GENERAL REINSURANCE AUSTRALIA LTD

NEW ZEALAND BRANCH

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

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CONTENTS

DIRECTORS' REPORT

The Directors are pleased to present the financial statements of General Reinsurance Australia Ltd - New Zealand Branch for the year ended 31 December 2012.

No disclosure has been made in respect of s211 (a) and (e) to (j) of the Companies Act 1993 following a unanimous decision by the shareholders in accordance with s211 (3) of the Act.

The Directors are responsible for the preparation, in accordance with New Zealand Law and generally accepted accounting practice, of financial statements which give a true and fair view of the financial position of General Reinsurance Australia Ltd - New Zealand Branch as at 31 December 2012 and the results of its operations for the year ended 31 December 2012.

The Directors consider that the financial statements of the Branch have been prepared using accounting policies appropriate to the branch's circumstances, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable New Zealand Equivalents to International Financial Reporting Standards have been followed.

The Directors have responsibility for the maintenance of a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting. The Directors consider that adequate steps have been taken to safeguard the assets of the Branch and to prevent and detect fraud and other irregularities.

Directors

The Directors of the company in office at the date of this report are:

F Allan McDonald (Chairman)
A Giffen Brown
I John Cholnoky
Kathryn J McCann
Pietro Toffanello (1 January 2012)

Events Subsequent to Balance Date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the company, to affect significantly the operations of the Company, in subsequent years.

Signed for and on behalf of the Board of Directors who authorised the issue of these financial statements in Sydney, Australia on 22 March 2013.

Director F Allan McDonald

Director Pietro Toffanello

Sydney, 22 March 2013

STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	Note	2012 $	2011 $
Premium revenue	5(a)	19,185,420	16,769,988
Outwards reinsurance expense		(12,755,589)	(5,180,889)
Net premium revenue		**6,429,831**	**11,589,099**
Claims expense		102,272,239	112,866,659
Reinsurance and other recoveries	5(a)	(48,230,293)	(77,285,181)
Net claims incurred		**54,041,946**	**35,581,478**
Acquisition costs		(2,658,558)	(1,670,686)
General and administration expenses	5(c)	(3,718,454)	(3,482,298)
Underwriting result		**(53,989,127)**	**(29,145,362)**
Net investment income	5(b)	**3,105,978**	**6,746,142**
Loss from ordinary activities before income tax benefit		**(50,883,149)**	**(22,399,221)**
Income tax benefit on loss from continuing operations	6(a)	11,812,899	5,610,466
Net loss		**(39,070,250)**	**(16,788,755)**
Other comprehensive income		**-**	**-**
Total comprehensive income for the year attributable to the members of General Reinsurance Australia Ltd.		**(39,070,250)**	**(16,788,755)**

This Statement of Comprehensive Income is to be read in conjunction with the notes to and forming part of the financial statements.

STATEMENT OF MOVEMENTS IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 $	2011 $
Head Office balance as at 1 January	**17,724,539**	**33,075,558**
Comprehensive loss	(39,070,250)	(16,788,755)
Cash settlements	40,660,162	1,437,736
Head Office balance as at 31 December	**19,314,451**	**17,724,539**

This Statement of Movement in Equity is to be read in conjunction with the notes to and forming part of the financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

	Note	2012 $	2011 $
Assets			
Cash and cash equivalents	7	4,059,150	8,780,826
Trade receivables	8	8,523,436	10,991,467
Reinsurance recoverable	11	106,346,043	79,254,022
Other assets	10	824,634	2,794,769
Investments	9	91,163,562	78,906,241
Deferred income tax	6(b)	20,419,451	4,734,198
Total Assets		**231,336,276**	**185,461,523**
Liabilities			
Outstanding claims	12	196,290,405	154,467,627
Unearned premium	12	11,899,518	11,706,845
Accruals and other liabilities	13	3,831,902	1,562,512
Total Liabilities		**212,021,825**	**167,736,984**
Net Assets		**19,314,451**	17,724,539
Equity			
Head Office Account		19,314,451	17,724,539
Total Equity		**19,314,451**	**17,724,539**

This Statement of Financial Position is to be read in conjunction with the notes to and forming part of the financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS *FOR THE YEAR ENDED 31 DECEMBER 2012*

1 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

These general purpose financial statements cover General Reinsurance Australia Ltd - New Zealand Branch (the Branch). The Branch is domiciled in New Zealand, registered address at 205 Queen Street, Auckland. The Branch is a reporting entity for the purposes of the Financial Reporting Act 1993.

As a single entity that operates in the reinsurance industry, the financial statements have been prepared in accordance with the Financial Reporting Act 1993 and New Zealand Equivalents to International Financial Reporting Standards Reporting standards (NZ IFRS), and its interpretations as appropriate to profit-oriented entities that qualify for and apply Differential Reporting concessions.

The Branch qualifies for Differential Reporting exemptions as it has no public accountability, and at balance date, there is no separation between the owners and governing body. All available Differential Reporting exemptions allowed under the framework for Differential Reporting have been adopted except for:

- the exemption under NZ IAS 18 - Revenue, allowing the recording of revenue and expense inclusive of GST;
- the exemption under NZ IAS 21 - The effects of Changes in Foreign Exchange Rates, allowing the measurement of transactions in foreign currencies at the settlement rate;
- the exemption under NZ IAS 12 - Income Tax; and
- certain disclosure exemptions.

These financial statements were authorised for issue by the directors on 22 March 2013.

These financial statements are prepared in accordance with the fair value basis of accounting with certain exceptions as described in the accounting policies below.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Branch's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements have been disclosed in Note 2.

The functional and presentation currency is New Zealand dollars.

The New Zealand Branch is part of General Reinsurance Australia Ltd which is incorporated in Australia. The assets of the Branch are legally available for the satisfaction of debts of the entire company, not solely those appearing on the accompanying Statement of Financial Position and its debts may result in claims against assets not appearing thereon.

1 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

A General Accounting Policies

The general accounting policies recognised as appropriate for the measurement and reporting of results and the financial position have been followed in the preparation of these financial statements. The historical cost method has been followed except in the case of investments integral to insurance operations, which are reported at net market values and provisions for outstanding claims, which have been valued at the present value of future payments as required by NZ IFRS 4.

B Branch Assets

The Branch is part of General Reinsurance Australia Ltd. The assets of the Branch are legally available for the satisfaction of debts of the entire company, not solely those appearing on the Branch's Statement of Financial Position. The debts of the Branch may result in claims against the entire company's assets, not solely the assets presented on the Branch's Statement of Financial Position.

C Specific Accounting Policies

The following specific accounting policies, which significantly affect the financial performance and financial position have been applied:

(a) Property, Plant and Equipment

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended use.

(b) Depreciation

Depreciation is calculated on a straight line basis so as to write off the cost of property, plant and equipment over their estimated effective working lives. Furniture and equipment are written off over a period of between 3 years and 5 years. All fixed assets with individual residual values less than $15,000 have been written off during the year and included within depreciation.

(c) Investments and Receivables

All investments are integral to insurance operations. Investments are measured at fair value at each balance date. Fair value is determined by reference to market quotations. Realised gains and losses and movements in unrealised gains and losses are included within the Statement of Comprehensive Income as part of investment income. Interest income is accounted for as earned. The majority of the portfolio is invested in highly liquid government bonds. Trade receivables are initially valued at fair value and are subsequently measured at amortised cost. Provision for doubtful debts is recognised when collection is doubtful.

(d) Impairment of Financial Assets

Financial assets, other than those at measured at fair value, are assessed for indicators of impairment at each balance date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

1 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

(d) Impairment of Financial Assets (Continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. A trade receivable is deemed to be uncollectible upon notification of insolvency of the debtor or upon receipt of similar evidence that the Branch will be unable to collect the trade receivable. Changes in the carrying amount of the allowance account are recognised in profit or loss. Subsequent recoveries of trade receivables previously written off are credited against the account.

(e) Premiums

Inwards reinsurance premium comprises amounts charged to the cedant, excluding amounts collected on behalf of third parties. The earned portion of premiums received and receivable is recognised as revenue. Premiums in relation to unclosed business have been brought to account and are based on historical data.

(f) Unearned premiums

Unearned premiums are earned over the period of indemnity in accordance with the pattern of the incidence of risk expected under the contract.

(g) Liability adequacy test

The liability adequacy test is an assessment of whether the carrying amount of the unearned premium liability is adequate and is conducted at each balance date. If current estimates of the expected future cash flows relating to future claims arising from the rights and obligations under current general insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate, exceed the unearned premium liability then the unearned premium liability is deemed to be deficient. The test is performed at the level of a portfolio of contracts that are subject to broadly similar risks and that are managed together as a single portfolio. Any deficiency arising from the test is recognised in the Statement of Comprehensive Income, with the corresponding impact on the Statement of Financial Position.

(h) Salaries and Annual Leave

Liabilities for salaries and annual leave are recognised and are measured as the amount unpaid at the balance date at current pay rates in respect of employees’ services up to that date.

(i) Outstanding Claims

Provision is made for the best estimated cost of all unsettled claims. The provision includes an estimate, based on past experience, of the cost of unreported claims and their expected settlement costs. The outstanding claims liability includes the effect of inflation on the ultimate claim size and is discounted for investment income using a market risk related return. The details of the inflation and discount rates applied are included in Note 12.

(j) Outwards Reinsurance

Premiums ceded to retrocessionaires are recognised as an expense in accordance with the pattern of reinsurance service rendered. Accordingly, a portion of outward reinsurance premiums is treated as a prepayment at the balance date, where appropriate.

1 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

(k) ***Reinsurance and Other Recoveries Receivable***

Reinsurance and other recoveries receivable on paid and outstanding claims are recognised as revenue. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims. The details of the inflation and discount rates applied are included in Note 12.

(l) ***Income tax***

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the balance date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items. In principle, deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance date.

(m) ***Operating Leases***

Operating lease payments are charged to the Statement of Comprehensive Income in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

(n) ***Foreign Currency***

Foreign currency transactions are translated to New Zealand dollars at the rates of exchange ruling at the date of the transactions. Amounts receivable and payable in foreign currencies are translated at the rates of exchange ruling at the balance date. Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account in the Statement of Comprehensive Income in the financial year in which the exchange rates change, as exchange gains or losses.

2 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The branch makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates are applied are described below.

All the Branch's assets are available to support the Branch's insurance liabilities.

The ultimate liability arising from claims made under insurance contracts

Provision is made at the balance date for the estimated cost of claims incurred but not settled at the Statement of Financial Position date, including the cost of claims incurred but not yet reported to the Branch.

The estimated cost of claims includes direct expenses to be incurred in settling the claims gross of the expected value of salvage and other recoveries. The Branch takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ('IBNR') is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Branch, where more information about the claim event is generally available. IBNR claims may often not be apparent to the insured until many years after the events giving rise to the claims has happened. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- Changes in Branch processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics of previous periods
- Changes in the legal environment
- The effects of inflation
- Changes in the mix of business
- The impact of large losses
- Movements in industry benchmarks
- Medical and technological developments

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these claims, the Branch has regard to the claim circumstance as reported, and information about the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

2 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions. Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in Note 3.

Assets from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure the balance is reflective of the amounts that will ultimately be recovered.

3 ACTUARIAL ASSUMPTIONS AND METHODS

The Branch writes Facultative and Treaty (both proportional and non-proportional) reinsurance covers for Property and Casualty lines of business, and Treaty Marine business.

Actuarial assumptions

The Branch's business is valued using the same assumptions as its Head Office. The business is subdivided into 24 reserving groups for the purposes of calculating IBNR reserves. For each underwriting year of each reserving group, the main assumptions required by the reserving methodology (Bornhuetter-Ferguson) are: the proportion of claims (by amount) still to be reported; and the (run-off) loss ratio at which future claims are expected to be reported.

These assumptions are selected based on past development patterns of incurred claims and loss ratios, and with consideration given to recent years' pricing practices. Claims inflation is intrinsically allowed for in this process, so projected payments only need to be discounted to allow for the time value of money and loaded for claims handling expenses.

Weighted Average Reporting Time

This is not a reserving assumption, but it does provide an indication of the speed at which claims are assumed to be reported. For the Branch's major categories of business, weighted by expected ultimate premiums for the underwriting year, these were (in years):

	2012	2011
Facultative, Property:	1.09	1.09
Facultative, Casualty:	1.65	1.92
Proportional Treaty, Property & Marine:	1.10	N/A
Proportional Treaty, Casualty:	N/A	N/A
Non-proportional Treaty, Property & Marine:	0.80	0.75
Non-proportional Treaty, Casualty:	4.49	4.63

3 ACTUARIAL ASSUMPTIONS AND METHODS (Continued)

Run-off Loss Ratios

These were selected having regard to emerging experience for older underwriting years and to the pricing levels and conditions achieved in more recent underwriting years (where experience to date may not yet be sufficiently reliable, particularly for long-tailed lines of business).

Expense Ratio

A 1% loading for claims handling expenses is supported by analysis of the current level of the Branch's Claims department expenses viz-a-viz the level and duration of unpaid liabilities.

Discount Rates

The discount rates were based on market yields on Australian Commonwealth Government securities as at the balance date and varied according to the expected year of payment of the claims liabilities. The weighted average discount rate was 2.86% (2011: 3.44%).

Sensitivity Analysis

The sensitivity of the Branch's profit and equity to key liability valuation assumptions is tabulated below:

		Underwriting loss before retrocessions ($)	Net Loss ($)	Equity ($)
Recognised amount per Financial Statements		(89,463,831)	(39,070,250)	19,314,451
Variable	**Movement in variable**			
Run-off	+10%	(91,298,262)	(40,394,828)	17,989,873
Loss Ratios	-10%	(87,629,724)	(37,743,767)	20,640,934
Expense Rate	+0.5%	(90,389,159)	(39,714,677)	18,670,024
	-0.5%	(88,539,507)	(38,424,382)	19,960,319
Discount Rate	+1%	(85,969,117)	(37,658,918)	20,725,783
	-1%	(93,131,196)	(40,566,877)	17,817,824

Risk Margin

There are many sources of uncertainty as to the eventual (final) values of outstanding claims, including but not restricted to: quality of data used in the valuation; appropriateness of the valuation model and assumptions; impact of past legislative reform; future legislative changes; and future economic and environmental factors. The risk margin increases the Branch's reserves to a level that is intended to have a 75% probability of adequacy. The assumptions regarding uncertainty for each line of business are applied to the central estimates, and the results were aggregated, allowing for diversification between different lines of business.

3 ACTUARIAL ASSUMPTIONS AND METHODS (Continued)

The risk margins applied to the Branch's major categories of business were:

	2012	2011
Facultative, Property & Marine:	7.3%	7.6%
Facultative, Casualty:	13.6%	15.0%
Proportional Treaty, Property & Marine:	9.7%	8.8%
Proportional Treaty, Casualty:	20.7%	19.4%
Non-proportional Treaty, Property & Marine:	2.9%	11.6%
Non-proportional Treaty, Casualty:	13.7%	15.2%

The lower percentage applied to the Non-proportional Treaty Property & Marine book was due to an increase in reserves for catastrophe events such that some treaty limits are assumed to be fully utilised, hence the reduced need for an additional risk margin.

The higher percentage applied to the Proportional Treaty Casualty book is due to the relatively small size of the portfolio, which goes hand-in-hand with greater uncertainty as to what the ultimate outcome will be.

4 INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES

(a) The financial condition and operations of the Branch are affected by a number of key risks including insurance risk, interest rate risk, currency risk, credit risk, market risk, liquidity risk, financial risk, compliance risk, fiscal risk and operational risk. Notes on the Branch's policies and procedures in respect of managing these risks are set out in this note.

On 16 January 2012 Gen Re Australia was issued with a Provisional License under the Insurance (Prudential Supervision) Act 2010. The licence allows an exemption for GRA to report solvency under APRA rather than under the RBNZ solvency standards. GRA is required to maintain a solvency margin, calculated in accordance with the Australian equivalent of the "Solvency Standard for Non-Life Insurance Business" and to notify the RBNZ if it carries on insurance business in New Zealand that is not reinsurance.

Objectives in managing risks arising from insurance contracts and policies for mitigating those risks

The Branch has an objective to control insurance risk thus minimizing substantial unexpected losses that would expose the Branch to an adverse financial capital loss.

In accordance with Prudential Standards GPS 220 - *Risk Management* and GPS 230 - *Reinsurance Management* issued by the Australian Prudential Regulation Authority (APRA), the Board and senior management of the company have developed, implemented and maintain a sound and prudent Risk Management Strategy (RMS) and a Reinsurance Management Strategy (REMS). This also applies to the operations of the Branch.

The RMS and REMS identify the Branch policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the Branch. The RMS and REMS have been approved by the Board of General

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS *FOR THE YEAR ENDED 31 DECEMBER 2012*

4 INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES (Continued)

Reinsurance Australia Ltd. Key aspects of the processes established in the RMS to mitigate risks include:

- The maintenance and use of sophisticated management information systems, which provide up to date, reliable data on the risks to which the business is exposed at any point in time.
- Actuarial models, using information from the management information systems, are used to calculated premiums and monitor claims patterns. Past experience and statistical methods are used as part of the process.
- Documented procedures are followed for underwriting and accepting insurance risks.
- Reinsurance is used to limit the branch's exposure to large single claims and catastrophes.
- The mix of assets in which the Branch invests is driven by the nature and term of insurance liabilities. The management of assets and liabilities is closely monitored to attempt to match the maturity dates of assets with the expected pattern of claim payments.
- The diversification of business over classes within the reinsurance portfolio, separate geographical segments and large numbers of uncorrelated individual risks seeks to reduce variability in loss experience.

(b) Interest Rate Risk

None of the financial assets or liabilities arising from insurance or reinsurance contracts entered into by the branch are directly exposed to interest rate risk. Insurance and reinsurance contracts are entered into annually. At the time of entering into the contract, all terms and conditions are negotiable or, in the case of renewals, renegotiable.

(c) Credit Risk

Financial assets or liabilities arising from reinsurance contracts are stated in the Statement of Financial Position at the amount that best represents the maximum credit risk exposure at the balance date. There are no significant concentrations of credit risk.

(d) Terms and Conditions of Reinsurance Business

The terms and conditions attaching to reinsurance contracts affect the level of insurance risk accepted by the Branch. All reinsurance contracts are subject to pre-determined capacity limits and underwriting guidelines and authorities. There are no special terms and conditions in any non-standard contracts that have a material impact on the financial statements.

(e) Concentration of Insurance Risk

The Branch's exposure to concentrations of insurance risk is mitigated by a portfolio diversified into two classes of business (Treaty and Facultative) written out of New Zealand. The portfolio is controlled and monitored through the Branch's Risk Management Strategy and Framework. This includes identifying and mitigating the concentrations of insurance risk by reviewing the type of insured event and also the geographical area of the risk. The Branch utilises a retrocession arrangement with its immediate parent (General Reinsurance Corporation) to limit its exposure to risks.

5 NET LOSS

Net loss before income tax is arrived at after crediting and charging the following specific items:

	2012 $	2011 $
(a) General insurance revenue		
Gross written premiums	19,502,938	19,448,539
Movement in unearned premiums	(317,518)	(2,678,551)
Premium revenue	19,185,420	16,769,988
Reinsurance and other recoveries	48,230,293	77,285,181
	67,415,713	94,055,169
(b) Investment income		
Interest	5,035,706	4,598,048
Changes in fair values	(1,803,776)	2,195,526
Expenses	(61,230)	(51,990)
Unrealised exchange gain/(loss)	(64,722)	4,548
	3,105,978	6,746,142
(c) Management expenses		
Included in management expenses are:		
Other expenses of management	4,449,445	3,734,584
Exchange variances – (losses)/gains	(811,227)	(330,383)
Lease expenses	80,236	78,097
	3,718,454	3,482,298

Audit fees and Directors' emoluments are borne as part of head office overheads and are not separately charged to the New Zealand Branch. The Branch's auditor is Deloitte, Christchurch, NZ.

6 INCOME TAX

(a) Income tax benefit

The prima facie income tax benefit on the pre-tax operating loss is reconciled to the current income tax benefit shown in the Statement of Comprehensive Income as follows:

	2012	2011
Net loss before income tax	(50,883,149)	(22,399,221)
Prima facie income tax thereon @ 28% (2011: 28%)	(14,247,282)	(6,271,782)
Permanent differences	7,719	3,981
Effect of change in tax rate	-	60,491
Prior year under/(over) provision	2,426,664	596,844
Total income tax benefit	(11,812,899)	(5,610,466)
Consisting of:		
Current tax benefit	3,872,355	(1,783,639)
Deferred tax benefit	(15,685,254)	(3,826,827)
	(11,812,899)	(5,610,466)

(b) Deferred tax

At 31 December, the deferred income tax asset comprises:

	2012	2011
Timing differences based on 28% tax rate (2011: 28%)	20,419,451	4,734,198

	Opening Balance $	Credited to Income $	Closing Balance $
2012 Temporary differences			
Plant and equipment	4,511	(4,511)	-
Provisions	-	58,112	58,112
Accruals and other liabilities	(59,902)	(545,153)	(605,055)
Tax loss	4,796,404	14,191,755	18,988,159
Prepayments	(6,815)	1,985,050	1,978,235
	4,734,198	15,685,253	20,419,451
2011 Temporary differences			
Plant and equipment	6,393	(1,882)	4,511
Provisions	38,787	(38,787)	-
Accruals and other liabilities	23,719	(83,621)	(59,902)
Tax loss	948,667	3,847,737	4,796,404
Prepayments	(110,195)	103,380	(6,815)
	907,371	3,826,827	4,734,198

6 INCOME TAX (Continued)

Losses of $5,581,893 (2011: $5,433,200) have been utilised by General Reinsurance Life Australia Ltd – New Zealand Branch, and the company will be reimbursed the tax value thereof.

	2012	2011
7 CASH AND CASH EQUIVALENTS	$	$
Cash on hand and at bank	3,553,544	2,038,286
Cash on deposit	505,606	6,742,538
	4,059,150	8,780,826

8 TRADE RECEIVABLES

Trade debtors	8,523,436	10,991,467

9 INVESTMENTS

Fixed interest securities	91,163,562	78,906,241

The Branch has deposited with the Public Trust of New Zealand, New Zealand government securities with a face value of $500,000 which are held as security for the Branch's cedants as required by the Insurance Companies Deposit Act 1953.

10 OTHER ASSETS

Accrued income	816,570	865,195
Deferred acquisition costs	-	13,000
Current tax recoverable	-	1,842,433
Other	8,064	74,141
	824,634	2,794,769

Other Assets – Other includes fixed assets and a make good asset net of accumulated amortisation. The fixed assets have been fully depreciated

11 REINSURANCE RECOVERIES	106,346,043	79,254,022

12 OUTSTANDING CLAIMS

Gross outstanding claims	186,812,874	147,911,071
Unexpired risk liability	7,216,550	5,313,715
Risk margin	12,561,959	12,731,035
Discount to present value	(10,300,978)	(11,488,194)
	196,290,405	154,467,627

12 OUTSTANDING CLAIMS (Continued)

	2012	2011
The following average discount rates were used in the measurement of outstanding claims:		
- for the current and succeeding years: discount rate	2.86%	3.44%

The inflation rate is implicit in the underlying statistics. The weighted average term to settlement for the outstanding claims provisions is approximately 2.08 years (2011: 2.51 years). The drop in the expected time to settlement is because the increase in outstanding claims was driven by catastrophe losses, which are usually settled quicker than liability claims, for example.

Actuarial assessments of the provision for outstanding claims and discounting have been made by Ms Siu Yin Liu, Business Unit Chief Actuary, General Reinsurance Australia Ltd; Fellow of the Institute of Actuaries; Fellow of the Institute of Actuaries of Australia, on behalf of the parent entity as of 31 December 2012. There were no qualifications in the Chief Actuary's report. The Actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability.

Net undiscounted outstanding claims for the nine most recent accident years

	2004 $M	2005 $M	2006 $M	2007 $M	2008 $M	2009 $M	2010 $M	2011 $M	2012 $M	Total $M
Estimate of net ultimate claims cost:										
At end of accident year	12	12	12	13	15	17	15	29	17	
One year later	12	11	13	13	19	15	20	52		
Two years later	12	11	12	14	17	15	29			
Three years later	12	10	12	13	17	14				
Four years later	9	9	13	12	16					
Five years later	9	9	12	12						
Six years later	8	8	12							
Seven years later	8	8								
Eight years later	8									
Current estimate of net cumulative claims cost	8	8	12	12	16	14	29	52	17	
Cumulative net payments	(7)	(7)	(10)	(9)	(13)	(11)	(9)	(21)	(0)	
Net undiscounted outstanding claims for the nine most recent accident years	1	1	2	3	3	2	20	31	16	79

12 OUTSTANDING CLAIMS (Continued)

Reconciliation of net undiscounted outstanding claims for the nine most recent accident years to net outstanding claims

	Total $M
Net undiscounted outstanding claims for the 9 most recent accident years	79
Outstanding claims – accident years 2003 and prior	2
Claims handling costs	2
Discount to present value	(6)
Risk margin	6
Unexpired risk liability	7
Net outstanding claims	90

The probability of sufficiency ("POS") adopted in performing the liability adequacy test was set at the 75th percentile, which is the same as that adopted in determining the outstanding claims liabilities ("OCL"). The POS for OCL is set at a level that is appropriate and sustainable to cover the Company's and the Group's claims obligations after having regard to the prevailing market environment and prudent industry practice.

	2012 $	2011 $
UNEARNED PREMIUM		
Balance as at 1 January 2012	11,706,845	9,030,415
Deferral of premium on contracts written in the period	11,899,518	11,706,845
Earning of premiums written	(11,706,845)	(9,030,415)
Balance as at 31 December 2012	11,899,518	11,706,845

13 ACCRUALS AND OTHER LIABILITIES

Sundry creditors and accruals	1,032,649	112,936
Profit commission payable	14,584	24,937
Annual leave	61,604	49,288
Income taxation payable	2,430,819	-
Other taxes	292,246	1,375,351
	3,831,902	1,562,512

14 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

There are no capital commitments or contingent liabilities as at 31 December 2012 (2011 - Nil)

15 CONTINGENT ASSETS, COMMITEMENTS AND CONTINGENT LIABILITIES

Leases

The company has office space and equipment rental commitments in respect of non-cancellable operating leases not provided for in the financial statements and due in:

Not later than one year	69,816	70,200
Later than one year but not later than five years	315,264	280,800
Greater than five years	-	70,200
	385,080	421,200

16 RELATED PARTY TRANSACTIONS

Material transactions have occurred during the year ended 31 December 2012 with related parties:

(i) Retrocessional transactions have been charged to the Branch by General Reinsurance Australia Ltd (the Head Office). These amounts ultimately are payable to General Reinsurance Corporation and total $12,514,635 (2011: $5,180,889)

(ii) Management fees have been charged to the Branch by General Reinsurance Australia Ltd (the Head Office) to cover operational and management costs incurred in relation to the Branch totalling $3,683,435 (2011: $3,112,617)

(iii) Investment management fees have been charged to the branch by GR-NEAM Dublin Ltd, for investment management services provided, amounting to $18,608 (2011: $37,403).

The entity is a Branch of General Reinsurance Australia Ltd, which is a wholly owned subsidiary of General Reinsurance Corporation.

The ultimate parent entity is Berkshire Hathaway Inc. of Omaha, Nebraska, USA.

17 BUSINESS ACTIVITIES

The principal activity of the branch is reinsurance underwriting. There has been no significant change in the nature of this activity during the year.

18 CREDIT RATING

General Reinsurance Australia Ltd has a “AA+” credit rating from Standard and Poor’s (rating dated February 2013).

20 ADDITIONAL INFORMATION

	2012	2011
Number of employees	3	3

21 CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

All financial assets, except investments which are carried at fair value, are classified as loans and receivables and all financial liabilities are classified as financial liabilities measured at amortised cost. The total carrying amount of loans and receivables is $12,582,586 (2011: $19,772,293). This consists of cash and cash equivalents and trade receivables. The total carrying amount of financial liabilities measured at amortised cost is $3,831,902 (2011: $1,562,512). This consists of amounts due to related parties and accruals and other liabilities.

22 EVENTS SUBSEQUENT TO BALANCE DATE

There are no events subsequent to balance date which materially impacts the financial information disclosed herein.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS

OF GENERAL REINSURANCE AUSTRALIA LTD – NEW ZEALAND BRANCH

Deloitte.

Report on the Financial Statements

We have audited the financial statements of General Reinsurance Australia Ltd – New Zealand branch on pages 4 to 21, which comprise the statement of financial position as at 31 December 2012, statement of comprehensive income and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of financial statements, in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, 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.

Auditor's Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates, as well as the overall presentation of the financial statements.

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

Other than in our capacity as auditor, we have no relationship with or interests in General Reinsurance Australia Ltd – New Zealand branch.

Opinion

In our opinion, the financial statements of General Reinsurance Australia Ltd – New Zealand branch:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of General Reinsurance Australia Ltd – New Zealand branch as at 31 December 2012, and its financial performance for the year ended on that date.

Emphasis of Matter

The New Zealand branch is part of General Reinsurance Australia Ltd, which is incorporated in Australia. As described in Note 1 the assets of the branch are legally available for the satisfaction of debts of the entire company, not solely those appearing on the accompanying Statement of Financial Position and its debts may result in claims against assets not appearing thereon. Our opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

We also report in accordance with section 16 of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 December 2012:

- we have obtained all the information and explanations we have required; and
- in our opinion proper accounting records have been kept by General Reinsurance Australia Ltd – New Zealand branch as far as appears from our examination of those records.

Deloitte

Chartered Accountants
22 March 2013
Christchurch, New Zealand