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Munich Reinsurance Company of Australasia Limited - New Zealand Branch

Annual Financial Report 31 December 2021

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DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021

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 2021 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	
S R Hawkins	1 January 2020	Alternate to N Carro

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 $53,232 (2020: $42,636) 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.

Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditor, Ernst & Young, as part of the terms of its audit engagement agreement. The primary purpose of the indemnity is to indemnify Ernst & Young for any loss that it may suffer as a result of a false representation given by the Company's management where a claim is made against Ernst & Young by a third party.

The indemnity doesn't apply if Ernst & Young's loss results from its own negligence or wrongful or wilful acts or omissions. No payment has been made to indemnify Ernst & Young during or since the end of the financial year.

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 loss after tax of $6,702,000 compared with a profit after tax of $4,854,000 in 2020.

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.

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021 *(continued)*

Capital transactions

There were no capital transactions in 2021 (2020: nil).

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. Covid-19, as well as measures to slow the spread of the virus, have since had a significant impact on global economies.

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).

During 2020 and 2021 there were a number of transactions enacted in the NZ Insurance Market resulting in the change of ownership of a number of the Branch's existing NZ clients. Many of these transactions are still awaiting final ratification by the Reserve Bank of New Zealand (RBNZ). For some transactions the Branch has been approached by the new owners about restructuring and/or recapturing the reinsurance arrangement. Where the Branch has agreed with the clients the terms of any restructure or recapture but are awaiting RBNZ ratification, the Branch has valued the business on the revised terms.

Environmental regulations

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

Rounding

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

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 2021 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 2021.

Signed in Sydney on 24 March 2022 in accordance with a resolution of the Directors.

J B Shewan Director	N Carro Director

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

CONTINUING OPERATIONS	Note	2021 $'000	2020 $'000
Reinsurance premium revenue	2.1	**52,619**	46,430
Retrocession premium expense	2.2	**(20,411)**	(18,347)
Net life reinsurance premiums		**32,208**	28,083
Net life reinsurance commissions	2.2	**(1,603)**	1,320
Reinsurance claims expense	2.2	**(43,165)**	(37,249)
Retrocession claims recoveries	2.1	**15,968**	14,738
Net life reinsurance claims		**(27,197)**	(22,511)
Movement in reinsurance policy liabilities	2.2	**13,667**	(7,477)
Movement in retrocession policy liabilities	2.2	**(1,824)**	3,612
Net movement in reinsurance policy liabilities		**11,843**	(3,865)
Underwriting Profit/(Loss)		**15,251**	3,027
Other expenses from operating activities	2.2	**(2,831)**	(2,256)
Investment gains and (losses)	2.3	**(18,262)**	9,805
Investment management expense	2.3	**(216)**	(237)
Profit/(Loss) before tax		**(6,058)**	10,339
Income tax expense	2.4	**(644)**	(5,485)
Profit/(Loss) after tax		**(6,702)**	4,854
Total comprehensive income/(loss) for the year		**(6,702)**	4,854

The Statement of Comprehensive Income is to be read in conjunction with the notes to the financial statements set out on pages 7 to 26.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

	Note	Dec 31 2021 $'000	Dec 31 2020 $'000
Cash and cash equivalents	3.1	**2,750**	5,193
Investment in financial assets	3.2	**235,043**	257,289
Reinsurance and other assets	3.3	**5,847**	8,940
Retrocessionaires' share of life reinsurance contract liabilities	5.2	**56,016**	57,840
Deferred tax assets	2.4	**-**	4,503
Total assets		**299,656**	333,765
Income tax payable	2.4	**1,202**	7,297
Reinsurance and other liabilities	3.4	**60,489**	71,381
Provisions	3.5	**8,834**	7,408
Reinsurance contract liabilities	5.2	**130,734**	144,401
Deferred tax liabilities	2.4	**1,821**	-
Total liabilities		**203,080**	230,487
Net assets		**96,576**	103,278
Shareholder's interests			
Retained earnings	4.3	**538**	7,240
Head office account	4.3	**96,038**	96,038
Total shareholder's interest		**96,576**	103,278

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 7 to 26.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

2021	Note	Head office account $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2021		**96,038**	**7,240**	**103,278**
TOTAL COMPREHENSIVE INCOME				
Loss for the year	**4.3**	**-**	**(6,702)**	**(6,702)**
Total comprehensive loss for the year		**-**	**(6,702)**	**(6,702)**
Balance at 31 December 2021		**96,038**	**538**	**96,576**

2020	Note	Head office account $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2020		96,038	2,386	98,424
TOTAL COMPREHENSIVE INCOME				
Profit for the year	**4.3**	-	4,854	4,854
Total comprehensive income for the year		-	4,854	4,854
Balance at 31 December 2020		96,038	7,240	103,278

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 26.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 $'000	2020 $'000
Cash flows from operating activities			
Reinsurance underwriting received/(paid)		**8,609**	11,322
Retrocession received/(paid)		**(4,994)**	(2,166)
Income tax transferred/(paid)		**(8,007)**	542
Management and administrative expenses		**(3,524)**	(2,107)
Net cash from operating activities	3.1	**(7,916)**	7,591
Cash flows from investing activities			
Interest received		**6,231**	12,962
Payments for investments		**(14,949)**	(98,381)
Proceeds from sale of investments		**14,407**	78,045
Investment expenses		**(216)**	(237)
Net cash from investing activities		**5,473**	(7,611)
Net increase/(decrease) in cash and cash equivalents		**(2,443)**	(19)
Cash and cash equivalents at the beginning of the financial year		**5,193**	5,212
Cash and cash equivalents at the end of the financial year	3.1	**2,750**	5,193

The Statement of Cash Flows is to be read in conjunction with the notes to the financial statements set out on pages 7 to 26.

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 NZ IFRS New Zealand equivalent 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. The financial statements have been prepared in accordance with New Zealand generally acceptable accounting practice (NZ GAAP). As of 31 December 2021, the Branch reported a net current ratio of less than 100%. 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). In the disclosure, the current/non-current split is between items contractually settled within 12 months (current) and those expected to be settled in greater than 12 months (non-current).

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 24 March 2022.

(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
Reinsurance and other assets	3.3	Fair value; amortised cost

(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.

Section 2. Financial performance

2.1. Revenue

Life reinsurance revenue	2021 $'000	2020 $'000
Reinsurance premium revenue	**52,619**	46,430
Retrocession claims recoveries	**15,968**	14,738
Total life reinsurance premium and related revenue	**68,587**	61,168
Total revenue	**68,587**	61,168

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.

Recoveries receivable on outstanding claims are measured as the present value of the expected future receipts calculated on the same basis as the outstanding claims liability.

Receivable retrocession claim recoveries are presented as part of note 3.4

2.2. Expenses

Life reinsurance expenses	2021 $'000	2020 $'000
Life reinsurance commission - maintenance costs	**1,603**	(1,320)
Net life reinsurance commission	**1,603**	(1,320)
Reinsurance claims expense	**43,165**	37,249
Retrocession premium expense	**20,411**	18,347
Total life reinsurance claims and related expenses	**63,576**	55,596
Movement in reinsurance policy liabilities	**(13,667)**	7,477
Movement in retrocession policy liabilities	**1,824**	(3,612)
Net movement in reinsurance policy liabilities	**(11,843)**	3,865
Other policy acquisition costs	**334**	228
Other policy maintenance costs	**2,221**	1,248
Other expenses	**276**	780
Other expenses from operating activities	**2,831**	2,256
Total expenses	**56,167**	60,397

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

Investment gains and (losses)	2021 $'000	2020 $'000
Interest	**6,249**	7,071
Realised and Unrealised gains and (losses)	**(22,805)**	5,533
Foreign exchange gains and (losses)	**(17)**	(11)
Interest payable on deposit retained from related retrocessionaire	**(1,689)**	(2,788)
Total investment gains and (losses)	**(18,262)**	9,805
Investment management expense	**(216)**	(237)
Total Investment management expense	**(216)**	(237)

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.

Interest
Investment in financial assets are held to collect regular coupon interest payments which are recognised as earned. The details of the Company's policies for financial assets are set out in notes 3.2 and note 4.

2.4. Income taxes

(a) Amounts recognised in profit or loss

	2021 $'000	2020 $'000
Current tax expense		
Current year	**1,242**	3,760
Adjustment for prior years	**(5,940)**	2,465
Current tax expense/(benefit)	**(4,698)**	6,225
Deferred tax expense		
Origination and reversal of temporary differences	**203**	(575)
Change in recognised deductible temporary differences	**5,139**	(165)
Deferred tax expense/(benefit)	**5,342**	(740)
Income tax expense	**644**	5,485

(b) Reconciliation of effective tax rate

	2021 %	2021 $'000	2020 %	2020 $'000
Profit/(loss) before tax from continuing operations		**(6,058)**		10,339
Tax using the Branch's domestic tax rate	**28**	**(1,696)**	28	2,895
Non-deductible expenses		**5,037**		2,943
Tax-exempt income		**(1,774)**		(2,620)
Change in estimates related to prior years		**(802)**		2,300
Effect of tax rates in foreign jurisdiction		**(121)**		207
Additional income		**640**		-
Foreign tax credit		**(640)**		(240)
Income tax expense	**10.6**	**644**	53.0	5,485

(c) Movement in deferred tax balances

2021	Net balance at 1 January	Movement	Net balance at 31 December
Accrued expenses	**872**	**(872)**	**-**
Components of life reinsurance contract liabilities	**2,649**	**(4,470)**	**(1,821)**
Tax loss	**982**	**(982)**	**-**
Net deferred tax asset/(liability)	**4,503**	**(6,324)**	**(1,821)**

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
Net deferred tax asset	3,052	1,451	4,503

Total amount of unrecognised tax losses in 2021 is $9,659,446 (2020: $7,616,406)

2.4. Income taxes (continued)

(d) Income tax (payable)/receivable

	2021 $'000	2020 $'000
Opening balance at 1 January	**(7,297)**	(361)
Additional provisions recognised – current year	**(1,242)**	(3,760)
Over/(under) provisioned in prior years	**6,922**	(3,176)
Tax provisions	**415**	-
Closing balance at 31 December	**(1,202)**	(7,297)

Summary of significant accounting policies

Income tax and withholding 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.

Section 3. Financial position

3.1. Cash and cash equivalents

(a) Cash and cash equivalents balances

	2021 $'000	2020 $'000
Cash at bank	**2,750**	5,193
Total cash and cash equivalents	**2,750**	5,193

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

	2021 $'000	2020 $'000
Profit/(loss) from operating activities after income tax	**(6,702)**	4,854
Movements in:		
Reinsurance and other assets	**3,093**	12,357
Reinsurance and other liabilities	**(10,891)**	2,366
Provisions	**1,426**	(9,319)
Income tax	**(6,095)**	6,936
Adjustments for:		
Deferred tax	**(599)**	(740)
Net movement in reinsurance policy liabilities	**(11,843)**	3,865
Loss/(gain) on revaluation of investments	**22,822**	(5,533)
Retrocession portion of loss/(gain) on revaluation of investments	**7,547**	(360)
Investment revenue	**(6,249)**	(7,071)
Investment expense	**216**	237
Withholding tax	**(640)**	-
Net cash flows from operating activities	**(7,916)**	7,591

Summary of significant accounting policies

Cash and cash equivalents are financial assets and comprise of cash at bank plus short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Cash and cash equivalent are recognised at 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.

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

3.2. Investment in financial assets

	2021 $'000	2020 $'000
Debt securities at fair value through profit or loss	**235,043**	257,289
Total investment in financial assets	**235,043**	257,289
Current	**-**	-
Non-current	**235,043**	257,289
Total	**235,043**	257,289

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

Investment in financial assets are measured at fair value through profit or loss and are classified as Level 2. This recognises the availability of a quoted price but not from an active market as defined by the accounting standard, note 1.3(b).

The Branch values Investment in financial assets based on the last traded price.

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.

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

3.3. Reinsurance and other assets

	2021 $'000	2020 $'000
Amounts due from ceding companies	**827**	4,985
Outstanding claims recoveries from retrocessionaires	**3,691**	2,723
Sundry debtors and prepayments	**82**	2
Investment related receivables	**1,247**	1,230
Total reinsurance and other assets	**5,847**	8,940
Current	**5,847**	8,940
Non-current	**-**	-
Total reinsurance and other assets	**5,847**	8,940

Summary of significant accounting policies

Receivables that do not back life reinsurance contract liabilities are measured at amortised cost, less any allowance for Expected Credit Losses (ECL's). The collectability of receivables is assessed on an ongoing basis. The Branch recognises expected credit losses through a provision which is based on historical credit loss experience. The Branch does not have any history of credit losses life to date.

Receivables that back life reinsurance contract liabilities are designated as financial assets measured at fair value through profit or loss.

3.4. Reinsurance and other liabilities

	2021 $'000	2020 $'000
Amount due to ceding companies	**5,444**	8,129
Amount due to retrocessionaires	**1,766**	1,946
Sundry and other payables	**-**	454
Amounts due on deposit retained from related retrocessionaires	**53,279**	60,852
Total reinsurance and other liabilities	**60,489**	71,381
Current	**17,429**	16,942
Non-current	**43,060**	54,439
Total reinsurance and other liabilities	**60,489**	71,381

Summary of significant accounting policies

The above amounts are recognised at amortised cost, 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 include an accrual of related retrocessionaire's share of unrealised gains or losses on investments.

3.5. Provisions

2021	Balance at 1 January	Provisions made during the year	Liabilities paid	Balance at 31 December
Outstanding claims	**7,142**	**42,492**	**(41,036)**	**8,598**
Non-resident Withholding tax	**266**	**236**	**(266)**	**236**
Total provisions	**7,408**	**42,728**	**(41,302)**	**8,834**
2020				
Outstanding claims	16,292	34,069	(43,219)	7,142
Non-resident Withholding tax	435	266	(435)	266
Total provisions	16,727	34,335	(43,654)	7,408

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 (2020: all current).

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 2021	Carrying amount $'000				Fair Value $'000			
	At amortised costs	Designated at fair value	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Debt Securities	-	235,043	-	235,043	-	235,043	-	235,043
	-	235,043	-	235,043	-	235,043	-	235,043
Financial assets								
Cash and cash equivalents	2,750	-	-	2,750	-	-	-	-
	2,750	-	-	2,750	-	-	-	-
Financial liabilities								
Reinsurance and other liabilities	-	-	60,489	60,489	-	-	-	-
	-	-	60,489	60,489	-	-	-	-

4.1. Financial instruments (continued)

31 December 2020	Carrying amount $'000				Fair Value $'000			
	At amortised costs	Designated at fair value	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Debt Securities	-	257,289	-	257,289	-	257,289	-	257,289
	-	257,289	-	257,289	-	257,289	-	257,289
Financial assets								
Cash and cash equivalents	5,193	-	-	5,193	-	-	-	-
	5,193			5,193	-	-	-	-
Financial liabilities								
Reinsurance and other liabilities	-	-	71,381	71,381	-	-	-	-
	-	-	71,381	71,381	-	-	-	-

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.

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 2021 (2020: 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 and cash equivalents are financial assets and comprise of cash at bank plus short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Cash assets are carried at face value of the amounts deposited. The carrying amounts of cash assets approximate their fair value.
- Shares, fixed interest securities and units listed on stock exchanges are carried at the bid price of the instrument.
- Receivables are carried at amortised cost which is the best estimate of fair value, as they usually settled within twelve months less provision for impairment.

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 the 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:

- A set of Investment Instructions (the Instructions) are 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 may be maintained within the portfolio and its performance closely monitored.

4.2. Risk management policies and procedures (continued)

(b) Financial risks (continued)

i. Credit risk (continued)

- The Instructions 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 Instructions allow 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.

	2021 $'000	2020 $'000
Cash and cash equivalents	**2,750**	5,193
Investment in financial assets	**235,043**	257,289
Reinsurance and other assets	**5,847**	8,940
Retrocessionaires' share of life reinsurance contract liabilities	**56,016**	57,840
Total	**299,656**	329,262
Grade 1-3 (Standard & Poor's A- to AAA)	**299,656**	329,262
Total	**299,656**	329,262

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 discounted contractual obligations.

2021	Up to 1 year $'000	1-5 years $'000	Over 5 years $'000	Total $'000
Amount due to ceding companies	5,444	-	-	5,444
Amount due to retrocessionaires	1,766	-	-	1,766
Amounts due on deposit retained from related retrocessionaires	10,219	11,308	31,752	53,279
Reinsurance and other liabilities	17,429	11,308	31,752	60,489
Outstanding claims	8,598	-	-	8,598
Non-resident withholding tax	236	-	-	236
Provisions	8,834	-	-	8,834
Life reinsurance contract liabilities	26,396	31,408	72,930	130,734
Total liabilities	52,659	42,716	104,682	200,057

4.2. Risk management policies and procedures (continued)

(b) Financial risks (continued)

ii. Liquidity risk (continued)

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
Reinsurance and other liabilities	16,942	7,420	47,018	71,381
Outstanding claims	7,142	-	-	7,142
Non-resident withholding tax	266	-	-	266
Provisions	7,408	-	-	7,408
Life reinsurance contract liabilities	2,183	26,858	115,360	144,401
Income tax payable	7,297	-	-	7,297
Total liabilities	33,830	34,278	162,378	230,487

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 are the investment instructions issued by the Branch. On an annual basis the investment instructions are reassessed and updated if appropriate. 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 as required.

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 2021, an increase in interest rates of 100 basis points would decrease profit and equity by $10,983,000 (2020: decrease $9,909,000). A corresponding decrease of 100 basis points would increase profit and equity by $12,330,000 (2020: decrease $10,943,000).

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: Up to 1 year $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
2021						
Cash at bank	**0.63%**	**2,750**	**-**	**-**	**-**	**2,750**
Cash and cash equivalents		**2,750**	**-**	**-**	**-**	**2,750**
Debt securities						
Government bonds	**2.73%**	**-**	**-**	**31,247**	**203,796**	**235,043**
Investment in financial assets		**-**	**-**	**31,247**	**203,796**	**235,043**
Total		**2,750**	**-**	**31,247**	**203,796**	**237,793**
2020						
Cash at bank	0.35%	5,193	-	-	-	5,193
Cash and cash equivalents		5,193	-	-	-	5,193
Debt securities						
Government bonds	2.81%	-	-	39,762	217,527	257,289
Investment in financial assets		-	-	39,762	217,527	257,289
Total		5,193	-	39,762	217,527	262,482

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.

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 • Term Life • Disability (income and lump sum) • Catastrophe • Medical expenses	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.	• Mortality • Morbidity • Market earning rates • Inflation rates • Discontinuance rates • Expenses

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.

	2021 $'000	2020 $'000
Net claims incurred		
Expected	**52,864**	52,122
Actual	**51,683**	48,503

4.3. Reserves and retained profits

(a) Summary of shareholder's interests

	2021 $'000	2020 $'000
Retained profit/(loss) at 1 January	**7,240**	**2,386**
Net profit/(loss) for the year	**(6,702)**	**4,854**
Retained profit/(loss) at 31 December	**538**	**7,240**
Head office account	**96,038**	**96,038**
Shareholder's equity	**96,576**	**103,278**

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 (2020: nil).

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 2021. 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.

	2021 $'000	2020 $'000
Capital Base	**96,576**	102,493
Common Equity tier 1 (Net assets)	**96,576**	103,278
Total regulatory adjustments to common equity tier 1	**-**	(785)
Total capital base (A)	**96,576**	102,493
Prescribed capital		
Insurance risk capital charge	**18,745**	41,196
Asset risk capital charge	**15,278**	16,717
Asset concentration risk charge	**-**	-
Operational risk charge	**1,494**	1,791
Less aggregation benefit	**(7,578)**	(10,457)
Combined stress scenario adjustment	**8,766**	9,318
Total prescribed capital amount (PCA) (B)	**36,705**	58,565
Capital adequacy multiple (A/B)	**2.63**	1.75

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 2021. 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 product groups have been valued using the projection method. The projection method includes appropriate allowance for all reserves including IBNR, disabled lives, unrecouped acquisition costs and other reserves.

The major product groups are 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. 2021: 1.3 % - 3.5 % p.a.(2020: 0.2 % - 3.8 % p.a.)
Maintenance expenses	The allowance for future expenses is a percentage of in-force premiums and claim payments based on the Branch's planned expenses in 2021.
Inflation	Expected long term inflation rate based on market and economic data. 2021: 0%- 3.0% p.a. (2020: 1.8%- 2.6% p.a.)
Voluntary discontinuance	Rates vary by benefit type: 2021: 0% to 100% (2020: 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 2020.
IBNR	Allowance was made for inherent delays in reporting claims based on investigations into the Branch's own recent experience. 2021 and 2020: 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 2020 to 31 December 2021		31 December 2019 to 31 December 2020	
	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	**(237)**	**(6,618)**	248	6,961
Non-economic assumption changes	**(4,186)**	**(755)**	(243)	(296)
Total	**(4,423)**	**(7,373)**	5	6,665

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 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. 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 Branch 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 Branch 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
The Branch reviewed its best estimate assumptions, with particular focus on the impact of Covid-19 during 2020-2021 and potential impact for future years. No specific assumptions for Covid-19 has been made.

Despite a significant increase in general population case numbers during 2021, there has not been significant observable impact on actual claims experience to date.

The Branch continues with the following activities to understand and mitigate the risks associated with Covid-19:

- Strong engagement with client offices to manage underwriting and product risks.
- Monitoring of claims experience to identify any trends or concerns.

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).

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5.2. Life reinsurance contract liabilities: Composition and movements

(a) Reconciliation of movements

2021	Gross $'000	Reinsurance and other recoveries $'000	Net $'000
Reconciliation of movements in reinsurance contract liabilities			
Life reinsurance contract liabilities at the beginning of the financial year	**144,401**	**(57,840)**	**86,561**
(Decrease) / Increase in life reinsurance contract policy liabilities	**(13,667)**	**1,824**	**(11,843)**
Total reinsurance contract liabilities	**130,734**	**(56,016)**	**74,718**
Current (asset)/liability	**26,396**	**(10,519)**	**15,876**
Non-current (asset)/liability	**104,338**	**(45,497)**	**58,842**
Total reinsurance contract liabilities	**130,734**	**(56,016)**	**74,718**

2020	Gross $'000	Reinsurance and other recoveries $'000	Net $'000
Reconciliation of movements in reinsurance contract liabilities			
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
Total reinsurance contract liabilities	144,401	(57,840)	86,561
Current (asset)/liability	2,183	(122)	2,061
Non-current (asset)/liability	142,218	(57,718)	84,500
Total reinsurance contract liabilities	144,401	(57,840)	86,561

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

(b) Components of reinsurance contract liabilities

	2021 $'000	2020 $'000
Life reinsurance		
Best estimate liability for non-investment-linked business		
Value of future policy benefits	**204,258**	**368,027**
Value of future expenses	**22,978**	**41,968**
Value of future premiums	**(152,518)**	**(327,153)**
	74,718	**82,842**
Value of future profits for non-investment-linked business		
Shareholder profit margins	**-**	**3,719**
	-	**3,719**
Net life reinsurance contract liabilities	**74,718**	**86,561**

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

	2021 $'000	2020 $'000
Operating profit/(loss) after income tax arose from:		
- Planned margins of revenues over expenses released	**306**	286
- Experience profit/(loss)	**167**	422
- Capitalisation of expected future losses	**131**	41
- Investment earnings on assets in excess of life reinsurance contract liabilities	**(7,306)**	4,105
Operating profit/(loss) after income tax	**(6,702)**	4,854

Section 6. Other notes

6.1. Commitments

The Branch has no known capital commitments at the reporting date (2020: 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:

	2021 $	2020 $
Short term employee benefits	**66,190**	72,330
Long term employee benefits	**8,194**	7,903
Post-employment benefits	**8,598**	8,429
Total employment benefits	**82,982**	88,662

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 *Inwards/(Outwards)*		**Balance outstanding as at 31 December** *Receivable/(Payable)*	
	2021 $	2020 $	**2021 $**	2020 $
Retrocession of reinsurance contracts with ultimate parent:				
MR-AG	**(2,628,811)**	(8,268,648)	**(1,766,298)**	(1,945,925)
Recharge of expenses incurred on the branch's behalf:				
MHA	**(2,711,589)**	(2,993,352)	**-**	-
Transactions on normal commercial terms and conditions in respect of expenses:				
MR-AG	**(216,034)**	(222,860)	**-**	-

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.

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

EY:	2021 $	2020 $
Audit and review of financial reports under the Financial Markets Conduct Act 2013	**23,426**	23,823
Total remuneration for audit services	**23,426**	23,823

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 Branch is not expected to early adopt the standard.

NZ IFRS 17 *Insurance Contracts* establishes globally consistent principles such as contracts affected, realistic assumptions, group of contracts, separating components, measurement model and risk adjustment. These key principle are discussed below and will impact the recognition, measurement, presentation and disclosure of life insurance and reinsurance contracts issued. NZ IFRS 17 introduces changes to the profit emergence profiles of life insurance contracts but does not affect the underlying 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 Branch's progress in implementing NZ IFRS 17 is summarised as follows:

- During the financial year ending 31 December 2021, the Branch has continued to develop and test the systems and processes to finalise the IFRS 17 platform. Observations from these test runs are being worked through and will integrate into the final system design. The project is on track and the live transition runs will be performed in 2022.
- *Contracts affected*: the Branch expects that all contracts classified as insurance contracts under NZ IFRS 4 will meet the definition of insurance contracts under NZ IFRS 17.
- *Realistic assumptions*: the valuation of the insurance contract liabilities are based on realistic cash flows at the time of the testing period. This reflects assumptions for past experience, market conditions and model changes.
- *Group of Contracts*: contracts are grouped on the basis of having similar risks and being managed together. The Branch has finalised its Group of Contract structure.
- *Separating components*: non-distinct investment components have been identified and accounted for separately.
- *Measurement Model*: the Branch will adopt the General Measurement Model (GMM). The GMM is a new measurement model under NZ IFRS 17 which will provide information about the expected cash flows and profitability of insurance contracts.
- *Risk Adjustment*: this reflects the uncertainty of the cash flows arising from non-financial risk. The cost of capital approach has been adopted to value the insurance contract liabilities.
- The Branch has finalised a number of decisions relating to transition methodology and subsequent measurement. However, financial impacts flowing from the new valuation and financial systems remain uncertain. The Branch has recently commenced transition activities for the comparative period, however the NZ IFRS 17 results cannot be reasonably estimated as at the balance date. Local reporting tests and transition activities will commence in the latter half of 2022.
- The Company is likely to disclose a range of quantitative impacts of NZ IFRS 17 in the 2022 annual financial statement.
- 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 financials statements of Munich Reinsurance Company of Australasia Limited – New Zealand Branch for the year ended 31 December 2021.

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 26:

(a) comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Branch as at 31 December 2021 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 24 March 2022 in accordance with a resolution of the Directors:

J B Shewan Director	N Carro Director

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Independent auditor's report to the Shareholders of Munich Reinsurance Company of Australasia Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of the New Zealand Branch ("the Branch") Munich Reinsurance Company of Australasia Limited ("the Company") which comprise the statement of financial position of the Branch as at 31 December 2021, 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 present fairly, in all material respects, the financial position of the Branch as at 31 December 2021 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 its 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.

Ernst & Young provides taxation and other assurance related services to the Branch. Partners and employees of our firm may deal with the Branch on normal terms within the ordinary course of trading activities of the business of the Branch. We have no other relationship with, or interest in, the Branch.

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.

Building a better working world

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	How our audit addressed the key audit matter
Reinsurance contract liabilities total $131m and represent 65% of total liabilities at 31 December 2021 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.	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 International Financial Reporting 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 statements 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 of the Company 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 Branch'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 Branch 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 Louise Burns.

Ernst & Young

Ernst & Young
Sydney
24 March 2022