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 Statements
31 December 2018

Munich Reinsurance Company - New Zealand Branch

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Munich Reinsurance Company - New Zealand Branch

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

The Directors present their report together with the financial statements of Munich Reinsurance Company (the "Company") – New Zealand Branch (the "Branch") for the year ended 31 December 2018 and the auditor's report thereon.

Directors

The names and details of the Directors at any time during or since the end of the year are as follows:

Director	Date of appointment / resignation	Areas of accountability
Dr. oec. publ. Joachim Wenning	2009	Chairman of the Board of Management; Chairman of the Group Committee; Group Holdings; Group Strategy and M&A; Group Communications; Group Audit; Economics, Sustainability & Public Affairs; Group Human Resources; Group Executive Affairs; Group Human Resources; Group Compliance; Legal.
Dr. rer. pol. Thomas Blunck	2005	Life and Health; Capital Partners; Digital Partners; Reinsurance Investments.
Dr. jur. Doris Höpke	2014	Europe and Latin America; Human Resources; Labour Relations Director.
Dr. rer. nat. Torsten Jeworrek	2003	Chairman of the Reinsurance Committee; Reinsurance Development; Corporate Underwriting; Corporate Claims; Accounting, Controlling and Central Reserving for Reinsurance; Information Technology.
Dr. rer. Nat. Christoph Jurecka	2019	Financial and Regulatory Reporting; Group Controlling; Integrated Risk Management; Group Taxation; Investor and Rating Agency Relations.
Hermann Pohlchristoph	2017	Asia Pacific and Africa; Central Procurement; Services.
Dr. rer. pol. Markus Rieß	2015	Primary Insurance/ERGO; Third Party Asset Management.
Dr. rer. pol. Peter Röder	2007	Global Clients and North America.
Dr. jur. Jörg Schneider	2000 / 2018	Financial and Regulatory Reporting; Group Controlling; Corporate Finance M&A; Integrated Risk Management; Group Legal; Group Taxation; Investor and Rating Agency Relations Group Compliance.

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. Munich Re 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' benefits

Since the end of the period covered by the last report no Director 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 $14,551,000 (2017: $90,980,000).

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 2018.

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

No capital was repatriated by the Branch during the financial year (2017: $163,647,850).

Significant changes in the state of affairs

During the year, an operational review of the New Zealand business was undertaken. Subsequent to this review, it was determined that an internal reorganisation would be undertaken and the Branch would cease trading in New Zealand with all New Zealand business being reorganised into Munich Reinsurance Company Australian Branch (MRAU) and administered by MHA. Following the reorganisation, the Branch would maintain its insurance licence in New Zealand at this point in time. The reorganisation was completed on the 3rd January 2019.

Matters subsequent to the end of the financial year

The Directors are not aware, at the date of this report, of any other matter or circumstance which has arisen since 31 December 2018 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 2018.

Signed in Munich on 3rd April 2019 in accordance with a resolution of the directors:

Member, Board of Management

Member, Board of Management

Munich Reinsurance Company - New Zealand Branch

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 $'000	2017 $'000
Net profit and total comprehensive income from discontinued operations		**14,551**	90,980
In which:			
General reinsurance premium revenue	2.1	**44,784**	74,170
General reinsurance premium expense	2.1	**(2,736)**	(2,057)
Net general reinsurance premiums	2.1	**42,048**	72,113
Net general reinsurance commissions	2.2	**(12,424)**	(34,550)
General reinsurance claims expense	2.2	**(7,212)**	61,251
General reinsurance claims recoveries	2.2	**(3,378)**	(70,538)
Net general reinsurance claims	2.2	**(10,590)**	(9,287)
Underwriting profit		**19,034**	28,276
Other revenue	2.1	**94**	1,196
Other expenses from operating activities	2.2	**(3,682)**	(3,685)
Investment revenue	2.1	**4,888**	8,086
Investment management expense	2.2	**(107)**	(131)
Profit before tax		**20,227**	33,742
Income tax (expense) / benefit	2.3	**(5,676)**	57,238
Net profit for the year and total comprehensive income for the year		**14,551**	90,980

The Statement of Comprehensive Income is to be read in conjunction with the notes to the financial statements set out on pages 7 to 25

Munich Reinsurance Company - New Zealand Branch

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	2018 $'000	2017 $'000
Assets held for distribution		**204,742**	232,151
In which:			
Cash and cash equivalents	3.1	**167,561**	5,065
Other financial assets held for sale	3.2	-	146,883
Deferred acquisition costs	4.1	**1,798**	2,715
Reinsurance recoveries	4.2	**16,746**	58,098
Current tax receivable	4.2	**121**	121
Outstanding premiums	4.2	**14,846**	14,024
Other assets	4.2	-	1,343
Deposit retained by ceding company		**3,670**	800
Deferred tax assets	2.3	-	3,102
Total assets		**204,742**	232,151
Liabilites held for distribution		**155,397**	197,357
In which:			
Trade and other payables	4.3	**14,918**	15,407
Outstanding claims	4.4	**109,038**	168,816
Unearned premiums	4.5	**13,744**	13,027
Deposit retained from related retrocession		**15,000**	-
Current tax payable	2.3	**2,215**	-
Deferred tax liabilities	2.3	**348**	-
Other liabilities	4.6	**134**	107
Total liabilities		**155,397**	197,357
Net assets		**49,345**	34,794
Equity			
Head office account		**681,876**	681,876
Retained earnings		**(632,531)**	(647,082)
Total equity		**49,345**	34,794

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 7 to 25.

Munich Reinsurance Company - New Zealand Branch

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

2018	Head office account $'000	Retained profits $'000	Total $'000
Balance at 1 January	**681,876**	**(647,082)**	**34,794**
TOTAL COMPREHENSIVE INCOME			
Net profit/(loss) for the year	-	**14,551**	**14,551**
Total comprehensive income for the year	-	**14,551**	**14,551**
TRANSACTIONS WITH OWNERS OF THE BRANCH			
Capital repatriation	-	-	-
Total transactions with owners of the branch	-	-	-
Balance at 31 December	**681,876**	**(632,531)**	**49,345**

2017	Head office account $'000	Retained profits $'000	Total $'000
Balance at 1 January	845,524	(738,062)	107,462
TOTAL COMPREHENSIVE INCOME			
Net profit/(loss) for the year	-	90,980	90,980
Total comprehensive income for the year	-	90,980	90,980
TRANSACTIONS WITH OWNERS OF THE BRANCH			
Capital repatriation	(163,648)	-	(163,648)
Total transactions with owners of the branch	(163,648)	-	(163,648)
Balance at 31 December	681,876	(647,082)	34,794

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 25.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 $'000	2017 $'000
Net increase in cash from discontinued operations		**162,496**	(5,312)
In which:			
Cash flows from operating activities			
Reinsurance premium received		**44,699**	75,960
Reinsurance claim payments		**(60,018)**	(84,130)
Reinsurance premium payments		**(2,736)**	(1,730)
Cash (paid) / received on transfer of tax loss		**(7,546)**	134,777
Other operating payments		**35,485**	(12,491)
Net cash from operating activities	3.1	**9,884**	112,386
Cash flows from investing activities			
Interest received		**5,633**	7,000
Payments for investments		**(334,125)**	(185,934)
Proceeds from sale of investments		**481,211**	225,015
Investment expenses		**(107)**	(131)
Net cash from investing activities		**152,612**	45,950
Cash flows from financing activities			
Capital repatriation		**-**	(163,648)
Net cash from financing activities		**-**	(163,648)
Net increase in cash and cash equivalents		**162,496**	(5,312)
Cash and cash equivalents at the beginning of the financial year		**5,065**	10,377
Cash and cash equivalents at the end of the financial year	3.1	**167,561**	5,065

The Statement of Cash Flows is to be read in conjunction with the notes to the financial statements set out on pages 7 to 25.

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, 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 Level 20, 88 Shortland Street, Auckland Central, 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).

As disclosed in Note 6.4, the Branch ceased trading from 1 January 2019. The Directors have taken this into account and the financial statements will continue to be prepared on a going concern basis until such a time as the Directors determine the Insurance licence is no longer necessary. All assets and liabilities have been recognised as 'held for distribution' at 31 December 2018 in accordance with NZ IFRS 5 *'Non-current Assets Held for Sale and Discontinued Operations'*. After tax earnings associated with the discontinued operations have been recognised as net profit and total comprehensive income from discontinued operations in the Statement of Comprehensive Income.

The financial statements were authorised for issue by the Directors on 26 March 2019.

(b) Basis of measurement

The financial statements are prepared on a historical cost basis except for the following items, which are measured on an alternative basis at each reporting date.

Items	Note	Measurement basis
Non-derivative financial instruments at fair value through profit or loss	3.2	Fair Value
Outstanding claims liabilities	4.4	Present Value
Reinsurance recoveries	4.2	Present Value

(c) Functional and presentation currency

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

(d) Rounding

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

1.3. Use of judgments and estimates

In preparing the financial statements, 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	2018 $'000	2017 $'000
General reinsurance premiums		
Reinsurance written premium revenue	**45,501**	62,107
Movement in unearned premium liability	**(717)**	12,063
Retrocession written premium expense	**(2,736)**	(2,057)
Net general reinsurance premiums	**42,048**	72,113
Other revenue		
Interest on deposit retained by ceding company	**207**	258
Foreign exchange gains / (losses) (net)	**(113)**	938
Total other revenue	**94**	1,196
Investment revenue		
Interest revenue	**4,685**	6,576
Realised and unrealised gains / (losses) on assets at fair value (net)	**203**	1,510
Total investment revenue	**4,888**	8,086
Total revenue from operating activities	**47,030**	81,395

Summary of significant accounting policies

Revenue is recognised to be the amount of the transaction price when (or as) the performance obligation of a contract is satisfied. The Branch recognises revenue when it transfers control over a product or service to a customer. The Branch's activities are connected with insurance. The adoption of NZ IFRS 15 'Revenue from Contracts with Customers' effective from 1 January 2018 has no impact on the Branch's financial statements.

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 retrocessionaires are recognised as an expense in accordance with the pattern of retrocession service received.

Interest revenue

Interest income is recognised as it accrues in profit or loss, using the effective interest method.

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 at the spot rate at the time of the transaction. Realised and unrealised foreign exchange gains and losses resulting from this translation are recognised in the Profit or Loss.

2.2. Expenses from operating activities

General reinsurance expenses	2018 $'000	2017 $'000
Reinsurance commission		
Reinsurance commission expense paid	**11,512**	29,431
Movement in profit commission	**-**	(2,040)
Movement in deferred acquisition costs	**912**	7,159
Net general reinsurance commission	**12,424**	34,550
General reinsurance claims		
Reinsurance claims expense	**7,212**	(61,251)
Retrocession claims recoveries	**3,378**	70,538
Net general reinsurance claims	**10,590**	9,287
Other expenses from operating activities		
Other underwriting expenses	**4**	9
General and administration expenses	**3,678**	3,676
Other expenses from operating activities	**3,682**	3,685
Investment management expenses	**107**	131
Total expenses from operating activities	**26,803**	47,653

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 reporting 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

Retrocession 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 reporting 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.

2.3. Income taxes

(a) Amounts recognised in profit or loss

	2018 $'000	2017 $'000
Current tax expense / (benefit)		
Current year	**2,226**	(87,843)
Current tax expense / (benefit)	**2,226**	(87,843)
Deferred tax expense / (benefit)		
Movement in temporary differences	**33**	(1,051)
Movement in carry forward tax loss	**3,417**	31,656
Deferred tax expense / (benefit)	**3,450**	30,605
Income tax expense / (benefit)	**5,676**	(57,238)

(b) Reconciliation of effective tax rate

	2018 %	2018 $'000	2017 %	2017 $'000
Profit before tax from continuing operations		**20,227**		33,742
Tax using the Branch's domestic tax rate	**28**	**5,665**	28	9,448
Non-deductible expenses		**(1)**		(2)
Increase/(decrease) in unrecognised deferred tax asset related to intergroup tax loss transfers		**12**		(66,684)
Income tax expense / (benefit)		**5,676**		(57,238)

(c) Movement in deferred tax balances

2018	Net balance at 1 January $'000	Movement $'000	Net balance at 31 December $'000
Accrued expenses	**3**	**-**	**3**
Reduction in carry forward tax loss	**3,484**	**(3,484)**	**-**
Deferred acquisition costs	**(760)**	**257**	**(503)**
Insurance provision	**375**	**(223)**	**152**
Net deferred tax asset / (liability)	**3,102**	**(3,450)**	**(348)**

2017	Net balance at 1 January $'000	Movement $'000	Net balance at 31 December $'000
Accrued expenses	4	(1)	3
Carry forward tax loss	35,140	(31,656)	3,484
Deferred acquisition costs	(2,765)	2,005	(760)
Insurance provision	1,328	(953)	375
Net deferred tax asset	33,707	(30,605)	3,102

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.

Deferred tax assets are also recognised for unused tax losses only if it is probable that future taxable amounts will be available to utilise those losses.

2.4. Net incurred claims

	2018			2017		
Gross claims expense	Current year $'000	Prior years $'000	Total $'000	Current year $'000	Prior years $'000	Total $'000
Gross claims incurred – undiscounted	**9,916**	**(462)**	**9,454**	18,679	(72,477)	(53,798)
Discount movement	**(403)**	**1,962**	**1,559**	(517)	5,266	4,749
Risk margin movement	**1,043**	**(4,844)**	**(3,801)**	1,450	(13,652)	(12,202)
Discounted gross claims expenses	**10,556**	**(3,344)**	**7,212**	19,612	(80,863)	(61,251)
Reinsurance and other recoveries (expense)						
Reinsurance and other recoveries (expense) – undiscounted	**-**	**(607)**	**(607)**	-	(64,225)	(64,225)
Discount movement	**-**	**823**	**823**	-	3,202	3,202
Risk margin movement	**-**	**(3,594)**	**(3,594)**	-	(9,515)	(9,515)
Discounted reinsurance and other recoveries (expense)	**-**	**(3,378)**	**(3,378)**	-	(70,538)	(70,538)
Net claims incurred	**10,556**	**34**	**10,590**	19,612	(10,325)	9,287

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

	2018 $'000	2017 $'000
Cash at bank	167,561	5,065
Total cash and cash equivalents	167,561	5,065

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

	2018 $'000	2017 $'000
Profit/(loss)from operating activities after income tax	**14,551**	90,980
Adjustments for:		
Unrealised (gain)/loss on revaluation of investments	-	(1,322)
Net (gain)/loss on sale of investments	**(203)**	(188)
Interest income	**(4,685)**	(6,576)
Investment management expenses	**107**	131
Movements in:		
Outstanding premiums	**(822)**	13,858
Retrocession recoveries	**41,352**	90,772
Other receivables	**(10,021)**	46,251
Withholding tax	**27**	(36)
Deferred tax	**5,665**	30,605
Deferred acquisition costs	**917**	7,158
Payables	**22,057**	(8)
Outstanding claims	**(59,778)**	(145,136)
Unearned premium	**717**	(12,063)
Profit commission	-	(2,040)
Net cash flows from operating activities	**9,884**	112,386

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 held for sale

	2018 $'000	2017 $'000
Debt securities at fair value	-	104,883
Deposits with banks	-	42,000
Total other financial assets	-	146,883

Summary of significant accounting policies

Other financial assets are measured at fair value through profit or loss and include fixed interest securities and bank term deposits. The Branch is an Appendix D insurer prescribed by NZ IFRS 4 'Insurance Contract', therefore, the application of temporary exemption from NZ IFRS 9 'Financial Instruments' is not permitted. The adoption of NZ IFRS 9 'Financial Instruments' effective from 1 January 2018 has no material impact on the Branch's financial statements. In light of all New Zealand business being reorganised into Munich Reinsurance Company Australian Branch (MRAU) effective 1 January 2019, all financial assets were redeemed and converted to cash at bank in December 2018.

(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.

3.2. Other financial assets held for sale (continued)

(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 2018 (2017: 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 reporting 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 and deposits held at call with banks.
- Fixed interest securities are taken as the bid price of the instrument.
- Receivables are initially recognised at fair value and are subsequently measured at amortised cost, less a provision for doubtful debts. The carrying value of receivables approximates its fair value at reporting date.

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.

As noted previously, all financial assets were redeemed and converted to cash at bank in December 2018 in light of New Zealand business being reorganised into Munich Reinsurance Company Australian Branch (MRAU) effective 1 January 2019.

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 risk:

- A mandate is in place which limits all investments to New Zealand dollar denominated bonds or deposits issued by the New Zealand Government, the New Zealand Local Government Funding Agency or one of the major New Zealand 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.

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

b) Financial risks (continued)

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 Statement of Financial Position.

	2018 $'000	2017 $'000
Cash and cash equivalents	**167,561**	5,065
Other financial assets	**-**	146,883
Reinsurance recoveries	**16,746**	58,098
Other receivables	**18,516**	16,167
Total	**202,823**	226,213
Grade 1-3 (Standard & Poor's A- to AAA)	**195,429**	220,047
Grade 4-5 (Unrated or Standard & Poor's BB+ to BBB+)	**7,394**	6,166
Total	**202,823**	226,213

The Branch has a significant concentration of credit risk with the ANZ Bank in New Zealand, which has a short-term Standard & Poors credit rating of A-1+, and a significant retrocession credit exposure to Munich Re of Malta p.l.c., which has a Standard & Poor's credit rating of AA-.

Past due but not impaired

As at 31 December 2018, outstanding premiums of $1.27m (2017: $1.40m) 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:

	2018 $'000	2017 $'000
Up to 3 months	**835**	1,144
3 to 6 months	**56**	246
Greater than 6 months	**377**	14
Total	**1,268**	1,404

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.

The Branch maintains a sufficient portfolio of financial assets that are highly liquid and readily converted to cash to meet the needs of the business, without incurring unacceptable losses or risking damage to the Branch's reputation.

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.

2018	Up to 1 year $'000	1-5 years $'000	Over 5 years $'000	Total $'000
Amount due to ceding companies	**14,354**	**-**	**-**	**14,354**
Other creditors	**564**	**-**	**-**	**564**
Outstanding claims	**109,038**	**-**	**-**	**109,038**
Total	**123,956**	**-**	**-**	**123,956**

2017	Up to 1 year $'000	1-5 years $'000	Over 5 years $'000	Total $'000
Amount due to ceding companies	7,265	-	-	7,265
Other creditors	596	-	-	596
Outstanding claims	88,734	70,653	9,429	168,816
Total	96,595	70,653	9,429	176,677

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

b) Financial risks (continued)

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 which minimise 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 profiles are closely matched.

Ignoring taxation impacts, at 31 December 2018 an increase in the interest rates of 1% would decrease profit and equity by $1.68m (2017: Decrease $4.10m). A corresponding decrease of 1% would increase profit and equity by $1.68m (2017: Increase $4.44m).

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

	Weighted average interest rate	Floating interest rate $'000	Fixed interest maturing in: Up to 1 year $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
2018						
Cash at bank	**1.85%**	**167,561**	-	-	-	**167,561**
Cash and cash equivalents		**167,561**				**167,5**
Term deposits	-	-	-	-	-	-
Debt securities						
Government bonds	-	-	-	-	-	
Other financial assets held for sale		-	-	-	-	-
Total		**167,5**	-	-	-	**167,5**
2017						
Cash at bank	1.6%	5,0	-	-	-	5,0
Cash and cash equivalents		5,0				5,0
Term deposits	2.7%	-	42,00	-	-	42,
Debt securities						
Government bonds	4.1%	-	-	54,70	50,18	104,8
Other financial assets held for sale			42,	54,70	50,	146,8
Total		5,065	42,	54,	50,	151,9

Currency risk

The Branch operates in New Zealand but at times has some incidental international reinsurance exposures. Assets are maintained in the local currency only 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.

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

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.

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.

	2013 &			Underwriting year			
Estimate of net ultimate claims cost	prior $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	Total $'000
At end of underwriting year	1,594,53	12,152	22,902	40,016	18,679	9,916	
One year later	1,581,22	22,777	38,58	49,58	26,44		
Two years later	1,568,84	21,44	39,40	45,75			
Three years later	1,534,48	20,32	38,28				
Four years later	1,517,16	19,26					
Five years & prior	1,515,78						
Current estimate of ultimate claims cost	1,515,78	19,26	38,28	45,75	26,44	9,9	1,655,45
Cumulative net payments	1,465,07	15,500	32,092	40,666	18,118	1,999	1,573,453
Net undiscounted outstanding claims	50,711	3,763	6,189	5,090	8,330	7,917	82,000

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 2018 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 2018.

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 2018 solvency disclosures calculated in accordance with the Company's home jurisdiction in €'000 are as follows:

	2018 €'000	2017 €'000
Aggregate Actual Solvency capital	**44,516,350**	44,242,476
Aggregate Minimum solvency requirement	**6,601,722**	6,429,793
Aggregate Solvency margin	**14,670,493**	14,353,218
Aggregate Solvency ratio	**303%**	308%

The solvency figures shown above for MR-AG are prepared in accordance with Solvency II's Quantative Reporting Template (QRT).

Section 4. Other assets and liabilities

4.1. Deferred acquisition costs

	2018 $'000	2017 $'000
Reconciliation of movement in deferred acquisition costs		
Balance at 1 January		
Costs deferred in financial year	**1,802**	2,715
Amortisation of costs deferred	**(2,720)**	(9,873)
Balance at 31 December		

4.2. Reinsurance and other receivables

	2018 $'000	2017 $'000
General reinsurance premium receivable		
Outstanding premiums	**14,846**	14,024
Retrocession and other receivables		
Recoveries due from related retrocessionaire	**16,746**	58,098
Current tax receivable	**121**	121
Accrued income	**-**	948
GST receivable	**-**	395
	16,867	59,562
Total reinsurance and other receivables	**31,713**	73,586
Current	**31,713**	47,576
Non-current	**-**	26,010
Total reinsurance and other receivables	**31,713**	73,586

(a) Reconciliation of movement in reinsurance and other receivables

	2018 $'000	2017 $'000
Balance at 1 January	**73,586**	217,296
Recoveries expense	**(41,353)**	(90,772)
Movement in receivables	**428**	(52,513)
Movement in accrued income	**(948)**	(425)
Balance at 31 December	**31,713**	73,586

Summary of significant accounting policies

Receivables are initially recognised at fair value and subsequently measured at amortised cost less a provision for doubtful debts. 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

	2018 $'000	2017 $'000
Amount due to ceding companies	**14,354**	7,265
Reinsurance payables	**14,354**	7,265
Sundry creditors and accrued expenses	**553**	596
Tax loss transfers payable to related entities	**11**	7,546
Other payables	**564**	8,142
Total trade and other payables	**14,918**	15,407

4.3. Trade and other payables *(continued)*

Summary of significant accounting policies

Payables are initially recognized at fair value, and subsequently measured at amortised cost. The amounts are unsecured and are usually paid within 30 days of recognition.

4.4. Gross outstanding claims

	2018 $'000	2017 $'000
Central estimate of gross outstanding claims	**97,733**	154,520
Claims handling cost	**488**	1,237
Discount to present value	**(3,757)**	(5,316)
Discounted central estimate	**94,464**	150,441
Risk margin	**14,574**	18,375
Total gross outstanding claims – discounted	**109,038**	168,816
Current	**109,038**	88,734
Non-current	**-**	80,082
Total gross outstanding claims – discounted	**109,038**	168,816

(a) Reconciliation of movement in discounted gross outstanding claims liability

	2018 $'000	2017 $'000
Balance at 1 January	**168,816**	313,952
Inwards reinsurance claims expense	**7,212**	(61,251)
Claim payments during the year	**(67,100)**	(83,895)
Foreign exchange (gains)/losses	**110**	10
Balance at 31 December	**109,038**	168,816

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 reporting date. These reserves include estimates for reported claims, IBNR, and 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

	2018 $'000	2017 $'000
Unearned premium – current		13,027
Reconciliation of movement in unearned premium		
Balance at 1 January	**13,027**	25,091
Deferral of premium on contracts written in the period	**12,902**	12,453
Earning of premium written	**(12,185)**	(24,517)
Balance at 31 December	**13,744**	13,027

4.6. Current liabilities – other

	2018 $'000	2017 $'000
Withholding tax	**134**	107
Total other liabilities	**134**	107

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.

	2018 $'000	2017 $'000
Unearned premium liabilities	**13,744**	13,028
Related deferred acquisition costs	**(1,814)**	(2,715)
	11,930	10,313
Undiscounted net premium liabilities excluding risk margin	**6,933**	7,020
Discount	**(425)**	(454)
Risk margin	**193**	195
	6,701	6,761
Net surplus/(deficiency)	**5,229**	3,552
Percentage risk margin	**2.97%**	2.97%
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 2018. 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".

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 2018 is used to derive the future effective annual interest rates. 2018: 1.7% - 3.5%. (2017: 1.8% - 4.2% 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. 2018: 2.0 years (2017: 1.6 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. 2018: 0.5% (2017: 0.8%)
Gross 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. 2018: 15.4% (2017: 12.2%)

Section 5. 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%	(424)
	-10%	426
Risk margin	+1%	945
	-1%	(945)
Discount rate	+1%	(2,072)
	-1%	2,196
Claims handling expense ratio	+1%	1,085
	-1%	(1,085)

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).

Transactions with related parties;

Münchener Rückversicherungs-Gesellschaft AG (MR-AG)
Munich Reinsurance America (MR-AM)
Munich Re of Malta p.l.c. (MRoM)
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 Insurance 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	
	2018 $	2017 $	2018 $	2017 $
Outwards reinsurance expense:				
MR-AM				
Premium expense	-	(2,057,065)		
Deposit retained			**(15,000,000)**	-
MRoM	**(2,736,000)**	-	**-**	-
Recharge of expenses incurred on the Branch's behalf:				
MHA	**(1,453,752)**	(1,846,012)		
NZS	**(2,022,075)**	(1,546,500)		
ME-AG	**(107,226)**	(131,234)		
MR-AG	**(177,509)**	(241,485)		
Transactions with tax group relating to tax sharing and funding agreement:				
NZL	**-**	(6,077,433)	**-**	3
NZS	**-**	(39,931,224)	**(11,316)**	(7,546,394)
Capital repatriation paid to immediate parent:				
MR-AG	**-**	(163,647,850)		
Inwards reinsurance with related PIRI business:				
GLN				
Premium revenue	**2,219,436**	30,431,686		
Claims expense	**933,452**	(5,863,884)		
Commission expense on written premium	**(1,756,777)**	(19,187,387)		
Premium (payable) / receivable net of commission			**(679,369)**	1,600,084
Deposit retained			**3,669,537**	800,000

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.

6.2. Related parties *(continued)*

(b) Key management personnel

The key management personnel provide services to a number of Munich Re's entities. All KMP are employees of Munich Re Group (the Group). The Branch receives services from the Group such as the provision of KMP. The Branch does not remunerate KMP or directly reimburse the Group for this cost.

Refer to the Remuneration Report contained in the 2018 Group Annual Report for the overall remuneration framework and outcomes.

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:	2018 $	2017 $
Audit and review of financial statements	**34,502**	36,141
Total remuneration for audit services	**34,502**	36,141

6.4. Events occurring after the reporting date

During the year, an operational review of the New Zealand business was undertaken. Subsequent to this review, it was determined that an internal reorganisation would be undertaken and the Branch would cease trading in New Zealand with all New Zealand business being reorganised into MRAU and administered by MHA. Following the reorganisation, the Branch would maintain its insurance licence in New Zealand at this point in time. The reorganisation was completed on the 3rd January 2019.

6.5. Other significant accounting policies

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

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

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 2018.

An assessment of the impact of the new or amended standards is set out below:

NZ IFRS 16 'Leases'

NZ IFRS 16 amends the accounting for leases. Lessees will be required to bring all leases on Statement of Financial Position as the distinction between operating and finance leases has been eliminated. Lessor accounting remains largely unchanged. The standard is effective for annual reporting periods beginning on or after 1 January 2019 for the Branch.

The branch does not have any lease agreements that would be affected by NZ IFRS 16 and there will be no impact to the Branch's financial statements upon the application of this standard.

NZ IFRS 17 'Insurance Contracts'

NZ IFRS 17 was released in August 2017. It introduces three new measurement approaches for accounting for insurance contracts. These include the Building Block Approach for long term contracts, the Premium Allocation Approach for short contracts and a Variable Fee Approach for direct participating contracts. In addition, the level of contract aggregation is likely to be lower than that under current practices. The standard is not mandatory until 1 January 2021 for the Branch. The financial impact has not yet been determined.

6.6. New standards and interpretations not yet adopted *(continued)*

Amendments to NZ IFRS 9 'Prepayment Features with Negative Compensation'

The amendments clarifies how to classify a debt instrument if its contractual terms permit the borrower to prepay the instrument at a variable amount that could be more or less than unpaid amounts of principal and interest. The amendments are effective for annual reporting periods beginning on or after 1 January 2019. The amendments is expected to have no impacts on the Branch's financial statements.

Amendments to NZ IFRS 10 and NZ IAS '2017 Omnibus Amendments to NZ IFRS'

This standard amends NZ IFRS as follows:

NZ IFRS 10: Requires the ultimate New Zealand parent entity to present consolidated financial statements in accordance with NZ IFRS 10 (except where the parent is an investment entity)

NZ IAS 28: Requires the ultimate New Zealand parent entity to apply the equity method when accounting for investments in associates and joint ventures (except where the parent is an investment entity).

The standard is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. It is expected to have no impacts on the Branch's financial statements.

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 2018.

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 2018 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 3rd April 2019 in accordance with a resolution of the directors:

Member, Board of Management

Member, Board of Management

KPMG

Independent Auditor's Report

To the directors 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 25:

i. present fairly in all material respects the branch's financial position as at 31 December 2018 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 2018;

— the statements of comprehensive income, changes in equity and 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.

Emphasis of matter

We draw attention to Note 1.2(a) to the financial statements which describes the basis of preparation. The branch ceased trading from 1 January 2019. The Directors have taken this into account and the financial statements have continued to be prepared on a going concern basis since the Branch will maintain its insurance licence in New Zealand to use in the future. Our opinion is not modified in respect of this matter.

KPMG

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the directors as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements.

The key audit matter	How the matter was addressed in our audit
Valuation of Outstanding claims ($109.0 million)	
Refer to Note 4.4 to the Financial Report. Outstanding claims is a key audit matter as a result of significant complexity relating to: *Valuation of Outstanding claims* The valuation of outstanding claims is significant to the key audit matter as: ▪ judgment is required by us to consider the central estimate of the outstanding claims. This is a significant estimate as the eventual outcomes of incurred but unsettled claims at the balance sheet date are inherently uncertain; ▪ there is limited information available and a greater level of uncertainty inherent in assessing estimations of claims which have been incurred by the balance sheet date but have not yet been reported to the branch; ▪ judgment is required when considering the application of historical experience of claims development to determine current estimates, including the greater variability between the original estimation and the ultimate settlement of claims where there is a long time delay between the claim being incurred and the ultimate settlement; ▪ the claims estimation uses an actuarial modelling process which involves complex and subjective actuarial methodologies, judgements and assumptions about future events and developments, both within and external to the branch. Small changes in these methodologies, judgments and assumptions can have significant implications to the quantification of outstanding claims; ▪ judgment is required to assess the estimation of the periods the claims are expected to be settled in; and ▪ the estimation of claims at year end relies on the integrity of the key underlying data.	Our audit procedures included: *Valuation of Outstanding claims* We challenged the branch's actuarial methods and key assumptions for significant classes of business as well as separate consideration of claims relating to catastrophe events such as the Kaikoura and Canterbury earthquakes. We assessed the selection of methods and key assumptions to consider evidence of management bias. We challenged the actuarial methods and key assumptions by performing an assessment of the accuracy of previous estimates and comparability to the industry and with previous periods. We were assisted by KPMG actuarial specialists in interpreting and evaluating the branch's actuarial modelling processes and methodology for determining the level of provisions for outstanding claims. We also considered the work and findings of appointed actuary of the branch. Our procedures around the financial records and controls included, amongst others: ▪ testing accounting and actuarial controls such as the reconciliation of key data; ▪ testing key controls over claims case estimates; ▪ testing a sample of paid claims; and ▪ with the assistance of our IT specialists, testing the general IT control environment of the claim systems.

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The key audit matter	How the matter was addressed in our audit
Risk margins and probability of adequacy The evaluation of the risk margins and probability of adequacy is significant to the key audit matter as it is complex and necessitated a significant level of judgment by us in our audit. Outstanding claims include statistically determined risk margins developed by the branch to make allowance for the inherent uncertainty in estimating ultimate claim settlements. The risk margins are included to achieve a specified probability of adequacy for the total outstanding claims reserves.	*Risk margins and probability of adequacy* With the assistance of our actuarial specialists we assessed the branch's estimation of risk margins with a view to identifying management bias. We evaluated the branch's actuarial methodologies for consistency with those used in the industry and with prior periods.
Valuation of Reinsurance recoveries ($16.7 million)	
Refer to Note 4.2 to the Financial Report. Reinsurance recoveries is a key audit matter as reinsurance recoveries, similar to the valuation of outstanding claims, are quantified from claims case estimates, paid claims data and estimates of ultimate claims settlement amounts. As such, the rationale for identifying it as a key audit matter is the same as that highlighted for the valuation of outstanding claims.	In addition to the audit procedures undertaken to assess the valuation of outstanding claims, our procedures included: ▪ testing, for a sample of contracts, how the reinsurance recoveries on outstanding claims were accounted for. We referred to the terms of the reinsurance contracts, our industry knowledge and the insurance accounting standard; and ▪ assessing the recoverability of balances owed by reinsurer counterparties by considering their credit worthiness and capital strength based on external sources of information, payment history and evaluation of information for indicators of disputes.

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.

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Use of this independent auditor's report

This independent auditor's report is made solely to the directors as a body. Our audit work has been undertaken so that we might state to the directors 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 directors as a body for our audit work, this independent auditor's 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:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/

This description forms part of our independent auditor's report.

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The engagement partner on the audit resulting in this independent auditor's report is Ian Moyser.

For and on behalf of

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KPMG
Sydney

11 April 2019