Great Lakes Insurance SE
(formerly Great Lakes Reinsurance (UK) SE)
New Zealand Branch
(Overseas company registered in New Zealand under the Companies Act 1993)

Annual Financial Report
31 December 2016

Principal place of business

PwC Tower, Level 15, 188 Quay Street, Auckland

Great Lakes Insurance SE – New Zealand Branch

(Overseas company registered in New Zealand under the Companies Act 1993)

Statement on Corporate Governance

Great Lakes Insurance SE ("GLISE"), formerly Great Lakes Reinsurance (UK) SE ("GLUK"), is a German company which operates in New Zealand through a branch. GLISE is authorised by the Reserve Bank of New Zealand to conduct non-life insurance business in New Zealand.

Munich Holdings of Australasia Pty Limited ("MHA") through its 100% owned subsidiary, Corion Pty Limited ("Corion"), provides all administration services for the Munich Re Group in Australia, New Zealand and the Pacific area. Corion carries out these activities in conjunction with strategic and operational guidance provided by GLISE in respect of its New Zealand branch ("GLNZ").

Corion's key responsibilities include:

(a) approve and monitor GLNZ's corporate strategies;

(b) ensure best practice corporate governance;

(c) monitor the performance of GLNZ's management;

(d) adopt appropriate risk management systems, internal control and reporting systems and compliance frameworks and monitor their operation;

(e) review and approve the financial performance of GLNZ;

(f) approve decisions concerning GLNZ's capital position;

(g) monitor GLNZ's compliance with the reporting and other requirements of the Companies Act, Insurance (Prudential Supervision) Act 2010 and other applicable legislation concerning GLNZ; and

(h) review the preparation of GLNZ's financial reports and statements.

Corion's Board comprises a majority of independent non-executive directors. All Directors are subject to competency requirements and collectively must have the full range of skills needed for the effective and prudent operation of a company operating in the insurance industry.

To assist in fulfilling its functions, the Corion Board has established the following Committees:

- Risk and Compliance Committee. Amongst other things, the Committee provides oversight of the systems, controls and processes used to manage those risks to which GLNZ is exposed and responsibility to monitor compliance with all GLNZ's legal and statutory obligations.
- Audit Committee. Amongst other things, the Committee provides oversight of the integrity of the accounting and financial reporting used by GLNZ, including to implement and monitor the potential impact of financial risks on GLNZ and review the performance and independence of the external auditor.

Munich Re New Zealand Service Limited ("NZS") is the employer of all Munich Re Group staff in New Zealand and provides certain administrative services to GLNZ. NZS is a 100% owned subsidiary of MHA.

MHA has established a Remuneration Committee and has a remuneration policy that aligns remuneration and risk management. The Remuneration Committee's functions include conducting regular reviews of, and making recommendations to the Board on remuneration matters of the key staff, including New Zealand management.

All Munich Re Group staff globally are required to comply with Munich Re Code of Conduct. The purpose of the Code is to provide clear information and guidance for employees on the basic legal and ethical requirements with which they must comply in the course of their work.

To support the governance function, the MHA Board has approved the following policies and procedures which are applicable to New Zealand:

- Privacy Policy
- Conflict of Interest Policy and Procedure
- Whistle blowing Policy
- Fraud Risk Management Policy
- Insider Trading Policy and Procedure
- Incident Reporting and Investigation Policy
- Compliance Program
- Outsourcing Policy
- Fit and Proper Policy
- Business Continuity Management Policy
- Investment Policy
- Search and Seizure Policy

Great Lakes Insurance SE – New Zealand Branch

(Overseas company registered in New Zealand under the Companies Act 1993)

Statement Of Comprehensive Income For The Year Ended 31 December 2016

	Note	2016 $	2015 $
Revenue from operating activities			
Insurance revenue		78,808,845	73,568,302
Investment revenue		35,234	75,578
Other revenue		112	978
Total revenue from operating activities	4	78,844,191	73,644,858
Expenses from operating activities			
Insurance expense		78,641,120	73,640,184
Other expenses		61,291	212,309
Total expenses from operating activities	5	78,702,411	73,852,493
Profit/(loss) before tax		141,780	(207,635)
Tax expense/(benefit)	6	38,980	(73,886)
Profit/(loss) for the year		102,800	(133,749)
Profit for the year and total comprehensive income for the year		102,800	(133,749)

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 6 to 23.

Great Lakes Insurance SE – New Zealand Branch

(Overseas company registered in New Zealand under the Companies Act 1993)

Balance Sheet As At 31 December 2016

	Note	2016 $	2015 $
Current assets			
Cash	9	787,128	4,150,058
Accounts receivable on insurance business		6,620,261	6,748,407
Deferred acquisition costs	10	8,497,323	8,558,598
Reinsurance recoveries		10,910,698	8,672,408
Sundry debtors		330,416	19,696
Prepaid reinsurance		13,922,599	14,034,987
Profit commission recoverable		83,175	287,575
Total current assets		41,151,600	42,471,729
Non-current assets			
Reinsurance recoveries		2,116,772	1,235,531
Deferred tax assets	11	80,573	119,554
Total non-current assets		2,197,345	1,355,085
Total assets		43,348,945	43,826,814
Current liabilities			
Payables	12	6,724,260	10,080,142
Outstanding claims	13	10,896,523	8,679,776
Unearned premiums	14	13,922,599	14,034,987
Reinsurance deferred acquisition costs		8,497,323	8,558,598
Profit commission payable		83,175	287,575
Total current liabilities		40,123,880	41,641,078
Non-current liabilities			
Outstanding claims	13	2,137,189	1,235,898
Total non-current liabilities		2,137,189	1,235,898
Total liabilities		42,261,069	42,876,976
Net assets		1,087,876	949,838
Head office account			
Accumulated surplus – head office		1,087,876	949,838
Total head office account		1,087,876	949,838

The balance sheet is to be read in conjunction with the notes to the financial statements set out on pages 6 to 23.

Great Lakes Insurance SE – New Zealand Branch
(Overseas company registered in New Zealand under the Companies Act 1993)

Statement Of Changes In Equity for the year ended 31 December 2016

	Head office account $
Balance at 1 January 2015	1,674,932
Movement in head office account	(591,345)
Total comprehensive income	(133,749)
Balance at 31 December 2015	949,838
Balance at 1 January 2016	949,838
Movement in head office account	35,238
Total comprehensive profit	102,801
Balance at 31 December 2016	1,087,876

The Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements set out on pages 6 to 23.

Great Lakes Insurance SE – New Zealand Branch

(Overseas company registered in New Zealand under the Companies Act 1993)

Statement of Cash Flows for the year ended 31 December 2016

	Note	2016 $	2015 $
Cash flows from operating activities			
Premium received		14,210,328	13,437,477
Claims paid	13	(11,338,578)	(9,631,041)
Net reinsurance paid		(5,813,339)	(1,816,037)
Management and administration expenses paid		(456,575)	(417,188)
Net cash from operating activities	17	(3,398,164)	1,573,211
Cash flows from investing activities			
Proceeds from sale of financial asset		~~-~~	~~500,000~~
Interest received		35,234	78,868
Net cash from investing activities		35,234	578,868
Net (decrease)/increase in cash		(3,362,930)	2,152,079
Cash at 1 January		4,150,058	1,997,979
Cash at 31 December		787,128	4,150,058

The Statement of Cash Flows is to be read in conjunction with the notes to the financial statements set out on pages 6 to 23.

Great Lakes Insurance SE – New Zealand Branch

(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2016

1. Summary of significant accounting policies

Great Lakes Insurance SE – New Zealand branch (the "Branch"), formerly Great Lakes Reinsurance (UK) SE – New Zealand branch, is registered to carry on business in New Zealand for a foreign company, Great Lakes Insurance SE (formerly Great Lakes Reinsurance (UK) SE), which is domiciled and incorporated in Germany. The Branch's principal activity is general insurance. The Branch is an issuer in terms of the Financial Reporting Act 1993. The Branch is a profit-oriented entity. The Branch is a reporting entity for the purposes of the Financial Markets Conduct Act 2013 and the financial statements have been prepared in accordance with the requirements of that Act and the Financial Reporting Act 2013.

With the introduction of the Insurance (Prudential Supervision) Act 2010 ("IPSA"), all insurers carrying on insurance business in New Zealand are required to be licensed by the Reserve Bank of New Zealand ("RBNZ"). The Branch was granted a full licence on 2 April 2013. These financial statements have also been prepared in accordance with the IPSA.

The financial report was authorised for issue by the directors on 31.03.2017.

(a) Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with the New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards. The financial statements also comply with International Financial Reporting Standards ("IFRS").

(b) Basis of preparation

The financial statements are presented in New Zealand Dollars, which is the Branch's presentational and functional currency.

The financial statements are prepared in accordance with the fair value basis of accounting unless otherwise stated below.

The accounting policies set out below have been applied consistently by the Branch to all periods presented in the financial statements.

Adoption of new standards and changes in accounting policies

The following accounting standard and interpretation was issued but is not yet mandatory and has not been adopted by the Branch for the financial year ended 31 December 2016.

An assessment of the impact of the new or amended standards is set out below:

NZ IFRS 9 *Financial Instruments* includes requirements for the classification, measurement and de-recognition of financial assets and financial liabilities. The IASB have deferred the application date of NZ IFRS 9 until 1 January 2018. Retrospective application is generally required, although there are exceptions. As the Branch currently classifies its financial assets either at amortised cost or fair value through the profit and loss, no material impact is expected on the Branch's Statement of Comprehensive Income or Balance Sheet on adoption of this standard, however, the Branch continues to monitor the impact of this standard.

NZ IFRS 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue guidance, including:

- NZ IAS 11 *Construction Contracts*
- NZ IAS 18 *Revenue*
- NZ IFRIC 13 *Customer Loyalty Programmes*
- NZ IFRIC 15 *Agreements for the Construction of Real Estate*
- NZ IFRIC 18 *Transfers of Assets from Customers*
- NZ SIC-31 *Revenue – Barter Transactions Involving Advertising Services*

NZ IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Branch is assessing the potential impact on statements resulting from the application of NZ IFRS 15.

Notes to the financial statements for the year ended 31 December 2016

1. Summary of significant accounting policies (continued)

(c) Use of estimates and judgements

The preparation of the financial statements in conformity with NZ GAAP requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The areas where critical accounting estimates and judgements are applied are included in Note 2.

(d) Revenue

Premium revenue
Premiums have been brought to account as income from the date of attachment of risk. Premiums for unclosed business are brought to account where the date of attachment of risk of the business written is prior to reporting date and there is insufficient information to accurately identify the business. The estimation of unclosed business is based on previous experience with due allowance for any changes in the pattern of new business and renewals. The earned portion of premiums received and receivable including unclosed business is recognised as revenue.

The pattern of recognition of premium revenue over the policy or indemnity periods is based on the pattern of risk underwritten. Previous claims experience has been used to derive the pattern of risk for the main class of business underwritten. Other classes of business are recognised based on time.

Interest income
Interest income is recognised on an accrual basis.

Reinsurance exchange commission
Reinsurance exchange commission is calculated as a percentage of reinsurance premium.

The pattern of recognition of reinsurance exchange commission follows the reinsurance premium earning pattern.

Administration commission income
Administration commission income is received from the reinsurer based on the Branch's annual budgeted expenses plus a margin of 10%. This is recognised on a straight line basis over the financial year.

Reinsurance recoveries revenue
Reinsurance recoveries revenue is recognised as income in accordance with the reinsurance service received.

(e) Unexpired risk liability

At each reporting date the Branch performs a liability adequacy test and immediately recognises any deficiencies if the carrying amount of unearned premium less any related deferred acquisition costs does not meet estimated future cash flows relating to future claims covered by current insurance contracts.

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related deferred acquisition costs then the unearned premium liability is deemed to be deficient.

The entire deficiency, if any, net of reinsurance, is recognised immediately in the Statement of Comprehensive Income. The deficiency is recognised first by writing down the related deferred acquisition costs with any excess being recorded in the Balance Sheet as unexpired risk liability.

1. Summary of significant accounting policies (continued)

(f) Outwards reinsurance

Premiums ceded to reinsurers are recognised as an expense in accordance with the pattern of reinsurance service received.

(g) Claims

Claims incurred expense and a liability for outstanding claims are recognised in respect of all insurance business. The liability covers claims incurred but not yet paid, incurred but not reported ("IBNR"), incurred but not enough reported ("IBNER") and the anticipated direct and indirect costs of settling those claims.

Claims outstanding are assessed by review of individual claim files and estimating the ultimate cost of settling claims which includes IBNRs, IBNERs and settlement costs using statistics based on past experience and trends. The outstanding claims reserve is estimated using actuarial models.

The liability for outstanding claims is measured as the present value of the expected future payments reflecting the fact that all claims do not have to be paid out in the immediate future.

The expected future payments are estimated on the basis of the ultimate cost of settling claims which is affected by factors arising during the period to settlement such as normal inflation and superimposed inflation. The expected future payments are then discounted to a present value at the balance date using a risk-free discount rate. A risk margin is added to the outstanding claims liabilities to increase the probability that the liability is adequate at an adequacy level deemed appropriate by management and set at a confidence level of 75%.

(h) Reinsurance recoveries

Reinsurance recoveries are assessed regularly and expected future recoveries are estimated on the same basis as the liability for outstanding claims, on the basis of the ultimate cost of settling claims which is affected by factors arising during the period to settlement such as normal inflation and superimposed inflation. The expected future recoveries are then discounted to a present value at the balance date using a discount rate. A risk margin is added to the outstanding recoveries to increase the probability that the asset is adequate at an adequacy level deemed appropriate by management and set at a confidence level of 75%.

(i) Acquisition costs

A portion of direct acquisition costs relating to unearned premium revenue is deferred where it represents future benefits to the Branch and can be reliably measured. Deferred acquisition costs are stated at the lower of cost and recoverable amount. Deferred acquisition costs are amortised over the financial years expected to benefit from the expenditure.

(j) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the Statement of Comprehensive Income.

Assets and liabilities expressed in other currencies are translated to the functional currency using the closing exchange rate at the reporting date and income and expenses are translated using the average exchange rate for the year. Realised and unrealised foreign exchange gains and losses resulting from this translation are recognised in the Statement of Comprehensive Income.

(k) Income tax

Prior to July 2010, Great Lakes Insurance SE did not have a permanent establishment for tax purposes in New Zealand. The portfolio incepting prior to July 2010 was underwritten by Great Lakes Insurance SE directly. As a result, such portfolio is not attributed to New Zealand for income tax purposes. The portfolio incepting from July 2010 was, and remains to be, underwritten by Great Lakes Insurance SE – New Zealand Branch, a permanent establishment in New Zealand for income tax purposes. On this basis the Branch is required to attribute profits from the business to New Zealand for income tax purposes from July 2010.

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

1. Summary of significant accounting policies (continued)

(k) Income tax (continued)

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled. The tax rates are applied to the cumulative amounts of deductible and assessable temporary differences to measure the deferred tax asset or liability. Deferred tax assets are recognised for deductible temporary differences only if it is probable that future taxable amounts will be available to utilise those temporary differences.

(l) Rounding of amounts

Amounts in the financial statements have been rounded off to the nearest dollar.

(m) Financial assets backing insurance contract liabilities

The Branch has determined that all financial assets are deemed to back insurance contract liabilities and are measured at fair value through profit or loss at each balance date as they meet the criteria under NZ IAS 39 *Financial Instruments: Recognition and Measurement.* Unrealised profits and losses on subsequent measurement to fair value are recognised in the Statement of Comprehensive Income.

Fair value is measured as follows:

- Cash assets are carried at face value of the amounts deposited. The carrying amounts of cash assets approximate their fair value. Cash includes cash on hand, deposits held at call with banks and investments in money market instruments, such as Bills of Exchange.
- Fixed interest securities are taken as the bid price of the instrument.
- Receivables are initially recognised and subsequently measured at book value less provision for doubtful debts, which is the best estimate of fair value as they are settled within a short period.

Purchases and sales of financial assets are recognised on trade date, being the date on which the Branch commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Branch has transferred substantially all the risks and rewards of ownership.

(n) Impairment of assets

All assets other than those which are set outside the scope of NZ IAS 36 *Impairment of Assets* are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

(o) Cash and receivables

Cash comprises cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Branch in the management of its short-term commitments.

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

(p) Payables

Payables are carried at book value, which approximates fair value and represents liabilities for goods and services provided to the Branch prior to the end of the financial year that were unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

1. Summary of significant accounting policies (continued)

(q) Goods and Services Tax

As highlighted in note 1(k), prior to July 2010, Great Lakes Insurance SE did not have a permanent establishment for tax purposes in New Zealand, therefore deemed to have no requirement to register for GST in New Zealand. The Branch portfolio from July 2010 is registered for GST in New Zealand. All amounts are shown exclusive of GST except for receivables and payables that are stated inclusive of GST.

(r) Non-resident withholding tax

The non-resident portfolio of the Branch is subject to a premium withholding tax of 2.8% on the gross premiums received in respect of non-life insurance business. However, no premium withholding tax applies to the closed warranty, bond and surety businesses as these businesses do not constitute insurance for the purposes of the premium withholding tax.

2. Summary of significant actuarial methods and assumptions

The effective date of the actuarial valuation on outstanding claims liabilities is 31 December 2016. The liability valuation is documented in a report prepared by the Appointed Actuary, Mr. Kaise Stephan FNZSA, FIAA. The report indicates that the Appointed Actuary is satisfied with the nature, sufficiency and accuracy of the data provided upon which the outstanding claims liabilities have been determined. Methods utilised and assumptions made in determining the outstanding claims liability are in accordance with the requirements of NZ IFRS 4 *Insurance Contracts* and consistent with the New Zealand Society of Actuaries Professional Standard 30, "Valuation of General Insurance Claims".

(a) Key actuarial valuation methods and assumptions

(i) Outstanding claims liabilities

Provision is made at the end of the year for the estimated cost of claims incurred but not settled at balance date. These reserves include estimates for claims that have been reported, IBNR, and IBNER, and include estimates of expenses associated with processing and settling these claims.

The process of establishing reserves is subject to considerable variability as it requires the use of informed estimates and judgements. These estimates and judgements are based on numerous factors, and may be revised as additional experience and other data become available or as regulations change.

Outstanding claims liability is estimated by class of business. Historical experience and other statistical information are used to estimate the ultimate claim costs.

To determine outstanding claims provision for a particular line of business, more than one method may be used to estimate ultimate losses and loss expenses and the results are used to select a single point estimate. These methods may include, but are not necessarily limited to, extrapolations of historical reported and paid loss data, application of industry loss development patterns to the reported or paid losses, expected loss ratios developed by management, and historical industry loss ratios. Underlying judgements and assumptions that may be incorporated into these actuarial methods include, but are not necessarily limited to, adjustments to historical data used in models to exclude aberrations in claims data such as catastrophes that are typically analysed separately, adjustments to actuarial models and related data for known business changes and the effect of recent or pending litigation on future claims settlements.

(ii) Key actuarial assumptions

The following key assumptions have been made in determining the outstanding claims liabilities:

	2016	2015
Weighted average term to settlement (years)	0.73	0.68
Inflation rate	Implicit	Implicit
Discount rate	1.9% - 5.1%	2.6% - 5.0%
Claims handling expense ratio	1.30%	1.30%
Risk margin	21.09%	21.97%

2. Summary of significant actuarial methods and assumptions (continued)

(a) Key actuarial valuation methods and assumptions (continued)

(iii) Process used to determine assumptions

A description of the processes used to determine these assumptions is provided below:

- **Weighted average term to settlement**

  The weighted average term to settlement relates to the number of years until the payments are made on average (inflated and discounted). The payment pattern is selected based on historical settlement patterns. The weighted average term to settlement, while not itself an assumption, provides a summary indication of the future cash flow pattern.

- **Inflation rate**

  Insurance costs are subject to inflationary pressures. Inflation and superimposed inflation are implicitly allowed for in the adopted actuarial valuation methods on the basis that it is reflected in the development of historical claims cost.

- **Discount rate**

  In order to determine the interest rates used to discount the liabilities, an analysis of the term structure of risk-free interest rates was prepared. The yield structure of New Zealand government bonds as at 31 December 2016 is used to derive the future effective annual interest rates.

- **Claims handling expense ratio**

  New Zealand and International Financial Reporting Standards require insurers to establish a provision for outstanding claims, which includes an allowance for claims handling expenses (CHE). The claims handling expense ratio is determined by conducting an expense analysis.

- **Risk margin**

  The overall risk margin was determined allowing for the relative uncertainty of the outstanding claims estimate for each class of business. The overall position is intended to approximate 75% probability of adequacy.

(b) The effect of changes in key actuarial assumptions

Sensitivity analyses are conducted to quantify the impact of changes in the key underlying variables. The variations included in the reported results are calculated using certain assumptions about the variables as disclosed below. The movement in any key variable will impact the financial position and performance for a period. The following information describes how a change in each assumption will affect claims liabilities and provides an analysis of the sensitivity of the outstanding claims liabilities to changes in these assumptions.

- **Weighted average term to settlement**

  A decrease in average term to settlement implies that claims are being paid sooner than anticipated. Expected payment patterns are used in determining the outstanding claims liability. An increase or decrease in the weighted average term would have an opposite effect on outstanding claims liabilities.

- **Risk margin**

  The outstanding claims liabilities includes a risk margin to allow for the inherent uncertainty in the estimates of future claims cost. An increase or decrease in the percentage risk margin will have a corresponding change in the overall outstanding claims liabilities.

- **Discount rate**

  The outstanding claims liabilities are calculated with reference to expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate will have an opposite impact on the overall outstanding claims liabilities.

2. Summary of significant actuarial methods and assumptions (continued)

(b) The effect of changes in key actuarial assumptions (continued)

- **Claims handling expense ratio**

  An estimate for the internal costs of handling claims is included in outstanding claims liabilities. An increase or decrease in the expense rate assumption would have a corresponding change on outstanding claims liabilities.

(c) Sensitivity analysis of changes in key actuarial assumptions

The impact of changes in key actuarial assumptions is summarised below. Each change has been calculated in isolation of the other changes.

The movements are stated in absolute terms where the base assumption is a percentage, for example, if the base risk margin assumption was 22.0%, a 1% increase would mean a 23.0% risk margin. The movements in the net outstanding claims liability would have an opposing net impact on the profit before tax for a year.

Variable	Movement in variable	Change in gross discounted outstanding claim liabilities 2016 $'000	2015 $'000
Weighted average term to settlement	+0.5 years	(133)	(46)
	-0.5 years	135	47
Risk margin	+1%	108	81
	-1%	(108)	(81)
Discount rate	+1%	(90)	(22)
	-1%	92	23
Claims handling expense ratio	+1%	129	98
	-1%	(129)	(98)

3. Risk management policies and procedures

The Branch carries on insurance business in New Zealand in the non-life insurance segment.

The financial condition and operating results of the Branch are affected by a number of key financial and non-financial risks. Risk management is the process of identifying, analysing, controlling, monitoring, and reporting risks that could have a material impact on the operations of the Branch. Insurance risk involves the consideration of the market, product design, pricing, underwriting, claims management and valuation risk. The Branch's disclosed objectives and policies in respect of managing these risks are set out in the remainder of this note.

(a) Risk management objectives and policies for mitigating financial risks

Objectives

Through its insurance operations the Branch is exposed to financial risks such as credit risk, liquidity risk and market risk. The Branch's risk management framework seeks to minimise the potential adverse effects of these risks on its financial performance.

The key objective of the Branch's financial management strategy is to ensure sufficient liquidity is available at all times to meet its financial obligations, including settlement of insurance liabilities, and to optimise the Branch's investment returns.

3. Risk management policies and procedures (continued)

(a) Risk management objectives and policies for mitigating financial risks (continued)

(i) Credit risk

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

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

- A mandate is in place that limits all New Zealand dollar investments to be in New Zealand government bonds.
- The credit risk in respect of client balances: Premium paid by managing general agents are paid net of commission so that no commission liability exists until a premium is paid.
- Reinsurance is held with highly rated group entities only.

The carrying amounts of financial assets represent the maximum credit exposure. The table below provides information regarding the maximum exposure to credit risk for the components of the Balance Sheet.

		Carrying amount	
		2016	**2015**
	Note	**$**	**$**
Cash	9	787,128	4,150,058
Accounts receivable from insurance business		6,620,261	6,748,407
Reinsurance recoveries		13,027,470	9,907,939
Sundry debtors		330,416	19,696
Profit commission recoverable		83,175	287,575
Total		20,848,450	21,113,675
No financial assets are either past due or impaired			
Standard & Poor's A- to AAA		13,900,212	14,345,404
Unrated		6,948,238	6,768,271
Total		20,848,450	21,113,675

All financial assets carried at fair value through profit or loss are categorised as level 1 of the fair value measurement hierarchy. The fair value of level 1 financial assets are based on quoted prices in active markets for identical instruments at the Balance Sheet date.

The Branch has a significant credit exposure to its reinsurer and ultimate parent entity Münchener Rückversicherungs-Gesellschaft. Münchener Rückversicherungs-Gesellschaft has a Standard and Poor's credit rating of AA-.

(ii) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments.

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

- The Branch maintains a sufficient portfolio of liquid financial assets that are readily converted to cash to meet the needs of the business, without incurring unacceptable losses or risking damage to the Branch's reputation.

- The Branch maintains financial assets with similar duration as the underlying outstanding claims liabilities of the business in order to ensure sufficient funding is available to meet outstanding claims obligations.

The table below summarises the maturity profile of the financial liabilities of the Branch at carrying value, except for outstanding claims, where maturity profiles are determined on the discounted estimated timing of cash outflows.

3. Risk management policies and procedures (continued)

(a) Risk management objectives and policies for mitigating financial risks (continued)

(ii) Liquidity risk (continued)

	Note	Total	Up to 1 year	1-5 years	Over 5 years
2016			$	$	$
Payables	12	6,724,260	6,724,260	-	-
Profit commission payable		83,175	83,175	-	-
Outstanding claims	13	13,033,712	10,896,523	2,124,563	12,626
Total		19,841,147	17,703,958	2,124,563	12,626
2015					
Payables	12	10,080,143	10,080,143	-	-
Profit commission payable		287,575	287,575	-	-
Outstanding claims	13	9,915,674	8,679,776	1,231,698	4,200
Total		20,283,392	19,047,494	1,231,698	4,200

(iii) Market risk

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

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

- The Branch manages its risk within an Asset and Liability Management ("ALM") framework. The ALM framework forms an integral part of the insurance risk management policy and ensures the Branch maintains financial assets with similar duration and cash flow characteristics as the underlying insurance contract liabilities of the business. This minimises the risk of interest rate movements resulting in a mis-match between the value of the assets and the liabilities.
- The Branch does not trade in derivatives or use derivatives to manage exposures to interest rate risk, foreign currency risk and other price risk.

Interest rate risk

The Branch has determined that all financial assets held are assets backing insurance contract liabilities. The investment income of the Branch will decrease as interest rates decrease. The insurance liabilities are closely matched to reinsurance recoveries.

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

	Note	Weighted average interest rate	Floating interest rate	---- Fixed interest maturing in:----			Total
				Up to 1 year	1 to 5 years	Over 5 years	
			$	$	$	$	$
2016							
Cash	9	1.75%	787,128	-	-	-	787,128
Total			787,128	-	-	-	787,128
2015							
Cash	9	1.2%	4,150,058	-	-	-	4,150,058
Total			4,150,058	-	-	-	4,150,058

3. Risk management policies and procedures (continued)

(a) Risk management objectives and policies for mitigating financial risks (continued)

(iii) Market risk (continued)

A +/- 1% movement in the bank interest rate would have an impact of $7,871 (2015: $41,501) on the Statement of Comprehensive Income.

Currency risk

The Branch operates in New Zealand. Assets are maintained in the local currency to match the expected liabilities. Hence the Branch's currency risk is not considered to be of a material nature.

Other price risk

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

(b) Risk management objectives and policies for mitigating insurance risks

(i) Objectives

The Branch's objectives and policies in respect of managing insurance risks are:

- Understanding insurance risk as the risk of loss, of inadequate claims handling, or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions.
- Measuring the frequency and severity of possible insurance risk loss events.
- Treating insurance risk with controls designed to ensure:
  - Adherence to competency based underwriting guidelines and limits.
  - Improving underwriting platform and pricing tools.
  - Sufficient business pricing peer-reviews.
  - Competency based peer reviewing of all business.
  - Rigorous analysis of: Contemporaneous & Periodic Renewal Monitoring Reports.
- Monitoring insurance risk by reporting and responding to incidents.
- Protecting the Branch by undertaking 100% reinsurance with highly rated group entities.

(ii) Concentrations of insurance risk

The Branch's exposure to concentrations of insurance risk is managed through reinsurance. The Branch conducts significant analysis of single-event exposures on an ongoing basis and continues to be well within the limits mandated by its head office.

(iii) Exposure to risk

The Branch actively manages its exposure to risks by applying prudent underwriting controls to renewals and new business and in managing claims in order to enhance its financial performance. The key policies in place to mitigate insurance risk include:

- ***Management reporting***

  The Branch utilises comprehensive management information systems and actuarial models using historical information to calculate premiums and monitor claims. It reports financial and operational results quarterly and undertakes regular experience analysis to monitor emerging trends.

- ***Underwriting and claims management procedures***

  Underwriting procedures are documented and include limits to delegated authorities and signing powers. Internal auditors from the parent entity review the underwriting and claims management processes to ensure adequate controls are in place and that they are effective. Strict claims management procedures ensure the timely and correct payment of claims in accordance with policy conditions.

3. Risk management policies and procedures (continued)

(c) Capital management

(i) Regulatory capital

The Branch is regulated by the Reserve Bank of New Zealand to carry out insurance business in New Zealand. It has been granted an exemption from compliance with the solvency standard under section 59 of the Insurance (Prudential Supervision) Act 2010 as the licensed entity is Great Lakes Insurance SE. It is the licensed entity that needs to comply with the solvency standard. As at 31 December 2016, Great Lakes Insurance SE's solvency ratio fully met minimum solvency requirements stipulated by the European Union under the Solvency II regulatory regime.

The goal of the current capital management plan for the Branch is to keep positive net assets at all times.

(ii) Ratings capital

Great Lakes Insurance SE maintains the capital strength by reference to a target financial strength rating from an independent ratings agency. The ratings help to reflect the financial strength of Great Lakes Insurance SE and demonstrate to the stakeholders the ability to pay claims in the long term. Rating agencies assess the financial strength of Great Lakes Insurance SE. The Branch is classified as a branch of Great Lakes Insurance SE. Therefore the Branch obtained the same rating as Great Lakes Insurance SE based on ratings published by Standard & Poor's Ratings services as at 31 December 2016. At the date of this report, Great Lakes Insurance SE has a credit rating of AA- from Standard & Poor's (2015: AA-) and a credit rating of A+ from AM Best (2015: A+).

(d) Development of claims

Information about actual claims compared with previous estimates is provided below for claims for which uncertainty about the amount and timing of claim payments is not typically resolved within one year.

Notes to the financial statements for the year ended 31 December 2016

4. Revenue from operating activities

	Note	2016 $	2015 $
Insurance revenue			
Premium revenue	8	39,170,430	38,450,819
Reinsurance recoveries revenue	7, 8	14,345,609	9,273,491
Reinsurance exchange commissions	8	24,555,096	25,535,837
Administration commission income	8	737,710	308,155
Total insurance revenue		78,808,845	73,568,302
Investment revenue			
Interest		35,234	75,578
Unrealised investment losses		-	-
Total investment revenue		35,234	75,578
Other revenue			
Other income		112	978
Total other revenue		112	978
Total revenue from operating activities		78,844,191	73,644,858

5. Expenses from operating activities

	Note	2016 $	2015 $
Insurance expense			
Outwards reinsurance expense	8	39,170,430	38,450,819
Claims expense	7, 8	14,456,615	9,291,318
Acquisition expense	8	24,751,575	25,680,898
Insurance admin expenses	8	262,500	217,149
Total insurance expense		78,641,120	73,640,184
Total other expenses		61,291	212,309
Total expenses from operating activities		78,702,411	73,852,493

6. Taxes

(a) Income tax expense/(benefit)

	2016 $	2015 $
Deferred tax	38,980	(73,886)
Tax expense/(benefit)	38,980	(73,886)

(b) Reconciliation of prima facie tax payable to income tax expense

	2016 $	2015 $
Profit/(Loss) before tax	141,780	(207,635)
Prima facie income tax expense/(benefit) at the New Zealand Tax rate of 28% (2015: 28%)	39,698	(58,138)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-assessable income	(637)	(15,748)
Under provision prior year	(81)	-
Tax expense/(benefit)	38,980	(73,886)

Notes to the financial statements for the year ended 31 December 2016

7. Net claims incurred

	2016 Current year $	2016 Prior year $	2016 Total $	2015 Current year $	2015 Prior year $	2015 Total $
Gross claims expenses/(recoveries)						
Gross claims incurred - undiscounted	12,259,012	1,820,787	14,079,799	9,365,706	(524,619)	8,841,087
Discount movement	(107,167)	-	(107,167)	13,208	-	13,208
Discounted risk margin movement	483,983	-	483,983	437,023	-	437,023
Discounted gross claims expenses	12,635,828	1,820,787	14,456,615	9,815,937	(524,619)	9,291,318
Reinsurance and other recoveries revenue/(expense)						
Reinsurance and other recoveries revenue - undiscounted	(12,184,394)	(1,785,051)	(13,969,445)	(9,295,861)	476,048	(8,819,813)
Discount movement	107,892	-	107,892	(12,990)	-	(12,990)
Discounted risk margin movement	(484,056)	-	(484,056)	(440,688)	-	(440,688)
Discounted reinsurance and other recoveries revenue	(12,560,558)	(1,785,051)	(14,345,609)	(9,749,539)	476,048	(9,273,491)
Net claims incurred	**75,270**	**35,736**	**111,006**	**66,398**	**(48,571)**	**17,827**

Current year claims relate to risks borne in the current financial year. Prior year claims relate to a reassessment of the risks borne in all previous financial years.

8. Underwriting result

	2016 $	2015 $
Premium revenue	39,170,430	38,450,819
Outwards reinsurance	(39,170,430)	(38,450,819)
Net premium	-	-
Claims expense	(14,456,615)	(9,291,318)
Reinsurance recoveries	14,345,609	9,273,491
Underwriting expenses	(25,014,075)	(25,898,047)
Reinsurance exchange commission	24,555,096	25,535,837
Administration commission income	737,710	308,155
Underwriting result	167,725	(71,882)

9. Cash

Cash at bank	787,128	4,150,058

Cash at bank bears average interest of 1.75% (2015: 1.20%).

10. Deferred acquisition costs

	2016 $	2015 $
Deferred acquisition costs	8,497,323	8,558,598
Reconciliation of movement in deferred acquisition costs		
Balance at 1 January	8,558,598	9,291,273
Costs deferred in current financial year	8,604,698	8,641,858
Write down of deferred acquisition cost	(107,376)	(83,260)
Amortisation of costs deferred in previous financial years	(8,558,598)	(9,291,273)
Balance at 31 December	8,497,323	8,558,598

11. Deferred tax assets

Deferred tax assets

Deferred tax assets relate to timing differences and comprises the tax effect of the following amounts recognised in the Statement of Comprehensive Income:

Loss adjusted expense	45,219	36,434
Debtors	3,714	3,903
Liability adequacy test write-downs	30,065	23,313
Deferred acquisition costs	(30,065)	(23,313)
Carry forward tax loss	31,640	79,217
Total deferred tax assets	80,573	119,554

12. Payables

Amount due to reinsurer – related party	6,673,771	9,921,917
Amount due to others	50,494	34,844
Transfer of tax credits to related party	(5)	123,382
Total payables	6,724,260	10,080,143

13. Outstanding claims liabilities

(a) Outstanding claims liabilities

Central estimate of gross outstanding claims	10,782,523	8,076,450
Claims handling expense	140,143	104,994
Discount to present value	(158,921)	(51,754)
Risk margin	2,269,967	1,785,984
Total outstanding claims liabilities - discounted	13,033,712	9,915,674
Current	10,896,523	8,679,776
Non-current	2,137,189	1,235,898
Total outstanding claims liabilities - discounted	13,033,712	9,915,674
Reconciliation of movement in discounted outstanding claims liabilities		
Balance at 1 January	9,915,674	10,255,397
Additional provisions recognised	14,456,615	9,291,318
Liabilities paid	(11,338,578)	(9,631,041)
Balance at 31 December	13,033,712	9,915,674

Notes to the financial statements for the year ended 31 December 2016

13. Outstanding claims liability (continued)

(b) Inflation and discount rates

The liability for outstanding claims is measured as the present value of the expected future payments reflecting the fact that all claims do not have to be paid out in the immediate future. The expected future payments are estimated on the basis of the ultimate cost of settling claims which is affected by factors arising during the period to settlement such as normal inflation and superimposed inflation. The expected future payments are then discounted to a present value at the balance date using a discount rate.

14. Unearned premium liability

	2016 $	2015 $
Unearned premium liability-current	13,922,599	14,034,987
Reconciliation of movement in unearned premium		
Balance at 1 January	14,034,987	14,102,514
Deferral of premium on contracts written in the period	13,922,599	14,034,987
Earning of premium written in previous periods	(14,034,987)	(14,102,514)
Balance at 31 December	13,922,599	14,034,987

15. Liability adequacy test

A liability adequacy test has been conducted using the net central estimate of the present value of expected future cash flows and has identified a deficit.

Unearned premium liabilities	13,922,599	14,034,987
Related deferred acquisition costs	(8,604,698)	(8,641,858)
Related reinsurance assets	(5,425,277)	(5,476,389)
	(107,376)	(83,260)
Undiscounted net premiums liabilities excluding risk margin	-	-
Discount	-	-
Risk margin	-	-
	-	-
Net deficiency	(107,376)	(83,260)
Risk margin %	-	-
Write down of deferred acquisition costs	(107,376)	(83,260)
Probability of sufficiency %	60%	60%

The risk margin has been arrived at by determining margins for each line of business and then applying reductions on account of diversification over the various lines of business. This was done by applying a suitable correlation matrix to the expected values and uncertainties of the individual unexpired risk liabilities.

16. Remuneration of auditors

KPMG-Audit fees	31,605	35,412

17. Reconciliation of (loss)/profit after income tax to net cash flows from operating activities

Profit/(loss) for the year	102,800	(133,749)
Adjustments for investment revenue	(35,234)	(75,578)
Net cash from operating activities before change in assets and liabilities	67,566	(209,327)
Change in assets and liabilities during the financial year		
(Increase)/decrease in receivables	(2,888,804)	324,370
(Decrease)/increase in other creditors and accruals	(615,907)	1,532,054
Decrease/(increase) net deferred tax asset	38,981	(73,886)
Net cash from operating activities	(3,398,164)	1,573,211

18. Related party transactions

(a) Parent entities

The ultimate parent entity is Münchener Rückversicherungs-Gesellschaft, a company incorporated in Germany with limited liability.

(b) Directors

Disclosures relating to directors are set out in Note 20.

(c) Guarantees

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

(d) Transactions with related parties

	Transaction description	2016 $	2015 $
Munich Reinsurance Company (New Zealand Branch)	Reinsurance	(2,605,004)	(4,544,149)
Münchener Ruckersicherungs-Gesellschaft	Reinsurance	4,572	800,104
Munich Holdings of Australasia Pty Limited	Management expenses	(376,909)	(395,194)
Munich Re New Zealand Service Limited	Management expenses	(169,619)	(176,921)
Corion Pty Limited	Management expenses	(129,319)	(105,498)
Rural Affinity Insurance Agency Pty Limited	Underwriting activity	29,782	31,988
Great Lakes Insurance SE	Home office expenses	(38,617)	(40,345)
Total		**(3,285,114)**	**(4,430,015)**

(e) Outstanding balances

Current account balances (payable)/receivable with related parties at the balance date were:

	Transaction description		
Munich Reinsurance Company (New Zealand Branch)	Reinsurance	(6,672,077)	(9,920,224)
Munich Reinsurance Company (New Zealand Branch)	Tax credits	-	(123,388)
Europaische Reiseversicherung	Reinsurance	(1,694)	(1,694)
Rural Affinity Insurance Agency Pty Limited	Underwriting activity	35,348	5,805
Total		**(6,638,423)**	**(10,039,501)**

No provision for doubtful debts has been raised by either the Branch or the parent entity in relation to any outstanding related party balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

(f) Terms and conditions

All related party transactions were made on normal commercial terms and conditions and at market rates (including market rental rates). Outstanding balances are unsecured and are payable in cash.

(g) Outwards reinsurance

The non-resident portfolio of the Branch is protected by a Facultative Obligatory reinsurance contract with the parent entity, Münchener Rückversicherungs-Gesellschaft, a company incorporated in Germany with limited liability. The resident portfolio of the Branch is protected by 100% quota share with Munich Reinsurance Company (New Zealand Branch).

(h) Key management personnel and director transactions

The key management personnel also provide services to the immediate parent and a number of fellow subsidiary undertakings for which payment is made by the immediate parent undertaking. It is not practical to apportion these emoluments received and therefore are not disclosed in respect of any key management personnel in these financial statements.

19. Directors' disclosure

The directors who served as UK registered directors during the financial year, and up until the date of de-registration of the company are as follows.

A.J. Medniuk

N.H.H. Smith

T.J. Carroll

C-U. Kroll

A. Stegner

S. Pasternak

On 30 December 2016 all directors resigned their UK directorships and the following were appointed as directors registered in Germany.

<u>Supervisory Board</u>

C-U. Kroll (Chairman)

A. Wettemann

C. Carus

C. Prussog

<u>Board of Management</u>

A. Stegner (CEO)

S. Pasternak (CFO)

T. Klauss (CRO)

20. Contingencies

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

21. Commitments

(a) Capital commitments

There were no capital commitments contracted for at the reporting date or the prior year reporting date that have not been recognised as a liability.

(b) Lease commitments

There were no lease commitments contracted for at the reporting date or the prior year reporting date that have not been recognised as a liability.

22. Subsequent events

No significant events have occurred subsequent to the end of the reporting date.

23. Solvency of licensed entity

Great Lakes Insurance SE is the entity licensed by the RBNZ to conduct insurance business in New Zealand. The 31 December 2016 solvency disclosures for the licensed entity as calculated in accordance with the requirements of the home jurisdiction are as follows:

	2016 £'000	2015 £'000
Company's Own Funds	401,702	324,267
Solvency Capital Requirement	168,706	177,133
Solvency Margin	232,996	147,134
Solvency Capital Ratio	238.1%	183.1%

24. Restructuring of Great Lakes Insurance SE

GLUK re-domiciled its headquarters to Munich, Germany for closer integration into group functions and consolidation of its core specialty primary insurance expertise. GLUK changed its name to Great Lakes Insurance SE following approval by the Commercial Court in Munich with effect 30 December 2016. The change of company name was completed in New Zealand effective 6 January 2017.

25. Future of GLNZ

During 2016 a decision was made to cease writing business via GLNZ's license. As a result of this decision, upon completion of the run-off of the existing insurance liabilities, GLISE may decide to apply for cancellation of GLNZ's insurance license, unless MR Group decides to use the existing license for other primary insurance opportunities.

Great Lakes Insurance SE – New Zealand Branch

(Overseas company registered in New Zealand under the Companies Act 1993)

Directors' Declaration

The Board of Management is pleased to present the Financial Statements of Great Lakes Insurance SE (overseas Branch registered in New Zealand under the Companies Act 1993) for the year ended 31 December 2016, and the auditors' report thereon.

In the Board of Management's opinion, the Financial Statements and notes set out on pages 2 to 23:

(a) comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Branch as at 31 December 2016 and the results of operations for the year ended on that date; and

(b) have been prepared using the appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

The Board of Management believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Branch and facilitate compliance of the financial statements with the Financial Reporting Act 1993. There are reasonable grounds to believe that, as at the time this statement is made, the Branch will be able to pay all debts or claims as and when they are due.

The Board of Management consider that they have taken adequate steps to safeguard the assets of the company, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be significant to provide a reasonable assurance as to the integrity and reliability of the financial statements.

For and on behalf of the Board of Management.

Dr. Achim Stegner
Chief Executive Officer
Member of the Board of Management

31.03.2017

Dr. Stefan Pasternak
Chief Financial Officer
Member of the Board of Management

31.03.2017

KPMG

Independent Auditor's Report

To the shareholder of Great Lakes Insurance SE - New Zealand Branch

Report on the financial statements

Opinion

In our opinion, the accompanying financial statements of Great Lakes Insurance SE - New Zealand Branch ("the branch") on pages 2 to 23:

i. present fairly in all material respects the branch's financial position as at 31 December 2016 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

— the statement of financial position as at 31 December 2016;

— the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended; and

— notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)"). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Our responsibilities under ISAs (NZ) are further described in the Auditor's Responsibilities for the Audit of the financial statements section of our report.

Subject to certain restrictions, partners and employees of our firm may also deal with the branch on normal terms within the ordinary course of trading activities of the business of the branch. These matters have not impaired our independence as auditor of the branch. The firm has no other relationship with, or interest in, the branch.

KPMG

Other Information

The Directors, on behalf of the branch, are responsible for the other information included in the entity's Financial Report. Other information includes the Statement of Corporate Governance. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Use of this Independent Auditor's Report

This report is made solely to the shareholder as a body. Our audit work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the Independent Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholder as a body for our audit work, this report, or any of the opinions we have formed.

Responsibilities of the Directors for the financial statements

The Directors, on behalf of the branch, are responsible for:

— the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;

— implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and

— assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the financial statements

Our objective is:

— to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and

— to issue an Independent Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page8.aspx.

This description forms part of our Independent Auditor's Report.

KPMG

KPMG
Sydney

13 April 2017