General Reinsurance Australia Ltd.

New Zealand Branch

Financial Report
for the Financial Year ended
31 December 2015

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 2015 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
Meredith Brooks (commenced 1 January 2016)
Kathryn J McCann
Mark Phillips
A Flitcroft (commenced 1 August 2015)
William G Gasdaska
Pietro A Toffanello (ceased 31 July 2015)

Name and qualifications	*Age*	*Experience and special responsibilities*
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	76	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.
Meredith J Brooks B.A. (Actuarial Studies), FIAA - Member of Board Audit Committee - Member of Board Risk Committee - Member of Board Remuneration Committee	54	Ms Brooks has over 30 years' experience in the financial services industry, including extensive experience in funds management both in Australia and overseas. She also holds the positions of Non-executive Director at BT Investment Management Limited, Chair at Critical Path Inc., Council Member at Glaucoma Australia and was also appointed to the Board of General Reinsurance Life Australia Ltd. in January 2016. She holds a Bachelor of Arts in Actuarial Studies and is a Fellow of the Institute of Actuaries of Australia. Ms Brooks became a member of the Board Audit, Remuneration, and Risk Committees upon her appointment to the Board of the Company in January 2016.
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	54	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.
Mark Phillips B. Com, M. Com - Non-Executive Director - Chair of Board Audit Committee - Chair of Board Risk Committee - Member of Board Remuneration Committee	55	Mr Phillips has over 35 years' experience in the financial services industry. Following twenty years at the Commonwealth Bank of Australia, he held Managing Director roles over the course of ten years within listed financial services businesses. Mr Phillips was appointed to the Board of General Reinsurance Life 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)

Name and qualifications	*Age*	*Experience and special responsibilities*
Andrew Flitcroft ANZIIF (Fellow), CIP - Managing Director	51	Mr Flitcroft has over 30 years' experience in the insurance and reinsurance industries. He joined Gen Re in 1996 after an eleven year career in the primary market, and over the course of his almost twenty years with the company he has held various underwriting and leadership positions across both the facultative and treaty units. These roles have included responsibilities for various parts of the business in Australia, New Zealand and the Group's Asian offices. He was appointed to the Board effective 1 August 2015 and currently holds the dual positions of Managing Director General Reinsurance Australia and Treaty Regional Manager, Asia Pacific.
William G Gasdaska - Non-executive Director	57	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.

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 2015 are:

Director	*Directors' Meetings*		*Board Audit Committee*		*Board Remuneration Committee*		*Board Risk Committee*	
	A	B	A	B	A	B	A	B
F Allan McDonald	4	4	4	4	3	3	4	4
Kathryn J McCann	4	4	4	4	3	3	4	4
Mark Phillips	4	4	4	4	3	3	4	4
Andrew Flitcroft	2	2	-	-	-	-	-	-
William G Gasdaska	2	4	-	-	-	-	-	-
Pietro A Toffanello	2	2	-	-	-	-	-	-

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:

Name and qualifications	*Age*	*Experience and special responsibilities*
Herman Beukes B.Com, CA, GDip FP	39	Mr. Beukes has been in the employment of the Gen Re group since 2003, 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. In July 2015 Mr. Beukes was promoted to Regional Financial Controller for the Asia Pacific region.

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 $8,758,000 compared with the 2014 net profit of $14,359,000.

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

Effective 1 January 2016, Meredith Brooks was appointed as Director of the Company's board. Effective 1 July 2016, the Chairman, Allan McDonald, will retire from the board. Director Kate McCann will be assigned the position of Chairperson effective 1 July 2016.

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

The Board of General Re Corporation (incorporated in the USA) has, by resolution, provided indemnification to each of the Directors of the company, as per the By-Laws of General Re Corporation.

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.

Kate McCann

K. J. McCann
Acting Chair

A. Flitcroft
Managing Director

Sydney, 15 March 2016

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

	Note	2015 $'000	2014 $'000
Premium revenue		15,498	19,167
Outwards reinsurance expense		(2,390)	(2,544)
Net premium revenue	5(a)	**13,108**	**16,623**
Claims benefit/(expense)		28,223	(4,727)
Reinsurance and other recoveries		(30,461)	4,713
Net claims incurred	5(c)	**(2,238)**	**(14)**
Acquisition cost		(687)	(650)
Unexpired risk liability		1,851	1,641
General and administration expenses	5(b)	(2,131)	(4,582)
Underwriting result		**9,903**	**13,018**
Interest income		1,594	2,701
Net investment gains		299	808
Investment expenses		(31)	(83)
Net investment income	5(d)	**2,272**	**3,426**
Profit before income tax		**12,175**	**16,444**
Income tax expense on profit	6(a)	(3,417)	(2,085)
Net profit		**8,758**	**14,359**
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		**8,758**	**14,359**

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 2015

For the financial year ended 31 December 2015	Head Office Account $'000	Retained Earnings $'000	Total $'000
Balance at 1 January	10,000	5,385	15,385
Total comprehensive income for the year	-	8,758	8,758
Cash settlements	-	-	-
Balance at 31 December	**10,000**	**14,143**	**24,143**

For the financial year ended 31 December 2014	Head Office Account $'000	Retained Earnings $'000	Total $'000
Balance at 1 January	36,484	(8,974)	27,510
Total comprehensive income for the year	-	14,359	14,359
Cash settlements	(26,484)	-	(26,484)
Balance at 31 December	**10,000**	**5,385**	**15,385**

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 2015

	Note	2015 $'000	2014 $'000
Assets			
Cash and cash equivalents	7	7,421	5,448
Investments	11	45,346	45,188
Receivables	8	5,793	6,544
Accrued investment income		260	249
Other assets	10	50	559
Deposit with related party	17	19,478	15,995
Reinsurance recoverable	9	33,864	68,962
Deferred tax asset	6(b)	802	5,507
Total assets		**113,014**	**148,452**
Liabilities			
Unearned premiums	12	8,072	9,410
Outstanding claims	12	77,444	118,086
Unexpired risk liability	21	1,872	3,723
Provisions	13	101	87
Other payables	14	1,382	1,761
Total liabilities		**88,871**	**133,067**
Net assets		**24,143**	**15,385**
Equity			
Head Office Account	15	10,000	10,000
Retained earnings		14,143	5,385
Total equity		**24,143**	**15,385**

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 2015

	Note	2015 $'000	2014 $'000
Cash flows from operating activities			
Premiums received		14,333	19,496
Outwards reinsurance paid		(2,390)	(2,544)
Claims paid		(12,785)	(27,024)
Reinsurance recoveries received		8,395	18,689
Other payments to employees and suppliers as part of operations		(6,337)	(2,202)
Interest received		2,498	4,868
Investment expenses paid		(31)	(83)
Income tax paid		(1,828)	(15)
Net cash provided by operating activities	18	**1,855**	**11,185**
Cash flows from investing activities			
Payments for purchase of investments		(9,612)	(10,290)
Proceeds from sale/maturity of investments		9,757	39,485
Deposit with related party		(27)	(15,995)
Net cash provided by investing activities		**118**	**13,200**
Cash flows from financing activities			
Cash settlements of Head Office Account		-	(26,484)
Net cash provided by financing activities		**-**	**(26,484)**
Net increase/(decrease) in cash and cash equivalents during the financial year		**1,973**	**(2,099)**
Cash and cash equivalents at beginning of financial year		5,448	7,547
Exchange fluctuations on cash and cash equivalents held in foreign currencies		-	-
Cash and cash equivalents at end of financial year	7	**7,421**	**5,448**

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 2015

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 FMC reporting entity for the purposes of the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013, and its financial statements comply with these Acts.

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 2015 and comparative information presented in these financial statements for the financial year ended 31 December 2014.

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.

These financial statements are presented in New Zealand Dollars ($), which is the Branch's functional currency. All financial information presented in New Zealand Dollars has been rounded to the nearest thousand, except where otherwise indicated.

The New Zealand Branch is part of General Reinsurance Australia Ltd. (the Company) 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. Its debts may result in claims against assets not appearing thereon.

The financial statements were authorised for issue by the Directors on 15 March 2016.

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 2015

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.

Standard	*Effective for annual reporting periods beginning on or after*	*Expected to be initially applied in the financial year ending*
NZ IFRS 9 Financial Instruments	1 January 2018	31 December 2018
NZ IFRS 15 Revenue from contracts with customers	1 January 2018	31 December 2018
NZ IFRS 16 Leases	1 January 2019	31 December 2019

Assessment of the impact of the initial application of these Standards is still to be completed, however these accounting standards are not expected to have a material impact on the Branch's results or financial position, and 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 and related reinsurance recoveries which have been inflation adjusted and discounted as required by NZ IFRS 4 "Insurance Contracts".

The financial statements refer to General Reinsurance Australia Ltd. and General Reinsurance Australia Ltd. – New Zealand Branch.

Prior period reclassifications

A number of prior year balances have been reclassified in the prior year comparative (2014). 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.
- 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 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 2015

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 in the Statement of Financial Position.

(f) Liability adequacy

At each reporting date, a liability adequacy test is performed on unearned premium reserves 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 2015

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

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 2015

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 recognised on a straight line basis over the term of the lease. The Branch leases office space and data processing equipment under non-cancellable leases expiring in various years through 2015 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 2015

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 2015

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):

	2015	2014
Proportional, Property & Marine:	1.10	1.10
Proportional, Casualty:	3.30	3.30
Non-proportional, Property & Marine:	1.05	1.04
Non-proportional, Casualty:	5.15	5.15

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 2.44% (2014: 2.43%).

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
		$'000	$'000	$'000
Recognised amount per Financial Statements		42,754	8,758	24,143
Variable	**Movement in variable**			
Run-off	+ 10.0%	40,356	7,027	22,412
Loss Ratios	- 10.0%	45,076	10,434	25,819
Expense	+ 0.5%	42,359	8,481	23,866
Rate	- 0.5%	43,151	9,036	24,421
Discount	+ 1.0%	44,459	9,822	25,207
Rate	- 1.0%	40,937	7,617	23,002

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2015

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:

	2015	2014
Proportional, Property & Marine:	10.4%	10.3%
Proportional, Casualty:	14.6%	16.5%
Non-proportional, Property & Marine:	7.9%	7.2%
Non-proportional, Casualty:	13.4%	13.4%

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 2015 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 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.

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 2015

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 Branch to fair value interest rate risk. The Branch'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 Branch.

(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 2015

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

Profit from ordinary activities has been arrived at after including	2015 $'000	2014 $'000
(a) Revenues from operating activities		
General insurance revenue		
Gross written premiums	14,149	16,146
Movement in unearned premiums	1,349	3,021
Premium revenue	15,498	19,167
Outwards reinsurance expense	(2,390)	(2,544)
Net premium revenue	**13,108**	**16,623**
(b) Included in general and administration expenses are:		
- Expenses of management	(2,947)	(3,827)
- Foreign exchange gains/(losses)	871	(663)
- Lease expenses	(51)	(86)
- Depreciation and amortisation	(4)	(6)
	(2,131)	**(4,582)**
Management charges from related entities		
- General Re - New England Asset Management	20	67
- General Reinsurance Australia Ltd.	2,182	3,002

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2015

5 PROFIT FROM ORDINARY ACTIVITIES (continued)

(c) Net claims incurred

	Current year $'000	Prior years $'000	Total $'000
2015			
Gross claims incurred and related expenses	(3,153)	31,588	28,435
Claims handling expenses	(21)	413	392
Reinsurance and other recoveries	-	(29,929)	(29,929)
Net claims incurred - undiscounted	**(3,174)**	**2,072**	**(1,102)**
Discount movement			
- gross claims incurred	144	(3,218)	(3,074)
- reinsurance and other recoveries	-	1,581	1,581
Net discount movement	**144**	**(1,637)**	**(1,493)**
Risk margin movement			
- gross claims incurred	(167)	2,637	2,470
- reinsurance and other recoveries	-	(2,113)	(2,113)
Net risk margin movement	**(167)**	**524**	**357**
Net claims incurred	**(3,197)**	**959**	**(2,238)**
2014			
Gross claims incurred and related expenses	(9,435)	5,760	(3,675)
Claims handling expenses	(95)	58	(37)
Reinsurance and other recoveries	-	5,041	5,041
Net claims incurred -undiscounted	**(9,530)**	**10,859**	**1,329**
Discount movement			
- gross claims incurred	519	(2,271)	(1,752)
- reinsurance and other recoveries	-	565	565
Net discount movement	**519**	**(1,706)**	**(1,187)**
Risk margin movement			
- gross claims incurred	(1,725)	2,462	737
- reinsurance and other recoveries	-	(893)	(893)
Net risk margin movement	**(1,725)**	**1,569**	**(156)**
Net claims incurred	**(10,736)**	**10,722**	**(14)**

(d) Net investment income

	2015 $'000	2014 $'000
Interest	1,594	2,701
Realised gains/(losses)	410	(69)
Changes in fair values	299	877
Expenses	(31)	(83)
	2,272	**3,426**

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2015

5 PROFIT FROM ORDINARY ACTIVITIES (continued)

(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

(a) Income tax expense

	2015 $'000	2014 $'000
Tax expense comprises:		
Current tax expense that relates to current year	-	-
Prior year over provision	(2)	2,526
Deferred tax expense relating to temporary differences	(3,415)	(4,611)
Income tax expense relating to gain from ordinary activities	**(3,417)**	**(2,085)**

The prima facie income tax expense on the pre-tax accounting profit reconciles to the income tax expense shown in the Statement of Profit or Loss and Other Comprehensive Income, as follows:

	2015 $'000	2014 $'000
Profit before income tax	12,175	16,444
Income tax (expense) calculated at 28% (2014: 28%) of operating profit	(3,409)	(4,604)
Adjustment for Permanent differences:		
- Non-deductible entertainment expense	(6)	(7)
Prior year (under)/over provision	(2)	2,526
Total income tax expense	**(3,417)**	**(2,085)**

(b) Deferred tax

	2015 $'000	2014 $'000
At 31 December the deferred tax asset comprises:		
Tax losses	-	4,769
Timing differences	802	738
Total deferred tax asset	**802**	**5,507**

	Opening balance $'000	Transfers not charged to income $'000	Charged to income $'000	Closing balance $'000
2015 Temporary differences				
Unrealised foreign exchange differences	(350)	-	567	217
Accruals and other liabilities	81	-	(16)	65
Tax losses carried forward	4,769	(1,290)	(3,479)	-
Insurance provisions	1,007	-	(487)	520
Total temporary differences	**5,507**	**(1,290)**	**(3,415)**	**802**

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2015

6 INCOME TAX (continued)

	Opening balance	Transfers not charged to income	Charged to income	Closing balance
	$'000	$'000	$'000	$'000
2014 Temporary differences				
Unrealised foreign exchange differences	(1,103)	-	753	(350)
Accruals and other liabilities	1,611	-	(1,530)	81
Tax losses carried forward	9,640	-	(4,871)	4,769
Insurance provisions	(30)	-	1,037	1,007
Total temporary differences	**10,118**	-	**(4,611)**	**5,507**

Losses of General Reinsurance Australia Ltd. - New Zealand Branch of $1,288,000 were sold to General Reinsurance Life Australia Ltd. – New Zealand Branch during the year (2014: $Nil).

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

	2015 $'000	2014 $'000
Cash on hand and at bank	7,402	5,417
Cash on deposit	19	31
Total cash and cash equivalents	**7,421**	**5,448**

8 RECEIVABLES

	2015 $'000	2014 $'000
Premiums receivable	5,842	6,602
Less: Provision for doubtful debts	(49)	(58)
Total receivables	**5,793**	**6,544**
Receivables expected to be realised within 12 months	5,793	6,544
Receivables expected to be realised in more than 12 months	-	-

9 REINSURANCE RECOVERABLE

	2015 $'000	2014 $'000
Reinsurance recoverable on paid losses	3,432	828
Reinsurance recoverable on unpaid losses	30,432	68,134
Total reinsurance recoveries	**33,864**	**68,962**
Reconciliation of reinsurance recoverable on unpaid losses		
Balance as at 1 January	68,134	79,494
Foreign currency revaluation	1,154	(701)
Movement in incurred recoveries	(30,461)	3,884
Less reinsurance recoveries received	(8,395)	(14,543)
Balance as at 31 December	**30,432**	**68,134**
Reinsurance recoverable at 31 December		
Expected to be realised within 12 months	22,056	35,808
Expected to be realised in more than 12 months	8,376	32,326
	30,432	**68,134**

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2015

10 OTHER ASSETS

	2015 $'000	2014 $'000
Deferred acquisition costs	14	31
Unsettled trades at year end	-	509
Sundry assets	-	7
Property plant and equipment	36	12
Total other assets	**50**	**559**
Expected to be realised within 12 months	14	547
Expected to be realised in more than 12 months	36	12
	50	**559**

11 INVESTMENTS

	2015 $'000	2014 $'000
Insurance activities, at fair value:		
Fixed interest securities	**45,346**	**45,188**

12 OUTSTANDING CLAIMS AND UNEARNED PREMIUMS

	2015 $'000	2014 $'000
Outstanding claims		
Gross outstanding claims	74,361	115,608
Discount to present value	(3,720)	(6,795)
Risk margin	6,803	9,273
Liability for outstanding claims	**77,444**	**118,086**
Reconciliation of outstanding claims		
Balance at start of year	118,086	141,348
Foreign currency revaluations	366	(964)
Change in discount to present value	3,074	1,752
Change in risk margin	(2,470)	(738)
Claims paid	(12,785)	(27,024)
Movement in incurred claims	(28,827)	3,712
Balance at end of year	**77,444**	**118,086**
Outstanding claim liabilities at 31 December		
Expected to be realised within 12 months	37,445	48,199
Expected to be realised in more than 12 months	39,999	69,887
	77,444	**118,086**
The following average discount rates were used in the measurement of outstanding claims:	2.44%	2.43%

The weighted average term to settlement for the outstanding claims provisions which have been subject to discounting is approximately 2.25 years (2014 – 2.01 years).

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2015

12 OUTSTANDING CLAIMS AND UNEARNED PREMIUMS (continued)

Net undiscounted central estimate of ultimate claims

	2007 $M	2008 $M	2009 $M	2010 $M	2011 $M	2012 $M	2013 $M	2014 $M	2015 $M	**Total $M**
Estimate of net ultimate claims cost:										
At end of accident year	13	15	17	15	29	17	12	15	8	
One year later	13	19	15	20	52	12	8	13		
Two years later	14	17	15	29	50	11	7			
Three years later	13	17	14	24	43	12				
Four years later	12	16	13	21	40					
Five years later	12	14	13	21						
Six years later	11	15	14							
Seven years later	10	13								
Eight years later	10									
Current estimate of net cumulative claims	10	13	14	21	40	12	7	13	8	
Cumulative net payments	(9)	(13)	(13)	(21)	(25)	(7)	(2)	(5)	-	
Net undiscounted outstanding claims for the nine most recent accident years:	**1**	**-**	**1**	**-**	**15**	**5**	**5**	**8**	**8**	**43**

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

	Total $'000
Net undiscounted outstanding claims for the 9 most recent accident years	42,914
Net outstanding claims – accident years 2006 and prior	1,869
Claims handling costs	697
Discount to present value	(3,275)
Risk margin	4,807
Reinsurance recoverable on paid losses	(3,432)
Net outstanding claims liability	**43,580**

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.

MATURITY PROFILE OF NET OUTSTANDING CLAIMS LIABILITY	2015 $'000	2014 $'000
1 year or less	11,957	11,101
Within 1 to 5 years	22,836	28,562
Over 5 years	8,787	9,461
	43,580	**49,124**

UNEARNED PREMIUM

	2015 $'000	2014 $'000
Balance as at 1 January	9,410	12,516
Foreign currency revaluations	11	(86)
Deferral of premiums on contracts written in the period	8,027	9,410
Earning of premiums written in previous periods	(9,376)	(12,430)
Balance as at 31 December	**8,072**	**9,410**

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2015

13 PROVISIONS

		Opening $'000	Payments $'000	Provision $'000	Closing $'000
Profit commission payable	(I)	4	(18)	14	**-**
Annual leave	(ii)	48	(22)	39	**65**
Makegood	(iii)	36	-	-	**36**
		88	(40)	53	**101**

(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.

14 OTHER PAYABLES

	2015 $'000	2014 $'000
Sundry payables and accruals	699	1,260
Due to related entities:		
- General Reinsurance Life Australia Ltd.	683	501
Total other payables	**1,382**	**1,761**

All balances are expected to be paid within 12 months.

15 HEAD OFFICE ACCOUNT

Designated equity	**10,000**	**10,000**

During 2014 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	50
Later than one year but not later than five years	4	54
Later than five years	-	-
Total leases	**53**	**104**

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2015

17 RELATED PARTIES

Parent and ultimate controlling entities

The immediate parent and ultimate controlling entity respectively are General Reinsurance Corporation and Berkshire Hathaway Inc., both incorporated in the United States of America.

Directors

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

F Allan McDonald	Andrew Flitcroft
Kathryn J McCann	William G Gasdaska
Mark Phillips	Pietro A Toffanello

Key Management Personnel

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

	2015 $'000	2014 $'000
Related party balances at reporting date		
General Reinsurance Life Australia Ltd.	(683)	(501)
Head Office:		
General Reinsurance Australia Ltd.	19,478	15,995
Management charges paid to related entities		
General Re - New England Asset Management Inc.	20	67
Head Office:		
General Reinsurance Australia Ltd	2,182	3,002

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

	2015	2014
Retrocession premiums	(2,436)	(2,544)
Claim recoveries	8,712	4,713
Reinsurance recoverable on paid losses	3,432	828
Reinsurance recoverable on unpaid losses	25,919	60,173

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

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2015

18 NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of net operating cash flows to net profit	2015 $'000	2014 $'000
Net profit	8,758	14,359
Depreciation	4	6
(Profit)/loss on sale of investments	(410)	69
Unrealised movement in fair value of investments and amortisation	616	877
Change in operating assets and liabilities		
Decrease in premiums receivable	401	8,561
Decrease in reinsurance recoveries	35,098	10,531
(Increase)/decrease in other assets	(3,471)	2,913
Decrease in payables and provisions	(15)	(22)
Decrease in underwriting provisions:		
- unearned premium	(1,338)	(3,107)
- outstanding claims	(40,642)	(23,261)
- unexpired risk liability	(1,851)	(1,810)
Movement in tax accounts	4,705	2,069
Net cash provided by operating activities	**1,855**	**11,185**

19 FINANCIAL INSTRUMENTS

(a) Credit Risk Exposure

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.

(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 and 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 (as disclosed in Note 7) and Equity, comprising Head Office Account and Retained Earnings (as disclosed in the Statement of Changes in Equity).

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 2015

19 FINANCIAL INSTRUMENTS (continued)

(f) Categories of financial instruments

	Note	2015 $'000	2014 $'000
Financial assets			
Cash and cash equivalents	7	7,421	5,448
Financial assets at fair value through profit or loss *(i)*			
Fixed interest securities	11	45,346	45,188
Loans and receivables			
Deposit with related party	17	19,478	15,995
Accrued investment income		260	249
Other assets	10	50	547
Financial liabilities			
Amortised cost			
Other payables	14	1,382	1,761

(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 2014.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2015

19 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 2014.

The Branch's financial liabilities are reflected in note 14. All balances are expcted to be paid within 12 months.

(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 2015

19 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
2015	**%**	**$'000**	**$'000**	**$'000**	**$'000**
Non-interest bearing:					
Premium Receivable	-	5,793	-	-	5,793
Deposit with related party	-	19,478	-	-	19,478
Accrued investment income	-	260	-	-	
Other insurance receivables	-	14	-	-	14
Variable interest rate instruments:					
Cash	2.06	7,421	-	-	7,421
Fixed interest rate instruments:					
New Zealand Government	2.74	-	43,855	1,491	45,346
		32,966	**43,855**	**1,491**	**78,052**
2014					
Non-interest bearing:					
Premium Receivable	-	6,544	-	-	6,544
Deposit with related party	-	15,995	-	-	15,995
Accrued investment income		249	-	-	249
Other insurance receivables	-	547	-	-	547
Variable interest rate instruments:					
Cash	2.65	5,448	-	-	5,448
Fixed interest rate instruments:					
New Zealand Government	3.54	-	45,188	-	45,188
		28,783	**45,188**	**-**	**73,971**

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2015

19 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	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Effect of 100 basis point increase or decrease on profit (+/-)	(574)	(1,974)	578	(256)

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 2014.

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

	2015 $'000	2014 $'000
Exposure to Australian dollars at 31 December	22,801	2,277
Unrealised gain/(loss) from a 10% change in foreign exchange rates	2,280	228

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 in the Statement of Financial Position were generally based on quoted market prices.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2015

19 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 2015 and 2014 are summarised in the following table by the type of inputs applicable to the level of the fair value measurement (in thousands).

2015	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Fixed maturity bonds				
Obligations of the New Zealand Government	45,346	-	-	45,346
	45,346	**-**	**-**	**45,346**

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

2014	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Fixed maturity bonds				
Obligations of the New Zealand Government	45,188	-	-	45,188
	45,188	**-**	**-**	**45,188**

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2015

20 AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY ("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.

	2015 AU$'000	2014 AU$'000
Adjusted Tier 1 Capital		
Tier 1 Capital	396,613	392,152
Premium liability deficit	(10,974)	(10,030)
Deferred tax assets	(2,833)	(12,408)
Reinsurance assets receivable not meeting governing law requirements	(10,315)	-
	372,491	**369,714**
Prudential Capital Requirement (PCR)		
Insurance Risk Charge	64,268	67,986
Insurance Concentration Risk Charge	123,649	119,763
Asset Risk Charge	27,040	36,998
Operational Risk Charge	6,277	6,471
Less: Aggregation Benefit	(19,825)	(26,260)
	201,410	**204,958**
PCR coverage ratio	**1.8494**	**1.8185**

General Reinsurance Australia Ltd. has an "AA+" credit rating from Standard and Poor's as at 31 December 2015.

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

NOTES TO THE FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015

21 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:

	2015 $'000	2014 $'000
Unearned premium liability	8,072	9,410
Future premiums	232	2,849
Deferred acquisition costs	(467)	(315)
Future commissions	(12)	(218)
PV of expected future cash flows for future claims		
Central estimate of PV of expected future cash flows	(6,675)	(10,391)
Risk margin	(2,221)	(3,378)
Risk margin	**33%**	**33%**
At probability of adequacy	**75%**	**75%**
Deficit as determined on a portfolio level: *		
Unearned premium liability	4,225	3,524
Future premiums	(132)	2,004
Deferred acquisition costs	(467)	(315)
Future commissions	(12)	(218)
Reinsurance asset	-	-
PV of expected future cash flows for future claims	(5,939)	(9,002)
LAT deficiency	**2,325**	**4,007**
Of which:		
write-down of deferred acquisition costs	*453*	*284*
unexpired risk liability	*1,872*	*3,723*

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

Reconciliation of deferred acquisition costs

	2015 $'000	2014 $'000
Balance as at 1 January	31	136
Acquisition costs deferred	417	506
Amortisation charged to profit or loss	(267)	(522)
Movement in LAT write-down	(169)	(88)
Foreign currency revaluation	2	(1)
Balance as at 31 December	**14**	**31**

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2015

22 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 2015 the Branch had 3 employees (2014: 3).

Type of Company

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

23 EVENTS SUBSEQUENT TO BALANCE DATE

Effective 1 January 2016, Meredith Brooks was appointed as Director of the Company's board.
In January 2016 it was announced that, effective 1 July 2016, the Chairman, Allan McDonald, will retire from the board and Kate McCann will replace Mr McDonald as Chairperson.

Deloitte.

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

We have audited the accompanying financial statements of General Reinsurance Australia Ltd – New Zealand branch, which comprise the statement of financial position as at 31 December 2015, the statement of profit or loss and other comprehensive income, the statement of changes in equity, and the statement of cash flows for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information as set out on pages 7 to 36.

The Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 and fair presentation of the financial statements 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 accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating 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 present fairly, in all material respects, the financial position of General Reinsurance Australia Ltd – New Zealand branch as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards, International Financial Reporting Standards and generally accepted accounting practice in New Zealand.

Emphasis of Matter

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. Our opinion is not qualified in respect of this matter.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Stuart Alexander
Partner
Chartered Accountants
Sydney, 15 March 2016

Member of Deloitte Touche Tohmatsu Limited