

**Munich Reinsurance Company of  
Australasia Limited - New Zealand Branch**

Annual Financial Report  
31 December 2020

**TABLE OF CONTENTS**

<b>Directors' Report</b>	<b>1</b>
<b>Statement of Comprehensive Income</b>	<b>3</b>
<b>Statement of Financial Position</b>	<b>4</b>
<b>Statement of Changes in Equity</b>	<b>5</b>
<b>Statement of Cash Flows</b>	<b>6</b>
<b>Section 1. Basis of Preparation</b>	<b>7</b>
<b>Section 2. Financial performance</b>	<b>8</b>
<b>Section 3. Financial position</b>	<b>11</b>
<b>Section 4. Financial instruments, Risk &amp; Capital Management</b>	<b>13</b>
<b>Section 5. Life reinsurance contracts</b>	<b>21</b>
<b>Section 6. Other notes</b>	<b>24</b>
<b>Directors' declaration</b>	<b>26</b>
<b>Independent auditor's report</b>	<b>27</b>

## Munich Reinsurance Company of Australasia Limited – New Zealand Branch

### DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

Munich Reinsurance Company of Australasia Limited (MRA) is an Australian company which operates in New Zealand through a branch. MRA is authorised by the Australian Prudential Regulation Authority (APRA) to conduct life insurance business in Australia. The Company is also authorised by the Reserve Bank of New Zealand to conduct life reinsurance business in New Zealand. 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.

The Directors present their report together with the financial report of Munich Reinsurance Company of Australasia Limited – New Zealand Branch (the "Branch") for the year ended 31 December 2020 and the auditor's report thereon.

#### Directors

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

Director	Date of appointment / resignation	Special responsibilities
J B Shewan	1 January 2012	Chairman (appointed 1 October 2018) Member of Audit Committee Member of Risk & Compliance Committee
A M Coleman	1 January 2020	Chairman of Audit Committee (appointed 1 April 2020) Chairman of Risk & Compliance Committee (appointed 1 April 2020)
J A Boddington	1 October 2018	Member of Audit Committee Member of Risk & Compliance Committee
D Cossette	11 May 2016	
N Carro	1 January 2020	

As at the date of this report, the Branch has an Audit Committee and a Risk & Compliance Committee. The members of these committees are listed above.

In accordance with the APRA prudential standard CPS 510 Governance, the Branch is required to have a Remuneration Committee. With the approval of APRA, the Branch relies on the Remuneration Committee established by Munich Holdings of Australasia Pty Ltd (the "Parent") to discharge its obligations under CPS 510.

The Branch has outsourced certain functions to a parent entity, Munich Holdings of Australasia Pty Limited (MHA). MHA is incorporated in Australia and provides administrative services to the Group including MRA's New Zealand branch (NZL). MHA is a parent company of the Group including MRA's New Zealand branch (NZL).

#### Insurance of officers

During the financial year, the Parent paid a premium of \$42,636 (2019: \$32,135) to insure the Directors and Officers of the Branch and some of its Australasian based related entities.

The liabilities insured include costs and expenses incurred in defending any civil or criminal proceedings that may be brought against Directors and Officers of the Branch.

#### Directors' benefits

Since the end of the period covered by the last report no Director of the Branch has received or become entitled to receive a benefit by reason of a contract made by the Branch or a related entity with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

#### Principal activities

The Branch's principal activity is life reinsurance.

#### Review of operations

The result for the year was a profit after tax of \$4,854,000 compared with a profit after tax of \$2,470,000 in 2019.

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

The Branch continues to monitor its exposure to financial and non-financial risks and apply policies and procedures to mitigate these where possible. Details are set out in section 4.

#### Capital transactions

There were no capital transactions in 2020 (2019: transfer of \$20,701,791 from the Australian statutory fund. The Branch received a capital transfer of \$20,827,012 from the Parent).

**DIRECTORS' REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2020** *(continued)*

---

**Likely developments**

Covid-19, an infectious disease caused by a new virus, was declared a world-wide pandemic by the World Health Organisation on 11 March 2020. The measures to slow the spread of Covid-19 have had a significant impact on the global economy.

The Branch has considered the impact of COVID-19 and associated market volatility in preparing its financial statements. The impact of Covid-19 has resulted in the application of further judgement in the areas in which significant judgement already occurs. Details of the impact are set out in note 5.1 (iv).

**Environmental regulations**

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

**Matters subsequent to the end of the financial year**

The Directors are not aware, at the date of this report, of any matter or circumstance which has arisen since 31 December 2020 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 2020.

Signed in Sydney on 25 March 2021 in accordance with a resolution of the Directors.



---

J B Shewan  
Director



---

N Carro  
Director

Munich Reinsurance Company of Australasia Limited – New Zealand Branch

**STATEMENT OF COMPREHENSIVE INCOME**

FOR THE YEAR ENDED 31 DECEMBER 2020

CONTINUING OPERATIONS	Note	2020 \$'000	2019 \$'000
Reinsurance premium revenue	2.1	46,430	66,396
Retrocession premium expense	2.2	(18,347)	(26,632)
<b>Net life reinsurance premiums</b>		<b>28,083</b>	<b>39,764</b>
<b>Net life reinsurance commissions</b>	2.2	<b>1,320</b>	<b>(3,597)</b>
Reinsurance claims expense	2.2	(37,249)	(46,416)
Retrocession claims recoveries	2.1	14,738	16,912
<b>Net life reinsurance claims</b>		<b>(22,511)</b>	<b>(29,504)</b>
Movement in reinsurance policy liabilities	2.2	(7,477)	(13,164)
Movement in retrocession policy liabilities	2.2	3,612	5,479
<b>Net movement in reinsurance policy liabilities</b>		<b>(3,865)</b>	<b>(7,685)</b>
<b>Underwriting Profit/(Loss)</b>		<b>3,027</b>	<b>(1,022)</b>
Other revenue	2.1	-	1
Other expenses from operating activities	2.2	(2,256)	(2,133)
Investment gains and (losses)	2.3	9,805	9,818
Investment management expense	2.3	(237)	(204)
<b>Profit/(Loss) before tax</b>		<b>10,339</b>	<b>6,460</b>
Income tax expense	2.4	(5,485)	(3,990)
<b>Profit/(Loss) after tax</b>		<b>4,854</b>	<b>2,470</b>
<b>Total comprehensive Profit/(Loss) for the year</b>		<b>4,854</b>	<b>2,470</b>

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 of Australasia Limited – New Zealand Branch

**STATEMENT OF FINANCIAL POSITION**

AS AT 31 DECEMBER 2020

	Note	Dec 31 2020 \$'000	Dec 31 2019 \$'000
<b>Current assets</b>			
Cash and cash equivalents	3.1	5,193	5,212
Reinsurance and other assets	3.3	8,940	21,296
Retrocessionaires' share of life reinsurance contract liabilities	5.2	122	(29)
<b>Total current assets</b>		<b>14,255</b>	<b>26,479</b>
<b>Non-current assets</b>			
Investment in financial assets	3.2	257,289	237,664
Retrocessionaires' share of life reinsurance contract liabilities	5.2	57,718	54,256
Deferred tax assets	2.4	4,503	3,052
<b>Total non-current assets</b>		<b>319,510</b>	<b>294,972</b>
<b>Total assets</b>		<b>333,765</b>	<b>321,451</b>
<b>Current liabilities</b>			
Income tax payable	2.4	7,297	361
Reinsurance and other liabilities	3.4	16,942	18,632
Provisions	3.5	7,408	16,727
Reinsurance contract liabilities	5.2	2,183	3,014
<b>Total current liabilities</b>		<b>33,830</b>	<b>38,734</b>
<b>Non-current liabilities</b>			
Reinsurance and other liabilities	3.4	54,439	50,383
Reinsurance contract liabilities	5.2	142,218	133,910
<b>Total non-current liabilities</b>		<b>196,657</b>	<b>184,293</b>
<b>Total liabilities</b>		<b>230,487</b>	<b>223,027</b>
<b>Net assets</b>		<b>103,278</b>	<b>98,424</b>
<b>Shareholder's interests</b>			
Retained earnings	4.3	7,240	2,386
Head office account	4.3	96,038	96,038
<b>Total shareholder's interest</b>		<b>103,278</b>	<b>98,424</b>

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 of Australasia Limited – New Zealand Branch

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2020**

2020	Note	Head office account \$'000	Retained earnings \$'000	Total \$'000
<b>Balance at 1 January 2020</b>		<b>96,038</b>	<b>2,386</b>	<b>98,424</b>
<b>TOTAL COMPREHENSIVE INCOME</b>				
Profit/(Loss) for the year	4.3	-	4,854	4,854
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>4,854</b>	<b>4,854</b>
<b>TRANSACTIONS WITH OWNERS OF THE COMPANY</b>				
Transfer of capital		-	-	-
Capital injection		-	-	-
<b>Total transactions with owners of the company</b>		<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance at 31 December 2020</b>		<b>96,038</b>	<b>7,240</b>	<b>103,278</b>

2019	Note	Head office account \$'000	Retained earnings \$'000	Total \$'000
<b>Balance at 1 January 2019</b>		<b>54,509</b>	<b>(84)</b>	<b>54,425</b>
<b>TOTAL COMPREHENSIVE INCOME</b>				
Profit/(Loss) for the year	4.3	-	2,470	2,470
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>2,470</b>	<b>2,470</b>
<b>TRANSACTIONS WITH OWNERS OF THE COMPANY</b>				
Transfer of capital		20,702	-	20,702
Capital injection		20,827	-	20,827
<b>Total transactions with owners of the company</b>		<b>41,529</b>	<b>-</b>	<b>41,529</b>
<b>Balance at 31 December 2019</b>		<b>96,038</b>	<b>2,386</b>	<b>98,424</b>

Munich Reinsurance Company of Australasia Limited – New Zealand Branch

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

	Note	2020 \$'000	2019 \$'000
<b>Cash flows from operating activities</b>			
Reinsurance underwriting received/(paid)		11,322	(1,844)
Retrocession received/(paid)		(2,166)	(713)
Income tax transferred/(paid)		542	(4,448)
Management and administrative expenses		(2,107)	(3,484)
<b>Net cash from operating activities</b>	<b>3.1</b>	<b>7,591</b>	<b>(10,489)</b>
<b>Cash flows from investing activities</b>			
Interest received		12,962	12,864
Payments for investments		(98,381)	(79,154)
Proceeds from sale of investments		78,045	25,709
Investment expenses		(237)	(204)
<b>Net cash from investing activities</b>		<b>(7,611)</b>	<b>(40,785)</b>
<b>Cash flows from financing activities</b>			
Transfer from the shareholder's fund		-	20,702
Other capital proceeds		-	20,827
<b>Net cash from financing activities</b>		<b>-</b>	<b>41,529</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the financial year		5,212	14,957
<b>Cash and cash equivalents at the end of the financial year</b>	<b>3.1</b>	<b>5,193</b>	<b>5,212</b>

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.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

### **Section 1. Basis of Preparation**

#### **1.1. Reporting entity**

The Branch is the New Zealand branch of Munich Reinsurance Company of Australasia Limited (MRA) which is domiciled and incorporated in Australia, and is registered in New Zealand to carry on business as a foreign company. MRA is a subsidiary and its results are included in the group financial statements of Munich Holdings of Australasia Pty Ltd (the "Parent"). The ultimate parent undertaking of the group is Münchener Rückversicherungs-Gesellschaft ("MR-AG").

#### **1.2. Basis of presentation**

##### **(a) Statement of compliance**

This financial report is a general purpose financial report which has been prepared in accordance with the New Zealand Accounting Standards adopted by the Accounting Standards Review Board ("ASRB") and the Companies Act 1993. International Financial Reporting Standards ("IFRS") form the basis of New Zealand Accounting Standards adopted by the ASRB, being New Zealand equivalents to IFRS ("NZ IFRS"). The financial report of the Branch also complies with IFRS and interpretations adopted by the International Accounting Standards Board. 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 and Insurance (Prudential Supervision) Act 2010. As of 31 December 2020, the Branch reported a net current ratio of less than 100%. The Branch's investment portfolio, whether classified as current or non-current assets, consist of highly liquid corporate and semi-corporate bonds which can be readily sold at any time. The Directors believe that the Branch has sufficient liquidity to continue to meet its obligations as they fall due. Details of the Branch's exposure to liquidity risk and the risk management policies and procedures in place to manage it are set out in note 4.2 (b)(ii).

The life reinsurance operations of the Branch are conducted within a separate statutory fund as required by the Australian Life Insurance Act (1995). The life insurance operations of the Branch comprise the reinsurance of life insurance contracts.

The financial report was authorised for issue by the Directors on 25 March 2021.

##### **(b) Basis of measurement**

The financial report is prepared on a historical cost basis except for the following items, which are measured on an alternative basis at each reporting date. Under NZ IFRS 4 *Insurance Contracts*, all assets and liabilities are recognized at fair value except for those designated to be something other than fair value.

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

##### **(c) Functional and presentation currency**

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

##### **(d) Rounding**

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

#### **1.3. Use of judgements and estimates**

In preparing this financial report, management has made judgements, estimates and assumptions that affect the application of the 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.

##### **(a) Areas of significance**

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

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

##### **(b) Measurement of fair value**

A number of the 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 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 arising and the risk management policies and procedures in place to manage these are set out in note 4.2.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

FOR THE YEAR ENDED 31 DECEMBER 2020

**Section 2. Financial performance**

**2.1. Revenue**

	2020 \$'000	2019 \$'000
<b>Life reinsurance revenue</b>		
Reinsurance premium revenue	46,430	66,396
Retrocession claims recoveries	14,738	16,912
<b>Total life reinsurance premium and related revenue</b>	<b>61,168</b>	<b>83,308</b>
<b>Other revenue</b>		
Other income	-	1
<b>Total revenue</b>	<b>61,168</b>	<b>83,309</b>

**Summary of significant accounting policies**

**Reinsurance premium revenue and recognition**

Reinsurance premiums comprise amounts charged to insurers for business ceded under various insurance treaties.

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

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

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

**Retrocession claim recoveries**

Retrocession claims recoveries received or receivable on paid claims and on outstanding claims are recognised as revenue.

Retrocession claims recoveries excludes stamp duties and taxes collected on behalf of third parties, including GST.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

2.2. Expenses

	2020 \$'000	2019 \$'000
<b>Life reinsurance expenses</b>		
Life reinsurance commission - acquisition costs	-	32
Life reinsurance commission - maintenance costs	(1,320)	3,565
<b>Net life reinsurance commission</b>	<b>(1,320)</b>	<b>3,597</b>
Reinsurance claims expense	37,249	46,416
Retrocession premium expense	18,347	26,632
<b>Total life reinsurance claims and related expenses</b>	<b>55,596</b>	<b>73,048</b>
Movement in reinsurance policy liabilities	7,477	13,164
Movement in retrocession policy liabilities	(3,612)	(5,479)
<b>Net movement in reinsurance policy liabilities</b>	<b>3,865</b>	<b>7,685</b>
Other policy acquisition costs	228	200
Other policy maintenance costs	1,248	1,526
Other expenses	780	407
<b>Other expenses from operating activities</b>	<b>2,256</b>	<b>2,133</b>
<b>Total expenses</b>	<b>60,397</b>	<b>86,463</b>

Summary of significant accounting policies

**Reinsurance claims expense**

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

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

**Retrocession premium expense**

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

**Expense apportionment**

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

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

- i. Direct expenses, e.g. life reinsurance commissions are allocated to the products to which they relate.
- ii. Indirect expenses are allocated on the basis of net revenue received taking into account that the expenses per product line are not of equal weighting.

2.3. Investment return

	2020 \$'000	2019 \$'000
<b>Investment gains and (losses)</b>		
Interest	7,071	8,047
Realised and Unrealised gains and (losses)	5,533	3,939
Foreign exchange gains and (losses)	(11)	(20)
Interest payable on deposit retained from related retrocessionaire	(2,788)	(2,148)
<b>Total investment gains and (losses)</b>	<b>9,805</b>	<b>9,818</b>
Investment management expense	(237)	(204)
<b>Total investment management expense</b>	<b>(237)</b>	<b>(204)</b>

Summary of significant accounting policies

**Investment gains and losses**

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

**Investment management expense**

Investment management expense represents the costs involved in the ongoing management of the investment portfolio.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

## 2.4. Income taxes

## (a) Amounts recognised in profit or loss

	2020 \$'000	2019 \$'000
<b>Current tax expense</b>		
Current year	3,760	-
Adjustment for prior years	2,465	(97)
<b>Current tax expense</b>	<b>6,225</b>	<b>(97)</b>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	(575)	4,087
Change in recognised deductible temporary differences	(165)	-
<b>Deferred tax expense</b>	<b>(740)</b>	<b>4,087</b>
<b>Income tax expense</b>	<b>5,485</b>	<b>3,990</b>

## (b) Reconciliation of effective tax rate

	2020 %	2020 \$'000	2019 %	2019 \$'000
<b>Profit before tax from continuing operations</b>		<b>10,339</b>		6,460
Tax using the Branch's domestic tax rate	28	2,895	28	1,809
Non-deductible expenses		2,943		14,096
Tax-exempt income		(2,620)		(10,182)
Change in estimates related to prior years		2,300		(97)
Effect of tax rates in foreign jurisdiction		207		225
Foreign tax credit		(240)		(1,861)
<b>Income tax expense</b>	<b>53.0</b>	<b>5,485</b>	<b>61.8</b>	<b>3,990</b>

## (c) Movement in deferred tax balances

2020	Net balance at 1 January	Movement	Net balance at 31 December
Accrued expenses	(1,322)	2,194	872
Components of life reinsurance contract liabilities	4,104	(1,455)	2,649
Tax loss	270	712	982
<b>Net deferred tax asset</b>	<b>3,052</b>	<b>1,451</b>	<b>4,503</b>

2019	Net balance at 1 January	Movement	Net balance at 31 December
Accrued expenses	896	(2,218)	(1,322)
Components of life reinsurance contract liabilities	6,243	(2,139)	4,104
Tax loss	-	270	270
<b>Net deferred tax asset</b>	<b>7,139</b>	<b>(4,087)</b>	<b>3,052</b>

## (d) Income tax (payable)/receivable

	2020 \$'000	2019 \$'000
Opening balance at 1 January	(361)	(4,779)
Additional provisions recognised – current year	(3,760)	864
Under provisioned in prior years	(3,176)	-
Utilisation of tax losses/transfer of tax losses	-	3,554
<b>Closing balance at 31 December</b>	<b>(7,297)</b>	<b>(361)</b>

## Summary of significant accounting policies

## Income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction, adjusted by prior year adjustments and changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction.

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

The Munich Re New Zealand office was closed on 31 December 2018, thereby relinquishing the permanent/fixed establishment for tax purposes. As a result, from 1 January 2019 the taxation basis in New Zealand changed. The "pure life" New Zealand underwriting business continues to be subject to tax in New Zealand on its net income but all the other New Zealand business is now subject to New Zealand premium withholding tax instead of tax on its net income. Furthermore, all the New Zealand business is subject to tax in Australia with the taxes paid in New Zealand allowable as a credit against the Australian tax payable on such business.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

**Section 3. Financial position****3.1. Cash and cash equivalents****(a) Cash and cash equivalents balances**

	2020 \$'000	2019 \$'000
Cash at bank	5,193	5,212
<b>Total cash and cash equivalents</b>	<b>5,193</b>	<b>5,212</b>

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

	2020 \$'000	2019 \$'000
Profit/(loss) from operating activities after income tax	4,854	2,470
<i>Movements in:</i>		
Reinsurance and other assets	12,357	(9,340)
Reinsurance and other liabilities	2,366	924
Provisions	(9,319)	762
Income tax	6,936	(4,418)
<i>Adjustments for:</i>		
Deferred tax	(740)	4,087
Net movement in reinsurance policy liabilities	3,865	7,685
Loss/(gain) on revaluation of investments	(5,533)	(3,939)
Retrocession portion of loss/(gain) on revaluation of investments	(360)	(877)
Investment revenue	(7,071)	(8,047)
Investment expense	237	204
<b>Net cash flows from operating activities</b>	<b>7,591</b>	<b>(10,489)</b>

**Summary of significant accounting policies**

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

**3.2. Investment in financial assets**

	2020 \$'000	2019 \$'000
Debt securities at fair value	257,289	237,664
<b>Total investment in financial assets</b>	<b>257,289</b>	<b>237,664</b>
Current	-	-
Non-current	257,289	237,664
<b>Total</b>	<b>257,289</b>	<b>237,664</b>

Financial assets held in the life statutory funds can only be used within the restrictions imposed under the Life Insurance Act (1995). The main restrictions are that the assets in a fund can only be used to meet liabilities and expenses of that fund, to acquire financial assets to further the business of the fund, or as distributions to the shareholder when capital adequacy requirements are met.

**Summary of significant accounting policies**

The Branch has elected to designate all of its financial assets at fair value through profit or loss. The Branch is an Appendix C Life Insurer as prescribed by NZ IFRS 4 'Insurance Contracts', 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 had no material impact on the Branch's financial statements.

Information about the Branch's exposure to credit and market risks, and fair value measurement, is included in section 4.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

## 3.3. Reinsurance and other assets

	2020 \$'000	2019 \$'000
Amounts due from ceding companies	4,985	12,973
Outstanding claims recoveries from retrocessionaires	2,723	6,069
Sundry debtors and prepayments	2	667
Accrued income	1,230	1,587
<b>Total reinsurance and other assets</b>	<b>8,940</b>	<b>21,296</b>
Current	8,940	21,296
Non-current	-	-
<b>Total reinsurance and other assets</b>	<b>8,940</b>	<b>21,296</b>

## Summary of significant accounting policies

Receivables are initially recognised and subsequently measured at book value less provision for doubtful debts, which is the best estimate of fair value. The collectability of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Branch will not be able to collect all amounts that are due in accordance with the original terms of the receivable. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated cash flows, discounted at the effective interest rate.

There are no bad debt provisions as at year-ended 31 December 2020 (2019: nil).

## 3.4. Reinsurance and other liabilities

	2020 \$'000	2019 \$'000
Amount due to ceding companies	8,129	6,784
Amount due to retrocessionaires	1,946	2,979
Sundry and other payables	454	218
Amounts due on deposit retained from related retrocessionaires	60,852	59,034
<b>Total reinsurance and other liabilities</b>	<b>71,381</b>	<b>69,015</b>
Current	16,942	18,632
Non-current	54,439	50,383
<b>Total reinsurance and other liabilities</b>	<b>71,381</b>	<b>69,015</b>

## Summary of significant accounting policies

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

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

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

## 3.5. Provisions

2020	Balance at 1 January	Provisions made during the year	Liabilities paid	Balance at 31 December
Outstanding claims	16,292	34,069	(43,219)	7,142
Non-resident Withholding tax	435	266	(435)	266
<b>Total provisions</b>	<b>16,727</b>	<b>34,335</b>	<b>(43,654)</b>	<b>7,408</b>
<b>2019</b>				
Outstanding claims	15,402	36,913	(36,023)	16,292
Non-resident Withholding tax	563	435	(563)	435
<b>Total provisions</b>	<b>15,965</b>	<b>37,348</b>	<b>(36,586)</b>	<b>16,727</b>

## Summary of significant accounting policies

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

Non-resident withholding tax represents a provision for the withholding tax payable on the interest due to Retrocessionaires on the deposit retained balance. All amounts shown above are current and payable within 12 months of balance date (2019: all current).

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

FOR THE YEAR ENDED 31 DECEMBER 2020

**Section 4. Financial instruments, Risk & Capital Management**

**4.1. Financial instruments**

**(a) Accounting classifications and fair values**

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

31 December 2020	Carrying amount \$'000				Fair Value \$'000			
	Loans and receivables	Designated at fair value	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>								
Debt Securities	-	257,289	-	257,289	-	257,289	-	257,289
	-	257,289	-	257,289	-	257,289	-	257,289
<b>Financial assets not measured at fair value</b>								
Cash and cash equivalents	5,193	-	-	5,193	-	-	-	-
Reinsurance and other assets	8,940	-	-	8,940	-	-	-	-
	14,133	-	-	14,133	-	-	-	-
<b>Financial liabilities not measured at fair value</b>								
Reinsurance and other liabilities	-	-	71,381	71,381	-	-	-	-
	-	-	71,381	71,381	-	-	-	-

Munich Reinsurance Company of Australasia Limited – New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

4.1. Financial instruments (continued)

31 December 2019	Carrying amount \$'000				Fair Value \$'000			
	Loans and receivables	Designated at fair value	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>								
Debt Securities	-	237,664	-	237,664	-	237,664	-	237,664
	-	237,664	-	237,664	-	237,664	-	237,664
<b>Financial assets not measured at fair value</b>								
Cash and cash equivalents	5,212	-	-	5,212	-	-	-	-
Reinsurance and other assets	21,296	-	-	21,296	-	-	-	-
	26,508	-	-	26,508	-	-	-	-
<b>Financial liabilities not measured at fair value</b>								
Reinsurance and other liabilities	-	-	69,015	69,015	-	-	-	-
	-	-	69,015	69,015	-	-	-	-

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

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



**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2020**

---

**4.1. Financial instruments (continued)**

**(a) 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 2020 (2019: none).

**Summary of significant accounting policies**

**Financial assets at fair value**

The Branch has determined that all assets held within its statutory fund are assets backing life reinsurance contract liabilities.

Financial assets backing life reinsurance contract liabilities are classified as fair value through profit or loss. Initial recognition and subsequent measurement is at fair value. Unrealised profits and losses on subsequent measurement to fair value are recognised as profit or loss.

Fair value by asset category is measured as follows:

- Cash assets are carried at face value of the amounts deposited. The carrying amounts of cash assets approximate their fair value. For the purposes of the statement of cash flows, cash includes cash on hand, deposits held at call with banks and investments in money market instruments, such as bills of exchange.
- Shares, fixed interest securities and units listed on stock exchanges are carried at the bid price of the instrument.
- Receivables are carried at book value, which is the best estimate of fair value, as they are settled within a short period.

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

Purchases and sales of financial assets are recognised on trade date, being the date on which the 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.

**4.2. 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. Financial risks include insurance risk, credit risk, market risk and liquidity risk. The non-financial risks are operational risk, compliance risk and conduct and culture risk. Risk management is the process of identifying, monitoring, controlling and reporting risks that could have a material impact on the operations and results of the Branch. 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**

The Branch's risk management strategy involves the identification of risks, the assessment of impact and likelihood of occurrence against appetite, the implementation of processes and controls to mitigate those risks and continuous monitoring of risks and controls to address any gaps.

In an effort to protect and enhance shareholder value, the Branch actively manages its exposure to risks so that it can react in a timely manner to changes in insurance market conditions, economic and political environments and financial markets. Risk exposures are managed using various analysis and valuation techniques, pricing business to meet profitability targets, applying underwriting controls to new business, managing claims in line with assumptions and monitoring emerging results to detect and correct adverse variances.

The Branch reports financial and operational results quarterly and undertakes regular experience analysis to monitor emerging trends.

The Branch's risk management framework continues to be applied and monitored against the impact of Covid-19 on the Branch's risk profile. Non-financial risks emerging from movement restrictions, remote working by the staff, counterparties and clients are being identified, addressed, managed and governed through timely application of risk management framework.

**(b) Financial risks**

*i. Credit risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

The following policies and procedures are in place to mitigate the Branch's exposure to credit risks and concentration:

- An Investment Mandate (the Mandate) is in place which restricts the purchase of an investment by the Branch to those securities with a minimum Standard & Poor's rating of A-. If the rating of a security within the portfolio falls below A- it must be sold. In some instances approved by the Board of Directors the security will be maintained within the portfolio and its performance closely monitored.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

4.2. Risk management policies and procedures (continued)

(b) Financial risks (continued)

i. Credit risk (continued)

- The Mandate also limits investments held by the Branch to New Zealand dollar fixed interest investments in New Zealand government bonds, bonds issued by the Local Government Funding Agency, treasury bills or bank bills. In addition the Mandate allows cash investments in New Zealand dollar term deposits.
- The credit risk in respect of client balances: premium paid by cedants are paid net of rebate so that no rebate liability exists until a premium is paid. Additionally claim payments may be deferred where there are outstanding client balances.

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

	2020 \$'000	2019 \$'000
Cash and cash equivalents	5,193	5,212
Investment in financial assets	257,289	237,664
Reinsurance and other assets	8,940	21,296
Retrocessionaires' share of life reinsurance contract liabilities	57,840	54,227
<b>Total</b>	<b>329,262</b>	<b>318,399</b>
Grade 1-3 (Standard & Poor's A- to AAA)	329,262	318,374
Grade 4-5 (Unrated or Standard & Poor's BB+ to BBB+)	-	25
<b>Total</b>	<b>329,262</b>	<b>318,399</b>

No financial assets are either past due or impaired. Other than to the New Zealand government, the Branch has no significant concentration of credit risk.

ii. Liquidity risk

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

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

- Whilst it can arise during reporting periods that current liabilities exceed current assets, the Branch has a policy of maintaining a sufficient portfolio of liquid financial assets that are readily converted to cash to meet the needs of the business, without incurring unacceptable losses or risking damage to the Branch's reputation.
- The Branch aims to maintain financial assets with similar duration as the underlying reinsurance liabilities of the business in order to ensure sufficient funding is available to meet reinsurance contract obligations.

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

2020	Up to 1 year \$'000	1-5 years \$'000	Over 5 years \$'000	Total \$'000
Amount due to ceding companies	8,129	-	-	8,129
Amount due to retrocessionaires	1,946	-	-	1,946
Sundry and other payables	454	-	-	454
Amounts due on deposit retained from related retrocessionaires	6,413	7,420	47,018	60,852
<b>Reinsurance and other liabilities</b>	<b>16,942</b>	<b>7,420</b>	<b>47,018</b>	<b>71,381</b>
Outstanding claims	7,142	-	-	7,142
Non-resident withholding tax	266	-	-	266
<b>Provisions</b>	<b>7,408</b>	<b>-</b>	<b>-</b>	<b>7,408</b>
<b>Life reinsurance contract liabilities</b>	<b>2,183</b>	<b>26,858</b>	<b>115,360</b>	<b>144,401</b>
<b>Income tax payable</b>	<b>7,297</b>	<b>-</b>	<b>-</b>	<b>7,297</b>
<b>Total liabilities</b>	<b>33,830</b>	<b>34,278</b>	<b>162,378</b>	<b>230,487</b>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

4.2. Risk management policies and procedures (continued)

(b) Financial risks (continued)

ii. Liquidity risk (continued)

2019	Up to 1 year \$'000	1-5 years \$'000	Over 5 years \$'000	Total \$'000
Amount due to ceding companies	6,784	-	-	6,784
Amount due to retrocessionaires	2,979	-	-	2,979
Sundry and other payables	218	-	-	218
Amounts due on deposit retained from related retrocessionaires	8,651	7,847	42,536	59,034
<b>Reinsurance and other liabilities</b>	<b>18,632</b>	<b>7,847</b>	<b>42,536</b>	<b>69,015</b>
Outstanding claims	16,292	-	-	16,292
Non-resident withholding tax	435	-	-	435
<b>Provisions</b>	<b>16,727</b>	<b>-</b>	<b>-</b>	<b>16,727</b>
<b>Life reinsurance contract liabilities</b>	<b>3,014</b>	<b>28,326</b>	<b>105,584</b>	<b>136,924</b>
Income tax payable	361	-	-	361
<b>Total liabilities</b>	<b>38,734</b>	<b>36,173</b>	<b>148,120</b>	<b>223,027</b>

iii. Market risk

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

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

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

Interest rate risk

The Branch has determined that all assets held within its statutory funds are assets backing life 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 equity will be minimal for investment assets backing most life reinsurance contract liabilities, when the asset and liability profile is closely matched.

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

Ignoring taxation impacts, at 31 December 2020, an increase in interest rates of 100 basis points would decrease profit and equity by \$9,909,000 (2019: decrease \$2,774,000). A corresponding decrease of 100 basis points would increase profit and equity by \$10,943,000 (2019: decrease \$2,320,000).

NOTES TO THE FINANCIAL STATEMENTS (*continued*)

FOR THE YEAR ENDED 31 DECEMBER 2020

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

(b) *Financial risks (continued)*

iii. *Market risk (continued)*

*Interest rate risk (continued)*

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

	Weighted average interest rate	Floating interest rate \$'000	Fixed interest maturing in:			Total \$'000
			Up to 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	
<b>2020</b>						
Cash at bank	0.35%	5,193	-	-	-	5,193
<b>Cash and cash equivalents</b>		<b>5,193</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,193</b>
Debt securities						
Government bonds	2.81%	-	-	39,762	217,527	257,289
<b>Investment in financial assets</b>		<b>-</b>	<b>-</b>	<b>39,762</b>	<b>217,527</b>	<b>257,289</b>
<b>Total</b>		<b>5,193</b>	<b>-</b>	<b>39,762</b>	<b>217,527</b>	<b>262,482</b>
<b>2019</b>						
Cash at bank	1.10%	5,212	-	-	-	5,212
<b>Cash and cash equivalents</b>		<b>5,212</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,212</b>
Debt securities						
Government bonds	3.99%	-	-	83,156	154,508	237,664
<b>Investment in financial assets</b>		<b>-</b>	<b>-</b>	<b>83,156</b>	<b>154,508</b>	<b>237,664</b>
<b>Total</b>		<b>5,212</b>	<b>-</b>	<b>83,156</b>	<b>154,508</b>	<b>242,876</b>

*Currency risk*

The Branch operates in New Zealand. Assets are maintained in local currency to match the expected reinsurance contract liabilities in local currency.

*Pricing and modelling risk*

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

*Other price risk*

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

(c) *Non-financial risks - insurance*

i. *Risk management objectives and policies for risk mitigation*

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

ii. *Strategy for managing insurance risk*

*Portfolio of risks*

The Branch issues reinsurance contracts covering term life, accident and disability (income and lump sum) on an individual or group basis. In addition the Branch has some catastrophe business written on an annual, non-guaranteed renewable basis. The Branch does not write investment linked business.

*Prudential capital requirements*

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**FOR THE YEAR ENDED 31 DECEMBER 2020**
**4.2. Risk management policies and procedures (continued)**
**(c) Non-financial risks – insurance (continued)**
*iii. Methods to limit or transfer insurance risk exposures*
Underwriting and claims management procedures

Underwriting procedures are set out in the underwriting process documentation and include limits to delegated authorities and signing powers. Internal auditors and other central departments from MR-AG review from time to time the underwriting and claims management processes to ensure adequate controls are in place and that they are effective. Strict claims management procedures ensure the timely and correct payment of claims in accordance with treaty conditions. Active claims management is particularly necessary for disability income business. All large losses are reported to the Board.

Retrocession

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

*iv. Terms and conditions of reinsurance contracts*

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

Type of contract	Detail of contract workings	Nature of compensation for claims	Key variables that affect the timing and uncertainty of future cash flows
Non-participating life reinsurance contracts with fixed and guaranteed terms <ul style="list-style-type: none"> <li>• Term Life</li> <li>• Disability (income and lump sum)</li> <li>• Catastrophe</li> <li>• Medical expenses</li> </ul>	Guaranteed benefits paid on death, survival or disability that are fixed and guaranteed and not at the discretion of the issuer.	Benefits, defined by the reinsurance contract, are determined by the contract and are not directly affected by the performance of underlying assets or the performance of the contracts as a whole.	<ul style="list-style-type: none"> <li>• Mortality</li> <li>• Morbidity</li> <li>• Market earning rates</li> <li>• Interest rates</li> <li>• Discontinuance rates</li> <li>• Expenses</li> </ul>

*v. Concentrations of insurance risk*

The Branch's life risk segment offers death and disablement protection to employers of large workforces. The concentration of such workforces in single locations is a factor that exposes the Branch to a higher risk of loss in the event of an accident affecting the location where the reinsured employees work. The Branch conducts analysis of single-event exposures on an ongoing basis and continues to be well within the limits mandated by MR-AG.

*vi. Claims development*

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

	2020 \$'000	2019 \$'000
<b>Net claims incurred</b>		
Expected	52,122	47,367
Actual	48,503	47,713

**4.3. Reserves and retained profits**
**(a) Summary of shareholder's interests**

	2020 \$'000	2019 \$'000
Retained profit/(loss) at 1 January	2,386	(84)
Net profit/(loss) for the year	4,854	2,470
Retained profit/(loss) at 31 December	7,240	2,386
Head office account	96,038	96,038
Shareholder's equity	103,278	98,424

The amount transferred to/from the New Zealand statutory fund from/to the Head Office account is determined after receiving written advice from the Appointed Actuary, including confirmation that the transfer will not breach the solvency and capital adequacy requirements in accordance with the requirements in Section 62 of the Australian Life Insurance Act (1995); and that the transfer is surplus to the solvency reserve specified in Professional Standard 5 issued by the New Zealand Society of Actuaries.

There were no transfers or capital injections to the New Zealand statutory fund (2019: a transfer of \$20,701,791 to the New Zealand statutory fund from the Australian statutory fund. The Branch received a capital transfer of \$20,827,012 from the Parent).

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2020**

**4.4 Capital management**

**(a) Types of capital**

i. Regulatory capital

Under the Insurance (Prudential Supervision) the Act 2010, MRA was issued with a full licence by the Reserve Bank of New Zealand. The licence includes an exemption under the Act allowing the Branch to calculate and report the solvency position for the Branch in accordance with the regulatory requirements of its home jurisdiction.

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

The amount of capital required to be held by the Branch is based primarily upon the regulatory prescribed capital amount (PCA) with additional allowances to withstand shocks. In order to minimise the risk of breaching the regulatory capital requirements, the level of capital held by the Branch is regularly monitored relative to a Board approved Internal Capital Adequacy Assessment Policy ("ICAAP"). It also takes into account the longer term strategic objectives of the Branch's ultimate parent company MR-AG in order to maximise shareholder's value.

The Branch manages its capital requirements by assessing economic conditions and risk characteristics of the business activities on a regular basis to ensure that the above regulatory requirements and business objectives are met. The capital structure is maintained or adjusted by the amount of dividends paid or capital repatriations/(injections) to/(by) MR-AG.

ii. Ratings capital

The Branch is classified as a core entity of MR-AG and therefore obtains the same credit rating as MR-AG based on ratings published by Standard & Poor's Ratings services at 31 December 2020. The ratings help to reflect the financial strength of the Branch and demonstrate to stakeholders the ability to pay claims for the long term.

iii. Economic capital

In conjunction with the considerations set out above, which are important to the functioning business, consideration is given to the operational capital needs of the business. The capital objectives are achieved through the use of a risk based capital adequacy framework for capital needs that relies on explicit quantification of uncertainty of risk, and the use of modelling techniques to provide valuable input to the capital management process and provide the capacity to quantify and understand this risk/return trade-off.

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

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

	2020 \$'000	2019 \$'000
<b>Capital Base</b>	<b>102,493</b>	98,827
Common Equity tier 1 (Net assets)	103,278	98,424
Total regulatory adjustments to common equity tier 1	(785)	403
Total capital base (A)	<b>102,493</b>	98,827
<b>Prescribed capital</b>		
Insurance risk capital charge	41,196	38,754
Asset risk capital charge	16,717	8,779
Asset concentration risk charge	-	-
Operational risk charge	1,791	1,705
Less aggregation benefit	(10,457)	(6,119)
Combined stress scenario adjustment	9,318	6,766
Total prescribed capital amount (PCA) (B)	<b>58,565</b>	49,885
Capital adequacy multiple (A/B)	<b>1.75</b>	1.98

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**FOR THE YEAR ENDED 31 DECEMBER 2020**
**Section 5. Life reinsurance contracts**
**5.1. Life reinsurance contract liabilities: Actuarial process & disclosures**
**(a) Basis of preparation for life reinsurance contracts**

The effective date of the actuarial report on life reinsurance contract liabilities and solvency requirements is 31 December 2020. The actuarial report was prepared by Mr Stephen Dixon FIAA, FNZSA, the Appointed Actuary. The actuarial report indicates that the Appointed Actuary is satisfied as to the accuracy of data upon which the life reinsurance contract liabilities and solvency requirements have been determined.

The amount of life reinsurance contract liabilities has been determined in accordance with applicable accounting and actuarial standards. Life reinsurance contract liabilities for life insurance contracts are valued in accordance with NZ IFRS 4 *Insurance Contracts*. In respect of the Branch's Life reinsurance business, there are no differences between the valuation requirements of the accounting standards and those of the Life Insurance Act (1995), which includes applicable APRA prudential requirements.

**i. Actuarial valuation methods**

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

The major product groups are individual lump sum and disability income business. The profit carrier is premiums.

**ii. Actuarial assumptions**

Assumption	Basis of assumption
Discount rates	Risk-free discount rates based on the current observable, objective rates that relate to the nature, structure and term of the future liability cash flows. 2020: 0.2 % - 3.8 % p.a. ( 2019: 1.1 % - 3.5 % p.a.)
Maintenance expenses	The allowance for future expenses is a percentage of in-force premiums and a percentage of disability claim payments based on the Company's planned expenses in 2020.
Inflation	Expected long term inflation rate based on market and economic data. 2020: 1.8%- 2.6% p.a. (2019: 1.5%- 2.0% p.a.)
Voluntary discontinuance	Rates varying by benefit type, age, duration of policy, class of business, premium type and treaty: 2020: 0% to 100% (2019: 0% to 100%)
Surrender values	Ceding company values.
Mortality & morbidity including Disability termination	Biometric assumptions based on the company's own experience, supplemented by other experience sources in areas where own experience lacks credibility. No change in approach from 2019.
IBNR	Allowance was made for inherent delays in reporting claims based on investigations into the Branch's own recent experience. 2020 and 2019: IBNR determined using an adjusted chain-ladder method.

	Profit Carrier	Rate of Taxation
Lump Sum - Individual	Premium	28%
Lump Sum - Group	Premium	28%
Disability - Individual & Group	Premium	28%

**iii. Effects of changes in actuarial assumptions**

	31 December 2019 to 31 December 2020		31 December 2018 to 31 December 2019	
	Impact on future profit margins \$'000 increase / (decrease)	Impact on net life reinsurance contract liabilities \$'000 increase / (decrease)	Impact on future profit margins \$'000 increase / (decrease)	Impact on net life reinsurance contract liabilities \$'000 increase / (decrease)
Discount rates & inflation	248	6,961	-	2,969
Non-economic assumption changes	(243)	(296)	3,454	381
<b>Total</b>	<b>5</b>	<b>6,665</b>	<b>3,454</b>	<b>3,350</b>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

FOR THE YEAR ENDED 31 DECEMBER 2020

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

*iv. Sensitivity of financial results*

The valuations included in the reported results are calculated using certain assumptions about key underlying variables. The movement in any key variable will impact the performance and net assets of the Branch.

Variable	Impact of variable
Expense risk	An increase in the level or inflationary growth of expenses over assumed levels will decrease profit and equity.
Interest rate risk	The investment income of the Company will decrease as interest rates decrease. This is offset to an extent by corresponding changes in the market value of fixed interest investments. The impact on profit and equity will be minimal for investment assets backing most life reinsurance contract liabilities, when the asset and liability profile is closely matched. At the balance sheet date the assets are invested with somewhat shorter duration than the liabilities, hence there would be an impact on profits and equity as a result of interest rate movements.
Inflation rate risk	The life reinsurance contract liabilities of the Company will increase as market inflation increases due to benefit indexation. Whilst this is partially offset by the corresponding increases in market value of indexed bonds, the exposure to indexed bonds on the balance sheet is lesser than the exposure on the liabilities side. Hence there would be an impact on profits and equity as a result of market inflation movements.
Mortality rates	Greater mortality rates would lead to higher levels of claims and therefore reduce profit and equity.
Morbidity rates	The cost of disability-related claims depends on both the incidence of policy holders becoming disabled and, in the case of income benefits, the duration for which they remain disabled. Higher than expected incidence and duration would increase claim costs, reducing profit and equity.
Discontinuance	The impact of the discontinuance rate assumption depends on a range of factors including the type of contract, the surrender value basis (if any) and the duration in force. An increase in discontinuance rates at earlier policy durations usually has a negative effect on profit and equity, as it reduces the base from which the Company may recoup expenses and generate profits. However, due to the interplay between a range of factors, there is not always an adverse outcome from an increase in discontinuance rates.

**Summary of significant accounting policies**

**Life reinsurance business**

The life reinsurance operations of the Branch are conducted within separate statutory funds as required by the Life Insurance Act (1995) and are reported in aggregate with the shareholder's fund in the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows. The life insurance operations of the Branch comprise the reinsurance of life insurance contracts.

Life reinsurance contracts involve the acceptance of significant reinsurance risk. Reinsurance risk is defined as significant if, and only if, a reinsured event could cause a reinsurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). Products that do not meet the definition of a life insurance contract are classified as life investment contracts. Reinsurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness.

All of the Branch's reinsurance contracts are classified as life insurance contracts. None are investment linked or other life investment type contracts.

**COVID-19 impact**

In response to Covid-19, the Branch undertook a review best estimate assumptions, with a particular focus on claims to determine impacts and implications from Covid-19.

With respect to health and economic implications of Covid-19, whilst there is uncertainty, there is expected to be an increase in claims costs over the next two years.

The following was taken into account in the review of the best estimate assumptions:

- New Zealand for the most parts has been less affected by the direct mortality impact of Covid-19, on a relative basis, measured by confirmed cases, active cases and deaths.
- From a morbidity prospective, those who recover from severe cases may suffer lasting effects on their health including permanent lung damage.
- The economic consequences from Covid-19 are also expected to lead to an increase in complex claims such as mental illness and chronic pain.

**Allocation and distribution of profit of the statutory funds**

The Branch does not issue participating policies, thus all profits are allocated to the shareholder.

The amount transferred from the statutory funds to the shareholder's fund, if any, is determined after receiving written advice from the Appointed Actuary, including confirmation that the transfer will not breach the solvency and capital adequacy requirements in Section 62 of the Life Insurance Act (1995).



**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**FOR THE YEAR ENDED 31 DECEMBER 2020**
**5.2. Life reinsurance contract liabilities: Composition and movements**
**(a) Reconciliation of movements**

2020	Gross \$'000	Reinsurance and other recoveries \$'000	Net \$'000
<b>Reconciliation of movements in reinsurance contract liabilities</b>			
Life reinsurance contract liabilities at the beginning of the financial year	136,924	(54,227)	82,697
(Decrease) / Increase in life reinsurance contract policy liabilities	7,477	(3,612)	3,865
<b>Total reinsurance contract liabilities</b>	<b>144,401</b>	<b>(57,840)</b>	<b>86,561</b>
Current (asset)/liability	2,183	(122)	2,061
Non-current (asset)/liability	142,218	(57,718)	84,500
<b>Total reinsurance contract liabilities</b>	<b>144,401</b>	<b>(57,840)</b>	<b>86,561</b>
<b>2019</b>			
	<b>Gross \$'000</b>	<b>Reinsurance and other recoveries \$'000</b>	<b>Net \$'000</b>
<b>Reconciliation of movements in reinsurance contract liabilities</b>			
Life reinsurance contract liabilities at the beginning of the financial year	123,760	(48,749)	75,011
(Decrease) / Increase in life reinsurance contract policy liabilities	13,164	(5,478)	7,686
<b>Total reinsurance contract liabilities</b>	<b>136,924</b>	<b>(54,227)</b>	<b>82,697</b>
Current (asset)/liability	3,014	29	3,043
Non-current (asset)/liability	133,910	(54,256)	79,654
<b>Total reinsurance contract liabilities</b>	<b>136,924</b>	<b>(54,227)</b>	<b>82,697</b>

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

**(b) Components of reinsurance contract liabilities**

	2020 \$'000	2019 \$'000
<b>Life reinsurance</b>		
Best estimate liability for non investment-linked business		
Value of future policy benefits	368,027	318,530
Value of future expenses	41,968	35,413
Value of future premiums	(327,153)	(274,700)
	82,842	79,243
Value of future profits for non investment-linked business		
Shareholder profit margins	3,719	3,454
	3,719	3,454
<b>Net life reinsurance contract liabilities</b>	<b>86,561</b>	<b>82,697</b>

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

	2020 \$'000	2019 \$'000
<b>Operating profit/(loss) after income tax arose from:</b>		
- Planned margins of revenues over expenses released	286	(52)
- Experience profit/(loss)	422	434
- Capitalisation of expected future losses	41	(738)
- Investment earnings on assets in excess of life reinsurance contract liabilities	4,105	2,826
<b>Operating profit/(loss) after income tax</b>	<b>4,854</b>	<b>2,470</b>

NOTES TO THE FINANCIAL STATEMENTS (*continued*)

FOR THE YEAR ENDED 31 DECEMBER 2020

**Section 6. Other notes**

**6.1. Commitments**

The Branch has no known capital commitments at the reporting date (2019: nil).

**6.2. Contingencies**

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

**6.3. Related parties**

**(a) Parent and ultimate controlling party**

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

**(b) Transactions with key management personnel**

Key management personnel compensation comprised the following:

	2020 \$	2019 \$
Short term employee benefits	72,330	103,813
Long term employee benefits	7,903	-
Post-employment benefits	8,429	9,489
<b>Total employment benefits</b>	<b>88,662</b>	<b>113,302</b>

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

**(c) Transactions with related parties**

	Transaction values for the year ended 31 December <i>Inwards/(Outwards)</i>		Balance outstanding as at 31 December <i>Receivable/(Payable)</i>	
	2020 \$	2019 \$	2020 \$	2019 \$
<i>Retrocession of reinsurance contracts with ultimate parent:</i>				
<b>MR-AG</b>	<b>8,268,648</b>	3,430,055	<b>(1,945,925)</b>	(2,978,576)
<i>Recharge of expenses incurred on the branch's behalf:</i>				
<b>MHA</b>	<b>(2,993,352)</b>	(2,479,808)	-	-
<i>Transactions with tax group relating to tax sharing and funding agreement:</i>				
<b>MRNZ</b>	-	(3,456,937)	-	-
<i>Capital Injection received from head office account:</i>				
<b>MHA</b>	-	20,827,012	-	-
<i>Transfer between funds:</i>				
<b>MRA</b>	-	20,701,791	-	-

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.

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

All other transactions were made on normal commercial terms and conditions and at market rates (including market rental rates), except that there are no fixed terms for the repayment of loans between the parties. Outstanding balances are unsecured and are repayable in cash.

The Branch continues to be party to a tax sharing and tax funding agreement with other members of the New Zealand tax consolidated group.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2020**

**6.4. Remuneration of auditors**

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

**(a) Audit services**

<i>EY:</i>	2020 \$	2019 \$
Audit and review of financial reports under the Corporations Act 1993	22,453	-
Total remuneration for audit services	22,453	-
<i>KPMG:</i>		
Audit and review of financial reports under the Corporations Act 1993	-	22,528
Total remuneration for audit services	-	22,528

Effective 2020, Ernst & Young (EY) has been appointed as Company's new external auditor.

**6.5. New standards and interpretations not yet adopted**

**NZ IFRS 17 Insurance Contracts**

NZ IFRS 17 *Insurance Contracts* replaces NZ IFRS 4 *Insurance Contracts* effective for annual periods beginning on or after 1 January 2023, with the comparative period being the financial year ending 31 December 2022. The Company is not expected to early adopt the standard.

NZ IFRS 17 *Insurance Contracts* establishes globally consistent principles for the recognition, measurement, presentation and disclosure of life insurance contracts issued. NZ IFRS 17 introduces changes to the profit emergence profiles of life insurance contracts but does not affect the underlying economics or cash flow of the contracts.

The Branch has established a project team to assess and implement the requirements of NZ IFRS 17 and is an integrated part of Munich Re's global IFRS 17 program management. Due to the implementation effort and the dependency on the system architecture provided by Munich Re global program management, the Branch expects to align as much as possible with Munich Re's global reporting landscape. The standard is expected to impact the Branch's balance sheet as well as profit and loss, however, due to the complexity of the standard requirements and evolving interpretation of the requirements, it is not yet practical to quantify the financial impact. The Branch is currently performing a detailed impact assessment of the standard.

Based on currently available information, the Branch does not foresee any material changes on capital requirements and the Branch's solvency position.

## Directors' declaration

The Directors are pleased to present the financial statements of Munich Reinsurance Company of Australasia Limited – New Zealand Branch for the year ended 31 December 2020.

In the opinion of the Directors of Munich Reinsurance Company of Australasia Limited, the financial statements and notes of the New Zealand Branch (the Branch), on pages 3 to 25:

- (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 2020 and the results of operations for the year ended on that date;
- (b) have been prepared using the appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Branch and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

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. There are reasonable grounds to believe that, as at the time this statement is made, the Branch will be able to pay all debts or claims as and when they are due.

Signed in Sydney on 25 March 2021 in accordance with a resolution of the Directors:



---

J B Shewan  
Director



---

N Carro  
Director



**Building a better  
working world**

Ernst & Young  
200 George Street  
Sydney NSW 2000 Australia  
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555  
Fax: +61 2 9248 5959  
ey.com/au

## **Independent auditor's report to the Shareholder of Munich Reinsurance Company of Australasia Limited - NZ Branch Report on the audit of the financial statements**

### **Opinion**

We have audited the financial statements of Munich Reinsurance Company of Australasia Limited - NZ Branch ("the company") on pages 3 to 26, which comprise the statement of financial position of the company as at 31 December 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended of the company, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements on pages 3 to 26 present fairly, in all material respects, the financial position of the company as at 31 December 2020 and its financial performance and cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

This report is made solely to the company's shareholder. Our audit has been undertaken so that we might state to the company's shareholder those matters we are required to state to them in an 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 company and the company's shareholder, for our audit work, for this report, or for the opinions we have formed.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interest in, the company.

### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of

material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

## Reinsurance Contract Liabilities

### Why significant

Reinsurance contract liabilities total \$142m and represent 70% of total liabilities at 31 December 2020 as set out in notes 5.1 and 5.2.

The valuation of the provisions for the settlement of future claims included within the reinsurance contract liabilities involves complex and subjective judgements about future events, both internal and external to the business. Small changes in assumptions can have a material impact on the valuation of these liabilities. Accordingly, they were considered to be a key audit matter.

Key areas of judgement included:

- ▶ discount rates;
- ▶ inflation and indexation;
- ▶ forecast lapse rates;
- ▶ forecast rates of mortality and morbidity; and
- ▶ future maintenance and investment expenses.

### How our audit addressed the key audit matter

To assess the assumptions used to determine the value of reinsurance contract liabilities, we have performed the following audit procedures, amongst others, in conjunction with our actuarial specialists:

- ▶ We reassessed the reinsurance contract liability, regulatory capital balances and related disclosures included within the financial reports against the Life Prudential Standards and New Zealand Accounting Standards.
- ▶ We assessed the reinsurance contract liability valuation process including the inputs into the calculation.
- ▶ We evaluated the design and operating effectiveness of associated information technology system controls relating to the policy valuations.
- ▶ We assessed the qualifications, competence and objectivity of the company's Appointed Actuary.
- ▶ Our actuarial specialists assessed the reasonableness of the valuation methodology, key assumptions, and the interpretation of prudential standards that affect the reinsurance contract liability valuation.
- ▶ Our actuarial specialists assessed, on a sample basis, adjustments that were made to the valuation model outputs.
- ▶ We assessed the adequacy of reinsurance contract liability disclosures included in the financial report against the requirements of the New Zealand equivalents to International Financial Reporting Standards.

## **Information other than the financial statements and auditor's report**

The directors of the company are responsible for the Annual Report, which includes information other than the financial statements and auditor's report.

Our opinion on the financial statements does not cover the 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 during the audit, or otherwise appears to be materially misstated.

If, based upon 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.

## **Directors' responsibilities for the financial statements**

The directors are responsible, on behalf of the entity, for the preparation and fair presentation of the financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

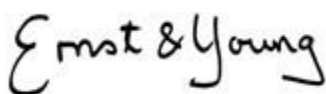
In preparing the financial statements, the directors are responsible for assessing on behalf of the entity the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or cease operations, or have no realistic alternative but to do so.

## **Auditor's responsibilities for the audit of the financial statements**

Our objectives are 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 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 International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 the auditor's responsibilities for the audit of the financial statements is located at the External Reporting Board's website: <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>. This description forms part of our auditor's report.

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



Ernst & Young  
Sydney  
25 March 2021