

**Munich Reinsurance Company
New Zealand Branch
(Münchener Rückversicherungs-Gesellschaft
New Zealand Branch)**

**(Overseas company registered in New Zealand
under the Companies Act 1993)**

Annual Financial Report
31 December 2015

Munich Reinsurance Company – New Zealand Branch
(Overseas company registered in New Zealand under the Companies Act 1993)

Statement on Corporate Governance

Münchener Rückversicherungs-Gesellschaft (Munich Reinsurance Company or MRM) is a German company which operates in New Zealand through a branch. MRM is authorised by the Reserve Bank of New Zealand to conduct non-life reinsurance business in New Zealand.

Munich Holdings of Australasia Pty Limited (MHA) is a wholly owned subsidiary of MRM. MHA's primary function is to provide administration services for the Munich Re Group in Australia, New Zealand and the Pacific area. It carries out oversight of the New Zealand reinsurance activities in conjunction with strategic and operational guidance provided by MRM.

In providing administration and other services, the MHA Group provides the primary governance oversight of MRM's New Zealand branch (MRNZ).

MHA's key responsibilities include:

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

MHA's Board comprises a majority of independent non-executive directors. All directors and executive management 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 MHA Board has established the following:

- Risk and Compliance committee. Amongst other things, the committee provides oversight of the systems, controls and processes used to manage those risks to which MRNZ is exposed and to monitor compliance with all MRNZ's legal and statutory obligations.
- Audit Committee. Amongst other things, the committee provides oversight of the integrity of the accounting and financial reporting used by MRNZ including to implement and monitor the potential impact of financial risks on MRNZ and to review the performance and independence of the external auditor.

MHA has established a Remuneration Committee and has a Remuneration Policy that aligns remuneration and risk management. The 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.

Munichre New Zealand Service Limited (NZS) is the employer of all Munich Re Group staff in New Zealand and provides certain administrative services to MRNZ. NZS is a 100% owned subsidiary of MHA.

All Munich Re Group staff globally are required to comply with 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 MHA Board has approved the following policies and procedures which are applicable to New Zealand:

- 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
- Outsourcing Policy
- Fit and Proper Policy
- Business Continuity Management Policy
- Investment Listing
- Search and Seizure Policy

Munich Reinsurance Company – New Zealand Branch**(Overseas company registered in New Zealand under the Companies Act 1993)****Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2015**

| | Note | 2015 \$'000 | 2014 \$'000 |
|--|------|----------------|-----------------|
| Revenue from operating activities | | | |
| Reinsurance revenue | | 67,894 | 54,534 |
| Investment revenue | | 21,526 | 32,729 |
| Other revenue | | 795 | 4,885 |
| Total revenue from operating activities | 5 | 90,215 | 92,148 |
| Expenses from operating activities | | | |
| Reinsurance expense | | 47,562 | 137,815 |
| Investment expense | | 306 | 448 |
| Other expense | | 8,591 | 5,558 |
| Total expenses from operating activities | 6 | 56,459 | 143,821 |
| Profit / (loss) before tax | | 33,756 | (51,673) |
| Tax (benefit) | 7(a) | (32,893) | (35,460) |
| Profit / (loss) for the year | | 66,649 | (16,213) |
| Other comprehensive income | | - | - |
| Total comprehensive income/(expense) for the year | | 66,649 | (16,213) |

The Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the notes to the financial statements set out on pages 6 to 26.

Munich Reinsurance Company – New Zealand Branch
(Overseas company registered in New Zealand under the Companies Act 1993)
Statement of Financial Position as at 31 December 2015

| | Note | 2015 \$'000 | 2014 \$'000 |
|--------------------------------------|------|----------------|----------------|
| Current assets | | | |
| Cash and cash equivalents | 10 | 22,637 | 16,437 |
| Outstanding premiums | 11 | 23,478 | 36,714 |
| Deferred acquisition costs | 14 | 13,772 | 11,053 |
| Financial assets | 12 | 79,000 | 106,000 |
| Reinsurance recoveries | 15 | 23,242 | 14,080 |
| Current tax receivable | 7(c) | 121 | 121 |
| Tax loss transfers receivable | | 42,606 | 33,798 |
| Other | 13 | 3,091 | 5,988 |
| Total current assets | | <u>207,947</u> | <u>224,191</u> |
| Non-current assets | | | |
| Financial assets | 12 | 233,817 | 353,707 |
| Reinsurance recoveries | 15 | 45,519 | 52,243 |
| Deferred tax assets | 16 | 14,511 | 24,224 |
| Other | 17 | 850 | 800 |
| Total non-current assets | | <u>294,697</u> | <u>430,974</u> |
| Total assets | | <u>502,644</u> | <u>655,165</u> |
| Current liabilities | | | |
| Payables | 18 | 10,948 | 6,777 |
| Outstanding claims | 19 | 143,824 | 165,149 |
| Unearned premiums | 20 | 33,781 | 25,368 |
| Provisions | 21 | 452 | 344 |
| Total current liabilities | | <u>189,005</u> | <u>197,638</u> |
| Non-current liabilities | | | |
| Outstanding claims | 19 | 213,695 | 390,434 |
| Total non-current liabilities | | <u>213,695</u> | <u>390,434</u> |
| Total liabilities | | <u>402,700</u> | <u>588,072</u> |
| Net assets | | <u>99,944</u> | <u>67,093</u> |
| Head office account | | | |
| Accumulated surplus – head office | | 99,944 | 67,093 |
| Total head office account | | <u>99,944</u> | <u>67,093</u> |

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 6 to 26.

Munich Reinsurance Company – New Zealand Branch
(Overseas company registered in New Zealand under the Companies Act 1993)
Statement of Changes in Equity for the year ended 31 December 2015

| | Head office account \$'000 |
|--|---|
| Balance at 1 January 2014 | 125,195 |
| Total comprehensive (expense) | (16,213) |
| Transfer to head office account – capital repatriation | <u>(41,889)</u> |
| Balance at 31 December 2014 | <u>67,093</u> |
| Balance at 1 January 2015 | 67,093 |
| Total comprehensive income | 66,649 |
| Transfer to head office account – capital repatriation | <u>(33,798)</u> |
| Balance at 31 December 2015 | <u>99,944</u> |

The Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements set out on pages 6 to 26.

Munich Reinsurance Company – New Zealand Branch
(Overseas company registered in New Zealand under the Companies Act 1993)
Statement of Cash Flows for the year ended 31 December 2015

| | Note | 2015 \$000 | 2014 \$000 |
|---|-----------|------------------|------------------|
| Cash flows from operating activities | | | |
| Inwards reinsurance premium received | | 89,604 | 112,942 |
| Inwards reinsurance claims paid | | (212,761) | (381,673) |
| Outward reinsurance premium paid | | (1,600) | (2,667) |
| Tax loss transfers received | | 33,798 | 42,299 |
| Other operating receipts | 5 | - | 293 |
| Other operating payments | | (37,889) | (30,978) |
| Net cash from operating activities | 24 | (128,848) | (259,784) |
| Cash flows from investing activities | | | |
| Payments for investments | | (396,832) | (626,295) |
| Proceeds from sale of investments | | 546,797 | 903,826 |
| Interest received | | 19,187 | 32,103 |
| Investment expenses paid | 6 | (306) | (448) |
| Net cash from investing activities | | 168,846 | 309,186 |
| Cash flows from financing activities | | | |
| Capital repatriation | | (33,798) | (41,889) |
| Net cash from financing activities | | (33,798) | (41,889) |
| Net increase in cash and cash equivalents | | 6,200 | 7,513 |
| Cash and cash equivalents at 1 January | | 16,437 | 8,924 |
| Cash and cash equivalents at 31 December | 10 | 22,637 | 16,437 |

The Statement of Cash Flows is to be read in conjunction with the notes to the financial statements set out on pages 6 to 26.

Munich Reinsurance Company – New Zealand Branch

(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2015

1. Summary of significant accounting policies

Munich Reinsurance Company – New Zealand Branch (“the Branch”) is registered to carry on inward reinsurance business in New Zealand as a foreign company, Münchener Rückversicherungs-Gesellschaft AG (the Company), which is domiciled and incorporated in Germany. The Branch’s principal activity is general reinsurance. The Branch is a reporting entity in terms of the Financial Markets Conduct Act 2013 and the financial statements have been prepared in accordance with the requirements of that Act and the Financial Reporting Act 2013.

With the introduction of the Insurance (Prudential Supervision) Act 2010 (“IPSA”), all insurers carrying on insurance business in New Zealand are required to be licensed by the Reserve Bank of New Zealand (“RBNZ”). Munich Reinsurance Company was granted a full license on 2 April 2013. These financial statements have also been prepared in accordance with the IPSA.

The financial report was authorised for issue by the directors on 23 March 2016.

(a) Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Principles (“NZ GAAP”). They comply with New Zealand equivalents to International Financial Reporting Standards (“NZ IFRS”) and other applicable Financial Reporting Standards as appropriate for Tier 1 for-profit entities. The financial statements also comply with International Financial Reporting Standards (“IFRS”).

(b) Basis of preparation

The financial statements are presented in New Zealand Dollars which is the Branch’s presentation and functional currency. The financial statements are prepared in accordance with the fair value basis of accounting unless otherwise stated below. The accounting policies set out below have been applied consistently by the Branch to all periods presented in the financial statements.

Adoption of new standards and changes in accounting policies

The following accounting standards and interpretations were issued but are not yet mandatory and have not been adopted by the Branch for the financial year ended 31 December 2015. An assessment of the impact of the new or amended standards are set out below:

NZ IFRS 9 *Financial Instruments* includes requirements for the classification, measurement and de-recognition of financial assets and financial liabilities. The application date of NZ IFRS 9 has been deferred until 1 January 2018. Retrospective application is generally required, although there are exceptions. As the Branch currently classifies its financial assets either at amortised cost or 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.

NZ IFRS 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue guidance, including:

- NZ IAS 11 Construction Contracts
- NZ IAS 18 Revenue
- NZ IFRIC 13 Customer Loyalty Programmes
- NZ IFRIC 15 Agreements for the Construction of Real Estate
- NZ IFRIC 18 Transfers of Assets from Customers
- NZ SIC-31 Revenue – Barter Transactions Involving Advertising Services

NZ IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Branch is assessing the potential impact on the financial statements resulting from the application of NZ IFRS 15.

(c) Use of estimates and judgements

The preparation of the financial statements in conformity with NZ GAAP requires management to make judgements, estimates and assumptions that affect the application of 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 the accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The areas where critical accounting estimates and judgements are applied are included in note 2.

Munich Reinsurance Company – New Zealand Branch
(Overseas company registered in New Zealand under the Companies Act 1993)
Notes to the financial statements for the year ended 31 December 2015

1. Summary of significant accounting policies (continued)

(d) Revenue

Premium revenue

The earned portion of premiums received and receivable including unclosed business is recognised as revenue.

The pattern of recognition of premium revenue over the policy or indemnity periods is based on time, where this closely approximates the pattern of risk underwritten. Where time does not approximate the pattern of risk, previous claims experience has been used to derive the incidence of risk.

Interest income

Interest income is recognised on an accrual basis.

(e) Liability adequacy test

At each reporting date the Branch performs a liability adequacy test and immediately recognises any deficiencies if the carrying amount of unearned premium less any related deferred acquisition costs does not meet estimated future cash flows relating to future claims covered by current reinsurance contracts.

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related deferred acquisition costs then the unearned premium liability is deemed to be deficient. The entire deficiency, if any, is recognised immediately in the Statement of Profit or Loss. The deficiency is recognised first by writing down the related deferred acquisition costs with any excess being recorded in the Statement of Financial Position as an unexpired risk liability.

(f) Outwards reinsurance

Premiums ceded to reinsurers are recognised as an expense in accordance with the pattern of reinsurance service received.

(g) Claims

Claims incurred expense and a liability for outstanding claims are recognised in respect of the inwards reinsurance business. The liability covers claims incurred but not yet paid, incurred but not reported ("IBNR"), incurred but not enough reported ("IBNER") and the anticipated direct costs and where material indirect costs of settling those claims. The liability for outstanding claims is measured as the present value of the expected future payments reflecting the fact that all claims do not have to be paid out in the immediate future.

The expected future payments are estimated on the basis of the ultimate cost of settling claims which is affected by factors arising during the period to settlement such as normal inflation and superimposed inflation. The expected future payments are then discounted to a present value at the balance date using a discount rate. A risk margin is added to the outstanding claims provision to increase the probability that the liability is adequate at an adequacy level deemed appropriate by the management and set at a minimum confidence level of 75%.

(h) Reinsurance recoveries

Reinsurance recoveries are assessed regularly and expected future recoveries are estimated on the same basis as the liability for outstanding claims, on the basis of the ultimate cost of settling claims which is affected by factors arising during the period to settlement such as normal inflation and superimposed inflation. The expected future recoveries are then discounted to a present value at the balance date using a discount rate. A risk margin is added to the outstanding recoveries provision to increase the probability that the liability is adequate at an adequacy level deemed appropriate by the management and set at a minimum adequacy level of 75%.

(i) Acquisition costs

A portion of direct acquisition costs relating to unearned premium revenue is deferred where it represents future benefits to the Branch and can be reliably measured. Deferred acquisition costs are stated at the lower of cost and recoverable amount. Deferred acquisition costs are amortised over the financial years expected to benefit from the expenditure.

Munich Reinsurance Company – New Zealand Branch
(Overseas company registered in New Zealand under the Companies Act 1993)
Notes to the financial statements for the year ended 31 December 2015

1. Summary of significant accounting policies (continued)

(j) Foreign currency translation

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 Profit or Loss.

Assets and liabilities expressed in other currencies are translated to the functional currency using the closing exchange rate at the reporting date and income and expenses are translated using the average exchange rate for the year. Realised and unrealised foreign exchange gains and losses resulting from this translation are recognised in the Profit or Loss.

(k) 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 and 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. The 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.

(l) Rounding of amounts

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

(m) Financial assets backing insurance contract liabilities

The Branch has determined that all financial assets are deemed to back insurance contract liabilities and are designated as fair value through Profit or Loss. They are initially recorded at fair value (being the cost of acquisition excluding transaction costs) and are subsequently measured at fair value through Profit or Loss at each balance date as they meet the criteria under NZ IAS 39 *Financial Instruments: Recognition and Measurement*. Unrealised profits and losses on subsequent measurement to fair value are recognised in the Profit or Loss.

Fair value 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. Cash includes cash on hand, deposits held at call with banks, Term Deposits and investments in money market instruments, such as Bills of Exchange.
- Fixed interest securities are taken as the bid price of the instrument.
- Receivables are initially recognised and subsequently measured at book value less provision for doubtful debts, which is the best estimate of fair value as they are settled within a short period.

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.

(n) Impairment of assets

All assets other than those which are set 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.

Munich Reinsurance Company – New Zealand Branch

(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2015

1. Summary of significant accounting policies (continued)

(o) 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.

(p) Payables

Payables 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.

(q) Goods and Services Tax

All amounts are shown exclusive of Goods and Services Tax (GST), except for receivables and payables that are stated inclusive of GST.

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.

The Branch currently recognises and measures assumed premium revenue, commissions and claims for a reporting period before the period ends based on a fast-close provisioning approach. The approach includes estimating the premium revenue, commissions paid and claims expense to be reported to and settled by the Branch from the fast close date to the end of the reporting period. The fast close date being the date when the re-insurance administration systems are closed for the period being reported.

Premium, commissions and claims provisions accrued at balance date include estimates of the amounts outstanding. The methodology used in the calculation of the amounts outstanding takes into account the number of premium, commission and claims instalments received and those which are expected to be received at balance date.

3. Summary of significant actuarial methods and assumptions

The effective date of the actuarial valuation on outstanding claims liability is 31 December 2015. The liability valuation report was prepared by the Actuarial team and reviewed by the Appointed Actuary, Ms Susan Ley, FNZSA, FIAA, FIA. The report indicates that the Appointed Actuary is satisfied with the nature, sufficiency and accuracy of the data provided upon which the outstanding claims liabilities have been determined. Methods utilised and assumptions made in determining the outstanding claims liability are in accordance with the requirements of IFRS 4 *Insurance Contracts* and consistent with the New Zealand Society of Actuaries Professional Standard Number 30, "Valuation of General Insurance Claims".

(a) Key actuarial valuation methods and assumptions

Outstanding claims liabilities

Provision is made at the end of the year for the estimated cost of claims incurred but not settled at balance date. These reserves include estimates for claims that have been reported, claims that have been incurred but not reported (IBNR), and claims that have been incurred but not enough reported (IBNER), and include estimates of expenses associated with processing and settling these claims.

The process of establishing reserves is subject to considerable variability as it requires the use of informed estimates and judgments. These estimates and judgments are based on numerous factors, and may be revised as additional experience and other data become available or as regulations change.

Outstanding claims liability is estimated by class of business. Historical experience and other statistical information are used to estimate the ultimate claim costs.

Munich Reinsurance Company – New Zealand Branch
(Overseas company registered in New Zealand under the Companies Act 1993)
Notes to the financial statements for the year ended 31 December 2015

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

(a) Key actuarial valuation methods and assumptions (continued)

Outstanding claims liabilities (continued)

To determine the outstanding claims provision for a particular line of business, more than one method may be used to estimate ultimate losses and loss expenses, the results of which are used to select a single point estimate. These methods may include, but are not necessarily limited to, extrapolations of historical reported and paid loss data, application of industry loss development patterns to the reported or paid losses, expected loss ratios developed by management, and historical industry loss ratios. Underlying judgments and assumptions that may be incorporated into these actuarial methods include, but are not necessarily limited to, adjustments to historical data used in models to exclude aberrations in claims data such as catastrophes that are typically analysed separately, adjustments to actuarial models and related data for known business changes and the effect of recent or pending litigation on future claims settlements.

Key actuarial assumptions

The following key assumptions have been made in determining the outstanding claims liabilities:

| | 2015 | 2014 |
|---|-----------|-----------|
| Weighted average term to settlement (years) | 1.7 | 2.0 |
| Inflation rate | Implicit | Implicit |
| Discount rate | 2.6%-5.0% | 3.6%-4.2% |
| Claims handling expense ratio | 0.8% | 1.1% |
| Risk margin | 10.4% | 11.0% |

Process used to determine assumptions

A description of the processes used to determine these assumptions is provided below:

- **Weighted average term to settlement**

The weighted average term to settlement relates to the number of years or duration until the payments are made on average (inflated and discounted). The payment pattern is selected based on historical settlement patterns. The weighted average term to settlement, while not itself an assumption, provides a summary indication of the future cash flow pattern.

- **Inflation rate**

Insurance costs are subject to inflationary pressures. Inflation is built into the actuarial models implicitly.

- **Discount rate**

In order to determine the interest rates used to discount the undiscounted liabilities, an analysis of the term structure of risk-free interest rates was prepared. The yield structure of New Zealand government bonds as at 31 December 2015 is used to derive the future effective annual interest rates.

- **Claims handling expense**

New Zealand and International Financial Reporting Standards require insurers to establish a provision for outstanding claims, which includes an allowance for claims handling expenses (CHE). The claims handling expense is determined by conducting an expense analysis on the running costs related to claims personnel.

- **Risk margin**

The overall risk margin was determined allowing for the relative uncertainty of the outstanding claims estimate for each class of business. The uncertainty margins were determined for each line of business and then reductions were applied on account of diversification across the various lines of business. The overall position is intended to approximate the 75% probability of sufficiency scenario.

Munich Reinsurance Company – New Zealand Branch
(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2015

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

(b) The effect of changes in key actuarial assumptions

Sensitivity analyses are conducted to quantify the impact of changes in the key underlying variables. The variations included in the reported results are calculated using certain assumptions about the variables as disclosed below. The movement in any key variable will impact the financial position and performance for a period. The following information describes how a change in each assumption will affect claims liabilities and provides an analysis of the sensitivity of the outstanding claims liabilities to changes in these assumptions.

- **Weighted average term to settlement**

A decrease in average term to settlement would imply that claims are being paid sooner than anticipated. An increase or decrease in the weighted average term would have an opposite effect on outstanding claims liabilities.

- **Discount rate**

An increase or decrease in the assumed discount rate will have an opposite impact on the overall outstanding claims liabilities.

- **Claims handling ratio**

An increase or decrease in the expense rate assumption would have a corresponding change on outstanding claims liabilities.

- **Risk margin**

An increase or decrease in the percentage risk margin will have a corresponding change in the overall outstanding claims liabilities.

(c) Sensitivity analysis of changes in key actuarial assumptions

The impact of changes in key actuarial assumptions is summarised below. Each change has been calculated in isolation of the other changes.

The movements are stated in absolute terms where the base assumption is a percentage, for example, if the base risk margin assumption was 10.2%, a 1.0% increase would mean a 11.2% risk margin. The movements in the net outstanding claims liability would have an opposing net impact on the profit before tax for a year.

| Variable | Movement in variable | Change in gross discounted outstanding claim liabilities (\$'000) |
|-------------------------------------|----------------------|---|
| Weighted average term to settlement | +10% | (1,487) |
| | -10% | 1,493 |
| Risk Margin | +1% | 3,240 |
| | -1% | (3,240) |
| Discount rate | +1% | (4,986) |
| | -1% | 5,199 |
| Claims handling expense ratio | +1% | 3,547 |
| | -1% | (3,547) |

Munich Reinsurance Company – New Zealand Branch

(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2015

4. Risk management policies and procedures

The Branch carries on inward reinsurance business in New Zealand in the non-life insurance segment.

The financial condition and operating results of the Branch are affected by a number of key financial and non-financial risks. Risk management is the process of identifying, analysing, controlling, monitoring, and reporting risks that could have a material impact on the operations of the Branch. Insurance risk involves the consideration of the market, product design, pricing, underwriting, claims management and valuation risk. The Branch's disclosed objectives and policies in respect of managing these risks are set out in the remainder of this note.

(a) Risk management objectives and policies for mitigating financial risks

Objectives

Through its insurance operations the Branch is exposed to financial risks such as credit risk, liquidity risk and market risk. The Branch's risk management framework seeks to minimise the potential adverse effects of these risks on its financial performance.

The key objective of the Branch's financial management strategy is to ensure sufficient liquidity is available at all times to meet its financial obligations, including settlement of insurance liabilities, and to optimise the Branch's investment returns.

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 all New Zealand dollar investments to be in bonds or deposits issued by the New Zealand government or major banks.
- Premium paid by cedants are paid net of commission so that no commission liability exists until a premium is paid. Additionally claim payments may be deferred where there are outstanding client balances.
- Reinsurance is held with highly rated group entities only.

The carrying amounts of financial assets represent the maximum credit exposure. The table below provides information regarding the maximum exposure to credit risk for the components of the balance sheet.

| | | Carrying amount | |
|--|------|-----------------|----------------|
| | Note | 2015 \$'000 | 2014 \$'000 |
| Cash and cash equivalents | 10 | 22,637 | 16,437 |
| Financial assets at fair value through profit or loss | | | |
| - Debt securities - unsecured | 12 | 233,817 | 353,707 |
| - Deposits with banks | 12 | 79,000 | 106,000 |
| Reinsurance recoveries | 15 | 68,761 | 66,323 |
| Amount due from ceding companies in respect of outstanding premium | 11 | 23,478 | 36,714 |
| Current tax receivable | 7(c) | 121 | 121 |
| Tax loss transfers receivable | 13 | 42,606 | 33,798 |
| Accrued income | 13 | 2,821 | 3,556 |
| GST receivable | 13 | 270 | 2,432 |
| Deposit retained | 17 | 850 | 800 |
| Total | | 474,361 | 619,888 |
| Standard & Poor's A- to AAA | | 467,267 | 617,750 |
| Unrated or Standard & Poor's BB+ to BBB+ | | 7,094 | 2,138 |
| Total | | 474,361 | 619,888 |

Munich Reinsurance Company – New Zealand Branch
(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2015

4. Risk management policies and procedures (continued)

(a) Risk management objectives and policies for mitigating financial risks (continued)

Credit risk (continued)

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 based on quoted prices in active markets for identical instruments at the reporting date.

The Branch has a significant concentration of credit risk with the New Zealand government, which has a Standard & Poors credit rating of AA+, and a significant retrocession credit exposure to Munich Reinsurance America, Inc. which has a Standard & Poor's credit rating of AA-.

Past due but not impaired

As at 31 December 2015, outstanding premiums of \$2.566m (2014: \$29.153m) were past due but not impaired. These relate to a number of independent cedants for whom there is no history of default. The ageing analysis of these outstanding premiums is as follows:

| | 2015 \$'000 | 2014 \$'000 |
|-----------------------|----------------|----------------|
| Up to 3 months | 2,531 | 29,087 |
| 3 to 6 months | 35 | 66 |
| Greater than 6 months | - | - |
| | 2,566 | 29,153 |

Liquidity risk

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

The following policy and procedures are in place to mitigate the 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 reinsurance contract 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 Branch based on carrying value except for outstanding claims where maturity profiles are determined on the discounted estimated timing of cash outflows.

| | Note | Up to 1 year \$'000 | 1-5 years \$'000 | Over 5 years \$'000 | Total \$'000 |
|--------------------------------|------|------------------------|---------------------|------------------------|-----------------|
| 2015 | | | | | |
| Amount due to ceding companies | 18 | 10,648 | - | - | 10,648 |
| Other creditors | 18 | 300 | - | - | 300 |
| Outstanding claims | 19 | 143,824 | 206,722 | 6,973 | 357,519 |
| Total | | 154,772 | 206,722 | 6,973 | 368,467 |
| 2014 | | | | | |
| Amount due to ceding companies | 18 | 6,546 | - | - | 6,546 |
| Other creditors | 18 | 231 | - | - | 231 |
| Outstanding claims | 19 | 165,149 | 374,273 | 16,161 | 555,583 |
| Total | | 171,926 | 374,273 | 16,161 | 562,360 |

Munich Reinsurance Company – New Zealand Branch
(Overseas company registered in New Zealand under the Companies Act 1993)
Notes to the financial statements for the year ended 31 December 2015

4. Risk management policies and procedures (continued)

(a) Risk management objectives and policies for mitigating financial risks (continued)

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 three types of risk: interest rate risk, currency risk and other price risk.

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

- The Branch manages its risk within an Asset and Liability Management (ALM) framework. The ALM framework forms an integral part of the risk management framework and ensures the Branch maintains financial assets with similar duration and cash flow characteristics as the underlying reinsurance contract liabilities of the business. This minimises the risk of interest rate movements resulting in a mis-match between the value of the assets and the liabilities.
- 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 are assets backing 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 shareholder equity will be minimal for investment assets backing most reinsurance contract liabilities, as the asset and liability profile is closely matched.

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

| | Weighted average interest rate | Floating interest rate \$'000 | --- Fixed interest maturing in:--- | | | Total \$'000 |
|---------------------|--------------------------------|-------------------------------|------------------------------------|---------------------|---------------------|----------------|
| | | | Up to 1 year \$'000 | 1 to 5 years \$'000 | Over 5 years \$'000 | |
| 2015 | | | | | | |
| Cash | 2.5% | 987 | - | - | - | 987 |
| Deposits at call | 3.0% | 21,650 | - | - | - | 21,650 |
| Deposits with bank | 3.5% | - | 79,000 | - | - | 79,000 |
| Investments | | | | | | |
| Government bonds | 4.9% | - | - | 151,076 | 82,741 | 233,817 |
| Total | | 22,637 | 79,000 | 151,076 | 82,741 | 335,454 |
| 2014 | | | | | | |
| Cash | 2.5% | 1,037 | - | - | - | 1,037 |
| Deposits at call | 3.3% | 15,400 | - | - | - | 15,400 |
| Deposits with banks | 4.2% | - | 106,000 | - | - | 106,000 |
| Investments | | | | | | |
| Government bonds | 5.1% | - | - | 277,369 | 76,338 | 353,707 |
| Total | | 16,437 | 106,000 | 277,369 | 76,338 | 476,144 |

Munich Reinsurance Company – New Zealand Branch
(Overseas company registered in New Zealand under the Companies Act 1993)
Notes to the financial statements for the year ended 31 December 2015
4. Risk management policies and procedures (continued)

(a) Risk management objectives and policies for mitigating financial risks (continued)

Interest rate risk (continued)

A +/- 1% movement in the Government Bonds interest rate would have an impact of \$19,613,586 (2014: \$26,357,480) in the Profit or Loss. A +/- 1% movement in the bank interest rate would have an impact of \$19,732 (2014: \$20,743) in the Profit or Loss. A +/- 1% movement in the deposits at call interest rate would have an impact of \$433,000 (2014: \$308,000) in the Profit or Loss. A +/- 1% movement in the deposits with banks interest rate would have an impact of \$1,580,000 (2014: \$2,120,000) in the Profit or Loss.

Currency risk

The Branch operates in New Zealand but at times has some incidental international reinsurance exposures. Assets are maintained in the local currency to match all expected liabilities. Hence the Branch's currency risk is not considered to be of a material nature.

Other price risk

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

The Branch's objectives and policies in respect of managing insurance risks are:

- Understanding insurance risk as the risk of loss, of inadequate claims handling, or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions.
- Measuring the frequency and severity of possible insurance risk loss events.
- Treating insurance risk with controls designed to assure:
 - Adherence to competency based underwriting guidelines and limits.
 - Improving underwriting platform and pricing tools.
 - Sufficient business pricing peer-reviews.
 - Competency based peer reviewing of all business.
 - Rigorous analysis of: Contemporaneous & Periodic Renewal Monitoring Reports.
- Monitoring insurance risk by reporting and responding to incidents.

Concentrations of insurance risk

The Branch's exposure to concentrations of insurance risk is lessened by diversification across a number of different portfolio segments and the purchase of catastrophe reinsurance cover. The reinsurance cover provides protection from single event losses, such as earthquake, in excess of the Branch's tolerance limit. The Branch conducts significant analysis of single-event exposures on an ongoing basis and continues to be well within the limits mandated by its head office.

Exposure to risk

The Branch actively manages its exposure to risks by applying prudent underwriting controls to renewals and new business and in managing claims in order to enhance its financial performance. The key policies in place to mitigate insurance risk include:

Management reporting

The Branch utilises comprehensive management information systems and actuarial models using historical information to calculate premiums and monitor claims. It reports financial and operational results quarterly and undertakes regular experience analyses to monitor emerging trends.

Underwriting and claims management procedures

Underwriting procedures are documented 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.

Munich Reinsurance Company – New Zealand Branch
(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2015

4. Risk management policies and procedures (continued)

(b) Capital management

(i) Regulatory capital

The Branch is regulated by the Reserve Bank of New Zealand to carry on insurance business in New Zealand. The Branch has been granted an exemption from compliance with the solvency standard under section 59 of the Insurance (Prudential Supervision) Act 2010. The Company's solvency ratio as at 31 December 2015 fully meets the German regulatory minimum requirements (see Note 31).

The goal of the current capital management plan for the Branch is to at all times maintain a position of positive net assets.

(ii) Ratings capital

Munich Reinsurance Company maintains the capital strength by reference to a target financial strength rating from an independent ratings agency. The ratings help to reflect the financial strength of Munich Reinsurance Company and demonstrate to the stakeholders the ability to pay claims for the long term. Rating agencies assess the financial strength of the Munich Re Group. Therefore the Branch obtained the same rating as Munich Re Group based on ratings published by Standard & Poor's Ratings services as at 31 December 2015. Munich Reinsurance Company manages its capital rating by performing periodical analysis using Standard & Poor's Capital model (see Note 30).

(c) Development of claims

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.

| Estimate of net ultimate claims cost | 2010 & prior \$'000 | 2011 \$'000 | Underwriting Year | | | | Total \$'000 |
|--|------------------------|-----------------|-------------------|----------------|-----------------|----------------|--------------------|
| | | | 2012 \$'000 | 2013 \$'000 | 2014 \$'000 | 2015 \$'000 | |
| At end of underwriting year | 674,649 | 114,021 | 19,534 | 17,529 | 12,152 | 22,902 | |
| One year later | 1,461,812 | 138,119 | 15,199 | 13,129 | 22,777 | | |
| Two years later | 1,416,423 | 85,510 | 22,727 | 11,668 | | | |
| Three years later | 1,476,295 | 47,007 | 22,620 | | | | |
| Four years later | 1,498,358 | 42,987 | | | | | |
| Five years & prior later | 1,491,565 | | | | | | |
| Current estimate of ultimate claims cost | 1,491,565 | 42,987 | 22,620 | 11,668 | 22,777 | 22,902 | 1,614,519 |
| Cumulative net payments | (1,261,768) | (43,543) | (16,245) | (7,247) | (10,643) | (4,048) | (1,343,494) |
| Net undiscounted outstanding claims | 229,797 | (556) | 6,375 | 4,421 | 12,134 | 18,854 | 271,025 |

Munich Reinsurance Company – New Zealand Branch
(Overseas company registered in New Zealand under the Companies Act 1993)
Notes to the financial statements for the year ended 31 December 2015

| | 2015 \$'000 | 2014 \$'000 |
|---|----------------|----------------|
| 5. Revenue from operating activities | | |
| Reinsurance revenue | | |
| Inwards reinsurance premium revenue | 67,894 | 54,534 |
| Total reinsurance revenue | <u>67,894</u> | <u>54,534</u> |
| Investment revenue | | |
| Interest | 18,451 | 29,288 |
| Net realised and unrealised gains | 3,075 | 3,441 |
| Total investment revenue | <u>21,526</u> | <u>32,729</u> |
| Other revenue | | |
| Interest on deposit retained by ceding company | 795 | 829 |
| Foreign exchange gains | - | 3,763 |
| Other income | - | 293 |
| Total other revenue | <u>795</u> | <u>4,885</u> |
| Total revenue from operating activities | <u>90,215</u> | <u>92,148</u> |
| 6. Expenses from operating activities | | |
| Reinsurance expense | | |
| Inwards reinsurance claims expense | 14,795 | 81,595 |
| Reinsurance recoveries (benefit)/expense | (2,439) | 30,481 |
| Outwards reinsurance expense | 3,206 | 2,667 |
| Acquisition expenses | 31,996 | 23,060 |
| Other underwriting expenses | 4 | 12 |
| Total reinsurance expense | <u>47,562</u> | <u>137,815</u> |
| Investment expense | | |
| Investment management expenses | 306 | 448 |
| Total investment expense | <u>306</u> | <u>448</u> |
| Other expenses | | |
| General and administration expenses | 4,615 | 5,558 |
| Foreign exchange losses | 3,976 | - |
| Total other expenses | <u>8,591</u> | <u>5,558</u> |
| Total expenses from operating activities | <u>56,459</u> | <u>143,821</u> |

Munich Reinsurance Company – New Zealand Branch
(Overseas company registered in New Zealand under the Companies Act 1993)
Notes to the financial statements for the year ended 31 December 2015

| | 2015 \$'000 | 2014 \$'000 |
|--|-----------------|-----------------|
| 7. Taxes | | |
| (a) Income tax (benefit)/expense | | |
| Current tax (benefit) | (42,606) | (34,209) |
| Deferred tax expense/(benefit) | 9,713 | (1,251) |
| Tax (benefit) | <u>(32,893)</u> | <u>(35,460)</u> |
| (b) Reconciliation of prima facie tax payable to income tax expense | | |
| Profit/(loss) before tax | 33,756 | (51,673) |
| Prima facie income tax expense/(benefit) at the tax rate of 28% | 9,452 | (14,469) |
| (Unrecognised) tax losses at the tax rate of 28% | (40,659) | (18,009) |
| Temporary differences | (1,687) | (2,985) |
| Non-deductible expenses | 1 | 3 |
| Tax (credit) | <u>(32,893)</u> | <u>(35,460)</u> |

The recognition of tax losses results from the transfer of tax losses to related entities, the utilisation of tax losses to offset current year income tax expense, and any variations to the balance of recoverable tax losses.

| | 2015 \$'000 | 2014 \$'000 |
|---------------------------------------|----------------|----------------|
| (c) Current tax receivable | | |
| Opening balance at 1 January | 121 | 121 |
| Income tax received | - | - |
| Closing balance at 31 December | <u>121</u> | <u>121</u> |

8. Net claims incurred

| | 2015 | | | 2014 | | |
|---|---------------------------|--------------------------|-----------------|---------------------------|--------------------------|-----------------|
| | Current year \$'000 | Prior years \$'000 | Total \$'000 | Current year \$'000 | Prior years \$'000 | Total \$'000 |
| Gross claims expenses | | | | | | |
| Gross claims incurred - undiscounted | 22,902 | (8,525) | 14,377 | 12,152 | 63,652 | 75,804 |
| Discount movement | (699) | 22,415 | 21,716 | (619) | 29,904 | 29,285 |
| Discounted risk margin movement | 1,808 | (23,106) | (21,298) | 1,051 | (24,545) | (23,494) |
| Discounted gross claims expenses | <u>24,011</u> | <u>(9,216)</u> | <u>14,795</u> | <u>12,584</u> | <u>69,011</u> | <u>81,595</u> |
| Reinsurance and other recoveries (expense) | | | | | | |
| Reinsurance and other recoveries (expense) - undiscounted | - | - | - | - | (30,100) | (30,100) |
| Discount movement | - | 2,519 | 2,519 | - | 2,760 | 2,760 |
| Discounted risk margin movement | - | (80) | (80) | - | (3,141) | (3,141) |
| Discounted reinsurance and other recoveries (expense) | <u>-</u> | <u>2,439</u> | <u>2,439</u> | <u>-</u> | <u>(30,481)</u> | <u>(30,481)</u> |
| Net claims incurred | <u>24,011</u> | <u>(11,655)</u> | <u>12,356</u> | <u>12,584</u> | <u>99,492</u> | <u>112,076</u> |

Current year claims relate to risks underwritten in the current financial year. Prior year claims relate to a reassessment of the risks borne in all previous financial years.

Munich Reinsurance Company – New Zealand Branch
(Overseas company registered in New Zealand under the Companies Act 1993)
Notes to the financial statements for the year ended 31 December 2015

| | | 2015 \$'000 | 2014 \$'000 |
|--|-------------|----------------|-----------------|
| 9. Underwriting result | | | |
| | Note | | |
| Inwards reinsurance premium revenue | 5 | 67,894 | 54,534 |
| Total reinsurance revenue | | <u>67,894</u> | <u>54,534</u> |
| Inwards reinsurance claims (benefit)/expense | 6 | 14,795 | 81,595 |
| Reinsurance recoveries expense | 6 | (2,439) | 30,481 |
| Outwards reinsurance expense | 6 | 3,206 | 2,667 |
| Acquisition expenses | 6 | 31,996 | 23,060 |
| Other underwriting expenses | 6 | 4 | 12 |
| Total reinsurance expense | | <u>47,562</u> | <u>137,815</u> |
| Underwriting result | | <u>20,332</u> | <u>(83,281)</u> |

10. Current assets – cash and cash equivalents

| | | |
|------------------|---------------|---------------|
| Cash at bank | 987 | 1,037 |
| Deposits at call | <u>21,650</u> | <u>15,400</u> |
| Total | <u>22,637</u> | <u>16,437</u> |

(a) Cash at bank

Cash at bank bears an average weighted floating interest rate of 2.5% at balance date (2014: 2.5%).

(b) Deposits at call

The deposits at call bears a floating interest rate of 3.0% at balance date (2014: to 3.3%).

| | 2015 \$'000 | 2014 \$'000 |
|--|----------------|----------------|
| 11. Current assets – outstanding premiums | | |
| Amounts due from ceding companies | <u>23,478</u> | <u>36,714</u> |

12. Financial assets

Financial assets – fair value through profit or loss

| | | |
|---|----------------|----------------|
| Debt securities – unsecured | 233,817 | 353,707 |
| Deposits with banks | <u>79,000</u> | <u>106,000</u> |
| Total financial assets – fair value through profit or loss | <u>312,817</u> | <u>459,707</u> |
| Current financial assets | 79,000 | 106,000 |
| Non-current financial assets | <u>233,817</u> | <u>353,707</u> |
| Total financial assets – fair value through profit or loss | <u>312,817</u> | <u>459,707</u> |

Changes in the fair value of financial assets through the profit or loss are recorded as revenue/expense in the Statement of Profit or Loss and Other Comprehensive Income (note 1(m)).

| | 2015 \$'000 | 2014 \$'000 |
|-----------------------------------|----------------|----------------|
| 13. Current assets – other | | |
| Accrued income | 2,821 | 3,556 |
| GST receivable | <u>270</u> | <u>2,432</u> |
| Total | <u>3,091</u> | <u>5,988</u> |

Munich Reinsurance Company – New Zealand Branch
(Overseas company registered in New Zealand under the Companies Act 1993)
Notes to the financial statements for the year ended 31 December 2015

| | 2015 \$'000 | 2014 \$'000 |
|--|-----------------|----------------|
| 14. Deferred acquisition costs | | |
| Total | <u>13,772</u> | <u>11,053</u> |
| Reconciliation of movement in deferred acquisition costs | | |
| Balance at 1 January | 11,053 | 3,867 |
| Costs deferred in financial year | 13,772 | 11,055 |
| Amortisation of costs deferred | <u>(11,053)</u> | <u>(3,869)</u> |
| Balance at 31 December | <u>13,772</u> | <u>11,053</u> |
| 15. Reinsurance recoveries | | |
| Current | 23,242 | 14,080 |
| Non-current | <u>45,519</u> | <u>52,243</u> |
| Total | <u>68,761</u> | <u>66,323</u> |
| 16. Non-current assets – deferred tax | | |
| Deferred tax assets relate to timing differences and comprises the tax effect of the following amounts recognised in the profit or loss: | | |
| Carry forward tax loss | 17,510 | 25,510 |
| Deferred acquisition costs | (3,856) | (3,094) |
| Insurance provision | 854 | 1,803 |
| Accrued audit fees | <u>3</u> | <u>5</u> |
| Deferred tax assets | <u>14,511</u> | <u>24,224</u> |
| Movements: | | |
| Balance at 1 January | 24,224 | 22,973 |
| Charged to Profit or Loss | <u>(9,713)</u> | <u>1,251</u> |
| Balance at 31 December | <u>14,511</u> | <u>24,224</u> |
| <p>Tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of tax losses amounting to \$131.325m (2014: \$174.071m) because it is not probable that future taxable profit will be available against which the Branch can utilise the benefits therefrom.</p> | | |
| | 2015 \$'000 | 2014 \$'000 |
| 17. Non-current assets – others | | |
| Deposit retained | <u>850</u> | <u>800</u> |
| 18. Current liabilities – payables | | |
| Amount due to ceding companies | 10,648 | 6,546 |
| Sundry creditors and accrued expenses | <u>300</u> | <u>231</u> |
| Total | <u>10,948</u> | <u>6,777</u> |

Munich Reinsurance Company – New Zealand Branch
(Overseas company registered in New Zealand under the Companies Act 1993)
Notes to the financial statements for the year ended 31 December 2015

| | 2015 \$'000 | 2014 \$'000 |
|--|------------------|------------------|
| 19. Outstanding claims | | |
| (a) Outstanding claims | | |
| Gross outstanding claims | 334,859 | 530,132 |
| Claims handling cost | 2,893 | 6,102 |
| Discount to present value | <u>(13,787)</u> | <u>(35,503)</u> |
| Discounted central estimate | 323,965 | 500,731 |
| Risk margin | <u>33,554</u> | <u>54,852</u> |
| Total outstanding claims – discounted | <u>357,519</u> | <u>555,583</u> |
| Current | 143,824 | 165,149 |
| Non-current | <u>213,695</u> | <u>390,434</u> |
| Total outstanding claims – discounted | <u>357,519</u> | <u>555,583</u> |
| (b) Reconciliation of movement in discounted outstanding claims liability | | |
| Balance at 1 January | 555,583 | 857,618 |
| Inwards reinsurance claims expense | 14,795 | 81,595 |
| Claim payments during the year | <u>(216,863)</u> | <u>(379,939)</u> |
| Foreign exchange losses/(gains) | 4,004 | <u>(3,691)</u> |
| Balance at 31 December | <u>357,519</u> | <u>555,583</u> |

As identified in note 3(a), there are uncertainties with estimating outstanding claims. In particular, there are considerable uncertainties surrounding the measurement of gross claims liabilities and the related reinsurance recoveries arising from the NZ Earthquakes (2010 and 2011) due to the nature of these events.

Gross outstanding claims liabilities include \$260 million (2014: \$457 million) which is the undiscounted central estimate of outstanding claims liabilities arising from the NZ Earthquakes. This estimate is an estimate at 31 December 2015 of what the Branch ultimately expects to pay, prior to receiving any reinsurance recoveries, in relation to these claims. The actuarial projections are based on the known facts and circumstances and assumptions regarding future events and key variables as detailed in note 3(a).

After reinsurance and other recoveries the net outstanding claims liabilities in relation to the NZ Earthquakes amounts to \$195 million at 31 December 2015 (2014: \$393 million).

| | 2015 \$'000 | 2014 \$'000 |
|--|-----------------|-----------------|
| 20. Unearned Premium | | |
| Unearned premium – current | <u>33,781</u> | <u>25,368</u> |
| Reconciliation of movement in unearned premium | | |
| Balance at 1 January | 25,368 | 15,230 |
| Deferral of premium on contracts written in the period | 31,333 | 23,629 |
| Earning of premium written | <u>(22,920)</u> | <u>(13,491)</u> |
| Balance at 31 December | <u>33,781</u> | <u>25,368</u> |
| 21. Current liabilities – provisions | | |
| Profit and sliding scale commissions | 288 | 126 |
| Withholding tax | <u>164</u> | <u>218</u> |
| Total | <u>452</u> | <u>344</u> |

Munich Reinsurance Company – New Zealand Branch
(Overseas company registered in New Zealand under the Companies Act 1993)
Notes to the financial statements for the year ended 31 December 2015

22. Liability adequacy test

The liability adequacy test has been conducted using the net central estimate of the present value of expected future cash flows and has identified a surplus.

| | 2015 | 2014 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| Unearned premium liabilities | 33,781 | 25,368 |
| Related deferred acquisition costs | (13,772) | (11,053) |
| | <u>20,009</u> | <u>14,315</u> |
| Undiscounted net premium liabilities excluding risk margin | 18,917 | 14,740 |
| Discount | (720) | (958) |
| Risk margin | 527 | 325 |
| | <u>18,724</u> | <u>14,107</u> |
| Percentage risk margin | 2.9% | 2.4% |
| Probability of sufficiency | 60% | 60% |

The risk margin has been arrived at by determining margins for each line of business and then applying reductions on account of diversification over the various lines of business. This was done by applying a suitable correlation matrix to the expected values and uncertainties of the individual unexpired risk liabilities.

23. Remuneration of auditors

| | 2015 | 2014 |
|-------------------|---------------|---------------|
| | \$ | \$ |
| KPMG - Audit fees | <u>43,783</u> | <u>34,833</u> |

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

| | 2015 | 2014 |
|---|-------------------------|-------------------------|
| | \$'000 | \$'000 |
| Profit/(loss) for the year | 66,649 | (16,213) |
| Unrealised (gain) on revaluation of investments | (1,502) | (5,225) |
| Net (gain)/loss on sale of investments | (1,573) | 1,785 |
| Interest income | (18,451) | (29,288) |
| Investment management expenses | 306 | 448 |
| Decrease in outstanding premiums | 13,236 | 48,252 |
| (Increase)/decrease in reinsurance recoveries | (2,438) | 30,480 |
| (Increase)/decrease in other receivables | (6,697) | 13,343 |
| Decrease in withholding tax | (54) | (125) |
| Decrease/(increase) in deferred tax | 9,713 | (1,251) |
| Decrease in deferred acquisition costs | (2,719) | (7,186) |
| Increase/(decrease) in payables | 4,171 | (1,743) |
| Decrease in outstanding claims | (198,064) | (302,035) |
| Increase/(decrease) in unearned premium | 8,413 | 10,138 |
| Increase/(decrease) in profit commission | 162 | (1,164) |
| | <u>162</u> | <u>(1,164)</u> |
| Net cash flows from operating activities | <u>(128,848)</u> | <u>(259,784)</u> |

Munich Reinsurance Company – New Zealand Branch
(Overseas company registered in New Zealand under the Companies Act 1993)
Notes to the financial statements for the year ended 31 December 2015

25. Related party transactions

(a) Guarantees

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

(b) Transactions with related parties

The following transactions took place with related parties:

| | 2015 \$ | 2014 \$ |
|---|------------|------------|
| Head office: | | |
| <u>Münchener Rückversicherungs-Gesellschaft AG</u> | | |
| Management services | 269,165 | 214,839 |
| Capital repatriation | 33,798,263 | 41,888,868 |
| Subsidiaries of Münchener Rückversicherungs-Gesellschaft AG: | | |
| <u>MEAG Munich ERGO Asset Management</u> | | |
| Investment management fees | 305,626 | 448,040 |
| <u>Munich Reinsurance America, Inc</u> | | |
| Outwards reinsurance expense | 3,206,128 | 2,667,000 |
| <u>Munich Holdings of Australasia Pty Ltd</u> | | |
| Intercompany service fees | 2,150,789 | 3,012,561 |
| <u>Munich Reinsurance Company of Australasia Limited – New Zealand Branch</u> | | |
| Transfer of tax losses | 5,120,170 | 1,431,182 |
| <u>Munichre New Zealand Service Limited</u> | | |
| Transfer of tax losses | 33,798,263 | 34,208,704 |
| Intercompany service fees | 2,090,441 | 2,254,276 |

Munich Reinsurance Company – New Zealand Branch
(Overseas company registered in New Zealand under the Companies Act 1993)
Notes to the financial statements for the year ended 31 December 2015

| | 2015 \$ | 2014 \$ |
|--|--------------|--------------|
| 25. Related party transactions | | |
| (b) Transactions with related parties (continued) | | |
| <u>Great Lakes Reinsurance (UK) SE (New Zealand Branch)</u> | | |
| Inwards reinsurance premium written | 38,383,292 | 39,079,255 |
| Inwards reinsurance claims paid | 8,841,356 | 5,837,195 |
| Inwards reinsurance commission expense on premium written | 24,997,787 | 27,614,759 |
| Tax transfers | - | (79,916) |
| (c) Outstanding balances | | |
| Current account balances payable/(receivable) with related parties at balance date were: | | |
| <u>Münchener Rückversicherungs-Gesellschaft AG</u> | | |
| Management service fees | 269,165 | 214,839 |
| <u>Munichre New Zealand Service Limited</u> | | |
| Transfer of tax losses | (37,885,717) | (33,798,263) |
| Intercompany service fees | (270,307) | (2,431,607) |
| <u>Munich Reinsurance Company of Australasia Limited – New Zealand Branch</u> | | |
| Transfer of tax losses | (6,551,352) | (1,431,182) |
| <u>Great Lakes Reinsurance (UK) SE (New Zealand Branch)</u> | | |
| Premiums receivable net of commission | (9,070,224) | (6,600,871) |
| Deposit retained | (850,000) | (800,000) |

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

(d) Terms and conditions

All related party transactions were made on normal commercial terms and conditions and at market rates (including market rental rates). Outstanding balances are unsecured and are repayable in cash.

(e) Key management personnel and director transactions

The key management personnel provide services to a number of Munich Re's entities. It is not practical to apportion these payments. Therefore, these Financial Statements do not disclose any remuneration provided to key management personnel.

Munich Reinsurance Company – New Zealand Branch
(Overseas company registered in New Zealand under the Companies Act 1993)
Notes to the financial statements for the year ended 31 December 2015

26. Directors' disclosure

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

| Directors | Area of accountability |
|---|---|
| Dr. jur. Nikolaus von Bomhard first appointed: 2000 | Chairman of the Board of Management; Chairman of the Group Committee; Group Audit; Group Development; Group Investments; Group Communications; Group Compliance; |
| Dr. rer. pol. Ludger Arnoldussen first appointed: 2006 | Germany, Asia Pacific and Africa; Services; Central Procurement (since 1.1.2015); |
| Dr. rer. pol. Thomas Blunck first appointed: 2005 | Special and Financial Risks; Reinsurance Investments; |
| Dr. rer. nat. Torsten Jeworrek first appointed: 2003 | Chairman of the Reinsurance Committee; Reinsurance Development; Corporate Underwriting; Corporate Claims Corporate Claims Accounting, Controlling and Central Reserving for Reinsurance; Information Technology; Global Business Architecture (until 30.06.2015); Geo Risks Research/Corporate Climate Centre |
| Dr. rer. pol. Peter Röder first appointed: 2007 | Global Clients and North America |
| Dr. jur. Jörg Schneider first appointed: 2000 | Financial and Regulatory Reporting; Group Controlling; Corporate Finance M&A; Integrated Risk Management; Group Legal; Group Taxation; Investor and Rating Agency Relations |
| Dr. oec. publ. Joachim Wenning first appointed: 2009 | Life; Human Resources |
| Dr. Doris Höpke first appointed: 2014 | Health |
| Giuseppina Albo first appointed: 2014 | Europe and Latin America |
| Dr. Markus Riess first appointed: 2015 | Primary Insurance/ERGO; Third Party Asset Management |

27. Contingencies

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

Munich Reinsurance Company – New Zealand Branch
(Overseas company registered in New Zealand under the Companies Act 1993)
Notes to the financial statements for the year ended 31 December 2015

28. Commitments

(a) Capital commitments

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

(b) Lease Commitments

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

29. Subsequent events

No significant events have occurred subsequent to the end of the reporting date.

30. Credit rating

The Branch does not have a separate credit rating on its own. At the date of this report, Münchener Rückversicherungs-Gesellschaft AG has a credit rating of AA- from Standard & Poor's (2014: AA-).

31. Solvency of licensed entity

Münchener Rückversicherungs-Gesellschaft AG ("The Company") is the entity licensed by the RBNZ to conduct insurance business in New Zealand. The solvency disclosures calculated in accordance with the Company's home jurisdiction in €'000 are as follows:

| | 2015 | 2014 |
|--------------------------|--------------|--------------|
| | €'000 | €'000 |
| Solvency capital | 11,223,449 | 11,133,765 |
| Minimum solvency capital | 1,243,646 | 1,285,548 |
| Solvency margin | 3,730,939 | 3,856,643 |
| Solvency ratio | 285% | 277% |

Munich Reinsurance Company – New Zealand Branch

Directors' Declaration

The Directors are pleased to present the financial statements of Munich Reinsurance Company – New Zealand Branch for the year ended 31 December 2015.

In the opinion of the Directors of Munich Reinsurance Company, the financial statements and notes of the New Zealand Branch (the Branch) on pages 2 to 26:

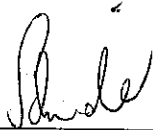
- (a) comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Branch as at 31 December 2015 and the results of its operations and cash flows for the year ended on that date; and
- (b) have been prepared using the appropriate accounting 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 2013.

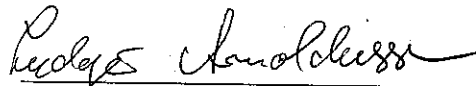
The Directors consider that they have taken adequate steps to safeguard the assets of the Branch, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide reasonable assurance as to the integrity and reliability of the financial statements.

Signed in Munich on 23 March 2016 in accordance with a resolution of the Directors.

For and on behalf of the Board of Management:



Member, Board of Management



Member, Board of Management



Independent auditor's report

To the shareholder of Munich Reinsurance Company - New Zealand Branch

Report on the financial statements

We have audited the accompanying financial statements of Munich Reinsurance Company - New Zealand Branch ("the branch") on pages 2 to 26. The financial statements comprise the statement of financial position as at 31 December 2015, 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.

This report is made solely to the shareholder as a body. Our audit work has been undertaken so that we might state to the branch's shareholder those matters we are required to state to them in the auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the branch's shareholder as a body, for our audit work, this report or any of the opinions we have formed.

Directors' responsibility for the financial statements

The directors are responsible on behalf of the branch for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards, 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 and fair presentation of the financial statements 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 auditor we have no relationship with, or interests in, the branch.



Opinion

In our opinion, the financial statements on pages 2 to 26 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the financial position of Munich Reinsurance Company - New Zealand Branch as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

A handwritten signature in black ink, appearing to be 'KPMG'.

23 March 2016
Sydney