks (continued)

(iii) Market risk (continued)

Ignoring taxation impacts, at 31 December 2014, an increase in interest rates of 100 basis points would increase profit and equity by $81,000 (2013: $850,000). A corresponding decrease of 100 basis points would decrease profit and equity by $830,000. (2013 $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:---- Up to 1 year $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
2014						
Cash	2.35%	1,109	-	-	-	1,109
Deposits at call	3.50%	900	-	-	-	900
Investments						
Government bonds	5.41%	-	-	20,343	104,643	124,986
Total		2,009	-	20,343	104,643	126,995
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

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 2014. 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. 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").

4. Risk management policies and procedures (continued)

(b) Capital management (continued)

(i) Regulatory capital (continued)

The Branch complied with the regulatory capital requirements during the reported financial year and no change was made to its objectives, policies and processes from the previous year. For detailed information on the capital being managed and required capital by APRA, refer note 20.

(ii) Ratings capital

MRA and hence the branch is classified as a core entity of MR-AG and therefore obtains the same credit rating as MR-AG based on ratings published by Standard & Poor's Ratings services at 31 December 2014. 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 • Term life • Disability (income and lump sum) • Catastrophe • Medical expenses	Guaranteed benefits paid on death, survival or disability that are fixed and guaranteed and not at the discretion of the issuer	Benefits, defined by the reinsurance contract, are determined by the contract and are not directly affected by the performance of underlying assets or the performance of the contracts as a whole.	Mortality Morbidity Market earning rates Interest rates Discontinuance rates Expenses

4. Risk management policies and procedures (continued)

(e) Concentrations of insurance risk

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

(f) Claims development

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

	2014 $'000	2013 $'000
Net claims incurred		
Expected	37,691	32,901
Actual	34,243	30,573

5. Revenue from operating activities

	2014 $'000	2013* $'000
Reinsurance revenue		
Reinsurance premium revenue	50,630	47,573
Retrocession recoveries from reinsurance contracts	25,786	12,787
Total reinsurance revenue	76,416	60,360
Investment revenue		
Interest	5,514	5,088
Net realised and unrealised gains	3,414	-
Foreign exchange gains	-	19
Total investment revenue	8,928	5,107
Total revenue from operating activities	85,344	65,467

*Re-stated, see note 1(b)

6. Expenses from operating activities

	2014 $'000	2013* $'000
(a) Claims expense		
Gross reinsurance claims expense	39,466	39,189
(b) Other expenses		
Retrocession premium expense	19,682	19,568
Movement in life reinsurance contract liabilities	22,681	(8,463)
Policy acquisition costs		
Rebate	705	845
Other costs	609	266
Total policy acquisition costs	1,314	1,111
Policy maintenance costs		
Rebate	2,087	2,686
Other costs	1,420	2,034
Total policy maintenance costs	3,507	4,720
Investment expense	91	17
Net realised and unrealised loss	-	5,480
Foreign exchange losses	13	-
Total	104	5,497
Total other expenses	47,288	22,433
Total expenses from operating activities	86,754	61,622

*Re-stated, see note 1(b)

(c) Finance costs		
Interest payable on deposit retained from related retrocessionaire	1,952	1,316
Total claims, other expenses & finance costs	88,707	62,938

7. Operating profit

Sources of shareholder's operating profit of statutory fund

	2014 $'000	2013* $'000
Operating profit after income tax arose from:		
Components of shareholder's profit related to movement in life reinsurance contract liabilities (non investment-linked business)		
• Planned margins of revenues over expenses released	725	959
• Experience gain/(loss)	6,614	(747)
• (Capitalisation of expected future losses)/reversal of capitalised losses	(11,475)	1,673
• Investment earnings on assets in excess of life reinsurance contract liabilities	1,427	(501)
Operating (loss)/profit after income tax of statutory fund (note 25)	(2,709)	1,384

*Re-stated, see note 1(b)

8. Income tax

	2014 $'000	2013 $'000
(a) Income tax expense		
Current taxes – current year	1,431	-
Deferred taxes – current year	(2,084)	1,288
Under provision in prior year – current tax	-	271
Over provision in prior year – deferred tax	-	(414)
Income tax (benefit)/expense	(653)	1,145
(b) Reconciliation of prima facie tax payable to income tax expense		
Profit/(loss)/ from operating activities before income tax	(3,362)	2,529
Prima facie tax payable at 28%	(941)	708
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenses	425	731
Non-assessable items	(137)	(151)
Over provision in prior year	-	(143)
Income tax (benefit)/expense	(653)	1,145
(c) Income tax payable		
Opening balance at 1 January	(271)	-
Additional provisions recognised - current year	(4,206)	-
Additional provision recognised – prior year	271	(271)
Transfer of tax losses	4,206	-
Closing balance at 31 December	-	(271)

9. Current assets – cash and cash equivalents

	2014	2013
Cash at bank	1,109	1,207
Deposits at call	900	1,830
Total	2,009	3,037

(a) Cash at bank

Cash at bank is currently bearing floating interest rates of 1.95% to 2.75% p.a.during the financial year (2013: 1.95% to 2.25% p.a.).

(b) Deposits at call

The deposits at call are bearing floating interest rates at 3.50% p.a. during the financial year (2013: 2.50% p.a.).

10. Current assets – outstanding premiums

	2014 $'000	2013 $'000
Amount due from ceding companies	21,394	18,024

11. Current assets – receivables

	2014	2013
Amount due from related retrocessionaire	9,787	-
Recoveries due from non-related retrocessionaire	519	219
Amount due from ceding companies	1,041	1,684
Accrued income	1,079	1,048
GST receivable	245	-
Sundry debtors	-	30
Total	12,671	2,981

12. Other financial assets

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

	2014 $'000	2013 $'000
Debt securities – unsecured, including bills of exchange	124,986	107,820
Total other financial assets – fair value through profit or loss	124,986	107,820
Non-current other financial assets	124,986	107,820
Total other financial assets – fair value through profit or loss	124,986	107,820

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.

13. Current assets – others

	2014 $'000	2013* $'000
Claims recoveries on related retro	9,837	2,281
	9,837	2,281

*Re-stated, see note 1(b)

14. Retrocessionaires' share of life reinsurance contract liabilities

	2014 $'000	2013* $'000
Current		
Recoveries due (to)/from related retrocessionaire in respect of life reinsurance contract liabilities	327	(372)
Recoveries due from non-related retrocessionaire in respect of life reinsurance contract liabilities	163	340
Total	490	(32)
Non-current		
Recoveries due from related retrocessionaire in respect of life reinsurance contract liabilities	37,842	27,819
Recoveries due from non-related retrocessionaire in respect of life reinsurance contract liabilities	1,891	2,273
Total	39,733	30,092
Total		
Recoveries due from related retrocessionaire in respect of life reinsurance contract liabilities	38,169	27,447
Recoveries due from non-related retrocessionaire in respect of life reinsurance contract liabilities	2,054	2,613
Total – note 19(a)(i)	40,223	30,060

15. Non-current assets – deferred tax asset

	2014 $'000	2013 $'000
Deferred tax asset relates to timing differences and comprises the tax effect of the following amounts recognised in the profit or loss:		
Accrued expenses	658	254
Components of life reinsurance contract liabilities	5,161	718
Other	2	(9)
Unused tax losses	-	2,774
Deferred tax asset	5,821	3,737
Movements:		
Opening balance at 1 January	3,737	4,611
Charged to the statement of comprehensive income	4,858	(874)
Tax loss utilisation	(2,774)	-
Closing balance at 31 December	5,821	3,737

16. Non-current assets – others

	2014 $'000	2013 $'000
Accrual of related retrocessionaire's share of unrealised loss on investments	-	338

17. Current liabilities – payables

	2014 $'000	2013* $'000
Amount due to ceding companies	10,494	11,647
Amount due to related retrocessionaire (refer note 32(e))	-	4,144
Amount due to non-related retrocessionaire	-	195
Amount due to related entities (refer note 32(e))	1,431	-
GST payables	-	486
Sundry payables	20	12
Total	11,945	16,484

*Re-stated, see note 1(b)

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

18. Current liabilities – provisions

	2014 $'000	2013* $'000
Outstanding claims	27,054	19,378
Non-resident withholding tax	415	412
Total	27,469	19,790

*Re-stated, see note 1(b)

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 2014	19,378	412	19,790
Additional provisions recognised	39,467	415	39,882
Liabilities paid	(31,791)	(412)	(32,203)
Closing balance at 31 December 2014	27,054	415	27,469

19. Life reinsurance contract liabilities

	2014 $'000	2013 $'000
Gross life reinsurance contract liabilities		
Current	2,595	544
Non-current	100,740	80,110
Total Gross life reinsurance contract liabilities assumed – see below (a) and (b)	103,335	80,654

(a) (i) Life reinsurance contract liabilities assumed

	2014 $'000	2013 $'000
Reinsured life reinsurance contract liabilities:		
Gross life reinsurance contract liabilities assumed	103,335	80,654
Gross life reinsurance contract liabilities ceded – note 14	(40,223)	(30,060)
Net life reinsurance contract liabilities	63,112	50,594

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

	2014 $'000	2013 $'000
Opening balance gross life reinsurance contract liabilities at 1 January	80,654	89,117
(Decrease)/increase in gross life reinsurance contract liabilities	22,681	(8,463)
Closing balance gross life reinsurance contract liabilities at 31 December	103,335	80,654
Opening balance retroceded life reinsurance contract liabilities at 1 January	30,060	32,890
(Decrease)/increase in retroceded life reinsurance contract liabilities	10,163	(2,830)
Closing balance retroceded life reinsurance contract liabilities at 31 December	40,223	30,060
Opening balance net life reinsurance contract liabilities at 1 January	50,594	56,227
(Decrease)/increase in net life reinsurance contract liabilities	12,518	(5,633)
Closing balance net life reinsurance contract liabilities at 31 December	63,112	50,594

(b) Components of net life reinsurance contract liabilities

	2014 $'000	2013 $'000
Best estimate liability for non investment-linked business		
Value of future policy benefits	261,749	283,053
Value of future expenses	42,803	49,615
Value of future premiums	(263,314)	(302,236)
Total	41,238	30,432
Value of future profits for non investment-linked business		
Shareholder profit margins	21,874	20,162
Net life reinsurance contract liabilities	63,112	50,594

During 2014 a project was undertaken which included the implementation of new processes and systems for the collection and storage of data, analysis of experience, setting of assumptions and modelling of cash flows. This led to significant changes in the calculation of net life reinsurance liabilities. Due to these changes it is impractical to present the net life reinsurance contract liabilities on the prior year basis.

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

20. Solvency requirement of the life statutory fund

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. All of the amounts included in net assets as per the Life Insurance Act are Tier 1 capital.

	2014 $'000	2013* $'000
Capital Base		
Net Assets as per Life Insurance Act (Tier 1)	32,525	18,956
Total regulatory adjustments to net assets	24,943	21,348
Tier 2 capital	7,582	(2,392)
Total regulatory adjustments to Tier 2 capital	-	-
Total capital base (A)	-	-
	32,525	18,956
Prescribed capital		
Insurance risk capital; charge		
Asset risk capital charge	15,754	10,872
Asset concentration risk charge	5,243	4,818
Operational risk charge	-	-
Less aggregation benefit	1,012	985
Combined stress scenario adjustment	(3,426)	(2,948)
	5,317	2,918
Total Prescribed capital amount (PCA) (B)		
	23,900	16,645
Capital adequacy multiple (A/B)		
*Re-stated, see note 1(b)	1.36	1.14

	2014 $'000	2013 $'000

21. Current liabilities - other

Deposit retained from related retrocessionaire		
*Re-stated, see note 1(b)	10,165	1,909

22. Non-current liabilities – other

Accrual of related retrocessionaire's share of unrealised gains on investments	1,026	-
Deposit retained from related retrocessionaire	37,841	27,819
	38,867	27,819

	2014 $'000	2013 $'000
23. Non-current liabilities – payables		
Amount due to ceding companies	217	3

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 2014, 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	124,986	-	-	124,986
Total	**124,986**	-	-	**124,986**
Financial liabilities				
Deposit retained from related retrocessionaire	48,006	-	-	48,006
Total	**48,006**	-	-	**48,006**

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	2014 Carrying value $'000	2014 Fair value $'000	2013 Carrying value $'000	2013 Fair value $'000
Financial assets					
Cash and cash equivalents	9	2,009	2,009	3,037	3,037
Debt securities – unsecured	12(a)	124,986	124,986	107,820	107,820
Total		126,995	126,995	110,857	110,857

25. Reserves and retained profits

Summary of shareholder's interests

	2014 $'000	2013* $'000
Net (loss)/profit for the year	(2,709)	1,384
Retained loss at 1 January	(5,524)	(8,104)
Transfer from Shareholders Fund	-	1,196
Retained loss at 31 December (overseas and non-participating)	(8,233)	(5,524)
Capital reserve	33,176	26,872
Shareholder's equity	24,943	21,348

*Re-stated, see note 1(b)

26. Dividends

No dividend was paid for the year ended 31 December 2014. (2013: 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:

	2014 $	2013 $
KPMG Australia:		
Audit and review of financial reports under the Companies Act 1993	24,542	21,574
Total remuneration for audit services	24,542	21,574

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 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
- Calliden Insurance Ltd

(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
- Calliden Insurance Ltd
- Calibre Commercial Insurance Pty Ltd

28. Directors' disclosure (continued)

(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
- Calliden Insurance Ltd
- Calibre Commercial Insurance Pty Ltd

B Edwards - independent
Other Directorships
- Munich Holdings of Australasia Pty Limited
- Corion Pty Ltd
- Calliden Insurance Ltd
- A.L.I. Group Pty Ltd
- ClearView Wealth Limited (Group)
- Matrix Planning Solutions Limited

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
- Calliden Insurance Ltd (CIL)
- China Construction Bank (New Zealand) Limited

Chairman
- Munichre New Zealand Service Limited
- Wellington Regional Stadium Trust
- Fonterra Shareholders' Fund
- Yealands Wine Group Limited (New Zealand)

Deputy Chairman
- Partnership Schools Authorisation Board

O Shub - independent
Other Directorships and positions held
Director
- Munich Holdings of Australasia Pty Limited (MHA)
- Corion Pty Ltd

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.

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.

	2014 $	2013 $
(c) Key management personnel compensation		
Short term employee benefits	113,382	103,478
Post employment benefits	13,470	27,875
Total	126,852	131,353

	2014 $	2013* $
(d) Transactions with related parties		
The following transactions occurred with related parties:		
Transactions in respect of retrocession of reinsurance contracts with:		
MR-AG	(12,567,058)	2,562,771
Transactions in respect of recharges of expenses incurred by the Branch with:		
MHA	2,768,445	3,023,610
Other related entities	146,767	201,830
Transaction in respect of transfer from the shareholder's fund to the New Zealand statutory fund	6,304,800	9,068,243
Transactions in respect of expenses paid on behalf of the Branch by:		
MRA	90,736	17,073
Transactions in respect of transfer of tax losses from:		
MR-AG	1,431,185	260,374

*Re-stated, see note 1(b)

(e) Outstanding balances

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

Current receivable/(payables) in respect of retrocession of reinsurance contracts	9,786,659	(4,144,405)
Current receivables/(payables) in respect of GST liabilities	245,569	(486,058)

*Re-stated, see note 1(b)

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.

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

	2014 $'000	2013* $'000
(a) Reconciliation of profit after income tax to the net cash flows from operating activities:		
Profit/(loss) from operating activities after income tax	(2,709)	1,384
Movements in:		
Trade debtors	642	(285)
Outstanding premiums due from ceding companies	(3,370)	6,646
Trade creditors	(939)	3,905
Retrocessionaires' current account	(14,609)	222
Other retrocession debtors / creditors	(494)	(68)
GST - acquisitions	(731)	530
Provision for tax	(271)	271
Related entities	1,431	(4,264)
Provision for non-resident withholding tax	3	220
Deferred taxes	(2,084)	874
Gross policy liabilities	22,681	(8,463)
Related retrocession policy liabilities	(10,163)	2,830
Outstanding claims reserve	7,676	3,599
Deposit retained from related retrocessionaire	12,765	(302)
Sundry creditors	37	(28)
Adjustments for:		
Gain on revaluation of investments	(4,857)	7,751
Investment revenue	(5,514)	(5,088)
Investment expense	91	17
Net cash flows from operating activities	(415)	9,751

*Re-stated, see note 1(b)

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	1,109	1,207
Deposits at call	900	1,830
Total per cash flow statement	2,009	3,037

Munich Reinsurance Company of Australasia Limited – New Zealand Branch

Directors' Declaration

The Directors are pleased to present the financials statements of Munich Reinsurance Company of Australasia Limited – New Zealand Branch for the year ended 31 December 2014.

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 28:

(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 2014 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 23 March 2015 in accordance with a resolution of the Directors:

E G Tollifson
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 28. The financial statements comprise the statement of financial position as at 31 December 2014 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards 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 28:

- comply with generally accepted accounting practice in New Zealand;
- comply with the International Financial Reporting Standards;
- give a true and fair view of the financial position of the Branch as at 31 December 2014 and of its financial performance and cash flows for the year ended on that date.

Restatement of comparative balances

Without modifying our opinion expressed above, we draw attention to Note 1(b) to the financial statements, which states the amounts reported in the previously issued 31 December 2013 financial statements have been restated and disclosed as comparative information in these financial statements.

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

23 March 2015

Munich RE

Munich Reinsurance Company of Australasia Limited - New Zealand Branch (NZ 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 Munich Reinsurance Company of Australasia Limited (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 Stuart Blackhall into the actuarial information included in the 2014 financial statements of the NZ Branch. The previous Appointed Actuary's report was prepared in respect to both MRA and its NZ Branch for the year ended 31 December 2013 was prepared by Murray Glase.

3. A comprehensive review of the NZ Branch's business during 2014 and of its financial position at 31 December 2014 has been carried out by me and documented in my Financial Condition Report (2014 FCR), dated 11 March 2015. The NZ Branch business is written within MRA's Number 2 Statutory Fund.

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 Stuart Blackhall, a Fellow of the Actuaries Institute of Australia.
   b) I am the Appointed Actuary of MRA and the NZ Branch. I have reviewed the actuarial information contained in and used in the preparation of the financial statements of NZ Branch 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 the NZ Branch as at 31 December 2014. 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 2014 financial statements of the NZ Branch. Details of that process are documented in my 2014 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 and the NZ Branch. 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 2014 financial statements of the NZ Branch have been included and used appropriately in the preparation of those statements.

g) In my opinion MRA was, as at the balance date of 31 December 2014, complying with the requirements of APRA prudential standard LPS 110 and associated capital standards and PS3 in maintaining adequate solvency margins.

During 2014 MRA undertook a wholesale transformation of the way assumptions are set and liabilities are valued. When the likely financial implications of these changes became sufficiently certain, it resulted in the Board of MRA requesting additional capital of A$354m from its ultimate parent on 11 December 2014. On 12 December 2014 APRA were advised of the situation, and on 23 December 2014 the funds were received. Without the capital injection MRA (at both the total company level and for the Number 1 Statutory Fund, but not the Number 2 Statutory Fund) would be in breach of the APRA prudential standard LPS110.

h) In my opinion the NZ Branch has continued to comply with the requirements of APRA prudential standard LPS 110 and associated capital standards and PS3 throughout 2014 by maintaining adequate solvency margins in respect of MRA's Number 2 Statutory Fund.

Stuart Blackhall
Fellow of the Institute of Actuaries of Australia
11 March 2015