



General Reinsurance Australia Ltd.
New Zealand Branch

Financial Report
for the Financial Year ended
31 December 2014

A Berkshire Hathaway Company

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DIRECTORS' REPORT

The Directors present their report together with the annual financial report for the financial year ended 31 December 2014 and the auditor's report thereon. The New Zealand Branch (the Branch) is a foreign operation of General Reinsurance Australia Ltd (the Company) incorporated in Australia.

Directors

The Directors of the Company during or since the end of the financial year are:

F Allan McDonald, Chairman
 A Giffen Brown (ceased 29 Mar 2014)
 Kathryn J McCann
 Mark Phillips (commenced 1 January 2014)
 William G Gasdaska
 Pietro A Toffanello

<i>Name and qualifications</i>	<i>Age</i>	<i>Experience and special responsibilities</i>
<p>F Allan McDonald B.Ec, FCPA, FGIA, FAIM - Chairperson - Non-Executive Director - Member of Board Audit Committee - Member of Board Risk Committee - Member of Board Remuneration Committee</p>	75	Mr. McDonald is also a director of Astro Japan Property Group Limited, General Reinsurance Life Australia Ltd and Brookfield Capital Management Limited. He has 49 years' industry experience, has been a director of General Reinsurance Australia Ltd since May 1981 and was appointed as Chairman in May 1992. He is also a member of the Board Audit, Risk and Remuneration Committees.
<p>Kathryn J McCann B.App.Sci (Computing Science), MBA, MAICD - Non-Executive Director - Member of Board Audit Committee - Member of Board Risk Committee - Chair of Board Remuneration Committee</p>	53	Ms. McCann has 30 years' experience in the finance and business management industry. She is a director of Astro Japan Property Group Limited and General Reinsurance Life Australia Ltd. She holds a Master of Business Administration degree and held the position of Principal of a major management consulting firm up to 2002. Director since August 2006 and a member of the Board Audit Committee since November 2006. She has also been the Chair of the Remuneration Committee since March 2010.
<p>Mark Philips B. Com, M. Com - Non-Executive Director - Chair of Board Audit Committee - Chair of Board Risk Committee - Member of Board Remuneration Committee</p>	54	Mr Phillips worked for over twenty years at the Commonwealth Bank of Australia, where he was instrumental in the development of a range of new business divisions. This included divisions involving securities and derivatives trading, infrastructure finance, property lending and financing of state and federal governments. He subsequently held Managing Director roles with listed financial services businesses. He was appointed to the Board of General Reinsurance Australia Ltd in January 2014 and became a member of the Board Audit and Board Remuneration Committees at the same time. He was appointed as Chair of the Board Audit Committee in May 2014 and Chair of the Board Risk Committee in November 2014.

DIRECTORS' REPORT (continued)

<i>Name and qualifications</i>	<i>Age</i>	<i>Experience and special responsibilities</i>
<p>William G Gasdaska - Non-executive Director</p>	56	<p>Mr. Gasdaska joined the Group Finance Division of General Reinsurance Corporation in 1987 as an Assistant Vice President. The following year he was promoted to Second Vice President, responsible for the Cash Management and Investment Accounting units. In 1989, he transferred to Engineering Insurance Group, General Re's previous joint venture with Hartford Steam Boiler, to serve as controller. He returned to the Group in 1990 to assume the position of Vice President and Chief Accountant for General Re Financial Products Corporation (GRFP). Mr. Gasdaska was promoted to Managing Director responsible for the management of Global Operations for GRFP. He also served as a member of GRFP's Management Committee. In July 2003, Mr. Gasdaska was promoted to Chief Financial Officer of General Reinsurance Corporation and is a member of the Company's Executive Committee. He was promoted to Executive Vice President of General Re Corporation in January 2015.</p>
<p>Pietro A Toffanello B.BA & Ec - Managing Director</p>	46	<p>Mr. Toffanello has worked for the group since 1994. During the course of his over twenty years with Gen Re, he has held several underwriting and management positions in Europe and Asia Pacific. In 2008 he was promoted to the position of Regional Manager for the group's Global Property Facultative operations in Europe Middle East and Africa. He was appointed to the GRA Board effective 1 January 2012 and is currently the Regional Manager for Gen Re's Property and Casualty business in Asia Pacific. Since 2013 Mr. Toffanello is a Board member of the Insurance Council of New Zealand.</p>

Meetings of directors

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the directors of the Company during the financial year ended 31 December 2014 are:

<i>Director</i>	<i>Directors' Meetings</i>		<i>Board Audit Committee</i>		<i>Board Remuneration Committee</i>		<i>Board Risk Committee</i>	
	<i>A</i>	<i>B</i>	<i>A</i>	<i>B</i>	<i>A</i>	<i>B</i>	<i>A</i>	<i>B</i>
F Allan McDonald	4	5	3	3	2	3	1	1
A Giffen Brown	3	3	1	1	1	1	-	-
Kathryn J McCann	5	5	3	3	3	3	1	1
Mark Philips	5	5	3	3	3	3	1	1
William G Gasdaska	4	5	-	-	-	-	-	-
Pietro A Toffanello	5	5	-	-	-	-	-	-

A - The number of meetings attended.

B - The number of meetings held during the time the Director held office during the year.

DIRECTORS' REPORT (continued)

Company secretaries

Particulars of the qualifications and experience of each Company Secretary during or since the end of the financial year are set out hereunder:

<i>Name and qualifications</i>	<i>Age</i>	<i>Experience and special responsibilities</i>
Herman Beukes B.Com, CA, GDip FP	38	Mr. Beukes started his career in the auditing profession in 2000 at Deloitte & Touché in Pretoria, South Africa. He is a qualified South African Chartered Accountant and also completed a Post Graduate Diploma in Financial Planning at the University of Stellenbosch. He has been in the employment of the Gen Re group for 11 years, and prior to transferring to Australia spent 3 years as the Chief Financial Officer of the South African office. He was appointed as Chief Financial Officer effective 21 May 2012 and Company Secretary effective 1 July 2012.

Principal 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.

Review of operations

Operating Results

The net profit of the Branch for the year, after provision for income tax, amounted to \$14,358,493 compared with the 2013 profit of \$19,095,332.

State of affairs

In the opinion of the Directors there were no significant changes in the state of affairs of the Branch that occurred during the financial year under review not otherwise disclosed in this report or the financial statements or notes thereto.

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 Branch, to affect significantly the operations of the Branch, the results of those operations, or the state of affairs of the Branch in subsequent financial years.

Indemnification of officers and auditors

Each of the company directors is eligible for indemnification in accordance with the General Re Corporation by-laws. General Re Corporation is the holding entity of the Gen Re globally and is incorporated in the United States of America. No such indemnification was requested by or provided to any company director in 2014.

The company has not otherwise during or since the end of the financial year, except to the extent permitted by law and noted above, indemnified or agreed to indemnify, an officer or auditor of the company or of any state body corporate against liability incurred as such an officer or auditor.

Likely developments

There are no future developments in the normal operations of the Branch that require comment in this report other than the comments made under the Review of Operations. The directors do not consider there are any likely developments which will impact the operations of the Branch.

DIRECTORS' REPORT (continued)

Environmental regulation

This Branch is not subject to significant environmental regulation as the Branch operates solely in the financial services sector.

Disclosures

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.

Acknowledgements

The Directors wish to place on record their appreciation of the support given to our Branch by clients. In addition, the Directors take this opportunity to formally thank management and staff for their efforts throughout the year.

Approval

Signed in accordance with the resolution of Directors made pursuant to section 211(1)(k) of the Companies Act 1993.



F.A. McDonald
Chairman



P. Toffanello
Managing Director

Sydney, 17 March 2015

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

	Note	2014	2013
Premium revenue		19,166,844	22,205,293
Outwards reinsurance expense		<u>(2,543,871)</u>	<u>(3,459,364)</u>
Net premium revenue	5(a)	16,622,973	18,745,929
Claims expense		(4,726,501)	2,631,356
Reinsurance and other recoveries		<u>4,712,562</u>	<u>14,651,127</u>
Net claims incurred	5(c)	(13,939)	17,282,483
Acquisition cost		(650,095)	(663,377)
Unexpired risk liability		1,641,344	1,026,446
General and administration expenses	5(b)	<u>(4,582,502)</u>	<u>(8,768,469)</u>
Underwriting result		13,017,781	26,596,566
Net investment income	5(d)	3,425,909	584,606
Profit before income tax		16,443,690	27,181,172
Income tax expense on profit	6(a)	<u>(2,085,197)</u>	<u>(8,085,840)</u>
Net profit		14,358,493	19,095,332
Items that may be reclassified subsequently to profit/loss		-	-
Items that will not be reclassified subsequently to profit/loss		-	-
Other comprehensive income		-	-
Total comprehensive income for the year attributable to the members of the Company		14,358,493	19,095,332

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

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

For the financial year ended 31 December 2014	Head Office Account	Retained Earnings	Total
Balance at 1 January	36,483,559	(8,973,664)	27,509,895
Total comprehensive income for the year	-	14,358,493	14,358,493
Cash settlements	(26,483,559)	-	(26,483,559)
Balance at 31 December	<u>10,000,000</u>	<u>5,384,829</u>	<u>15,384,829</u>
For the financial year ended 31 December 2013	Head Office Account	Retained Earnings	Total
Balance at 1 January	48,409,893	(29,095,442)	19,314,451
Total comprehensive income for the year	-	20,121,778	20,121,778
Cash settlements	(11,926,334)	-	(11,926,334)
Balance at 31 December	<u>36,483,559</u>	<u>(8,973,664)</u>	<u>27,509,895</u>

This Statement of Changes 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 2014

	Note	2014	2013
Assets			
Cash and cash equivalents	7	5,448,204	7,546,773
Investments	11	45,187,988	75,837,514
Receivables	8	6,544,010	15,105,295
Reinsurance recoverable	9	68,962,203	79,493,648
Deposit with related party	18	15,994,890	-
Other assets	10	808,211	3,218,613
Deferred tax asset	6(b)	5,506,978	10,118,511
Total assets		148,452,484	191,320,354
Liabilities			
Outstanding claims	12	118,086,329	141,347,613
Unearned premiums	12	9,409,681	12,516,612
Unexpired risk liability	22	3,722,964	5,533,265
Provisions	13	87,670	115,310
Current tax liability		-	2,541,947
Other payables	14	1,761,011	1,755,712
Total liabilities		133,067,655	163,810,459
Net assets		15,384,829	27,509,895
Equity			
Head Office Account	15	10,000,000	36,483,559
Retained earnings		5,384,829	(8,973,664)
Total equity		15,384,829	27,509,895

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

STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

	Note	2014	2013
Cash flows from operating activities			
Premiums received		19,495,840	15,628,262
Outwards reinsurance paid		(2,543,871)	(3,464,192)
Claims paid		(27,024,126)	(41,347,169)
Reinsurance recoveries received		18,689,209	27,304,062
Other payments to employees and suppliers as part of operations		(2,202,031)	1,426,892
Interest received		4,978,599	4,638,352
Investment expenses paid		(82,632)	33,633
Income tax received/(paid)		(15,611)	148,693
Net cash (used in)/ from operating activities	19	11,295,377	4,368,533
Cash flows from investing activities			
Payments for purchase of investments		(10,400,623)	(26,472,361)
Proceeds from sale/maturity of investments		39,485,126	37,517,785
Deposit with related party		(15,994,890)	-
Net cash (used by)/provided by investing activities		13,089,613	11,045,424
Cash flows from financing activities			
Cash settlements of Head Office Account		(26,483,559)	(11,926,334)
Net cash provided by financing activities		(26,483,559)	(11,926,334)
Net increase/(decrease) in cash and cash equivalents during the financial year		(2,098,569)	3,487,623
Cash and cash equivalents at beginning of financial year		7,546,773	4,059,150
Exchange fluctuations on cash and cash equivalents held in foreign currencies		-	-
Cash and cash equivalents at end of financial year	7	5,448,204	7,546,773

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

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

1 SUMMARY OF ACCOUNTING POLICIES

Statement of compliance

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.

On 22 May 2013 the Branch became an issuer as required by the Insurance (Prudential Supervision) Act 2010.

The annual financial statements have been prepared in accordance with the Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). They fully comply with the New Zealand Equivalents of International Financial Reporting Standards ('NZ IFRS') and other applicable Financial Reporting Standards as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards ('IFRS').

The accounting policies below have been applied in preparing the financial statements for the financial year ended 31 December 2014 and comparative information presented in these financial statements for the financial year ended 31 December 2013.

The financial statements have been prepared in accordance with the Financial Reporting Act 1993, New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards as appropriate to profit oriented entities.

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. It's debts may result in claims against assets not appearing thereon.

The financial statements were authorised for issue by the Directors on 17 March 2015.

Adoption of new and revised accounting standards

In the current year, the Branch has adopted all the new and revised Standards and Interpretations issued by the New Zealand Accounting Standards Board (the NZASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations have not resulted in change to the Branch's accounting policies for the current and prior years.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

1 SUMMARY OF ACCOUNTING POLICIES (continued)

Accounting standards and interpretations issued but not yet effective

At the date of authorisation of the financial report, the following Standards and Interpretations, including those Standards or Interpretations issued by the IASB/IFRIC where an equivalent New Zealand Standard or Interpretation has not been approved, were on issue but not yet effective.

<u>Standard</u>	<u>Effective for annual reporting periods beginning on or after</u>	<u>Expected to be initially applied in the financial year</u>
NZ IFRS 9 Financial Instruments	1 January 2018	31 December 2018
NZ IFRS 15 Revenue from contracts with customers	1 January 2017	31 December 2017

When adopted in future periods these accounting standards are not expected to have a material impact on the Branch's results or financial position, however, they may have an impact on disclosures.

Basis of preparation

The financial report has been prepared in accordance with the historical cost convention, except for assets backing insurance liabilities which are stated at fair value and provisions for outstanding claims which have been inflation adjusted and discounted as required by the relevant standard.

The financial statements refer to General Reinsurance Australia Ltd ("the Company") and General Reinsurance Australia Ltd - New Zealand Branch ("the Branch").

Prior period restatements

A number of prior year balances have been restated in the prior year comparative (2013). These relate to the following points:

- To provide a greater level of detail on the face of the primary statements for which information was already visible in the prior year note disclosures.
- Change of signing to be more transparent to users and to align the financial statements of the Branch to the Company.
- Certain regroupings of portfolio presentations to align the presentation of the Branch with the Company.
- Correction of matters that are not deemed to be material.

Those changes have not resulted in changes in net profit, net assets and net cashflows.

Significant accounting policies

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Outstanding claims

Provision is made for the 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 provision also includes a claims handling expense of 1% of the gross outstanding claims liabilities which is supported by analysis of the current level of the Branch's Claims department expenses.

The outstanding claims liability includes a margin that relates to the inherent uncertainty in the central estimate. The margin has been actuarially determined based on past experience and industry practice to ensure realistic provisioning for outstanding claims.

The outstanding claims liability includes the effect of inflation on the ultimate claim amount and is discounted for investment income using a risk free rate. The details of discount rates applied is included in Note 3.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

1 SUMMARY OF ACCOUNTING POLICIES (continued)

(b) Outwards reinsurance

Premiums ceded to reinsurers are recognised as an expense in accordance with the recognition (or earning) pattern of reinsurance services rendered. Accordingly, a portion of outward reinsurance premiums is treated as a prepayment at balance date, where appropriate.

(c) 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 for the outstanding claims liability.

(d) Premiums

Inward reinsurance premiums comprise amounts charged to the ceding Company, excluding amounts collected on behalf of third parties. The earned portion of premiums received and receivable is recognised as revenue in the Statement of Profit or Loss and Other Comprehensive Income over the period of indemnity. Premiums in relation to unclosed business have been brought to account and are based on historical data.

(e) Unearned premiums

Unearned premiums represents the portion of premiums that relate to the unexpired terms of contracts. The unearned portion of premium is recognised as an unearned premium liability on the balance sheet.

(f) Liability adequacy

At each reporting date, a liability adequacy test is performed on insurance liabilities less related deferred acquisition costs to ensure that the carrying value is adequate, using current estimates of future cash flows, taking into account the relevant investment returns. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognised by recording an additional liability for claims provisions or a provision for unexpired risks. The provision for unexpired risks is assessed in aggregate for business classes which are managed together.

(g) Investments

Financial assets are classified at fair value through Profit or Loss. Initial recognition and subsequent measurement is at fair value. Unrealised gains and losses on subsequent measurement to fair value are recognised in the Statement of Profit or Loss and Other Comprehensive Income. Fair value is determined as follows:

- Cash and cash equivalents are carried at face value of the amounts deposited or drawn. The carrying amounts of cash and cash equivalents approximate to their fair value. For the purposes of the Statement of Cash Flows, cash and cash equivalents include cash on hand.
- Fixed interest securities are carried at fair value represented by the quoted market value at balance date.

(h) Assets backing insurance liabilities

The Branch has determined that all assets are held to back general insurance liabilities on the basis that all assets of the Branch are available for the settlement of claims if required.

(i) Depreciation

Depreciation is calculated on a straight line basis so as to write off the net book value of fixed assets over their estimated effective working lives to their estimated residual value. The following estimated useful lives are used in the calculation of depreciation:

Furniture and equipment	3 to 5 years
Leasehold improvements	Lesser of 10 years or term of lease

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

1 SUMMARY OF ACCOUNTING POLICIES (continued)

(j) Deferred acquisition costs

The Branch adopts the practice of deferring to the following accounting period, expenses and levies directly related to premium income, in the same manner as unearned premium is calculated. These are measured at the lower of cost and recoverable amount.

(k) Foreign currency

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

(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 tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by 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 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 reporting date.

(m) Receivables and revenue recognition

Receivables are recognised as follows:

- Reinsurance premium receivables are recognised in accordance with NZ IFRS 4 "Insurance Contracts".
- Income receivable on financing and investment activities is accrued in accordance with the terms and conditions of the underlying financial instrument.
- Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment is established where there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows have been impacted. Examples of evidence that may indicate a review of collectability are bankruptcy of counterparties, disputes with counterparties or non-collection for over 180 days.
- 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.

(n) Accounts payable

These amounts represent liabilities for goods and services provided to the Branch prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within thirty days of recognition.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

1 SUMMARY OF ACCOUNTING POLICIES (continued)

(o) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, 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.

(p) Provision for employment entitlements

Provisions are recognised when the Branch has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at balance date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. They are discounted to their present value using a market-determined, risk-adjusted discount rate.

Salaries and annual leave

Liabilities for salaries and annual leave are recognised, and are measured, as the net present value of expected future cash flows in respect of employees' services up to balance date.

(q) Superannuation

The Branch makes contributions on behalf of employees to their accumulation superannuation funds. The contributions are recognised as an expense over the period of services provided by the employees.

(r) Goods and services tax

Revenues, expenses, assets and liabilities are recognised net of the amount of applicable goods and services tax (GST), except:

- (i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the acquisition cost of an asset or as part of an item of expense; or
- (ii) for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from or payable to the taxation authorities is classified as operating cash flows.

(s) Leases

The Branch has operating leases for office space and equipment whereby the lessor retains substantially all the risks and benefits of ownership of the leased items. Lease payments are recognized on a straight line basis over the term of the lease. The Branch leases office space and data processing equipment under non-cancelable leases expiring in various years through 2014 to 2020. Several of the leases have renewal options with various terms and rental rate adjustments.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

2 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

The ultimate liability arising from claims made under insurance contracts

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance date, including the cost of claims incurred but not yet reported ('IBNR') 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 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 have 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 from 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 unpaid claims. In estimating the cost of these, 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.

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 the specific assumptions used in deriving the liability for 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. All reinsurance contracts are with the parent company and the recoverability of such assets is not considered to be impaired by any counterparty or credit risk.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

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.

The Appointed Actuary is Siu Yin Liu, Fellow of the Institute and Faculty of Actuaries and Fellow of the Institute of Actuaries of Australia. The Appointed Actuary is satisfied as to the nature, sufficiency and accuracy of the data upon which policy liabilities have been determined.

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):

	2014	2013
Proportional, Property & Marine:	1.10	1.10
Proportional, Casualty:	3.30	3.05
Non-proportional, Property & Marine:	1.04	1.01
Non-proportional, Casualty:	5.15	5.22

*The above categories have been revised since the 2013 financial statements and now mirror those used in reporting to the Australian Prudential Regulation Authority.

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 rate

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 rate

The discount rates were based on market yields on Commonwealth Government securities as at balance date and varied according to the expected year of payment of the claims liabilities. The weighted average discount rate on a gross basis was 2.43% (2013: 3.22%).

Sensitivity analysis

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

		Underwriting profit before retrocessions	Net Profit	Equity
Recognised amount per Financial Statements		10,849,090	14,358,493	15,384,829
Variable	Movement in variable			
Run-off	+ 10%	8,385,681	12,580,462	13,606,798
Loss Ratios	- 10%	13,257,694	16,097,019	17,123,355
Expense	+ 0.5%	10,241,985	13,937,235	14,963,571
Rate	- 0.5%	11,456,204	14,779,755	15,806,091
Discount	+ 1%	13,441,302	15,665,470	16,691,806
Rate	- 1%	8,105,892	12,958,072	13,984,408

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

3 ACTUARIAL ASSUMPTIONS AND METHODS (continued)

Risk margin

There are many sources of uncertainty as to the eventual 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. A 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 were applied to the central estimates, and the results were aggregated, allowing for diversification between different lines of business. The risk margins applied to the Branch's major categories of business were:

	2014	2013
Proportional, Property & Marine:	10.3%	9.5%
Proportional, Casualty:	16.5%	25.9%
Non-proportional, Property & Marine:	7.2%	6.2%
Non-proportional, Casualty:	13.4%	13.6%

* The above categories have been revised since the 2013 financial statements and now mirror those used in reporting to the Australian Prudential Regulation Authority.

The high percentage applied to the Proportional Treaty Casualty book is due to the relatively small size of the portfolio, leading to a greater uncertainty as to what the ultimate outcome will be; the percentage decreased during 2014 as the size of that portfolio increased.

4 RISK MANAGEMENT POLICIES AND PROCEDURES

(a) Insurance contracts – Risk management policies and procedures

The financial condition and operation of the Company 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 Company's policies and procedures in respect of managing these risks are set out in this note.

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

Risk management that is completed at the Company level is also applicable at the Branch.

The Company has an objective to control insurance risk thus minimising substantial unexpected losses that would expose the Branch to a loss of capital.

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).

The Internal Capital Adequacy Assessment Process (ICAAP) Summary Statement, Risk Appetite Statement, RMS and REMS identify the Company's 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 Company. Annually, the Board declares to the Reserve Bank of New Zealand that adequate strategies have been put in place to monitor those risks, that the Company has systems in place to ensure compliance with legislative and prudential requirements and that the Board has satisfied itself as to compliance with the RMS and REMS.

The Internal Capital Adequacy Assessment Process (ICAAP) Summary Statement is reviewed internally on an annual basis, unless circumstances necessitate a more frequent review.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

4 RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

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 calculate 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 reinsurance risks.
- Reinsurance is used to limit the Branch's exposure to large single claims and catastrophes.
- The Branch's investment portfolio is prudently managed with respect to key criteria such as the average duration and credit quality.
- 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 also reduce variability in loss experience.

Financial risks

Financial risks are controlled by the majority of investments being in government bonds in the same currency and similar duration as the underlying policy liabilities, the balance of investments being held in cash assets. This significantly reduces any interest rate, currency, credit and liquidity risk that the Branch may incur.

(b) Interest rate risk

Fixed interest rate instruments expose the Company to fair value interest rate risk. The Company's risk management approach is to minimise interest rate risk by actively managing investment portfolios. The Company invests in high quality, liquid interest-bearing bonds and cash and actively manages the duration of the fixed interest portfolio. The claims provision is discounted to present value by reference to risk-free interest rates therefore exposed to potential underwriting result volatility as a result of interest rate movements. In practice, however, an increase or decrease in interest rates is normally offset by a corresponding increase or decrease in inflation. 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, terms are renegotiable.

(c) Credit risk

Financial assets or liabilities arising from insurance and reinsurance contracts are stated in the Statement of Financial Position at the amount that best represents the maximum credit risk exposure at balance date. There are no significant concentrations of credit risk, except for related party transactions.

(d) Foreign currency risk

The Branch undertakes transactions denominated in foreign currencies; consequently, exposures to exchange fluctuations arise. Exchange rate exposures are managed by matching assets and liabilities as closely as possible by currency for the Company.

(e) 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. Reinsurance contracts written in Australia and New Zealand are subject to substantially the same terms and conditions.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

4 RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

(e) Concentration of insurance risk

The Branch's exposure to concentrations of insurance risk is mitigated by a portfolio diversified into two major classes of business (Treaty and Facultative) written out of New Zealand. The portfolio is controlled and monitored through the Company's Risk Appetite Statement, 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.

Non-financial risks

Non-financial risks are controlled through the use of:

- i) claims management procedures and authorities
- ii) product development/review procedures and authorities
- iii) treaty underwriting procedures and authorities
- iv) underwriting and claim peer reviews of clients
- v) charging adequate premium rates for the business
- vi) quarterly monitoring of profitability overall and by client
- vii) reinsurance agreement terms and conditions

5 PROFIT FROM ORDINARY ACTIVITIES

	2014	2013
Profit from ordinary activities has been arrived at after including		
(a) Revenues from operating activities		
General insurance revenue		
Gross written premiums	16,146,232	23,063,918
Movement in unearned premiums	3,020,612	(858,625)
Premium revenue	<u>19,166,844</u>	<u>22,205,293</u>
Outwards reinsurance expense	<u>(2,543,871)</u>	<u>(3,459,364)</u>
Total net premium revenue	<u>16,622,973</u>	<u>18,745,929</u>
(b) Included in general and administration expenses are:		
- Expenses of management	(3,834,008)	(4,450,999)
- Exchange variance losses	(662,760)	(4,233,934)
- Lease expenses	<u>(85,734)</u>	<u>(83,536)</u>
	<u>(4,582,502)</u>	<u>(8,768,469)</u>
Management charges from related entities		
- General Re - New England Asset Management	67,262	-
- General Reinsurance Australia Ltd.	3,001,591	3,656,948

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

5 PROFIT FROM ORDINARY ACTIVITIES (continued)

(c) Net claims incurred	Current year	Prior years	Total
	\$	\$	\$
2014			
Gross claims incurred and related expenses	(9,435,056)	5,760,064	(3,674,992)
Claims handling expenses	(95,304)	58,182	(37,122)
Reinsurance and other recoveries	-	5,040,495	5,040,495
	<u>(9,530,360)</u>	<u>10,858,741</u>	<u>1,328,381</u>
Net claims incurred - undiscounted			
Discount movement			
- gross claims incurred	518,908	(2,270,870)	(1,751,962)
- reinsurance and other recoveries	-	565,070	565,070
	<u>518,908</u>	<u>(1,705,800)</u>	<u>(1,186,892)</u>
Net discount movement			
Risk margin movement			
- gross claims incurred	(1,724,977)	2,462,552	737,575
- reinsurance and other recoveries	-	(893,003)	(893,003)
	<u>(1,724,977)</u>	<u>1,569,549</u>	<u>(155,428)</u>
Net risk margin movement			
Net claims incurred	<u>(10,736,429)</u>	<u>10,722,490</u>	<u>(13,939)</u>
2013			
Gross claims incurred and related expenses	(3,807,808)	5,624,133	1,816,325
Claims handling expenses	(38,463)	56,809	18,346
Reinsurance and other recoveries	-	14,546,739	14,546,739
	<u>(3,846,271)</u>	<u>20,227,681</u>	<u>16,381,410</u>
Net claims incurred -undiscounted			
Discount movement			
- gross claims incurred	325,394	(2,079,831)	(1,754,437)
- reinsurance and other recoveries	-	1,538,006	1,538,006
	<u>325,394</u>	<u>(541,825)</u>	<u>(216,431)</u>
Net discount movement			
Risk margin movement			
- gross claims incurred	(330,392)	2,881,514	2,551,122
- reinsurance and other recoveries	-	(1,433,618)	(1,433,618)
	<u>(330,392)</u>	<u>1,447,896</u>	<u>1,117,504</u>
Net risk margin movement			
Net claims incurred	<u>(3,851,269)</u>	<u>21,133,752</u>	<u>17,282,483</u>
(d) Net investment income			
		2014	2013
		\$	\$
Interest		2,590,470	4,638,352
Changes in fair values		987,100	(4,427,103)
Expenses		(82,632)	(42,352)
Realised (losses)/gains		(69,029)	415,709
		<u>3,425,909</u>	<u>584,606</u>

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

(e) Remuneration of auditors

Audit fees and Directors' emoluments are borne as part of head office overheads and are not separately charged to the New Zealand Branch, but rather included in the overall recharge.

The auditor of the Branch is Deloitte Touche Tohmatsu, Australia.

6 INCOME TAX	2014	2013
(a) Income tax benefit		
Tax benefit comprises:		
Current tax benefit/(expense) that relate to current year	-	(151)
Prior year over/(under) provision	2,526,335	(182,343)
Deferred tax (expense)/benefit relating to temporary differences	<u>(4,611,532)</u>	<u>(7,903,346)</u>
Income tax (expense) relating to gain from ordinary activities	<u>(2,085,197)</u>	<u>(8,085,840)</u>
The prima facie income tax expense on the pre-tax accounting profit reconciles to the income tax expense shown in the financial statements, as follows:		
Profit/(loss) from ordinary activities	16,443,690	28,207,618
Income tax (expense) calculated at 28% (2013: 28%) of operating profit	(4,604,233)	(7,898,133)
Adjustment for Permanent differences:		
- Non deductible entertainment expense	(7,299)	(5,364)
Prior year over/(under) provision	<u>2,526,335</u>	<u>(182,343)</u>
Total income tax expense	<u>(2,085,197)</u>	<u>(8,085,840)</u>
(b) Deferred tax		
At 31 December the deferred tax asset comprises:		
Tax losses	4,769,198	9,640,474
Timing differences	<u>737,781</u>	<u>478,037</u>
Total deferred tax asset	<u>5,506,979</u>	<u>10,118,511</u>

	Opening balance	Transfers not charged to income	Charged to income	Closing balance
2014 Temporary differences				
Unrealised foreign exchange differences	(1,102,961)	-	752,559	(350,402)
Accruals and other liabilities	1,610,861	-	(1,529,716)	81,145
Tax losses carried forward	9,640,474	-	(4,871,277)	4,769,197
Outstanding claims	10,080	-	(10,080)	-
Insurance provisions	<u>(39,943)</u>	-	1,046,981	1,007,038
Total temporary differences	<u>10,118,511</u>	<u>-</u>	<u>(4,611,533)</u>	<u>5,506,978</u>

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

6 INCOME TAX (continued)

	Opening balance	Transfers not charged to income	Charged to income	Closing balance
2013 Temporary differences				
Unrealised foreign exchange differences	(605,055)	-	(1,102,961)	(1,102,961)
Accruals and other liabilities	-	-	2,215,916	1,610,861
Tax losses carried forward	18,988,159	(2,397,445)	(6,950,240)	9,640,474
Provision	58,112	-	(48,032)	10,080
Insurance provisions	1,978,235	-	(2,018,178)	(39,943)
Total temporary differences	20,419,451	(2,397,445)	(6,800,534)	10,118,511

No losses of General Reinsurance Australia Ltd - New Zealand Branch were transferred to General Reinsurance Life Australia Ltd – New Zealand Branch during the year (2013: \$8,572,464).

The Directors have recognised a deferred tax asset on the basis of forecasts showing that there will be future taxable profits in the future for these to be utilised against.

7 CASH AND CASH EQUIVALENTS

Cash on hand and at bank	5,417,162	7,326,422
Cash on deposit	31,042	220,351
Total cash and cash equivalents	5,448,204	7,546,773

8 RECEIVABLES

Premiums receivable	6,601,745	15,105,295
Less: Provision for doubtful debts	(57,735)	-
Total receivables	6,544,010	15,105,295

Receivables expected to be realised within 12 months	6,544,010	15,105,295
Receivables expected to be realised in more than 12 months	-	-

9 REINSURANCE RECOVERIES

Reinsurance recoveries	68,962,203	79,493,648
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Reconciliation of reinsurance recoveries

Balance as at 1 January	79,493,648	106,346,043
Foreign currency revaluation	(700,759)	3,977,764
Movement in incurred recoveries	4,712,562	14,651,126
Less reinsurance recoveries received	(14,543,248)	(45,481,285)

Balance as at 31 December	68,962,203	79,493,648
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Reinsurance recoveries at 31 December

Expected to be realised within 12 months	36,635,744	38,298,594
Expected to be realised in more than 12 months	32,326,459	41,195,054
	68,962,203	79,493,648

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

	2014	2013
10 OTHER ASSETS		
Deferred acquisition costs	30,749	136,457
Accrued interest income	249,437	663,366
Sundry assets	6,632	-
Unsettled trades at year end	508,893	-
Property plant and equipment	12,500	18,500
Due from related entities:		
- General Reinsurance Life Australia Ltd	-	2,400,290
Total other assets	808,211	3,218,613
Expected to be realised within 12 months	795,711	3,200,113
Expected to be realised in more than 12 months	12,500	18,500
	808,211	3,218,613
11 INVESTMENTS		
Insurance activities, at fair value:		
Fixed interest securities	45,187,988	75,837,514
12 OUTSTANDING CLAIMS AND UNEARNED PREMIUMS		
Outstanding claims		
Gross outstanding claims	115,607,646	139,883,317
Discount to present value	(6,794,579)	(8,546,541)
Risk margin	9,273,262	10,010,837
Liability for outstanding claims	118,086,329	141,347,613
Reconciliation of outstanding claims		
Balance at start of year	141,347,613	189,073,855
Foreign currency revaluations	(963,660)	(3,747,715)
Change in discount to present value	1,751,962	1,754,437
Change in risk margin	(737,575)	(2,551,123)
Claims paid	(27,024,126)	(41,347,169)
Movement in incurred claims	3,712,115	(1,834,672)
Balance at end of year	118,086,329	141,347,613
Outstanding claim liabilities at 31 December		
Expected to be realised within 12 months	48,198,999	54,838,709
Expected to be realised in more than 12 months	69,887,330	86,508,904
	118,086,329	141,347,613
The following average discount rates were used in the measurement of outstanding claims:	2.43%	3.22%

The weighted average term to settlement for the outstanding claims provisions which have been subject to discounting is approximately 2.01 years (2013 – 2.08 years).

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

12 OUTSTANDING CLAIMS AND UNEARNED PREMIUMS (continued)

Net undiscounted central estimate of ultimate claims

	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Estimate of net ultimate claims cost:										
At end of accident year	12	13	15	17	15	29	17	12		15
One year later	13	13	19	15	20	52	12	8		
Two years later	12	14	17	15	29	50	11			
Three years later	12	13	17	14	24	43				
Four years later	13	12	16	13	21					
Five years later	12	12	14	13						
Six years later	11	11	15							
Seven years later	10	10								
Eight years later	10									
Current estimate of net	10	10	15	13	21	43	11	8	15	
Cumulative net payments	(9)	(9)	(13)	(12)	(24)	(24)	(7)	(1)	0	
Net undiscounted outstanding claims for the nine most recent accident years:	1	1	2	1	(3)	19	4	7	15	47

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	47
Net outstanding claims – accident years 2005 and prior	2
Claims handling costs	1
Discount to present value	(5)
Risk margin	5
Reinsurance recoverable on paid losses	(1)
Net outstanding claims liability	49

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 Branch’s claims obligations after having regard to the prevailing market environment and prudent industry practice.

	2014	2013
UNEARNED PREMIUM		
Balance as at 1 January	12,516,612	11,899,518
Foreign currency revaluations	(86,319)	(241,531)
Deferral of premiums on contracts written in the period	9,409,681	12,516,612
Earning of premiums written in previous periods	(12,430,293)	(11,657,987)
Balance as at 31 December	9,409,681	12,516,612

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

13 PROVISIONS		Opening	Payments	Provision	Closing
Profit commission payable	(i)	20,234	(54,868)	38,589	3,955
Annual leave	(ii)	59,076	-	(11,361)	47,715
Makegood	(iii)	36,000	-	-	36,000
		<u>115,310</u>	<u>(54,868)</u>	<u>27,228</u>	<u>87,670</u>

- (i) The provision for profit commission represents the present value of the best estimate of the future payments that will be required.
- (ii) The provision for annual leave and long service leave represents the present value of the best estimate of future expenses based on current employee records.
- (iii) The provision for Makegood represents the estimated amount payable to restore leasehold premises to their original condition.

	2014	2013
14 OTHER PAYABLES		
Sundry payables and accruals	1,260,178	1,755,712
Due to related entities:		
- General Reinsurance Life Australia Ltd	<u>500,833</u>	<u>-</u>
Total other payables	<u>1,761,011</u>	<u>1,755,712</u>
15 HEAD OFFICE ACCOUNT		
Designated equity	<u>10,000,000</u>	<u>-</u>

During the financial year the Branch designated a balance of the head office account as contributed equity. This balance forms part of the head office account and is segregated as a non-operational trade balance which is periodically settled.

16 CONTINGENT ASSETS, COMMITMENTS AND CONTINGENT LIABILITIES

Leases

The Branch 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	49,761	48,429
Later than one year but not later than five years	54,163	143,256
Later than five years	<u>-</u>	<u>-</u>
Total leases	<u>103,924</u>	<u>191,685</u>

17 ULTIMATE PARENT ENTITY

The ultimate parent entity of General Reinsurance Australia Ltd. is Berkshire Hathaway Inc., a Company incorporated in the United States of America.

The immediate parent entity of General Reinsurance Australia Ltd.- New Zealand Branch is General Reinsurance Corporation.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

18 RELATED PARTIES

Directors

The names of each person holding the position of Director of General Reinsurance Australia Ltd. during the financial year were:

F Allan McDonald	A Giffen Brown
Pietro A Toffanello	Mark Phillips
Kathryn J McCann	William G Gasdaska

Key Management Personnel

Key management personnel are remunerated by the Company with no direct costs incurred by the Branch.

	2014	2013
Related party balances at reporting date		
Commonly Owned Associates:		
General Reinsurance Life Australia Ltd	-	2,400,290
Head Office:		
General Reinsurance Australia Ltd.	15,994,890	-
Management charges paid to related entities		
Commonly Owned Associates:		
General Re - New England Asset Management Inc.	67,262	-
Head Office:		
General Reinsurance Australia Ltd.	3,001,591	3,656,948

Retrocessions

The Company is a party to a retrocession agreement with the immediate parent entity which cover the Branch's operations. This agreement is entered into under normal commercial terms and conditions. Details of transactions are listed below.

Related party: General Reinsurance Corporation

Retrocession premiums	2,543,871	3,464,192
Claim recoveries	4,712,562	27,304,062
Reinsurance recoverable on paid losses	828,078	-
Reinsurance recoverable on unpaid losses	60,172,605	68,270,787

Inter-company balances are at no interest and are due on demand.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

19 NOTES TO THE STATEMENT OF CASH FLOWS

	2014	2013
Reconciliation of net operating cash flows to net profit		
Net profit	14,358,493	20,121,778
Depreciation and amortisation	6,000	6,000
Loss/(Profit) on sale of investments	69,029	(415,709)
Unrealised movement in fair value of investments	987,100	4,427,103
Change in operating assets and liabilities		
(Increase)/decrease in premiums receivable	8,561,285	(6,581,859)
(Increase)/decrease in reinsurance recoveries	10,531,444	26,852,395
(Increase)/decrease in other assets	2,913,301	(2,393,979)
Increase/(decrease) in payables and provisions	(22,344)	581,067
Increase/(decrease) in underwriting provisions:		
- unearned premium	(3,106,931)	617,094
- outstanding claims	(23,261,285)	(49,146,297)
- unexpired risk liability	(1,810,301)	-
Movement in tax accounts	2,069,586	10,300,940
	<u>11,295,377</u>	<u>4,368,533</u>

20 FINANCIAL INSTRUMENTS

(a) Credit Risk Exposure

The credit risk on financial assets of the Branch which has been recognised on the Statement of Financial Position, other than investments, is generally the carrying amount, net of any provisions for doubtful debts.

(b) Interest Rate Risk

The Branch's exposure to interest rate risk is managed through adjustments to the investment portfolio. The Branch's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and liabilities is set out below in section (j).

(c) Net fair value of financial assets and liabilities

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the Branch approximates to their carrying value. The net fair value of other monetary financial assets and financial liabilities is based upon market prices.

(d) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability are disclosed in note 1 of the financial statements.

(e) Capital risk management

The Company manages its capital to ensure that on a legal entity level it meets regulatory solvency requirements and it will continue operating as a going concern.

The capital structure of the Branch consists of cash and cash equivalents and equity, comprising Head Office Account and Retained Earnings as disclosed in Note 7 and the Statement of Changes in Equity respectively.

The Company's capital is managed through its ICAAP. The ICAAP is reviewed internally on an annual basis. Independent reviews are performed every three years.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

20 FINANCIAL INSTRUMENTS (continued)

(f) Categories of financial instruments		2014	2013
Financial assets	Note		
Cash and cash equivalents	7	5,448,204	7,546,773
Financial assets at fair value through profit or loss (i)			
Fixed interest securities	11	45,187,988	75,837,514
Loans and receivables			
Premiums receivable	8	6,544,010	15,105,295
Deposit with related party		15,994,890	-
Other assets	10	808,211	3,218,613
Financial liabilities			
Amortised cost			
Other payables	14	1,761,011	1,755,712

(i) Financial assets carried at fair value through profit or loss have been designated as such upon initial recognition. None of the receivables are designated as 'fair value through profit or loss'.

(g) Financial risk management objectives

It is ultimately the responsibility of the Board to ensure that there is an effective risk management control framework in place. Consistent with regulatory requirements the board has explicitly allocated to the Managing Director, the function of overseeing the establishment and maintenance of risk-based systems and controls across the Branch. The Chief Risk Officer (CRO) is to review, monitor and report on the RMS to the Managing Director.

As part of the overall governance framework the Board and senior management of the Company have developed, implemented and maintain a sound and prudent RMS and a REMS. The RMS and REMS identify the Company's 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 Company. Annually, the Board declares to the Reserve Bank of New Zealand that adequate strategies have been put in place to monitor those risks, that the Company has systems in place to ensure compliance with legislative and prudential requirements and that the Board has satisfied itself as to compliance with the RMS and REMS.

(h) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Branch. The Branch has adopted the policy of only dealing with creditworthy cedants and bondholders as a means of mitigating the risk of financial loss from defaults. The Branch's overall strategy in respect of credit risk management remains unchanged from 2013.

		2014	2013
Financial assets	Note		
Cash and cash equivalents	7	5,448,204	7,546,773
Financial assets at fair value through profit or loss			
Fixed interest securities	11	45,187,988	75,837,514
Loans and receivables			
Premiums receivable	8	6,544,010	15,105,295
Deposit with related party		15,994,890	-
Other assets	10	808,211	3,218,613
Reinsurance assets	9	68,962,203	79,493,648
Total financial assets		73,983,303	101,708,195

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

20 FINANCIAL INSTRUMENTS (continued)

(i) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations under the reinsurance contracts it has entered into. Ultimate responsibility for liquidity risk management rests with the Board of directors, which has implemented appropriate liquidity risk management framework for the management of the Branch's short, medium and long-term funding and liquidity management requirements. The Branch manages liquidity risk by maintaining appropriate levels of financial assets that are readily realisable and by continuously monitoring forecast and actual cash flows in order to match the maturity profiles of assets and liabilities. The Company has developed and implemented a Risk Management Strategy. The Company's overall strategy in liquidity risk management remains unchanged from 2013.

The following tables summarise the maturity profile of the Branch's financial liabilities. The tables have been drawn up on the basis of undiscounted cash flows of financial liabilities based on the earliest date on which the Branch can be required to pay.

The tables below include both interest and principal cash flows.

	Weighted %	Less than 1	1-5 years	5+ years	Total
2014					
Financial liabilities					
<i>Interest bearing:</i>					
Reinsurance funds held	-				
<i>Non-interest bearing:</i>					
Payables	-	1,761,011	-	-	1,761,011
Employee entitlements	-	47,715	-	-	47,715
Other provisions	-	3,955	36,000	-	39,955
Outstanding claims	-	48,198,999	55,294,432	21,387,476	124,880,907
Total financial liabilities		50,011,680	55,330,432	21,387,476	126,729,588
2013					
Financial liabilities					
Reinsurance funds held					
<i>Non-interest bearing:</i>					
Payables	-	4,412,969	-	-	4,412,969
Employee entitlements	-	59,076	-	-	59,076
Other provisions	-	-	-	-	-
Outstanding claims	-	54,838,709	71,565,406	23,490,039	149,894,154
Total financial liabilities		59,310,754	71,565,406	23,490,039	154,366,199

The insurance amounts above reflect the expected payment pattern, however claims are due for settlement on resolution.

(j) 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: foreign exchange (currency risk), market interest rates (interest rate risk) and market prices (price risk). The Company has put in place policies and procedures to mitigate its exposure to market risk. There has been no change to the Branch's exposure to the different elements of market risk or the manner in which it manages and measures these risks.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

20 FINANCIAL INSTRUMENTS (continued)

Interest rate risk management

The Branch's activities expose it to the financial risk of changes in interest rates. Fixed interest rate instruments expose the Branch to interest rate risk. The Company's Investment Manager closely monitors the Branch's exposures to interest rate risk. The Branch's exposure to interest risk is managed through adjustment to the investment portfolio.

The Branch's exposures to interest rates on financial liabilities are detailed in the liquidity risk section of this note.

The following tables detail the expected maturity of the Branch's financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets, except where the Branch anticipates that the cash flow will occur in a different period.

	Weighted average interest rate	Less than 1 year	1-5 years	5+ years	Total
2014	%				
<i>Non-interest bearing:</i>					
Premium Receivable	-	6,544,010	-	-	6,544,010
Reinsurance recoverable	-	36,635,744	30,243,727	4,109,351	70,988,822
Deposit with related party	-	15,994,890	-	-	15,994,890
Other insurance receivables	-	795,711	-	-	795,711
<i>Variable interest rate instruments:</i>					
Cash	2.65	5,448,204	-	-	5,448,204
<i>Fixed interest rate instruments:</i>					
New Zealand Government	3.54	-	45,187,988	-	45,187,988
		<u>65,418,559</u>	<u>75,431,715</u>	<u>4,109,351</u>	<u>144,959,625</u>
2013					
<i>Non-interest bearing:</i>					
Premium Receivable	-	15,105,295	-	-	15,105,295
Reinsurance recoverable	-	38,298,594	38,784,407	5,002,335	82,085,336
Deposit with related party	-	-	-	-	0
Other insurance receivables	-	3,200,113	-	-	3,200,113
<i>Variable interest rate instruments:</i>					
Cash	2.4	7,546,773	-	-	7,546,773
<i>Fixed interest rate instruments:</i>					
New Zealand Government	3.59	1,518,005	68,908,669	5,410,839	75,837,513
		<u>65,668,780</u>	<u>107,693,076</u>	<u>10,413,174</u>	<u>183,775,030</u>

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

20 FINANCIAL INSTRUMENTS (continued)

Interest rate risk management (continued)

The Branch's sensitivity to movements in interest rates in relation to the value of interest-bearing financial assets is shown below.

	+100bps		-100bps	
	2014	2013	2014	2013
Effect of 100 basis point increase or decrease on profit (+/-)	(1,974,000)	(1,765,525)	(256,000)	1,830,882

Foreign currency risk management and sensitivity analysis

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Branch's financial assets are primarily denominated in the same currencies as its reinsurance contract liabilities. The Branch's overall strategy in respect of foreign currency risk management remains unchanged from 2013.

The exposure to Australian dollars on reinsurance liabilities net of the corresponding retrocession recoveries are as follows:

	2014	2013
Exposure to Australian dollars at 31 December	2,277,177	21,222,261
Unrealised gain/(loss) from a 10% change in foreign exchange rates	227,718	2,122,226

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. Fair value measurements assume the asset or liability is exchanged in an orderly manner; that the exchange is in the principal market for that asset or liability (or in the most advantageous market when no principal market exists); and the market participants are independent, knowledgeable, able and willing to transact an exchange. Non-performance risk (credit risk) is considered in valuing liabilities. The carrying value of the Branch's cash and cash equivalents, receivables, other assets, all insurance related balances and accounts payable, accruals and other liabilities are deemed to be reasonable estimates of their fair value.

Investments

The estimated fair values for fixed maturity securities were generally based on quoted market prices or estimated from independent pricing services. Where quoted market prices are not available, fair values are estimated using present value or valuation techniques. Considerable judgment may be required in interpreting market data used to develop the estimates for fair value. As a result the estimated fair values presented may not be representative of the actual amount that could be realized in a current market transaction. The use of different market assumptions and models may have a material effect on the estimated fair values. The fair value of investments on the Statement of Financial Position was determined by reviewing available financial information of the investee and by performing other financial analyses in consultation with external advisors.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

20 FINANCIAL INSTRUMENTS (continued)

Investments (continued)

A framework exists for measuring fair values using a hierarchy for observable independent market inputs and unobservable market assumptions. The hierarchy consists of three levels, ranging from the category deemed to be most reliable to a category where fair value is measured using significant unobservable inputs because of the lack of observable market prices for the instrument, or Levels 1 through 3, respectively. A description of the inputs used in the valuation of assets and liabilities under the three levels follows:

- Level 1 – Inputs represent unadjusted quoted prices for identical assets or liabilities exchanged in active markets.
- Level 2 – Inputs include directly or indirectly observable inputs other than Level 1 inputs such as quoted prices for similar assets prices for similar assets or liabilities exchanged in active or inactive markets; quoted prices for identical assets or liabilities exchanged in inactive markets; other inputs that are considered in fair value determinations of the assets or liabilities, such as interest rates and yield curves that are observable at commonly quoted intervals; volatilities, prepayment speeds, loss severities, credit risks and default rates and inputs that are derived principally from or corroborated by observable market data by correlation or other means. Fair values for the Branch's investments in fixed maturity securities are primarily based on market prices and market data available for instruments with similar characteristics since active markets are not common for many instruments. Pricing evaluations are based on yield curves for instruments with similar characteristics such as credit rating, estimated duration and yields for other instruments of the issuer or entities in the same industry sector.
- Level 3 – Inputs include significant unobservable inputs used in the measurement of assets and liabilities. Management is required to use its own assumptions regarding unobservable inputs because there is little, if any, market activity in the assets or liabilities or related observable inputs that can be corroborated at the measurement date. Measurements of non-exchange traded derivative contracts and certain other investments carried at fair value are based primarily on valuation models, discounted cash flow models or other valuation techniques that are believed to be used by market participants. Unobservable inputs require management to make certain projections and assumptions about the information that would be used by market participants in pricing assets or liabilities.

Financial assets and liabilities

Financial assets and liabilities measured at fair value in the financial statements as at 31 December 2014 and 2013 are summarized in the following table by the type of inputs applicable to the level of the fair value measurement (in thousands).

	Level 1	Level 2	Level 3	Total
2014				
Fixed maturity bonds				
Obligations of the New Zealand Government	45,187,988	-	-	45,187,988
	<u>45,187,988</u>	<u>-</u>	<u>-</u>	<u>45,187,988</u>

There were no transfers between Level 1 and Level 2 during the period.

2013				
Fixed maturity bonds				
Obligations of the New Zealand Government	75,837,514	-	-	75,837,514
	<u>75,837,514</u>	<u>-</u>	<u>-</u>	<u>75,837,514</u>

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

21 APRA CAPITAL ADEQUACY

These are amounts required to meet the prudential standards specified by the Insurance (Prudential Supervision) Act 2010 (the "Act") to provide protection to the policy owners against the impact of fluctuations and unexpected adverse experience of the business.

The methods and bases adopted for determining the solvency requirements are in accordance with Reserve Bank of New Zealand Solvency Standards.

On 22 May 2013 the Company was issued with a full License under the Act. The license includes an exemption under s59 of the Act allowing the Company to calculate and report its solvency position in accordance with the regulatory requirements of its home jurisdiction.

The Company is required to maintain its APRA solvency margin and to notify the RBNZ if it carries on insurance business in New Zealand that is not reinsurance. The Company has complied with all externally imposed capital requirements throughout the year.

	2014 AU\$'000	2013 AU\$'000
Adjusted Tier 1 Capital		
Tier 1 Capital	392,152	386,978
Net deficit in OCL	(7,021)	(6,800)
Less: Net deferred tax assets	<u>(12,408)</u>	<u>(18,398)</u>
	<u>372,723</u>	<u>361,780</u>
Prudential Capital Requirement (PCR)		
Insurance Risk Charge	67,986	64,942
Insurance Concentration Risk Charge	119,763	50,000
Asset Risk Charge	36,996	40,566
Operational Risk Charge	6,471	6,119
Less: Aggregation Benefit	<u>(26,259)</u>	<u>(26,193)</u>
	<u>204,957</u>	<u>135,434</u>
PCR coverage ratio	1.81854	2.67126

General Reinsurance Australia Ltd. has a "AA+" credit rating from Standard and Poor's as at 31 December 2014.

The Company has complied with all externally imposed capital requirements throughout the year.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

22 Liability adequacy test

The liability adequacy test (LAT) is used to assess the sufficiency of the unearned premium liability to cover all expected future cash flows relating to future claims against in-force insurance contracts. The LAT is carried out on each portfolio of contracts in line with APRA's reporting categories, which each cover broadly similar risks. The following table details the value of the expected future income/expenditure items arising from in-force contracts:

	2014	2013
Unearned premium liability	9,409,681	12,516,620
Future premiums	2,848,757	3,988,355
Deferred acquisition costs	(314,575)	(333,768)
Future commissions	(217,988)	241,693
PV of expected future cash flows for future claims		
<i>Central estimate of PV of expected future cash flows</i>	(10,391,168)	14,711,921
<i>Risk margin</i>	(3,378,194)	(4,711,921)
<i>Risk margin</i>	33%	32%
<i>At probability of adequacy</i>	75%	75%
Deficit as determined on a portfolio level: *		
Unearned premium liability	3,524,247	6,171,335
Future premiums	2,003,510	3,666,757
Deferred acquisition costs	(314,575)	(197,310)
Future commissions	(217,988)	(362,376)
Reinsurance asset	-	-
PV of expected future cash flows for future claims	<u>(9,001,988)</u>	<u>(15,008,980)</u>
LAT deficiency	<u>4,006,794</u>	<u>5,730,574</u>
<i>Of which:</i>		
<i>write-down of deferred acquisition costs</i>	283,830	197,310
<i>unexpired risk liability</i>	3,722,964	5,533,264

* Portfolios included in the reconciliation above include only those portfolios that are in deficit.

Reconciliation of deferred acquisition costs

Balance as at 1 January	136,457	-
Acquisition costs deferred	506,448	735,619
Amortisation charged to profit or loss	(522,090)	(651,781)
Movement in LAT write-down	(89,512)	60,472
Foreign currency revaluation	(558)	(7,853)
Balance as at 31 December	<u>30,745</u>	<u>136,457</u>

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

23 ADDITIONAL BRANCH INFORMATION

Principal Place of Business and Registered Office

Level 10 Phillips Fox Tower
National Bank Centre
205 Queen St
Auckland 1010
New Zealand

Number of Employees

At 31 December 2014 the Branch had 3 employees (2013: 3).

Type of Company

The Company operates as a for profit unlisted public Company in Australia.

24 EVENTS SUBSEQUENT TO BALANCE DATE

There were no events subsequent to balance date which impact the financial information disclosed herein.

APPOINTED ACUARY'S STATEMENT

of General Reinsurance Australia Ltd. - New Zealand Branch

Section 78 report as at 31 December 2014

It is the Company's established policy to seek the advice of the Appointed Actuary in respect of actuarial information in the financial statements, and to always adopt that advice. For the 2014 financial statements of the New Zealand Branch, such advice was provided and adopted for:

- (a) The liability adequacy test;
- (b) The Net Outstanding Claims Liability; and
- (c) The reinsurance and other recovery assets, where applicable.

I have also reviewed the following items in the financial statements and find them to be appropriately stated:

- (a) The unearned premium; and
- (b) The deferred acquisition cost.

The above therefore satisfy the requirements of Section 77 of the Insurance (Prudential Supervision) Act 2010.

As at 31 December 2014 as required by the Reserve Bank of New Zealand, General Reinsurance Australia Ltd maintained a solvency margin calculated in accordance with the Australian Prudential Regulation Authority's requirements on both the pre- and post- 1 January 2014 capital requirements.

In summary, I have been provided with all the information and explanations that I required for my review, and in my opinion:

- The actuarial information contained in the financial statements has been appropriately included in the statements; and
- The actuarial information used in the preparation of the financial statements has been used appropriately; and
- General Reinsurance Australia Ltd. the licensed insurer is maintaining the solvency margin that applies under a condition imposed under section 21 (2)(b)

The review was carried out by Siu Yin Liu, Fellow of the Institute and Faculty of Actuaries, Fellow of the Institute of Actuaries of Australia and employee of General Reinsurance Australia Ltd, in the capacity of the Appointed Actuary of General Reinsurance Australia Ltd – New Zealand Branch for the purposes of Section 76 of the Insurance (Prudential Supervision) Act 2010.



SY Liu, MA, FIA, FIAA
Appointed Actuary

Sydney, 17 March 2015

Independent Auditor's Report to the Shareholders of General Reinsurance Australia Ltd. -New Zealand Branch

Report on the Financial Statements

We have audited the financial statements of General Reinsurance Australia Ltd. – New Zealand Branch on pages 7 to 36, which comprise the statement of financial position as at 31 December 2014, and the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the Financial Statements

The Board of 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 Board of 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 on pages 7 to 36:

- (a) comply with generally accepted accounting practice in New Zealand;
- (b) comply with International Financial Reporting Standards; and
- (c) give a true and fair view of the financial position of General Reinsurance Australia Ltd. – New Zealand Branch as at 31 December 2014, and its financial performance and its cash flows for the year ended on that date.

Emphasis of Matter

The New Zealand branch is part of General Reinsurance Australia Ltd. 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 balance sheet 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 2014:

- (i) we have obtained all the information and explanations we have required; and
- (ii) 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 Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Stuart Alexander
Partner
Chartered Accountants
Sydney, 17 March 2015