Munich RE

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 2016

Munich Reinsurance Company - New Zealand Branch

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DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016

The Directors present their report together with the financial statements of Munich Reinsurance Company – New Zealand Branch (the "Branch") for the year ended 31 December 2016 and the auditor's report thereon.

Directors

The names and details of the Directors of Munich Reinsurance Company (the "Company") at any time during or since the end of the year are as follows:

Director	Date of appointment / resignation	Special responsibilities
Dr. jur. Nikolaus von Bomhard (until 26.04.2017)	2000	Chairman of the Board of Management; Chairman of the Group Committee; Group Audit; Group Development; Group Investments; Group Communications; Group Compliance Group Human Resources
Dr. oec. publ. Joachim Wenning (from 27.04.2017)	2009	Chairman of the Board of Management; Chairman of the Group Committee; Group Audit; Group Development; Group Investments; Group Communications; Group Compliance Group Human Resources Human Resources (until 01.02.2017) Life (until 26.04.2017)
Dr. rer. pol. Ludger Arnoldussen (until 26.04.2017)	2006	Germany, Asia Pacific and Africa; Services; Central Procurement
Hermann Pohlchristoph (from 26.04.2017)	2017	Germany, Asia Pacific and Africa; Services; Central Procurement
Dr. rer. pol. Thomas Blunck	2005	Life and Health (until 01.02.2017) Capital Partners; Digital Partners Special and Financial Risks (until 31.01.2017) Reinsurance Investments
Dr. rer. nat. Torsten Jeworrek	2010	Chairman of the Reinsurance Committee; Reinsurance Development; Corporate Underwriting; Corporate Claims; Accounting, Controlling and Central Reserving for Reinsurance; Information Technology; Geo Risks Research/Corporate Climate Centre
Dr. rer. pol. Peter Röder	2007	Global Clients and North America
Dr. jur. Jörg Schneider	2000	Financial and Regulatory Reporting; Group Controlling; Corporate Finance M&A; Integrated Risk Management; Group Legal; Group Taxation; Investor and Rating Agency Relations
Dr. Doris Höpke	2014	Health (unitl 31.01.2017) Special and Financial Risks (since 01.02.2017) Human Resources (from 27.04.2017)
Giuseppina Albo	2014	Europe and Latin America

As at the date of this report, the Company has two Board Committees: a Board Audit Committee and a Board Risk & Compliance Committee. The members of these committees are listed above.

The Branch relies on the Remuneration Committee established by Munich Holdings of Australasia Pty Ltd (MHA). 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 the Branch. NZS is a 100% owned subsidiary of MHA.

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016 *(continued)*

Directors' benefits

Since the end of the period covered by the last report no Director of the Branch has received or become entitled to receive a benefit by reason of a contract made by the Branch 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 Branch's principal activity is general reinsurance.

Review of operations

The result for the year was a profit after tax of $95,404,000 compared with a profit after tax of $66,649,000 in 2015.

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

The Branch 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 3.3.

Capital repatriations

Capital was repatriated to the Company by the Branch during the financial year totalling $87,886,000 (2015: $33,798,000).

Significant changes in the state of affairs

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

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 Branch;

(ii) the results of those operations; or

(iii) the state of affairs of the Branch in the financial years subsequent to 31 December 2016.

Munich Reinsurance Company - New Zealand Branch

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

CONTINUING OPERATIONS	Note	2016 $'000	2015 $'000
General reinsurance premium revenue	2.1	93,321	67,894
General reinsurance premium expense	2.1	(2,098)	(3,206)
Net general reinsurance premiums	2.1	91,223	64,688
Net general reinsurance commissions	2.2	(44,202)	(31,996)
General reinsurance claims expense	2.2	(93,317)	(14,795)
General reinsurance claims recoveries	2.2	80,109	2,439
Net general reinsurance claims	2.2	(13,208)	(12,356)
Underwriting profit		33,813	20,336
Other revenue	2.1	789	795
Other expenses from operating activities	2.2	(4,934)	(8,595)
Investment revenue	2.1	11,046	21,526
Investment management expense	2.2	(202)	(306)
Profit before tax		40,512	33,756
Income tax benefit / (expense)	2.3	54,892	32,893
Profit for the year and total comprehensive income for the year		95,404	66,649

The Statement of Comprehensive Income is to be read in conjunction with the notes to the financial statements set out on pages 7 to 22.

Munich Reinsurance Company - New Zealand Branch

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	10,377	22,637
Other financial assets	3.2	45,865	79,000
Deferred acquisition costs	4.1	9,873	13,772
Reinsurance recoveries	4.2	52,563	23,242
Current tax receivable	4.2	121	121
Tax loss transfers receivable	4.2	38,462	42,606
Outstanding premiums	4.2	27,882	23,478
Other assets	4.2	1,961	3,091
Total current assets		187,104	207,947
Non-current assets			
Other financial assets	3.2	138,590	233,817
Reinsurance recoveries	4.2	96,307	45,519
Deposit retained by ceding company		850	850
Deferred tax assets	2.3	33,707	14,511
Total non-current assets		269,454	294,697
Total assets		456,558	502,644
Current liabilities			
Trade and other payables	4.3	7,870	10,948
Outstanding claims	4.4	140,150	143,824
Unearned premiums	4.5	25,091	33,781
Other liabilities	4.6	2,183	452
Total current liabilities		175,294	189,005
Non-current liabilities			
Outstanding claims	4.4	173,802	213,695
Total non-current liabilities		173,802	213,695
Total liabilities		349,096	402,700
Net assets		107,462	99,944
Equity			
Accumulated surplus – head office		107,462	99,944
Total equity		107,462	99,944

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 7 to 22.

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

2016	Head office account $'000	Retained profits $'000	Total $'000
Balance at 1 January	933,410	(833,466)	99,944
TOTAL COMPREHENSIVE INCOME			
Profit/(loss) for the year	-	95,404	95,404
Total comprehensive income for the year	-	95,404	95,404
TRANSACTIONS WITH OWNERS OF THE BRANCH			
Capital repatriation	(87,886)	-	(87,886)
Total transactions with owners of the branch	(87,886)	-	(87,886)
Balance at 31 December	845,524	(738,062)	107,462

2015	Head office account $'000	Retained profits $'000	Total $'000
Balance at 1 January	967,208	(900,115)	67,093
TOTAL COMPREHENSIVE INCOME			
Profit/(loss) for the year	-	66,649	66,649
Total comprehensive income for the year	-	66,649	66,649
TRANSACTIONS WITH OWNERS OF THE BRANCH			
Capital repatriation	(33,798)	-	(33,798)
Total transactions with owners of the branch	(33,798)	-	(33,798)
Balance at 31 December	933,410	(833,466)	99,944

The Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements set out on pages 7 to 22.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 $'000	2015 $'000
Cash flows from operating activities			
Reinsurance premium received		80,215	89,604
Reinsurance claim payments		(140,323)	(212,761)
Reinsurance premium payments		(1,900)	(1,600)
Tax loss transfers received		39,840	33,798
Other operating payments		(42,862)	(37,889)
Net cash from operating activities	3.1	(65,030)	(128,848)
Cash flows from investing activities			
Interest received		11,503	19,187
Payments for investments		(275,407)	(396,832)
Proceeds from sale of investments		404,762	546,797
Investment expenses		(202)	(306)
Net cash from investing activities		140,656	168,846
Cash flows from financing activities			
Capital repatriation		(87,886)	(33,798)
Net cash from financing activities		(87,886)	(33,798)
Net decrease in cash and cash equivalents		(12,260)	6,200
Cash and cash equivalents at the beginning of the financial year		22,637	16,437
Cash and cash equivalents at the end of the financial year	3.1	10,377	22,637

The Statement of Cash Flows is to be read in conjunction with the notes to the financial statements set out on pages 7 to 22.

Section 1. Basis of preparation

1.1. Reporting entity

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 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"). The Company was granted a full license on 2 April 2013. These financial statements have also been prepared in accordance with the IPSA.

The Branch's principal place of business is PwC Tower, Level 15, 188 Quay Street, Auckland.

1.2. Basis of presentation

(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").

The financial report was authorised for issue by the Directors on 27 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
Non-derivative financial instruments at fair value through profit or loss	3.2	Fair Value
Outstanding claims liabilities	4.4	Fair Value

(c) Functional and presentation currency

This financial report is presented in New Zealand Dollars, which is the Branch's presentation and functional currency.

(d) Rounding

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

(e) Changes to comparatives of the financial statements

During the year the Branch adopted the Disclosure Initiatives (Amendments to NZ IAS 1) and the presentation of the financial statements including notes and grouping of items has been reviewed and changes made to improve the format and clarity of the financial report.

1.3. Use of judgments and estimates

In preparing this financial report, management has made judgments, estimates and assumptions that affect the application of the Branch'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. The areas where critical accounting estimates and judgements are applied can be found in Section 5.

Section 2. Financial performance

2.1. Revenue from operating activities

General reinsurance income	2016 $'000	2015 $'000
General reinsurance premiums		
Reinsurance written premium revenue	84,631	76,307
Movement in unearned premium liability	8,690	(8,413)
Reinsurance written premium expense	(2,098)	(3,206)
Net general reinsurance premiums	91,223	64,688
Other revenue		
Interest on deposit retained by ceding company	789	795
Total other revenue	789	795
Investment revenue		
Interest revenue	10,054	18,451
Realised and unrealised gains / (losses) on assets at fair value (net)	992	3,075
Total investment revenue	11,046	21,526
Total revenue from operating activities	103,058	87,009

Summary of significant accounting policies

Premium

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.

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

Interest revenue

Interest revenue is recognised on an accrual basis.

2.2. Expenses from operating activities

General reinsurance expenses	2016 $'000	2015 $'000
Reinsurance commission		
Reinsurance commission expense paid	38,551	34,553
Movement in profit commission	1,752	162
Movement in deferred acquisition costs	3,899	(2,719)
Net general reinsurance commission	44,202	31,996
General reinsurance claims		
Reinsurance claims expense	93,317	14,795
Reinsurance claims recoveries	(80,109)	(2,439)
Net general reinsurance claims	13,208	12,356
Other expenses from operating activities		
Other underwriting expenses	7	4
General and administration expenses	4,552	4,615
Foreign exchange (gains) / losses (net)	375	3,976
Other expenses from operating activities	4,934	8,595
Investment management expenses	202	306
Total expenses from operating activities	62,546	53,253

Summary of significant accounting policies

Claims expenses

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 adequacy level of 75%.

Retrocession and other recoveries

Reinsurance recoveries are assessed regularly and expected future recoveries are estimated on the same basis as the liability for outstanding claims. 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 receivable to increase the probability that the receivable is at an adequacy level deemed appropriate by the management and set at a minimum adequacy level of 75%.

Reinsurance commissions and acquisition costs

The incurred portion of reinsurance commissions paid and payable including unclosed business is recognised as an expense.

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.

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.

2.3. Income taxes

(a) Amounts recognised in profit or loss

	2016 $'000	2015 $'000
Current tax expense / (benefit)		
Current year	(35,696)	(42,606)
Current tax expense / (benefit)	(35,696)	(42,606)
Deferred tax expense / (benefit)		
Movement in temporary differences	(19,196)	9,713
Deferred tax expense / (benefit)	(19,196)	9,713
Income tax expense / (benefit)	(54,892)	(32,893)

(b) Reconciliation of effective tax rate

	2016 %	2016 $'000	2015 %	2015 $'000
Profit before tax from continuing operations		40,512		33,756
Tax using the Branch's domestic tax rate	28	11,343	28	9,452
Non-deductible expenses / (non-assessable income)		(2)		1
Temporary differences		(1,542)		(1,687)
(Decrease)/increase in unrecognised deferred tax asset		(64,691)		(40,659)
Income tax expense		(54,892)		(32,893)

(c) Movement in deferred tax balances

2016	Net balance at 1 January	Movement	Net balance at 31 December
Accrued expenses	3	1	4
Carry forward tax loss	17,510	17,630	35,140
Deferred acquisition costs	(3,856)	1,091	(2,765)
Insurance provision	854	474	1,328
Net deferred tax asset	14,511	19,196	33,707

2015	Net balance at 1 January	Movement	Net balance at 31 December
Accrued expenses	5	(2)	3
Carry forward tax loss	25,510	(8,000)	17,510
Deferred acquisition costs	(3,094)	(762)	(3,856)
Insurance provision	1,803	(949)	854
Net deferred tax asset	24,224	(9,713)	14,511

(d) 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 to utilise those amounts.

	Gross 2016 $'000	Unrecognised tax asset 2016 $'000	Gross 2015 $'000	Unrecognised tax asset 2015 $'000
Unrecognisable deferred tax losses	239,436	67,042	469,018	131,325
Unrecognisable temporary differences	(5,115)	(1,432)	(10,621)	(2,974)
Unused tax losses and deductible temporary differences	234,321	65,610	458,397	128,351

The unrecognised deferred tax asset in the table above is calculated using the currently enacted tax rate of 28%.

Summary of significant accounting policies

Income tax

The income tax expense calculated using the national income tax rate is the tax payable on the current period's taxable income adjusted for 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.

2.4. Net incurred claims

	2016			2015		
	Current year $'000	Prior years $'000	Total $'000	Current year $'000	Prior years $'000	Total $'000
Gross claims expense						
Gross claims incurred – undiscounted	112,351	(19,779)	92,572	22,902	(8,525)	14,377
Discount movement	(3,428)	7,150	3,722	(699)	22,415	21,716
Discounted risk margin movement	9,952	(12,929)	(2,977)	1,808	(23,106)	(21,298)
Discounted gross claims expenses	118,875	(25,558)	93,317	24,011	(9,216)	14,795
Reinsurance and other recoveries (expense)						
Reinsurance and other recoveries (expense) – undiscounted	72,334	966	73,300	-	-	-
Discount movement	(2,504)	884	(1,620)	-	2,519	2,519
Discounted risk margin movement	7,927	502	8,429	-	(80)	(80)
Discounted reinsurance and other recoveries (expense)	77,757	2,352	80,109	-	2,439	2,439
Net claims incurred	41,118	(27,910)	13,208	24,011	(11,655)	12,356

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

Section 3. Capital and balance sheet management

3.1. Cash and cash equivalents

(a) Cash and cash equivalents balances

	2016 $'000	2015 $'000
Cash at bank	277	987
Deposits at call	10,100	21,650
Total cash and cash equivalents	10,377	22,637

(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	95,404	66,649
Adjustments for:		
Unrealised (gain)/loss on revaluation of investments	1,172	(1,502)
Net (gain)/loss on sale of investments	(2,164)	(1,573)
Interest income	(10,054)	(18,451)
Investment management expenses	202	306
Movements in:		
Outstanding premiums	(4,404)	13,236
Reinsurance recoveries	(80,109)	(2,438)
Other receivables	3,826	(6,697)
Withholding tax	(23)	(54)
Deferred tax	(19,196)	9,713
Deferred acquisition costs	3,899	(2,719)
Payables	(3,078)	4,171
Outstanding claims	(43,567)	(198,064)
Unearned premium	(8,690)	8,413
Profit commission	1,752	162
Net cash flows from operating activities	(65,030)	(128,848)

Summary of significant accounting policies

Cash flows arising from general underwriting activities are presented on a gross basis. Balances are settled on a net basis when the right to offset allows.

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

3.2. Other financial assets

	2016 $'000	2015 $'000
Debt securities at fair value	147,455	233,817
Deposits with banks	37,000	79,000
Total other financial assets	184,455	312,817
Current	45,865	79,000
Non-current	138,590	233,817
Total	184,455	312,817

Summary of significant accounting policies

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

(a) Measurement of fair value

A number of the Branch'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 Branch 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 significant input.

The Branch'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 Branch's exposure to various risks and the risk management policies and procedures in place to manage these are set out in note 3.3.

(b) Accounting classifications and fair values

All financial assets carried at fair value through profit or loss are categorised as level 1 of the fair value measurement hierarchy.

(c) Measurement of fair values

i. Valuation techniques and significant unobservable inputs

The Branch 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).

Financial assets at fair value

The Branch has determined that all financial assets are deemed to back reinsurance contract liabilities and are designated at 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.

3.3. Risk management policies and procedures

The financial condition and operating results of the Branch are affected by a number of key financial and non-financial risks. 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 framework

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.

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 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.

	2016 $'000	2015 $'000
Cash and cash equivalents	10,377	22,637
Other financial assets	184,455	312,817
Reinsurance recoveries	148,870	68,761
Current tax receivable	121	121
Other receivables	30,693	27,419
Tax loss transfers receivable	38,462	42,606
Total	412,978	474,361
Grade 1-3 (Standard & Poor's A- to AAA)	400,996	467,267
Grade 4-5 (Unrated or Standard & Poor's BB+ to BBB+)	11,982	7,094
Total	412,978	474,361

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 2016, outstanding premiums of $0.814m (2015: $2.566m) 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:

	2016 $'000	2015 $'000
Up to 3 months	702	2,531
3 to 6 months	31	35
Greater than 6 months	81	-
Total	814	2,566

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 Branch.

3.3. Risk management policies and procedures *(continued)*

b) *Financial risks (continued)*

iii. Liquidity risk (continued)

The following policies 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.

2016	Up to 1 year $'000	1-5 years $'000	Over 5 years $'000	Total $'000
Amount due to ceding companies	7,500	-	-	7,500
Other creditors	370	-	-	370
Outstanding claims	140,150	166,414	7,388	313,952
Profit and sliding scale commissions	2,040	-	-	2,040
Withholding tax payable	143	-	-	143
Total	150,203	166,414	7,388	324,005

2015	Up to 1 year $'000	1-5 years $'000	Over 5 years $'000	Total $'000
Amount due to ceding companies	10,648	-	-	10,648
Other creditors	300	-	-	300
Outstanding claims	143,824	206,722	6,973	357,519
Profit and sliding scale commissions	288	-	-	288
Withholding tax payable	164	-	-	164
Total	155,224	206,722	6,973	368,919

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 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.

Ignoring taxation impacts, at 31 December 2016 an increase in the interest rates of 1% would decrease profit and equity by $5,530,004 (2015: Decrease $8,495,524). A corresponding decrease of 1% would increase profit and equity by $5,947,803 (2015: Increase $9,085,330).

3.3. Risk management policies and procedures *(continued)*

b) Financial risks (continued)

iv. Market risk (continued)

Interest rate risk (continued)

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

	Weighted average interest rate	Floating interest rate $'000	Fixed interest maturing in: Up to 1 year $'000	1 to 5 years $'000	Over 5 years $'000	Non-interest bearing $'000	Total $'000
2016							
Cash at bank	1.6%	277	-	-	-	-	277
Deposits at call	2.1%	10,100	-	-	-	-	10,100
Cash and cash equivalents		10,377	-	-	-	-	10,377
Term deposits	2.7%	-	37,000	-	-	-	37,000
Debt securities							
Government bonds	4.2%	-	8,865	93,546	45,044	-	147,455
Other financial assets		-	45,865	93,546	45,044	-	184,455
Total		10,377	45,865	93,546	45,044	-	194,832
2015							
Cash at bank	2.5%	987	-	-	-	-	987
Deposits at call	3.0%	21,650	-	-	-	-	21,650
Cash and cash equivalents		22,637	-	-	-	-	22,637
Term deposits	3.5%	-	79,000	-	-	-	79,000
Debt securities							
Government bonds	4.9%	-	-	151,076	82,741	-	233,817
Other financial assets		-	79,000	151,076	82,741	-	312,817
Total		22,637	79,000	151,076	82,741	-	335,454

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 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, 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 assure the correct and timely payment of reinsurance claims.

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.

ii. 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.

3.3. Risk management policies and procedures *(continued)*

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

iii. Claims development

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

Estimate of net ultimate claims cost	2011 & prior $'000	2012 $'000	2013 $'000	Underwriting year 2014 $'000	2015 $'000	2016 $'000	Total $'000
At end of underwriting year	1,575,833	19,534	17,529	12,152	22,902	40,016	
One year later	1,554,542	15,199	13,129	22,777	38,589		
Two years later	1,561,805	22,727	11,668	21,447			
Three years later	1,545,365	22,620	11,629				
Four years later	1,534,552	11,430					
Five years & prior later	1,511,427						
Current estimate of ultimate claims cost	1,511,427	11,430	11,629	21,447	38,589	40,016	1,634,538
Cumulative net payments	1,417,041	10,648	7,310	13,811	25,734	6,125	1,480,669
Net undiscounted outstanding claims	94,386	782	4,319	7,636	12,855	33,891	153,869

3.4. Capital management

(a) *Types of capital*

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 2016 fully meets the German regulatory minimum requirements (see Note 3.5).

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 (AA-) based on ratings published by Standard & Poor's Ratings services as at 31 December 2016.

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.

3.5. Solvency of licensed entity

The Company is the entity licensed by the RBNZ to conduct insurance business in New Zealand. The 31 December 2016 solvency disclosures calculated in accordance with the Company's home jurisdiction in €'000 are as follows:

	2016 €'000	2015 €'000
Solvency capital	48,293,646	40,921,583
Minimum solvency requirement	6,865,135	6,063,706
Solvency margin	15,255,857	13,474,903
Solvency ratio	316%	304%

The solvency requirements for MR-AG changed in 2016 as a result of the new regulatory Solvency II regulation framework. The figures shown above are now prepared in accordance with Solvency II's Quantative Reporting Template (QRT).

Section 4. Other assets and liabilities

4.1. Deferred acquisition costs

	2016 $'000	2015 $'000
Total	9,873	13,772
Reconciliation of movement in deferred acquisition costs		
Balance at 1 January	13,772	11,053
Costs deferred in financial year	9,870	13,772
Amortisation of costs deferred	(13,769)	(11,053)
Balance at 31 December	9,873	13,772

4.2. Reinsurance and other receivables

	2016 $'000	2015 $'000
General reinsurance premium receivable		
Outstanding premiums	27,882	23,478
Reinsurance and other receivables		
Recoveries due from related retrocessionaire	148,870	68,761
Current tax receivable	121	121
Tax loss transfers receivable from related entities	38,462	42,606
Accrued income	1,373	2,821
GST receivable	588	270
	189,414	114,579
Total reinsurance and other receivables	217,296	138,057
Current	120,989	92,538
Non-current	96,307	45,519
Total reinsurance and other receivables	217,296	138,057

(a) Reconciliation of movement in reinsurance and other receivables

	2016 $'000	2015 $'000
Balance at 1 January	138,057	142,944
Recoveries expense	80,109	2,438
Movement in receivables	578	(6,590)
Movement in accrued income	(1,448)	(735)
Balance at 31 December	217,296	138,057

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 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.

4.3. Trade and other payables

	2016 $'000	2015 $'000
Amount due to ceding companies	7,500	10,648
Reinsurance payables	7,500	10,648
Sundry creditors and accrued expenses	370	300
Other payables	370	300
Total trade and other payables	7,870	10,948
Current	7,870	10,948
Non-current	-	-
Total trade and other payables	7,870	10,948

4.3. Trade and other payables *(continued)*

Summary of significant accounting policies

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.

4.4. Outstanding claims

	2016 $'000	2015 $'000
Central estimate of gross outstanding claims	290,899	334,859
Claims handling cost	2,541	2,893
Discount to present value	(10,065)	(13,787)
Discounted central estimate	283,375	323,965
Risk margin	30,577	33,554
Total outstanding claims – discounted	313,952	357,519
Current	140,150	143,824
Non-current	173,802	213,695
Total outstanding claims – discounted	313,952	357,519

(a) Reconciliation of movement in discounted outstanding claims liability

	2016 $'000	2015 $'000
Balance at 1 January	357,519	555,583
Inwards reinsurance claims expense	93,317	14,795
Claim payments during the year	(137,175)	(216,863)
Foreign exchange (gains)/losses	291	4,004
Balance at 31 December	313,952	357,519

Summary of significant accounting policies

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.

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.

4.5. Unearned premium

	2016 $'000	2015 $'000
Unearned premium – current	25,091	33,781
Reconciliation of movement in unearned premium		
Balance at 1 January	33,781	25,368
Deferral of premium on contracts written in the period	24,094	31,333
Earning of premium written	(32,784)	(22,920)
Balance at 31 December	25,091	33,781

4.6. Current liabilities – other

	2016 $'000	2015 $'000
Profit and sliding scale commissions	2,040	288
Withholding tax	143	164
Total other assets	2,183	452

4.7. 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.

	2016 $'000	2015 $'000
Unearned premium liabilities	25,091	33,781
Related deferred acquisition costs	(9,873)	(13,772)
	15,218	20,009
Undiscounted net premium liabilities excluding risk margin	10,926	18,917
Discount	(525)	(720)
Risk margin	290	527
	10,691	18,724
Net surplus/(deficiency)	4,527	1,285
Percentage risk margin	2.8%	2.9%
Probability of sufficiency	60%	60%

Summary of significant accounting policies

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.

Section 5. Significant actuarial methods and assumptions

(a) Basis of preparation for general reinsurance outstanding claims liabilities

The effective date of the actuarial valuation of the outstanding claims liabilities is 31 December 2016. The liability valuation report was prepared by the Actuarial team and reviewed by the Appointed Actuary, Mr Kaise Stephan, FNZSA, FIAA. 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".

i. Actuarial valuation methods

The Branch makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments 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.

ii. Actuarial assumptions

Assumption	Basis of assumption
Discount rates	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 2016 is used to derive the future effective annual interest rates. 2016: 1.9% - 5.1% p.a. (2015: 2.6% - 5.0% p.a.)
Weighted average term to settlement (years)	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. 2016: 1.5 years (2015: 1.7 years)
Inflation	Insurance costs are subject to inflationary pressures. Inflation is built into the actuarial models implicitly.
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. 2016: 0.8%. (2015: 0.8%)
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. 2016: 10.8%. (2015: 10.4%)

5.1. Summary of significant actuarial methods and assumptions *(continued)*

(a) Basis of preparation for general reinsurance outstanding claims liabilities (continued)

iii. Sensitivity of financial results

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.

Variable	Impact of variable
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.

iv. Effects of changes in 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 profit/loss and equity ($'000)
Weighted average term to settlement	+10%	(1,094)
	-10%	1,098
Risk margin	+1%	2,834
	-1%	(2,834)
Discount rate	+1%	(4,413)
	-1%	4,583
Claims handling expense ratio	+1%	3,115
	-1%	(3,115)

Section 6. Other notes

6.1. Commitments and contingencies

(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.

(c) Contingencies

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

6.2. Related parties

(a) 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.

Transactions with related parties;

Münchener Rückversicherungs-Gesellschaft AG (MR-AG)
Munich Reinsurance America (MR-AM)
Munich Holdings of Australasia Pty Ltd (MHA)
Munichre New Zealand Service Limited (NZS)
MEAG Munich ERGO (ME-AG)
Munich Reinsurance Company of Australasia Limited – New Zealand Branch (NZL)
Great Lakes Reinsurance (UK) SE (New Zealand Branch) (GLN)

The table below lists the transactions with the subsidiaries and controlled entities of the Munich Re group as shown above.

	Transaction values for the year ended 31 December		Balance outstanding as at 31 December	
	2016 $	2015 $	**2016 $**	2015 $
Outwards reinsurance expense:				
MR-AM	(2,097,517)	(3,206,128)	-	-
Recharge of expenses incurred on the Branch's behalf:				
MHA	(2,166,111)	(2,150,789)	-	
NZS	(2,011,605)	(2,090,441)	-	270,307
ME-AG	(202,000)	(305,626)	-	-
MR-AG	(333,366)	(269,165)	-	(269,165)
Transactions with tax group relating to tax sharing and funding agreement:				
NZL	1,356,823	5,120,170	6,077,430	6,551,352
NZS	32,384,830	33,798,263	32,384,830	37,885,717
Capital repatriation paid to immediate parent:				
MR-AG	(87,885,717)	(33,798,263)	-	-
Inwards reinsurance with related PIRI business:				
GLN				
Premium revenue	39,058,042	38,383,292	-	-
Claims expense	(13,969,446)	(8,841,356)	-	-
Commission expense on written premium	(25,361,973)	(24,997,787)	-	-
Premium receivable net of commission	-	-	5,822,135	9,070,224
Deposit retained	-	-	849,943	850,000

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

(b) Key management personnel

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.

6.3. Remuneration of auditors

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

Audit services

KPMG:	2016 $	2015 $
Audit and review of financial reports	35,329	43,783
Total remuneration for audit services	35,329	43,783

6.4. Events occurring after the balance date

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

6.5. Other significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the financial report.

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.

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.

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 Branch are set out below. The Branch does not plan to adopt these standards early and the extent of the impact has not been determined.

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 is 1 January 2018 but we believe the Branch satisfies the IFRS 9 deferral test and is permitted to defer application until the new IFRS "Insurance contracts" standard is issued with an effective date from 2020 at the earliest. Retrospective application of IFRS 9 is generally required, although there are exceptions. As the Branch currently classifies its financial assets at fair value through the profit and loss, no material impact is expected on the Branch's financial performance or financial position on adoption of this standard. However, the Branch continues to monitor the impact of this standard.

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.

Directors' declaration

The Directors are pleased to present the financial statements of Munich Reinsurance Company – New Zealand Branch (the "Branch") for the year ended 31 December 2016.

In the opinion of the Directors of Munich Reinsurance Company, the financial statements and notes of the New Zealand Branch on pages 3 to 22:

(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 2016 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 judgments 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 3 April 2017 in accordance with a resolution of the directors:

Member, Board of Management

Member, Board of Management

Independent Auditor's Report

To the shareholder of Münchener Rückversicherungs-Gesellschaft - New Zealand Branch

Report on the financial statements

Opinion

In our opinion, the accompanying financial statements of Münchener Rückversicherungs-Gesellschaft - New Zealand Branch ("the branch") on pages 3 to 22:

i. present fairly in all material respects the branch's financial position as at 31 December 2016 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

— the statement of financial position as at 31 December 2016;

— the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended; and

— notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)"). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the branch in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the Auditor's Responsibilities for the Audit of the financial statements section of our report.

Subject to certain restrictions, partners and employees of our firm may also deal with the branch on normal terms within the ordinary course of trading activities of the business of the branch. These matters have not impaired our independence as auditor of the branch. The firm has no other relationship with, or interest in, the branch.

Other Information

The Directors, on behalf of the branch, are responsible for the other information included in the entity's Financial Report. Other information includes the Directors' Report. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Use of this Independent Auditor's Report

This report is made solely to the shareholder as a body. Our audit work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the Independent 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 shareholder as a body for our audit work, this report, or any of the opinions we have formed.

Responsibilities of the Directors for the financial statements

The Directors, on behalf of the branch, are responsible 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;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the 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 or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an Independent 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 ISAs NZ 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 these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page8.aspx.

This description forms part of our Independent Auditor's Report.

KPMG

KPMG
Sydney

13 April 2017