Munich RE

Munich Reinsurance Company of Australasia Limited

ABN 51 004 804 013

Annual Financial Report 31 December 2016

Munich Reinsurance Company of Australasia Limited

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DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016

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 2016 and the auditor's report thereon.

Directors

The names and details of the Company's Directors in office at any time during or since the end of the year are as follows:

Director	Date of appointment / resignation	Special responsibilities
E G Tollifson	27 October 2006	Chairman Member of Audit Committee Member of Risk & Compliance Committee
A H Eder	1 November 2005 / 30 June 2016	
B Edwards	16 May 2012	Chairman of Audit Committee Chairman of Risk & Compliance Committee
A Rear	22 November 2010/ 12 May 2016	
J B Shewan	1 January 2012	Member of Audit Committee Member of Risk & Compliance Committee
O Shub	22 November 2010	Member of Audit Committee Member of Risk & Compliance Committee
A Linfoot	10 June 2016	Member of Risk & Compliance Committee
D Cossette	11 May 2016	

Several changes occurred during the year, as shown in the table above. As at the date of this report, the Company has an Audit Committee and a Risk & Compliance Committee. The members of these committees are listed above.

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 Munich Holdings of Australasia Pty Ltd (the "Parent") to discharge its obligations under CPS 510.

Insurance of officers

During the financial year, the Parent paid a premium of $41,205 (2015: $89,996) 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 any civil or criminal proceedings that may be brought against Directors and Officers of the Company.

Directors' benefits

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 entity 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.

Principal activities

The Company's principal activity is life reinsurance.

Review of operations

The result for the year was a profit after tax of $152,018,000 compared with a loss after tax of $17,471,000 in 2015.

The Company received $405,000,000 from the parent on 27 October in exchange for 405,000,000 fully paid ordinary shares in the Company.

The Company is rated AA- by Standard & Poor's.

The Company continues to monitor its exposure to financial and non-financial risks and apply policies and procedures to mitigate these where possible. Details are set out in note 4.1.

Reporting Entity

The Company is a public company limited by shares, 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 (2015: nil).

Likely developments

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

Significant changes in the state of affairs

No significant events occurred during the year, which have changed the Company's state of affairs.

Environmental regulations

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

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 2016 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 2016.

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 3 and forms part of the Directors' report for financial year 2016.

Signed in Sydney on 28 March 2017 in accordance with a resolution of the Directors.

E G Tollifson
Director

A Linfoot
Director

KPMG

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

To the Directors of Munich Reinsurance Company of Australasia Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2016 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

David Kells
Partner

Sydney
28 March 2017

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

CONTINUING OPERATIONS	Note	2016 $'000	2015 $'000
Reinsurance premium revenue	2.1	**1,082,173**	971,785
Retrocession premium expense	2.2	**(548,234)**	(466,667)
Net life reinsurance premiums		**533,939**	505,118
Net life reinsurance commissions	2.2	**(560,081)**	(218,413)
Reinsurance claims expense	2.2	**(539,254)**	(456,312)
Retrocession claims recoveries	2.1	**263,025**	186,762
Net life reinsurance claims		**(276,229)**	(269,550)
Movement in reinsurance policy liabilities	2.2	**613,049**	(50,407)
Movement in retrocession policy liabilities	2.2	**(168,916)**	12,394
Net movement in reinsurance policy liabilities		**444,133**	(38,013)
Underwriting profit / (loss)		**141,762**	(20,858)
Other revenue	2.1	**2,260**	1,175
Other expenses from operating activities	2.2	**(25,711)**	(26,570)
Investment gains and (losses)	2.3	**54,659**	48,500
Investment management expense	2.3	**(2,333)**	(2,052)
Profit / (Loss) before tax		**170,637**	195
Income tax credit / (expense)	2.4	**(18,619)**	(17,666)
Profit / (Loss) after tax		**152,018**	(17,471)
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation	4.3	**745**	(252)
Total items that may be reclassified subsequently to profit or loss		**745**	(252)
Other comprehensive income/(expense) for the year (net of income tax)		**745**	(252)
Total comprehensive profit / (loss) for the year		**152,763**	(17,723)
Total comprehensive profit / (loss) attributable to:			
Ordinary shareholders		**152,763**	(17,723)

The Statement of Comprehensive Income is to be read in conjunction with the notes to the financial statements set out on pages 8 to 29.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Note	Dec 31 2016 $'000	Dec 31 2015 $'000
Current assets			
Cash and cash equivalents	3.1	**73,188**	56,583
Investment in financial assets	3.2	**38,905**	109,306
Reinsurance and other assets	3.3	**467,906**	470,510
Retrocessionaires' share of life reinsurance contract liabilities	5.2	**(40,595)**	(15,874)
Total current assets		**539,404**	620,525
Non-current assets			
Investment in financial assets	3.2	**2,339,686**	2,272,491
Retrocessionaires' share of life reinsurance contract liabilities	5.2	**534,909**	678,294
Deferred tax assets	2.4	**5,860**	22,729
Total non-current assets		**2,880,455**	2,973,514
Total assets		**3,419,859**	3,594,039
Current liabilities			
Income tax payable	2.4	**436**	-
Reinsurance and other liabilities	3.4	**282,117**	233,122
Provisions	3.5	**313,749**	330,241
Reinsurance contract liabilities	5.2	**(105,490)**	(3,795)
Total current liabilities		**490,812**	559,568
Non-current liabilities			
Reinsurance and other liabilities	3.4	**533,053**	687,059
Reinsurance contract liabilities	5.2	**1,260,151**	1,769,332
Total non-current liabilities		**1,793,204**	2,456,391
Total liabilities		**2,284,016**	3,015,959
Net assets		**1,135,843**	578,080
Equity			
Share capital	4.3	**1,383,000**	978,000
Reserves	4.3	**(788)**	(1,533)
Retained loss	4.3	**(246,369)**	(398,387)
Total equity		**1,135,843**	578,080

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 8 to 29.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

2016	Note	Share capital $'000	Retained profits $'000	Foreign currency translation reserve $'000	Total $'000
Balance at 1 January		**978,000**	**(398,387)**	**(1,533)**	**578,080**
TOTAL COMPREHENSIVE INCOME					
Profit for the year	4.3	-	**152,018**	-	**152,018**
Other comprehensive income for the year	2.4; 4.3	-	-	**745**	**745**
Total comprehensive income for the year		-	**152,018**	**745**	**152,763**
TRANSACTIONS WITH OWNERS OF THE COMPANY					
Issue of ordinary shares	4.3	**405,000**	-	-	**405,000**
Total transactions with owners of the company		**405,000**	-	-	**405,000**
Balance at 31 December 2016		**1,383,000**	**(246,369)**	**(788)**	**1,135,843**

2015	Note	Share capital $'000	Retained profits $'000	Foreign currency translation reserve $'000	Total $'000
Balance at 1 January		978,000	(380,916)	(1,281)	595,803
TOTAL COMPREHENSIVE INCOME					
Loss for the year	4.3	-	(17,471)	-	(17,471)
Other comprehensive expense for the year	2.4; 4.3	-	-	(252)	(252)
Total comprehensive income for the year		-	(17,471)	(252)	(17,723)
TRANSACTIONS WITH OWNERS OF THE COMPANY					
Issue of ordinary shares	4.3	-	-	-	-
Total transactions with owners of the company		-	-	-	-
Balance at 31 December 2015		978,000	(398,387)	(1,533)	578,080

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 29.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 $'000	2015 $'000
Cash flows from operating activities			
Treaty reinsurance		**(449,665)**	18,296
Retrocession received/(paid)		**12,913**	261,533
Income tax transferred/(paid)		**987**	1,773
Management and administrative expenses		**(36,278)**	(37,805)
Other income		**956**	669
Net cash from operating activities	3.1	**(471,087)**	244,466
Cash flows from investing activities			
Interest received		**94,479**	91,189
Payments for investments		**(340,108)**	(1,191,941)
Proceeds from sale of investments		**328,191**	857,915
Investment expenses		**(2,333)**	(2,052)
Net cash from investing activities		**80,229**	(244,889)
Cash flows from financing activities			
Issue of shares	4.3	**405,000**	-
Net cash from financing activities		**405,000**	-
Net increase in cash and cash equivalents		**14,142**	(423)
Cash and cash equivalents at the beginning of the financial year		**56,583**	55,845
Effect of exchange rate fluctuation		**2,463**	1,161
Cash and cash equivalents at the end of the financial year	3.1	**73,188**	56,583

The Statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 8 to 29.

Section 1. Basis of Preparation

1.1. Reporting entity

The Company is a public company limited by shares, incorporated and domiciled in Australia with its registered office at 143 Macquarie Street, Sydney. The Company is itself a subsidiary and its results are included in the group financial statements of Munich Holdings of Australasia Pty Ltd (the "Parent"). The ultimate parent undertaking of the group is Münchener Rückversicherungs-Gesellschaft ("MR-AG").

1.2. Basis of presentation

(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 also complies with IFRS and interpretations adopted by the International Accounting Standards Board and is prepared on a going concern basis.

The financial report was authorised for issue by the Directors on 28 March 2017.

(b) Basis of measurement

The financial report is prepared on a historical cost basis except for the following items, which are measured on an alternative basis at each reporting date. All financial assets are recognised at fair value to the extent permitted under the accounting standards.

Items	Note	Measurement basis
Financial instruments	4.1	Fair Value
Life reinsurance contract liabilities	5.1	Best estimate

(c) Functional and presentation currency

This financial report is presented in Australian Dollars, which is the Company's functional and presentation currency.

(d) Rounding

The Company is of a kind referred to in Instrument 2016/191 dated 24 March 2016 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 Instrument.

(e) Changes to comparatives of the financial statements

During the year the presentation of the financial statements notes and grouping of items has been reviewed and changes were made to improve the format and clarity of the financial report.

1.3. Use of judgements and estimates

In preparing this financial report, management has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

(a) Areas of significance

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Life reinsurance contract liabilities – Note 5.1
- Premium, claims and experience refund provisions – Note 2.1 & Note 2.2, Note 3.3 & Note 3.4

(b) Measurement of fair value

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or liability, the Company uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

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.

The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. Details of the Company's exposure to various risks arising and the risk management policies and procedures in place to manage these are set out in note 4.2.

Section 2. Financial performance

2.1. Revenue

Life reinsurance revenue	2016 $'000	2015 $'000
Reinsurance premium revenue	**1,082,173**	971,785
Retrocession claims recoveries	**263,025**	186,762
Total life reinsurance premium and related revenue	**1,345,198**	1,158,547
Other income	**2,260**	1,175
Total other revenue	**2,260**	1,175
Total revenue	**1,347,458**	1,159,722

Summary of significant accounting policies

Reinsurance premium revenue and recognition
Reinsurance premiums comprise amounts charged to insurers for business ceded under various reinsurance treaties.

Premium excludes stamp duties and taxes collected on behalf of third parties, including Goods and Services Tax ("GST").

Reinsurance premiums are recognised as revenue when due. The methodology used in the calculation of premium accruals takes into account the annual premium in force at the date of last premium receipt for each in force treaty and the number of premium installments outstanding for that treaty.

Premiums for unclosed business (business written close to reporting date where attachment of risk is prior to reporting date and there is insufficient information to accurately identify the business) is brought to account based on previous experience with due allowance for any changes in the pattern of new business and renewals.

Retrocession claim recoveries
Retrocession claims recoveries received or receivable on paid claims and on outstanding claims are recognised as revenue. Retrocession claims recoveries excludes stamp duties and taxes collected on behalf of third parties, including GST.

2.2. Expenses

Life reinsurance expenses	2016 $'000	2015 $'000
Life reinsurance commission - acquisition costs	**408,364**	74,852
Life reinsurance commission - maintenance costs	**151,717**	143,561
Net life reinsurance commission	**560,081**	218,413
Reinsurance claims expense	**539,254**	456,312
Retrocession premium expense	**548,234**	466,667
Total life reinsurance claims and related expenses	**1,087,488**	922,979
Movement in reinsurance policy liabilities	**(613,049)**	50,407
Movement in retrocession policy liabilities	**168,916**	(12,394)
Net movement in reinsurance policy liabilities	**(444,133)**	38,013
Other policy acquisition costs	**6,170**	5,314
Other policy maintenance costs	**19,541**	21,256
Other expenses from operating activities	**25,711**	26,570
Total expenses	**1,229,147**	1,205,975

Summary of significant accounting policies

Reinsurance claims expense
Claims expense represents claims payments adjusted for the movement in the outstanding claims liability. The expense takes into account all claims reported up to balance date, including outstanding bordereaux for each treaty.

Allowance for Incurred But Not Reported (IBNR) claims is incorporated into the calculation of the life reinsurance policy liability.

Retrocession premium expense
Premium ceded to retrocessionaires is recognised as an expense when due. Retrocession premium excludes stamp duties and taxes collected on behalf of third parties, including GST and Withholding tax.

Expense apportionment
Expenses are incurred in relation to the acquisition and maintenance of life reinsurance contracts and administrative activities. Acquisition costs are the fixed and variable cost of acquiring new business, including life reinsurance commissions, underwriting costs and other sundry costs. All other expenses are considered to be maintenance costs incurred to administer existing life reinsurance contracts.

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

i. Direct expenses, e.g. life reinsurance commissions 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.

2.3. Investment return

Investment gains and (losses)	2016 $'000	2015 $'000
Interest	**94,695**	92,586
Realised and Unrealised gains and (losses)	**(8,152)**	(18,756)
Foreign exchange gains and (losses)	**-**	(12)
Interest payable on deposit retained from related retrocessionaire	**(31,884)**	(25,318)
Total investment gains and (losses)	**54,659**	48,500
Investment management expense	**(2,333)**	(2,052)
Total Investment management expense	**(2,333)**	(2,052)

Summary of significant accounting policies

Investment gains and losses
Realised and unrealised gains and losses arising from changes in the fair value of financial assets are recognised in the Statement of comprehensive income, to the extent permitted under Australian Accounting Standards.

Investment management expense
Investment management expense includes the costs involved in buying and selling investments and the ongoing management costs of an investment portfolio.

2.4. Income taxes

(a) Amounts recognised in profit or loss

	2016 $'000	2015 $'000
Current tax expense		
Current year	**1,203**	4,380
Adjustment for prior years	**412**	371
Current tax expense	**1,615**	4,751
Deferred tax expense		
Origination and reversal of temporary differences	**17,004**	13,207
Change in recognised deductible temporary differences	**-**	(292)
Deferred tax expense	**17,004**	12,915
Income tax expense	**18,619**	17,666

(b) Amounts recognised in OCI

	2016 Before tax	2016 Tax (expense) benefit	2016 Net of tax	2015 Before tax	2015 Tax (expense) benefit	2015 Net of tax
Foreign currency translation	**745**	**-**	**745**	(252)	-	(252)

(c) Reconciliation of effective tax rate

	2016 %	2016 $'000	2015 %	2015 $'000
Profit before tax from continuing operations		**170,637**		195
Tax using the Company's domestic tax rate	**30**	**51,191**	30	59
Non-deductible expenses		**46,239**		52,832
Tax-exempt income		**(41,761)**		(57,738)
Change in estimates related to prior years		**412**		79
Effect of tax rates in foreign jurisdictions		**(48)**		(236)
Tax Sharing (income)/expense		**(80)**		-
Movement in unrecognised deferred tax asset		**(37,334)**		22,670
Income tax expense		**18,619**		17,666

(d) Movement in deferred tax balances

2016	Net balance at 1 January	Movement	Net balance at 31 December
Accrued expenses	**6,616**	**(1,898)**	**4,718**
Unrealised investment items	**(12,675)**	**1,213**	**(11,462)**
Components of life reinsurance contract liabilities	**219,090**	**(55,020)**	**164,070**
Other	**(1,643)**	**(183)**	**(1,826)**
Unrecognised deferred tax asset from timing differences	**(188,659)**	**38,997**	**(149,662)**
Tax loss	**-**	**22**	**22**
Net deferred tax asset	**22,729**	**(16,869)**	**5,860**

2015	Net balance at 1 January	Movement	Net balance at 31 December
Accrued expenses	13,594	(6,978)	6,616
Unrealised investment items	(35,588)	22,913	(12,675)
Components of life reinsurance contract liabilities	230,497	(11,407)	219,090
Other	(1,750)	107	(1,643)
Unrecognised deferred tax asset	(171,032)	(17,627)	(188,659)
Net deferred tax asset	35,721	(12,992)	22,729

2.4 Income taxes *(continued)*

(e) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items, because it is not probable that future taxable profit will be available against which the company can use the benefits there from.

	Gross 2016 $'000	Unrecognised tax asset 2016 $'000	Gross 2015 $'000	Unrecognised tax asset 2015 $'000
Unrecognisable deferred tax losses	**381,131**	**114,339**	366,333	109,900
Unrecognisable temporary differences	**498,873**	**149,662**	628,863	188,659
Unused tax losses and deductible temporary differences	**880,004**	**264,001**	995,196	298,559

The unrecognised deferred tax asset in the table above is calculated using the currently enacted tax rate of 30%.

(f) Income tax (payable)/receivable

	2016 $'000	2015 $'000
Opening balance at 1 January	**-**	-
Additional provisions recognised – current year	**1,240**	4,403
Under provisioned in prior years	**436**	371
Tax consolidation transfers - prior year	**80**	-
Utilisation of tax losses/transfer of tax losses	**(1,320)**	(4,819)
Currency revaluation	**-**	45
Closing balance at 31 December	**436**	-

Summary of significant accounting policies

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. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation legislation
The Company continues to be a member of a tax consolidation group whose head entity is the Parent, comprising all of the Parent's Australian resident wholly-owned controlled entities ("Member entities"). The Company is a party to a tax sharing agreement and a tax funding agreement with the Member entities.

The tax funding agreement, which is consistent with Australian Interpretation 1052, provides for the Company to be fully compensated by the Parent for any current tax payable assumed by the Company as unused tax credits that are transferred to the Parent entity under the tax consolidation legislation. The funding amounts are measured as if each Member entity continues to be a stand-alone taxpayer in its own right, with the exception that Member entities do 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 the Parent, as head entity of the tax consolidated group, under the tax funding agreement are recognised as amounts receivable from or payable to the Company. 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 the Company, in accordance with the requirements of Australian Interpretation 1052 Tax Consolidation Accounting.

The Australian tax amounts receivable/payable under the tax funding agreement are calculated by the Parent entity as soon as practicable after the end of each financial year and advised to Member entities.

Section 3. Financial position

3.1. Cash and cash equivalents

(a) Cash and cash equivalents balances

	2016 $'000	2015 $'000
Cash at bank	**72,922**	54,171
Call deposits	**266**	2,412
Total cash and cash equivalents	**73,188**	56,583

(b) Reconciliation of profit after income tax to net cash flows from operating activities

	2016 $'000	2015 $'000
Profit/(loss)from operating activities after income tax	**152,018**	(17,471)
Movements in:		
Reinsurance and other assets	**2,815**	409,460
Reinsurance and other liabilities	**(105,011)**	(135,179)
Provisions	**(16,492)**	(16,962)
Adjustments for:		
Deferred tax	**17,004**	12,915
Net movement in reinsurance policy liabilities	**(444,133)**	38,013
Loss/(gain) on revaluation of investments	**8,152**	18,756
Retrocession portion of loss/(gain) on revaluation of investments	**6,277**	23,390
Investment revenue	**(94,695)**	(92,739)
Investment expense	**2,333**	2,052
Exchange rate effects on cash flow reconciliation items	**645**	2,231
Net cash flows from operating activities	**(471,087)**	244,466

Summary of significant accounting policies

There are no cash balances held that are not available for use in normal operations.

3.2. Investment in financial assets

	2016 $'000	2015 $'000
Debt securities at fair value	**2,378,591**	2,311,797
Term Deposits	**-**	70,000
Total investment in financial assets	**2,378,591**	2,381,797
Current	**38,905**	109,306
Non-current	**2,339,686**	2,272,491
Total	**2,378,591**	2,381,797

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.

Summary of significant accounting policies

Investment in financial assets are measured at fair value through profit or loss.

Information about the Company's exposure to credit and market risks, and fair value measurement, is included in note 4.2.

3.3. Reinsurance and other assets

	2016 $'000	2015 $'000
Amounts due from ceding companies	**202,967**	275,739
Deposit retained by ceding company	**90,937**	60,991
Recoveries due from retrocessionaires	**370**	58
Outstanding claims recoveries from retrocessionaires	**151,857**	109,418
Sundry debtors and prepayments	**248**	2,988
Accrued income	**21,527**	21,316
Total reinsurance and other assets	**467,906**	470,510
Current	**467,906**	470,510
Non-current	**-**	-
Total reinsurance and other assets	**467,906**	470,510

Summary of significant accounting policies

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. The process for allocation of cash receipts at the reporting date was enhanced during 2016, resulting in lower amounts due from ceding companies.

There are no bad debt provisions as at year-ended 2016 (2015: nil).

3.4. Reinsurance and other liabilities

	2016 $'000	2015 $'000
Amount due to ceding companies	**52,689**	116,465
Amount due to retrocessionaires	**107,258**	16,688
Sundry and other payables	**6,323**	6,523
Amounts due on Deposit retained from related retrocessionaires	**648,900**	780,505
Total reinsurance and other liabilities	**815,170**	920,181
Current	**282,117**	233,122
Non-current	**533,053**	687,059
Total reinsurance and other liabilities	**815,170**	920,181

Summary of significant accounting policies

The above amounts are carried at book value, which approximates fair value, and represent liabilities for goods and services provided to the Company prior to the end of the financial year that were unpaid. The amounts are unsecured.

The process for allocation of cash payments at the reporting date was enhanced during 2016, resulting in lower amounts due to ceding companies.

Sundry and other payables includes amounts due to related entities for transfer of tax losses within the tax group.

Amounts due on Deposit retained from related retrocessionaires includes deposit retained from related retrocessionaire and an accrual of related retrocessionaire's share of unrealised gains on investments.

3.5. Provisions

2016	Balance at 1 January	Provisions made during the year	Liabilities paid	Currency revaluation	Balance at 31 December
Outstanding claims	**327,707**	**450,227**	**(467,508)**	**(80)**	**310,346**
Non-resident Withholding tax	**2,534**	**3,403**	**(2,534)**	**-**	**3,403**
Total provisions	**330,241**	**453,630**	**(470,042)**	**(80)**	**313,749**
2015					
Outstanding claims	345,107	455,104	(473,229)	725	327,707
Non-resident Withholding tax	2,096	2,534	(2,096)	-	2,534
Total provisions	347,203	457,638	(475,325)	725	330,241

Summary of significant accounting policies

Outstanding claims include Claims provisions for claims reported but not yet paid. Allowance for incurred but not reported claims is included in the life reinsurance contract liabilities.

Non-resident withholding tax represents a provision for the withholding tax payable on the interest due to Retrocessionaires on the deposit retained balance. All amounts shown above are current and payable within 12 months of balance date (2015: all current).

Section 4. Financial instruments, Risk & Capital Management

4.1. Financial instruments

(a) Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

31 December 2016	Carrying amount $'000				Fair Value $'000			
	Loans and receivables	Designated at fair value	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Debt Securities	-	2,378,591	-	2,378,591	-	2,378,591	-	2,378,591
Reinsurance and other assets	-	90,937	-	90,937	-	90,937	-	90,937
	-	2,469,528	-	2,469,528	-	2,469,528	-	2,469,528
Financial assets not measured at fair value								
Cash and cash equivalents	73,188	-	-	73,188				
Reinsurance and other assets	376,969	-	-	376,969				
	450,157	-	-	450,157	-	-	-	-
Financial liabilities not measured at fair value								
Reinsurance and other liabilities	-	-	815,170	815,170				
	-	-	815,170	815,170	-	-	-	-

4.1. Financial instruments (continued)

31 December 2015	Carrying amount $'000				Fair Value $'000			
	Loans and receivables	Designated at fair value	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Debt Securities	-	2,311,797	-	2,311,797	-	2,311,797	-	2,311,797
Term Deposits	-	70,000	-	70,000	70,000	-	-	70,000
Reinsurance and other assets	-	60,991	-	60,991	-	60,991	-	60,991
	-	2,442,788	-	2,442,788	70,000	2,372,788	-	2,442,788
Financial assets not measured at fair value								
Cash and cash equivalents	56,583	-	-	56,583				
Reinsurance and other assets	409,519	-	-	409,519				
	466,102	-	-	466,102	-	-	-	-
Financial liabilities not measured at fair value								
Reinsurance and other liabilities	-	-	920,181	920,181				
	-	-	920,181	920,181	-	-	-	-

Life reinsurance contract assets and liabilities are considered in note 5.

Fair values are categorised into different levels in a fair value hierarchy, details of which are set out in note 1.3.

4.1. Financial instruments (continued)

(a) Measurement of fair values

i. Valuation techniques and significant unobservable inputs

The company has no assets with significant unobservable inputs.

ii. Transfers between levels 1, 2 and 3

There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during 2016 (2015: none).

Summary of significant accounting policies

Financial assets at fair value
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.

Financial assets held within the shareholder's fund do not back life reinsurance contract liabilities.

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.
- Deposits retained by ceding companies are recorded at fair value of the amount deposited, which is the last traded or close price of the underlying instruments.
- Receivables are carried at book value, which is the best estimate of fair value, as they are settled within a short period.

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

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

4.2. 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 and results 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) Risk management framework

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 applicable procedures.

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.

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

(b) 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 risk and concentration thereof:

- 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-. If the rating of a security within the portfolio falls below A- it will be sold. In some instances approved by the Board of Directors the security will be maintained within the portfolio and its performance closely monitored.

4.2. Risk management policies and procedures (continued)

(b) Financial risks (continued)

i. Credit risk (continued)

- The mandate limits the exposure of the Company to Australian dollar "corporate issuers" (being any issuer other than an Australian state, the Australian federal government or any issues with an explicit Australian Government guarantee). The mandate restricts exposure to investments in non-Australian domiciled issuers with a minimum Standard & Poor's rating of AA- held in the Australian portfolios, to a maximum limit of $150,000,000 per issuer and to an aggregated total limit of 30% of the Australian dollar portfolio value. The mandate also restricts exposure to investments in Australian corporate issuers to a maximum of $60,000,000 per issuer.

- The mandate limits investments held by the New Zealand statutory fund of the Company to New Zealand dollar fixed interest investments in New Zealand government bonds, bonds issued by the Local Government Funding Agency, treasury bills or bank bills. In addition the mandate allows cash investments in New Zealand dollar term deposits.

- The credit risk in respect of client balances: premiums 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.

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 applicable components of the Company's balance sheet.

	2016 $'000	2015 $'000
Cash and cash equivalents	**73,188**	56,583
Investment in financial assets	**2,378,591**	2,381,797
Reinsurance and other assets	**467,906**	470,510
Retrocessionaires' share of life reinsurance contract liabilities	**494,314**	662,420
Total	**3,413,999**	3,571,310
Grade 1-3 (Standard & Poor's A- to AAA)	**3,413,692**	3,570,958
Grade 4-5 (Unrated or Standard & Poor's BB+ to BBB+)	**307**	352
Total	**3,413,999**	3,571,310

No financial assets are either past due or impaired and the Company has no significant concentration of credit risk with non-related parties.

ii. Liquidity risk

Liquidity risk is the risk of there being insufficient cash resources to meet payment obligations without affecting the daily operations of the financial condition of the Company.

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

- 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 aims to maintain financial assets with similar duration as the underlying reinsurance liabilities of the business in order to ensure sufficient funding is available to meet reinsurance contract obligations.

The table below summarises the maturity profile of the financial liabilities of the Company based on remaining undiscounted contractual obligations.

2016	Up to 1 year $'000	1-5 years $'000	Over 5 years $'000	Total $'000
Amount due to ceding companies	**52,689**	-	-	**52,689**
Amount due to retrocessionaires	**107,258**	-	-	**107,258**
Sundry and other payables	**6,323**	-	-	**6,323**
Amounts due on deposit retained from related retrocessionaires	**115,847**	**(32,930)**	**565,983**	**648,900**
Reinsurance and other liabilities	**282,117**	**(32,930)**	**565,983**	**815,170**
Outstanding claims	**310,346**	-	-	**310,346**
Non-resident withholding tax	**3,403**	-	-	**3,403**
Provisions	**313,749**	-	-	**313,749**
Life reinsurance contract liabilities	**(105,490)**	**(98,737)**	**1,358,888**	**1,154,661**
Income tax payable	**436**			**436**
Total liabilities	**490,812**	**(131,667)**	**1,924,871**	**2,284,016**

4.2. Risk management policies and procedures (continued)

(b) Financial risks (continued)

ii. Liquidity risk (continued)

2015	Up to 1 year $'000	1-5 years $'000	Over 5 years $'000	Total $'000
Amount due to ceding companies	116,465	-	-	116,465
Amount due to retrocessionaires	16,688	-	-	16,688
Sundry and other payables	6,523	-	-	6,523
Amounts due on deposit retained from related retrocessionaires	93,446	55,707	631,351	780,505
Reinsurance and other liabilities	233,122	55,707	631,351	920,181
Outstanding claims	327,707	-	-	327,707
Non-resident withholding tax	2,534	-	-	2,534
Provisions	330,241	-	-	330,241
Life reinsurance contract liabilities	(3,795)	191,582	1,577,750	1,765,537
Total liabilities	559,568	247,289	2,209,102	3,015,959

iii. Market risk

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

The following policies are in place to mitigate the Company's exposure to market risk:

- the Company manages its market risk within an Asset Liability Management (ALM) framework. The ALM framework forms an integral part of the reinsurance risk management policy setting the principles for the asset investments in terms of target durations, asset qualities, currencies etc. 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 is an impact on profits and equity from interest rate movements.
- An integral part of the Asset and Liability Management (ALM) framework is the investment mandate of the Company. On an annual basis the investment mandate is reassessed and updated. This review incorporates changes which have occurred within the liabilities with the aim of modifying the asset allocation to realign the assets to the latest liability profile.

Interest rate risk

The Company has determined that all assets held within its statutory funds are assets backing life reinsurance contract liabilities. The investment income of the Company will decrease as interest rates decrease. This is offset to an extent by corresponding changes in the market value of fixed interest investments. The impact on profit and equity will be minimal for investment assets backing most life reinsurance contract liabilities, when the asset and liability profile is closely matched.

However in respect of investment assets in excess of life reinsurance contract liabilities and annuity and other long term life reinsurance contract liabilities where close asset/liability matching is not possible, there will be an impact on profit and equity when interest rates changes.

Ignoring taxation impacts, at 31 December 2016 an increase in interest rates of 100 basis points would decrease profit and equity by $14,889,000 (2015: increase $22,601,000). A corresponding decrease of 100 basis points would increase profit and equity by $6,841,000 (2015:decrease $35,203,000).

4.2. Risk management policies and procedures (continued)

(b) Financial risks (continued)

iii. Market risk (continued)

Interest rate risk (continued)

The Company's exposure to interest rate risk and the effective weighted average interest rate for each significant class of interest bearing financial assets 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	Non-interest bearing $'000	Total $'000
2016							
Cash at bank	**1.63%**	**72,922**	-	-	-	-	**72,922**
Deposits at call	**1.50%**	**266**	-	-	-	-	**266**
Cash and cash equivalents		**73,188**	-	-	-	-	**73,188**
Term deposits	-	-	-	-	-	-	-
Debt securities							
Government bonds	**4.44%**	-	**30,378**	**418,889**	**1,643,758**	-	**2,093,025**
Debentures	**3.69%**	-	**8,527**	**80,077**	**196,962**	-	**285,566**
Investment in financial assets		-	**38,905**	**498,966**	**1,840,720**	-	**2,378,591**
Total		**73,188**	**38,905**	**498,966**	**1,840,720**	-	**2,451,779**
2015							
Cash at bank	2.08%	54,171	-	-	-	-	54,171
Deposits at call	2.61%	2,412	-	-	-	-	2,412
Cash and cash equivalents		56,583	-	-	-	-	56,583
Term deposits	2.62%	-	70,000	-	-	-	70,000
Debt securities							
Government bonds	4.50%	-	29,252	321,070	1,602,577	-	1,952,900
Debentures	3.66%	-	10,054	91,373	257,471	-	358,897
Investment in financial assets		-	109,306	412,443	1,860,048	-	2,381,797
Total		56,583	109,306	412,443	1,860,048	-	2,438,380

Currency risk

The Company operates predominantly 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.

Pricing and modelling risk

The Company is exposed to the risk that the models used for pricing and valuing liabilities give misleading results upon which it bases its economic decisions. The Company reviews the output of its models for reasonableness and ensures that the processes used are adequate and in line with current industry standards.

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.

(c) Non-financial risks - insurance

i. Risk management objectives and policies for risk mitigation

Insurance risks are controlled through the use of underwriting procedures, adequate premium rates and policy charges and sufficient reinsurance arrangements, all of which are managed through a Board approved governance structure. Controls are also maintained over claims management practices to ensure the correct and timely payment of insurance claims.

ii. Strategy for managing insurance 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 which are either in run off or written on an annual, non-guaranteed renewable basis. The Company does not write investment linked business.

Prudential capital requirements

Prudential capital requirements established by the Australian Prudential Regulation Authority ("APRA") are in place to safeguard policyholders' interests, which are primarily the ability to meet future claim payments to policyholders. These require the Company's Capital Base to exceed the Prudential Capital Requirement throughout the year, not just at year end. The level of capital requirements also take into account specific risks faced by the Company.

4.2. Risk management policies and procedures (continued)

(c) Non-financial risks – insurance (continued)

iii. Methods to limit or transfer insurance risk exposures

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

Retrocession

The Company maintains retrocession agreements with local unrelated retrocessionaires and MR-AG. The latter programme consists of a surplus and a quota share arrangement.

iv. Terms and conditions of reinsurance contracts

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

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

v. Concentrations of insurance risk

The Company's 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.

vi. 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.

	2016 $'000	2015 $'000
Net claims incurred		
Expected	**737,797**	723,929
Actual	**767,262**	669,372

4.3. Capital and reserves

(a) Share capital and premium

	Ordinary shares	
	2016 $'000	2015 $'000
On issue at 1 January (Par value $1)	**978,000**	978,000
Issued for cash (Par value $1)	**405,000**	-
On issue at 31 December (Par value $1)	**1,383,000**	978,000

All ordinary shares rank equally with regard to the Company's residual assets. Holders of these shares are entitled to dividends as declared from time to time and are entitled to one vote per share at the general meetings of the Company.

(b) Dividends

No dividends have been paid or proposed by the Board of Directors.

(c) OCI accumulated in reserves, net of tax

	Retained profits/(losses) $'000	Foreign currency translation reserve $'000	Total $'000
2016			
Opening balance 1 January	**(398,387)**	**(1,533)**	**(399,920)**
Profit after tax	**152,018**	**-**	**152,018**
Foreign currency translation movement during the year	**-**	**745**	**745**
Closing balance 31 December	**(246,369)**	**(788)**	**(247,157)**
2015			
Opening balance 1 January 2015	(380,916)	(1,281)	(382,197)
Loss after tax	(17,471)	-	(17,471)
Foreign currency translation movement during the year	-	(252)	(252)
Closing balance 31 December	(398,387)	(1,533)	(399,920)

The table above discloses information on an after tax basis. Information on the tax on items treated as other comprehensive income and disclosure of the pre tax values shown in the Statement of Changes in Equity is set out in Note 2.4(b).

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Summary of significant accounting policies

Foreign currency translation
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. 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.

Dividends
Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at the balance sheet date, 2016: none (2015: none).

4.4. Capital management

(a) Types of capital

i. Regulatory capital

Minimum capital requirements for the Company are set and regulated by the Australian Prudential Regulation Authority (APRA) and the Reserve Bank of New Zealand. These requirements are put in place to ensure sufficient solvency margins within the statutory funds.

The amount of capital required to be held by the Company 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 the Company is regularly monitored relative to a Board approved Internal Capital Adequacy Assessment Policy ("ICAAP"). It also takes into account the longer term strategic objectives of the Company's ultimate parent company MR-AG in order to maximise shareholder's value.

The Company manages its capital requirements by assessing economic conditions and risk characteristics of the 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) MR-AG.

ii. Ratings capital

The Company 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 2016. The ratings help to reflect the financial strength of the Company 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.

4.4. Capital management (continued)

(b) Solvency and capital requirements of the life reinsurance statutory funds

Under the Life Insurance Act 1995, life insurers are required to hold reserves in excess of the amount of policy liabilities in order to support the life insurer's capital requirements and to provide a buffer against adverse experience. MRA determines it's capital requirements in accordance with APRA's Life and General Insurance Capital (LAGIC) Standards effective 1 January 2013. Specifically, APRA's LPS110 prescribes the minimum capital requirement for each fund and the minimum level of assets required to be held in each fund. The figures in the table below show the Capital base as a multiple of the Total prescribed capital amount.

2016	Australian Statutory Fund 1 $'000	New Zealand Statutory Fund 2 $'000	Shareholder's Fund $'000	Total $'000
Capital Base	**614,582**	**37,778**	**2,884**	**655,244**
Common Equity tier 1 (Net assets)	**1,100,569**	**32,390**	**2,884**	**1,135,843**
Total regulatory adjustments to common equity tier 1	**(485,987)**	**5,388**	**-**	**(480,599)**
Additional tier 1 capital	**-**	**-**	**-**	**-**
Total regulatory adjustments to additional tier 1 capital	**-**	**-**	**-**	**-**
Tier 2 capital	**-**	**-**	**-**	**-**
Total regulatory adjustments to Tier 2 capital	**-**	**-**	**-**	**-**
Total capital base (A)	**614,582**	**37,778**	**2,884**	**655,244**
Prescribed capital				
Insurance risk capital; charge	**163,739**	**15,899**	**-**	**179,638**
Asset risk capital charge	**110,099**	**8,879**	**47**	**119,025**
Asset concentration risk charge	**-**	**-**	**-**	**-**
Operational risk charge	**21,591**	**954**	**-**	**22,545**
Less aggregation benefit	**(59,028)**	**(5,078)**	**-**	**(64,106)**
Combined stress scenario adjustment	**101,448**	**7,291**	**42**	**108,781**
Total Prescribed capital amount (PCA) (B)	**337,849**	**27,945**	**89**	**365,883**
Capital adequacy multiple (A/B)	**1.82**	**1.35**	**32.40**	**1.79**

2015	Australian Statutory Fund 1 $'000	New Zealand Statutory Fund 2 $'000	Shareholder's Fund $'000	Total $'000
Capital Base	582,650	35,046	2,832	620,528
Common Equity tier 1 (Net assets)	544,269	30,979	2,832	578,080
Total regulatory adjustments to common equity tier 1	38,381	4,067	-	42,448
Additional tier 1 capital	-	-	-	-
Total regulatory adjustments to additional tier 1 capital	-	-	-	-
Tier 2 capital	-	-	-	-
Total regulatory adjustments to Tier 2 capital	-	-	-	-
Total capital base (A)	582,650	35,046	2,832	620,528
Prescribed capital				
Insurance risk capital charge	258,697	15,423	-	274,120
Asset risk capital charge	93,895	7,579	74	101,548
Asset concentration risk charge	-	-	-	-
Operational risk charge	19,512	903	-	20,415
Less aggregation benefit	(60,262)	(4,507)	-	(64,769)
Combined stress scenario adjustment	130,381	3,577	42	134,000
Total Prescribed capital amount (PCA) (B)	442,223	22,975	116	465,314
Capital adequacy multiple (A/B)	1.32	1.53	24.41	1.33

Section 5. Life reinsurance contracts

5.1. Life reinsurance contract liabilities: Actuarial process & disclosures

(a) Basis of preparation for life reinsurance contracts

The effective date of the actuarial report on life reinsurance contract liabilities and solvency requirements is 31 December 2016. 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 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 Life reinsurance 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.

i. Actuarial valuation methods

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

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

ii. 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. 2016: Aust 1.6% - 4.8% p.a., NZ 2.0% - 5.1% p.a. (2015: Aust 1.9% - 4.4% p.a., NZ 2.6% - 5.5% p.a.)
Maintenance expenses	The allowance for future expenses is a percentage of in-force premiums based on the Company's planned expenses in 2016.
Inflation	Expected long term inflation rate based on market and economic data. 2016: Aust 1.21% - 2.52% p.a., NZ 2.25% p.a. (2015: Aust 2.75%., NZ 2.75% p.a.).
Voluntary discontinuance	Rates varying by benefit type, age, duration of policy, class of business, premium type and treaty: 2016: 0% to 100% (2015: 0% to 100%).
Surrender values	Ceding company values.
Mortality &morbidity including Disability termination	Biometric assumptions based on the company's own experience, supplemented by other experience sources in areas where own experience lacks credibility. No change in approach from 2015, but parameters have changed for Morbidity.
IBNR	Allowance was made for inherent delays in reporting claims based on investigations into the company's own recent life reinsurance experience. 2016 and 2015: IBNR determined using an adjusted chain-ladder method.

	Australia		New Zealand	
	Profit Carrier	Rate of Taxation	Profit Carrier	Rate of Taxation
Lump Sum - Individual	Premium	30%	Premium	28%
Lump Sum - Group	Premium	30%	Premium	28%
Disability - Individual & Group	Premium	30%	Premium	28%
Annuity	Claims	0%	N/A	N/A

iii. Effects of changes in actuarial assumptions

	31 December 2015 to 31 December 2016	
Assumption category	Effect on net profit margins $'000 increase / (decrease)	Effect on net life reinsurance contract liabilities $'000 increase / (decrease)
Discount rates & inflation	(698)	(54,304)
Model and assumption changes	17,040	(11,856)
Total	16,342	(66,160)

5.1. Life reinsurance contract liabilities: Actuarial process & disclosures *(continued)*

iv. 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.

Summary of significant accounting policies

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. The life insurance operations of the Company comprise the reinsurance of life insurance contracts.

Life reinsurance contracts involve the acceptance of significant reinsurance risk. Reinsurance risk is defined as significant if, and only if, a reinsured event could cause a reinsurer 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. 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.

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 from the statutory funds to the shareholder's fund, if any, 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 Section 62 of the Life Insurance Act (1995).

5.1. Life reinsurance contract liabilities: Actuarial process & disclosures *(continued)*

(b) Disaggregated information of life reinsurance business by fund

	Australian Statutory Fund No. 1 2016 $'000	New Zealand Statutory Fund No. 2 2016 $'000	Shareholder's Fund 2016 $'000	Total 2016 $'000	Australian Statutory Fund No. 1 2015 $'000	New Zealand Statutory Fund No. 2 2015 $'000	Shareholder's Fund 2015 $'000	Total 2015 $'000
Cash and cash equivalents	69,978	2,883	327	73,188	53,562	2,717	304	56,583
Investment in financial assets	2,227,858	148,074	2,659	2,378,591	2,242,039	137,033	2,725	2,381,797
Reinsurance and other assets	460,377	7,511	18	467,906	440,037	30,455	18	470,510
Retrocessionaires' share of life reinsurance contract liabilities	459,061	35,253	-	494,314	628,596	33,824	-	662,420
Deferred taxes	-	5,980	(120)	5,860	16,964	5,863	(98)	22,729
Reinsurance and other liabilities	(765,145)	(50,025)	-	(815,170)	(848,205)	(71,859)	(117)	(920,181)
Income tax payable	-	(436)	-	(436)	-	-	-	-
Provisions	(291,236)	(22,513)	-	(313,749)	(312,088)	(18,153)	-	(330,241)
Reinsurance contract liabilities	(1,060,324)	(94,337)	-	(1,154,661)	(1,676,636)	(88,901)	-	(1,765,537)
Net Assets	1,100,569	32,390	2,884	1,135,843	544,269	30,979	2,832	578,080
Net life reinsurance premiums	507,051	26,888	-	533,939	481,214	23,904	-	505,118
Net life reinsurance commissions	(556,080)	(4,001)	-	(560,081)	(216,371)	(2,042)	-	(218,413)
Net life reinsurance claims	(257,174)	(19,055)	-	(276,229)	(250,979)	(18,571)	-	(269,550)
Net movement in reinsurance policy liabilities	446,777	(2,644)	-	444,133	(42,261)	4,248	-	(38,013)
Other revenue and expenses	(22,231)	(1,220)	-	(23,451)	(23,765)	(1,630)	-	(25,395)
Investment gains and (losses)	52,038	2,544	77	54,659	42,459	5,986	55	48,500
Investment management expense	(2,200)	(131)	(2)	(2,333)	(1,937)	(113)	(2)	(2,052)
Profit/(loss) before tax	168,181	2,381	75	170,637	(11,640)	11,782	53	195
Profit/(loss) after tax	151,299	666	53	152,018	(24,886)	7,409	6	(17,471)
Transfers between funds	-	-	-	-	-	-	-	-
Capital transfers to statutory funds	405,000	-	(405,000)	-	-	-	-	-
Capital adequacy multiple	1.82	1.35	32.40	1.79	1.32	1.53	24.41	1.33

5.2. Life reinsurance contract liabilities: Composition and movements

(a) Reconciliation of movements

2016	Gross $'000	Retrocession and other recoveries $'000	Net $'000
Reconciliation of movements in reinsurance contract liabilities			
Life reinsurance contract liabilities at the beginning of the financial year	**1,765,537**	**(662,420)**	**1,103,117**
(Decrease) / Increase in life reinsurance contract policy liabilities	**(613,049)**	**168,916**	**(444,133)**
Currency fluctuation in life reinsurance contract liabilities	**2,173**	**(810)**	**1,363**
Total reinsurance contract liabilities	**1,154,661**	**(494,314)**	**660,347**
Current (asset)/liability	**(105,490)**	**40,595**	**(64,895)**
Non-current (asset)/liability	**1,260,151**	**(534,909)**	**725,242**
Total reinsurance contract liabilities	**1,154,661**	**(494,314)**	**660,347**

2015	Gross $'000	Retrocession and other recoveries $'000	Net $'000
Reconciliation of movements in reinsurance contract liabilities			
Life reinsurance contract liabilities at the beginning of the financial year	1,716,705	(650,650)	1,066,055
(Decrease) / Increase in life reinsurance contract policy liabilities	50,407	(12,394)	38,013
Currency fluctuation in life reinsurance contract liabilities	(1,575)	624	(951)
Total reinsurance contract liabilities	1,765,537	(662,420)	1,103,117
Current (asset)/liability	(3,795)	15,874	12,079
Non-current (asset)/liability	1,769,332	(678,294)	1,091,038
Total reinsurance contract liabilities	1,765,537	(662,420)	1,103,117

The gross cashflow in the first year is positive, as income (premium) exceeds outgo (claims and expenses).

(b) Components of reinsurance contract liabilities

	2016 $'000	2015 $'000
Life reinsurance		
Best estimate liability for non investment-linked business		
Value of future policy benefits	**4,923,069**	3,653,008
Value of future expenses	**2,675,679**	1,736,966
Value of future premiums	**(7,360,651)**	(4,534,059)
	238,097	855,915
Value of future profits for non investment-linked business		
Shareholder profit margins	**422,250**	247,202
Net life reinsurance contract liabilities	**660,347**	1,103,117

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

	2016 $'000	2015 $'000
Operating profit after income tax arose from:		
- Planned margins of revenues over expenses released	**6,419**	5,312
- Experience profit/(loss)	**48,953**	72,344
- Capitalisation of expected future profits/(losses)	**82,801**	(103,729)
- Investment earnings on assets in excess of life reinsurance contract liabilities	**13,792**	8,597
Operating profit/(loss) after income tax of statutory funds	**151,965**	(17,476)

Section 6. Other notes

6.1. Commitments

The Company has no known capital commitments at the reporting date (2015: nil).

6.2 Contingencies

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

6.3 Related parties

(a) Parent and ultimate controlling party

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

(b) Transactions with key management personnel

Key management personnel compensation comprised the following:

	2016	2015
Short term employee benefits	**1,835,804**	1,965,010
Long term employee benefits	**112,778**	164,000
Post-employment benefits	**380,672**	254,774
Total employment benefits	**2,329,254**	2,383,784

Compensation of the Company's key management personnel includes salaries, non-cash benefits and contributions to a post-employment defined benefit plan and defined contribution plan. These payments originated from the Parent company.

(c) Transactions with related parties

	Transaction values for the year ended 31 December *Inwards/(Outwards)*		Balance outstanding as at 31 December *Receivable/(Payable)*	
	2016	2015	2016	2015
Retrocession of reinsurance contracts with ultimate parent:				
MR-AG	**59,334,209**	(201,004,555)	**(107,445,913)**	(16,689,218)
Recharge of expenses incurred on the company's behalf:				
MHA	**(33,903,304)**	(34,371,440)	**-**	-
Munichre New Zealand Service Limited (NZS)	**(108,780)**	(112,437)	**-**	-
Transactions with tax group relating to tax sharing and funding agreement:				
MHA	**(2,556,045)**	-	**-**	2,556,045
Corion Pty Limited	**78,092**	(42,909)	**80,479**	2,387
MR-AG	**456,361**	(4,817,669)	**(5,852,239)**	(6,164,299)
Capital injection received from immediate parent:				
MHA	**405,000,000**	-	**-**	-

NZS is a company under common control of the parent MHA and recharges expenses incurred by the Company's New Zealand statutory fund ("New Zealand Statutory Fund 2").

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

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.

All other 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.

The Company continues to be party to a tax sharing and tax funding agreement with other members of the Australian tax consolidated group. Details about these agreements are disclosed in note 2.4.

6.4 Remuneration of auditors

The following fees were paid or payable for services provided by the auditors of the Company and its related practices:

(a) Audit services

KPMG:	2016	2015
Audit and review of financial reports under the Corporations Act 2001	**452,190**	436,266
Total remuneration for audit services	**452,190**	436,266

(b) Other services

KPMG:	2016	2015
Review of group life experience study report	-	14,900
Review of embedded value report	-	62,510
Experience investigations and review	-	77,196
Total remuneration for other services	-	154,606

6.5. Events occurring after the balance sheet date

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

6.6. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early and the extent of the impact has not been determined.

AASB 9 Financial Instruments
AASB 9, approved in December 2015, replaces the existing guidance in AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from AASB 139. AASB 9 is mandatory for annual reporting periods beginning on or after 1 January 2018.

The Company is currently undertaking an assessment of the potential impact of this standard. The potential impact to the Company is unlikely to be material and the Company is not considering early adopting AASB 9.

AASB 15 Revenue from Contracts with Customers
AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 Revenue, AASB 111 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. AASB 15 is mandatory for annual reporting periods beginning on or after 1 January 2018.

Life reinsurance premium and related revenue will continue to fall outside the scope of AASB 15 and will be accounted for under the other applicable standards, therefore it is not expected to materially impact the Company's financial statements. The Company is not considering early adopting AASB 15.

AASB 16 Leases
AASB 16 Leases is effective for periods beginning on 1 January 2019. AASB 16 requires lessees to recognise most leases on balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognized leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets.

The Company is not a party to any lease arrangements, therefore it is not expected to materially impact the Company's financial statements. The Company is not considering early adopting AASB 16.

Directors' declaration

In the opinion of the directors of Munich Reinsurance Company of Australasia Limited (the Company):

(a) the financial statements and notes that are set out on pages 4 to 29 are 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 2016 and of its performance for the financial year ended on that date; and

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

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors draw attention to note 1.2 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in Sydney on 28 March 2017 in accordance with a resolution of the directors:

E G Tollifson
Director

A Linfoot
Director

KPMG

Independent Auditor's Report

To the members of Munich Reinsurance Company of Australasia Limited

Opinion

We have audited the ***Financial Report*** of Munich Reinsurance Company of Australasia Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Company's financial position as at 31 December 2016 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Statement of financial position as at 31 December 2016.
- Statement of comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

Other Information is financial and non-financial information in Munich Reinsurance Company of Australasia Limited annual reporting which is provided in addition to the Financial Report and the Auditor's Report. This includes the Directors' Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express any form of assurance conclusion thereon.

KPMG

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing a Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Company's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the Audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar3.pdf. This description forms part of our Auditor's Report.

KPMG

David Kells

Partner

Sydney

28 March 2017