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 2019

Munich Reinsurance Company - New Zealand Branch

TABLE OF CONTENTS

Munich Reinsurance Company - New Zealand Branch

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019 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 Chairman of the Strategy Committee Chairman of the Group Investment Committee Group Strategy and M&A Group Communications Group Audit Economics, Sustainability & Public Affairs Group Human Resources Group Executive Affairs Group Compliance and Legal
Dr. rer. pol. Thomas Blunck	2005	Life and Health Capital Partners Digital Partners
Nicholas Gartside	2019	Chief Investment Officer Group Investments Third Party Asset Management
Dr. jur. Doris Höpke	2014	Labour Relations Director Europe and Latin America Human Resources
Dr. rer. nat. Torsten Jeworrek	2003	Chairman of the Reinsurance Committee Chairman of the Global Underwriting and Risk Committee Chairman of the Board Committee IT Investments Reinsurance Development Internet of Things Corporate Underwriting Claims Accounting, Controlling and Central Reserving for Reinsurance Information Technology
Dr. rer. Nat. Christoph Jurecka	2019	Chief Financial Officer Chairman of the Group Risk Committee 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
Dr. rer. pol. Peter Röder	2007	Global Clients and North America

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 $Nil (2018: $14,551,000).

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 2019.

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.

Significant changes in the state of affairs

Effective 1st January 2019, an internal accounting reorganisation took place where all in-force businesses from the balance sheet of the Branch were reorganised into Munich Reinsurance Company Australian Branch ("MRAu"). MRAu assumes responsibility of administering these businesses from 1st January 2019.

The Branch ceased its physical presence in New Zealand which resulted in the closure of the New Zealand office at the end of 2018. For the time being, the Branch maintains its insurance licence in New Zealand in compliance with Section 8 of the Insurance (Prudential Supervision) Act 2010, pending further review by management.

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 2019.

Signed in Munich on 2 April 2020 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 2019

	Note	2019 $'000	2018 $'000
Net profit and total comprehensive income from discontinued operations		-	14,551
In which:			
General reinsurance premium revenue	2.1	-	44,784
General reinsurance premium expense	2.1	-	(2,736)
Net general reinsurance premiums	2.1	-	42,048
Net general reinsurance commissions	2.2	-	(12,424)
General reinsurance claims expense	2.2	-	(7,212)
General reinsurance claims recoveries	2.2	-	(3,378)
Net general reinsurance claims	2.2	-	(10,590)
Underwriting profit		-	19,034
Other revenue	2.1	-	94
Other expenses from operating activities	2.2	-	(3,682)
Investment revenue	2.1	-	4,888
Investment management expense	2.2	-	(107)
Profit before tax		-	20,227
Income tax (expense) / benefit	2.3	-	(5,676)
Net profit for the year and total comprehensive income for the year		-	14,551

The Statement of Comprehensive Income is to be read in conjunction with the notes to the financial statements set out on pages 7 to 21.

Munich Reinsurance Company - New Zealand Branch

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	2019 $'000	2018 $'000
Assets held for distribution		-	204,742
In which:			
Cash and cash equivalents	3.1	-	167,561
Other financial assets held for sale	3.2	-	-
Deferred acquisition costs	4.1	-	1,798
Reinsurance recoveries	4.2	-	16,746
Current tax receivable	4.2	-	121
Outstanding premiums	4.2	-	14,846
Other assets	4.2	-	-
Deposit retained by ceding company		-	3,670
Deferred tax assets	2.3	-	-
Total assets held for distribution		-	204,742
Assets from continuing operations			
In which:			
Cash and cash equivalents	3.1	1	-
Other financial assets held for sale		-	-
Deferred acquisition costs		-	-
Reinsurance recoveries		-	-
Current tax receivable		-	-
Outstanding premiums		-	-
Other assets		-	-
Deposit retained by ceding company		-	-
Deferred tax assets		-	-
Total assets from continuing operations		1	-
Total assets		1	204,742
Liabilites held for distribution		-	155,397
In which:			
Trade and other payables	4.3	-	14,918
Outstanding claims	4.4	-	109,038
Unearned premiums	4.5	-	13,744
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
Total liabilities		-	155,397
Net assets		1	49,345
Equity			
Head office account		1	681,876
Retained earnings		-	(632,531)
Total equity		1	49,345

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 7 to 21.

Munich Reinsurance Company - New Zealand Branch

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

2019	Head office account $'000	Retained profits $'000	Total $'000
Balance at 1 January	**681,876**	**(632,531)**	**49,345**
TOTAL COMPREHENSIVE INCOME			
Net profit/(loss) for the year	-	-	-
Total comprehensive income for the year	-	-	-
TRANSACTIONS WITH OWNERS OF THE BRANCH			
Internal accounting reorganisation	**(681,875)**	**632,531**	**49,344**
Total transactions with owners of the branch	**(681,875)**	**632,531**	**49,344**
Balance at 31 December	**1**	-	**1**

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

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 21.

Munich Reinsurance Company - New Zealand Branch

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 $'000	2018 $'000
Net (decrease) / increase in cash from discontinued operations		**(167,560)**	162,496
In which:			
Cash flows from operating activities			
Reinsurance premium received		-	44,699
Reinsurance claim payments		-	(60,018)
Reinsurance premium payments		-	(2,736)
Cash (paid) / received on transfer of tax loss		-	(7,546)
Other operating receipts		-	-
Other operating payments		-	35,485
Internal accounting reorganisation		(118,216)	-
Net cash from operating activities	3.1	**(118,216)**	9,884
Cash flows from investing activities			
Interest received		-	5,633
Payments for investments		-	(334,125)
Proceeds from sale of investments		-	481,211
Investment expenses		-	(107)
Net cash from investing activities		-	152,612
Cash flows from financing activities			
Internal accounting reorganisation		(49,344)	-
Net cash from financing activities		**(49,344)**	-
Net (decrease) / increase in cash and cash equivalents		**(167,560)**	162,496
Cash and cash equivalents at the beginning of the financial year		**167,561**	5,065
Cash and cash equivalents at the end of the financial year	3.1	**1**	167,561

The Statement of Cash Flows is to be read in conjunction with the notes to the financial statements set out on pages 7 to 21.

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).

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. The cash & cash equivalents balance of $1000 has been recognized as 'continuing operations'.

The financial statements were authorised for issue by the Directors on March 2020.

(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
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	2019 $'000	2018 $'000
General reinsurance premiums		
Reinsurance written premium revenue	-	45,501
Movement in unearned premium liability	-	(717)
Retrocession written premium expense	-	(2,736)
Net general reinsurance premiums	-	42,048
Other revenue		
Interest on deposit retained by ceding company	-	207
Foreign exchange gains / (losses) (net)	-	(113)
Internal accounting reorganisation	-	-
Total other revenue	-	94
Investment revenue		
Interest revenue	-	4,685
Realised and unrealised gains / (losses) on assets at fair value (net)	-	203
Total investment revenue	-	4,888
Total revenue from operating activities	-	47,030

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.

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	2019 $'000	2018 $'000
Reinsurance commission		
Reinsurance commission expense paid	-	11,512
Movement in deferred acquisition costs	-	912
Net general reinsurance commission	-	12,424
General reinsurance claims		
Reinsurance claims expense	-	7,212
Retrocession claims recoveries	-	3,378
Net general reinsurance claims	-	10,590
Other expenses from operating activities		
Other underwriting expenses	-	4
General and administration expenses	-	3,678
Other expenses from operating activities	-	3,682
Investment management expenses	-	107
Total expenses from operating activities	-	26,803

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%.

Due to the accounting reorganisation on 1 January 2019 the outstanding claims liabilities are nil at 31 December 2019.

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%.

Due to the accounting reorganisation on 1 January 2019 the outstanding reinsurance recoveries are nil at 31 December 2019.

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.

Due to the accounting reorganisation on 1 January 2019 the outstanding commissions and deferred acquisition costs are nil at 31 December 2019.

2.3. Income taxes

(a) Amounts recognised in profit or loss

	2019 $'000	2018 $'000
Current tax expense / (benefit)		
Current year	-	2,215
Current tax expense / (benefit)	-	2,215
Deferred tax expense / (benefit)		
Movement in temporary differences	-	33
Movement in carry forward tax loss	-	3,428
Deferred tax expense / (benefit)	-	3,461
Income tax expense / (benefit)	-	5,676

(b) Reconciliation of effective tax rate

	2019 %	2019 $'000	2018 %	2018 $'000
Profit before tax from continuing operations		-		20,227
Tax using the Branch's domestic tax rate	28	-	28	5,665
Non-deductible expenses		-		(1)
Increase/(decrease) in unrecognised deferred tax asset related to intergroup tax loss transfers		-		12
Income tax expense / (benefit)		-		5,676

(c) Movement in deferred tax balances

2019	Net balance at 1 January $'000	Movement $'000	Net balance at 31 December $'000
Accrued expenses	3	(3)	-
Reduction in carry forward tax loss	-	-	-
Deferred acquisition costs	(503)	503	-
Insurance provision	152	(152)	-
Internal accounting reorganisation	348	(348)	-
Net deferred tax asset / (liability)	-	-	-

2018	Net balance at 1 January $'000	Movement $'000	Net balance at 31 December $'000
Accrued expenses	3	-	3
Carry forward tax loss	3,484	(3,484)	-
Deferred acquisition costs	(760)	257	(503)
Insurance provision	375	(223)	152
Internal accounting reorganisation	-	-	-
Net deferred tax asset	3,102	(3,450)	(348)

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.

Due to the accounting reorganisation on 1 January 2019 there are no current or deferred income taxes applicable to the Branch at 31 December 2019.

2.4. Net incurred claims

	2019			2018		
	Current year $'000	Prior years $'000	Total $'000	Current year $'000	Prior years $'000	Total $'000
Gross claims expense						
Gross claims incurred – undiscounted	-	-	-	9,916	(462)	9,454
Discount movement	-	-	-	(403)	1,962	1,559
Risk margin movement	-	-	-	1,043	(4,844)	(3,801)
Discounted gross claims expenses	-	-	-	10,556	(3,344)	7,212
Reinsurance and other recoveries (expense)						
Reinsurance and other recoveries (expense) – undiscounted	-	-	-	-	(607)	(607)
Discount movement	-	-	-	-	823	823
Risk margin movement	-	-	-	-	(3,594)	(3,594)
Discounted reinsurance and other recoveries (expense)	-	-	-	-	(3,378)	(3,378)
Net claims incurred	-	-	-	10,556	34	10,590

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

	2019 $'000	2018 $'000
Cash at bank	1	167,561
Total cash and cash equivalents	**1**	**167,561**

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

	2019 $'000	2018 $'000
Profit/(loss)from operating activities after income tax	-	14,551
Adjustments for:		
Net (gain)/loss on sale of investments	-	(203)
Interest income	-	(4,685)
Investment management expenses	-	107
Movements in:		
Outstanding premiums	14,847	(822)
Retrocession recoveries	16,746	41,352
Other receivables	3,669	(10,021)
Current tax	121	-
Withholding tax	(134)	27
Deferred tax	(2,563)	5,665
Deferred acquisition costs	1,797	917
Payables	(29,918)	22,057
Outstanding claims	(109,038)	(59,778)
Unearned premium	(13,744)	717
Net cash flows from operating activities	**(118,216)**	**9,884**

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. 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.

3.2. 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.

	2019 $'000	2018 $'000
Cash and cash equivalents	1	167,561
Reinsurance recoveries	-	16,746
Other receivables	-	18,516
Total	1	202,823
Grade 1-3 (Standard & Poor's A- to AAA)	1	195,429
Grade 4-5 (Unrated or Standard & Poor's BB+ to BBB+)	-	7,394
Total	1	202,823

The New Zealand bank account remains open with NZD 1,000 in the bank account to ensure that the Branch does not breach the NZ minimum capital requirements for licensed entities.

Past due but not impaired

As at 31 December 2019, there were no outstanding premiums (2018: $1.27m) as all outstanding liabilities were transferred into Munich Re Australian Branch (MRAu) effective 1 January 2019 during the internal accounting reorganisation.

	2019 $'000	2018 $'000
Up to 3 months	-	835
3 to 6 months	-	56
Greater than 6 months	-	377
Total	-	1,268

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.

As at 31 December 2019, the Branch does not have any financial liabilities as all such liabilities were transferred to MRAu effective 1 January 2019 during the internal accounting reorganisation.

2019	Up to 1 year $'000	1-5 years $'000	Over 5 years $'000	Total $'000
Amount due to ceding companies	-	-	-	-
Other creditors	-	-	-	-
Outstanding claims	-	-	-	-
Total	-	-	-	-

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

3.2. 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 2019 an increase or decrease in the interest rates of 1% would have no material impact on profit and equity due to the internal accounting reorganisation effective 1 January 2019 (2018: Increase $1.68m, Decrease $1.68m).

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
2019						
Cash at bank	1.38%	1	-	-	-	1
Cash and cash equivalents		1		-		-
Term deposits	-	-	-	-	-	-
Debt securities						
Government bonds	-	-	-	-	-	-
Other financial assets held for sale		-	-	-	-	-
Total		1	-	-	-	1
2018						
Cash at bank	1.85%	167,561	-	-	-	167,561
Cash and cash equivalents		167,561				167,561
Term deposits	-	-		-	-	
Debt securities						
Government bonds	-	-	-	-		
Other financial assets held for sale						
Total		167,561				167,561

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.

3.2. 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.

				Underwriting year			
Estimate of net ultimate claims cost	**2014 & prior $'000**	**2015 $'000**	**2016 $'000**	**2017 $'000**	**2018 $'000**	**2019 $'000**	**Total $'000**
At end of underwriting year	1,593,373	22,902	40,016	18,679	9,916	-	
One year later	1,591,617	38,589	49,584	26,448	1,999		
Two years later	1,555,932	39,401	45,756	18,118			
Three years later	1,537,486	38,281	40,666				
Four years later	1,535,053	32,092					
Five years & prior	1,480,578						
Current estimate of ultimate claims cost	1,480,578	32,092	40,666	18,118	1,999		1,573,453
Cumulative net payments	1,480,578	32,092	40,666	18,118	1,999	-	1,573,453
Net undiscounted outstanding claims	-	-	-	-	-	-	-

3.3. Capital management

The New Zealand bank account remains open with a balance of NZD 1,000 in the bank account to ensure that the Branch does not breach the NZ minimum capital requirements for licensed entities.

3.4. Solvency of licensed entity

The Company is the entity licensed by the RBNZ to conduct insurance business in New Zealand. The 31 December 2019 solvency disclosures calculated in accordance with the Company's home jurisdiction in €'000 are as follows:

	2019 €'000	**2018 €'000**
Aggregate Actual Solvency capital	48,427,930	44,516,350
Aggregate Minimum solvency requirement	7,889,173	6,601,722
Aggregate Solvency margin	17,531,495	14,670,493
Aggregate Solvency ratio	276%	303%

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

	2019 $'000	2018 $'000
Reconciliation of movement in deferred acquisition costs		
Balance at 1 January	**1,798**	2,715
Costs deferred in financial year	-	1,803
Internal accounting reorganisation	(1,798)	(2,720)
Balance at 31 December	-	1,798

4.2. Reinsurance and other receivables

	2019 $'000	2018 $'000
General reinsurance premium receivable		
Outstanding premiums	-	14,846
Retrocession and other receivables		
Recoveries due from related retrocessionaire	-	16,746
Current tax receivable	-	121
	-	16,867
Total reinsurance and other receivables	-	31,713
Current	-	31,713
Total reinsurance and other receivables	-	31,713

(a) Reconciliation of movement in reinsurance and other receivables

	2019 $'000	2018 $'000
Balance at 1 January	**31,713**	73,586
Recoveries expense	-	(41,353)
Movement in receivables	-	428
Movement in accrued income		(948)
Internal accounting reorganisation	(31,713)	-
Balance at 31 December	-	31,713

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

	2019 $'000	2018 $'000
Amount due to ceding companies	-	14,354
Reinsurance payables	-	14,354
Sundry creditors and accrued expenses	-	553
Tax loss transfers payable to related entities	-	11
Other payables	-	564
Total trade and other payables	-	14,918

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

	2019 $'000	2018 $'000
Central estimate of gross outstanding claims	-	97,733
Claims handling cost	-	488
Discount to present value	-	(3,757)
Discounted central estimate	-	94,464
Risk margin	-	14,574
Total gross outstanding claims – discounted	-	109,038
Current	-	109,038
Non-current	-	-
Total gross outstanding claims – discounted	-	109,038

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

	2019 $'000	2018 $'000
Balance at 1 January	**109,038**	168,816
Inwards reinsurance claims expense	-	7,212
Claim payments during the year	-	(67,100)
Internal accounting reorganisation	**(109,038)**	-
Foreign exchange (gains)/losses	-	110
Balance at 31 December	-	109,038

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.

Due to the accounting reorganisation on 1 January 2019 the outstanding claims liabilities are nil at 31 December 2019.

4.5. Unearned premium

	2019 $'000	2018 $'000
Unearned premium – current	-	13,744
Reconciliation of movement in unearned premium		
Balance at 1 January	**13,744**	13,027
Deferral of premium on contracts written in the period	-	12,902
Earning of premium written	-	(12,185)
Internal accounting reorganisation	**(13,744)**	-
Balance at 31 December	-	13,744

4.6. Current liabilities – other

	2019 $'000	2018 $'000
Withholding tax	-	134
Total other liabilities	-	134

4.7. Liability adequacy test

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

Due to the accounting reorganisation on 1 January 2019 the future premium liabilities are nil at 31 December 2019.

	2019 $'000	2018 $'000
Unearned premium liabilities	-	13,744
Related deferred acquisition costs	-	(1,814)
	-	11,930
Undiscounted net premium liabilities excluding risk margin	-	6,933
Discount	-	(425)
Risk margin	-	193
	-	6,701
Net surplus/(deficiency)	-	5,229
Percentage risk margin	-	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 2019. 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. Due to the accounting reorganisation on 1 January 2019 the outstanding claims liabilities are nil at 31 December 2019.

ii. Actuarial assumptions

Assumption	Basis of assumption
Discount rates	Due to the accounting reorganisation on 1 January 2019 the outstanding claims liabilities are nil and there are no assumptions required. 2019: n/a. (2018: 1.7% - 3.5% p.a.)
Weighted average term to settlement (years)	Due to the accounting reorganisation on 1 January 2019 the outstanding claims liabilities are nil and there are no assumptions required. 2019: n/a (2018: 2.0 years)
Inflation	Due to the accounting reorganisation on 1 January 2019 the outstanding claims liabilities are nil and there are no assumptions required.
Claims handling expense	Due to the accounting reorganisation on 1 January 2019 the outstanding claims liabilities are nil and there are no assumptions required. 2019: n/a (2018: 0.5%)
Gross Risk margin	Due to the accounting reorganisation on 1 January 2019 the outstanding claims liabilities are nil and there are no assumptions required. 2019: n/a (2018: 15.4%)

Sensitivity of financial results

Due to the accounting reorganisation on 1 January 2019 the outstanding claims liabilities are nil and therefore sensitivity analyses are not provided

iii. Effects of changes in actuarial assumptions

Due to the accounting reorganisation on 1 January 2019 the outstanding claims liabilities are nil and therefore sensitivity analyses are not provided

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.

6.1. Commitments and contingencies *(continued)*

(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)
Great Lakes Insurance SE (New Zealand Branch) (GLN)
Munich Reinsurance Company Australian Branch (MRAu)

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	
	2019 $	2018 $	2019 $	2018 $
Outwards reinsurance expense:				
MR-AM				
Internal reorganisation – reinsurance recoveries	**(16,745,646)**	-		
Deposit retained	**15,000,000**			(15,000,000)
MRoM		(2,736,000)		-
Recharge of expenses incurred on the Branch's behalf:				
MHA		(1,453,752)		
NZS		(2,022,075)		
ME-AG		(107,226)		
MR-AG		(177,509)		
Transactions with tax group relating to tax sharing and funding agreement:				
NZS	**11,316**	-		(11,316)
Internal accounting organisation:				
MRAu	**49,343,866**			
Internal reorganisation - outstanding claims	**109,037,707**			
Internal reorganisation -premium expense	**(14,846,841)**			
Internal reorganisation - unearned premium	**13,744,425**			
Internal reorganisation - tax related	**2,440,807**			
Internal reorganisation - other	**134,205**			
Internal reorganisation – DAC	**(1,798,434)**			
Internal reorganisation – cash	**(167,560,243)**			
Internal reorganisation – payables	**14,918,332**			
Inwards reinsurance with related PIRI business:				
GLN				
Premium revenue		2,219,436		
Claims expense		933,452		
Commission expense on written premium		(1,756,777)		
Premium (payable) / receivable net of commission	**679,369**			(679,369)
Deposit retained	**(3,669,537)**			3,669,537

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 2019 Group Annual Report for the overall remuneration framework and outcomes.

6.3. Remuneration of auditors

As a result of the internal accounting reorganisation to Munich Reinsurance Company Australian Branch (MRAu), the Branch no longer incurs a separate audit fee. The audit fee is included within an overall fee and recognized within MRAu.

	2019 $	2018 $
Audit and review of financial statements	-	34,502
Total remuneration for audit services	-	34,502

6.4. Events occurring after the reporting date

The Directors are not aware of any other matter or circumstances that have arisen since the end of the financial year which significantly affects or may significantly affect the operations of the Branch, the results of its operations or the state of affairs of the Branch in future financial years.

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 2019.

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

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 Branch has no in-force businesses from 1 January 2019 therefore the standard is expected to have no impact on the Branch's financial statements.

2019 Omnibus Amendments to NZ IFRS

The standard has been issued to make minor amendments to NZ IFRS 10 'Consolidated Financial Statements', NZ IAS 28 'Investments in Associates and Joint Venture', FRS-44 'New Zealand Additional Disclosures', and editorial corrections to NZ IFRS 7 'Financial Instruments: Disclosures', NZ IAS 26 'Accounting and Reporting by Retirement Benefit Plans', NZ IAS 39 'Financial Instruments: Recognition and Measurement' and NZ IFRS 1 'First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards'.

The amendments in this standard are effective for annual periods on or after 1 January 2020. They are expected to have no impact 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 2019.

In the opinion of the Directors of Munich Reinsurance Company, the financial statements and notes of the New Zealand Branch on pages 3 to 21:

(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 2019 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 2 April 2020 in accordance with a resolution of the directors:

Member, Board of Management

Member, Board of Management

Independent Auditor's Report

To the shareholders 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 2019 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 2019;

— the statement 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.

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 shareholders 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
Internal accounting reorganisation	
Refer to Note 1.2 to the Financial Report. The internal accounting reorganisation is significant to the audit as all in-force businesses of the branch was reorganised into Münchener Rückversicherungs-Gesellschaft – Australian Branch from 1 January 2019.	Our audit procedures included: ▪ inspecting legal documents and regulator correspondence to confirm the facts and circumstances surrounding the reorganisation; ▪ assessing the accounting treatment of the reorganisation for compliance with New Zealand Equivalents to International Financial Reporting Standards; and ▪ testing the completeness and accuracy of the transactions recorded in the branch's financial records to execute the internal accounting reorganisation on 1 January 2019.

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 Director' 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 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.

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

For and on behalf of

KPMG

KPMG
Sydney

6 April 2020