# General Reinsurance Life Australia Ltd.
# New Zealand Life Branch

# Financial Report

# for the Financial Year ended 31 December 2011

GENERAL REINSURANCE LIFE AUSTRALIA LTD. – NEW ZEALAND LIFE BRANCH

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GENERAL REINSURANCE LIFE AUSTRALIA LTD. – NEW ZEALAND LIFE BRANCH

## BOARD AND OFFICERS

**Board of Directors**
F.A. McDonald, Chairman
A.G. Brown
R.E. Deane (resigned 31 December 2011)
K.W. Droste
E. Fabrizio (appointed 01 January 2012)
K.J. McCann
M.L.C. Molesworth (resigned 31 December 2011)

**Management**
E. Fabrizio, Managing Director
P. Drysdale, Appointed Actuary
W. Gasdaska, Chief Financial Officer
J. Dorter, Head of Client Services
J. Louw, Deputy General Manager and Chief Actuary
P. Peric, Head of Business Development
M. Ramjan, Chief Underwriter
C. Smit, Claims Manager

**Chief Medical Officer**
R.J. Mulhearn, FRCP FRACP

**Auditor**
Deloitte Touche Tohmatsu, Sydney

**Head Office**
General Reinsurance Life Australia Ltd.

Principal place of business and registered office:
Level 24, 123 Pitt Street, Sydney, NSW 2000
Telephone (+612) 8236 6100 Facsimile (02) 9222 1540

A.B.N. 73 002 166 869

## GENERAL REINSURANCE LIFE AUSTRALIA LTD - NEW ZEALAND LIFE BRANCH

### DIRECTORS' REPORT

The Directors present the annual financial report of General Reinsurance Life Australia Ltd. - New Zealand Life Branch for the year ended 31 December 2011.

No disclosure has been made in respect of Section 211(1) (a) and (e) to (j) of the Companies Act 1993 following a unanimous decision by the shareholders in accordance with Section 211(3) of the Act.

The Directors are responsible for the preparation, in accordance with New Zealand Law and generally accepted accounting practice, of financial statements which give a true and fair view of the financial position of General Reinsurance Life Australia Ltd. - New Zealand Life Branch as at 31 December 2011 and the results of their operations for the year ended 31 December 2011.

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

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

This annual report and the financial statements are dated 26 April 2012 and signed in accordance with a resolution of the directors made pursuant to section 211(1)(k) of the Companies Act 1993.

**Events Subsequent to Balance Date**

Michael J. Brent resigned on 1 February 2012 as Chief Financial Officer and one of the Company Secretaries. William G. Gasdaska, Chief Financial Officer of the General Reinsurance group was appointed Interim Chief Financial Officer of the Company on 16 February 2012.

Daryl J. Vella resigned as one of the Company Secretaries on 27 March 2012. Cornelia Demmel was appointed as Company Secretary effective 13 February 2012.

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

For and on behalf of the Directors

| | |
|---|---|
| ............................................................ | ............................................................ |
| **F.A. McDonald** | **E. Fabrizio** |
| **Chairman** | **Managing Director** |

**Dated 26 April 2012**

GENERAL REINSURANCE LIFE AUSTRALIA LTD. – NEW ZEALAND LIFE BRANCH
STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

| | Note | 2011<br>$ | 2010<br>$ |
|---|---|---|---|
| Life insurance premium revenue | 8 | 39,742,343 | 40,259,606 |
| Outward reinsurance expense | | (876,409) | (1,040,347) |
| Net premium revenue | | 38,865,934 | 39,219,259 |
| Investment income | 8 | 6,815,882 | 4,199,351 |
| Other revenue | 8 | 45,653 | 114,619 |
| **Net revenue** | | **45,727,469** | **43,533,229** |
| Life insurance claims expense | 9 | 29,710,909 | 23,690,173 |
| Other expenses | 10 | 2,975,676 | 6,038,947 |
| Change in life insurance contract policy liabilities | 16 | 1,047,642 | 3,611,673 |
| **Net claims and expenses** | | **33,734,227** | **33,340,793** |
| **Profit before income tax** | | **11,993,242** | **10,192,436** |
| Income tax benefit/(expense) | 12(a) | 762,311 | (2,307,451) |
| **Net profit** | | **12,755,553** | **7,884,985** |
| Other comprehensive income | | - | - |
| Total Comprehensive Income for the year, net of income tax, attributable to Head Office | | 12,755,553 | 7,884,985 |

*The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.*

## GENERAL REINSURANCE LIFE AUSTRALIA LTD. – NEW ZEALAND LIFE BRANCH
## STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2011

| | Note | 2011 $ | 2010 $ |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | | 6,268,609 | 7,304,159 |
| Outstanding premiums and receivables | 13 | 9,754,588 | 7,111,233 |
| Investments | 14 | 89,683,472 | 78,039,336 |
| Deferred tax asset | 12(c) | 11,131 | - |
| TOTAL ASSETS | | 105,717,800 | 92,454,728 |
| **LIABILITIES** | | | |
| Trade and other payables | 15 | 9,590,247 | 9,334,389 |
| Life insurance contract policy liabilities | 16(a) | 58,870,787 | 57,823,145 |
| Provision for Income Tax | 12(b) | 727,054 | 1,523,035 |
| TOTAL LIABILITIES | | 69,188,088 | 68,680,569 |
| **NET ASSETS** | | **36,529,712** | **23,774,159** |
| **EQUITY** | | | |
| Head Office equity account | | 532,000 | 532,000 |
| Retained profits | 5 | 35,997,712 | 23,242,159 |
| **TOTAL EQUITY** | | **36,529,712** | **23,774,159** |

*The Statement of Financial Position should be read in conjunction with the accompanying notes.*

## GENERAL REINSURANCE LIFE AUSTRALIA LTD. – NEW ZEALAND LIFE BRANCH
## STATEMENT OF CHANGES IN EQUITY
## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

| | Head Office Equity 2011 $ | Retained Earnings 2011 $ | Total 2011 $ |
|---|---|---|---|
| Balance at 1 January 2011 | 532,000 | 23,242,159 | 23,774,159 |
| Comprehensive Income | - | 12,755,553 | 12,755,553 |
| Balance at 31 December 2011 | **532,000** | **35,997,712** | **36,529,712** |

| | Head Office Equity 2010 $ | Retained Earnings 2010 $ | Total 2010 $ |
|---|---|---|---|
| Balance at 1 January 2010 | 532,000 | 15,357,174 | 15,889,174 |
| Comprehensive Income | - | 7,884,985 | 7,884,985 |
| Balance at 31 December 2010 | **532,000** | **23,242,159** | **23,774,159** |

*The Statement of Changes in Equity should be read in conjunction with the accompanying notes.*

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

These general purpose financial statements cover General Reinsurance Life Australia Ltd. - New Zealand Life Branch (the Branch). The Branch is domiciled in New Zealand, registered address at 205 Queen Street, Auckland. The Branch is a reporting entity for the purposes of the Financial Reporting Act 1993. As a single entity that operates in the life insurance industry, the financial statements have been prepared in accordance with the Financial Reporting Act 1993, the Life Insurance Act 1908 (Life Act), New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards as appropriate to profit oriented entities that qualify for, and apply differential reporting.

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

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

These Financial Statements are authorised for issue by the directors on 26 April 2012.

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

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

The functional and presentation currency is New Zealand dollars.

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### (a) Principles for Life Insurance Business

The life insurance operations of the Branch are conducted under the *Life Act* and are reported in the statement of comprehensive income, statement of financial position and statement of changes in equity of the Branch. The life insurance operations of the Branch comprise the selling and administration of reinsurance of life insurance contracts.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). Insurance contracts include those where the insured benefits are payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness. The insured benefits are not linked to the market value of the investments held by the Branch, and the financial risks are substantially borne by the Branch. Life insurance contract business written by the Branch is non-participating and all profits and losses are allocated to the shareholders. Any products sold that do not meet the definition of a life insurance contract are classified as life investment contracts.

The Branch has no life investment contracts in place.

### (b) Revenue

Premiums are recognised as revenue on an accruals basis, based on current experience. Refunds of premiums arising under contractual obligations are accounted for as a reduction in premium income.

### (c) Claims Expense

*Life insurance contracts*
Claims incurred relate to life insurance contracts (providing services and bearing risks including protection business) and are treated as expenses. Claims are recognised when the liability to the policy owner under the policy contract has been established. Where data up to the balance date is not available from cedants, best estimate accruals are made based on historical data and known business trends. Reserves for claims incurred but not reported and claims considered likely to arise are included in the actuarial valuation of policy liabilities.

### (d) Basis of Expense Apportionment

Expenses are incurred in relation to the acquisition and maintenance of life insurance contracts.

Policy acquisition costs are the fixed and variable costs of acquiring new business. They include commission and similar distribution costs. The actual acquisition costs incurred are recorded in Note 10.

### (e) Policy Liabilities

The value of life insurance contract liabilities is calculated using the Margin on Services methodology. Under this methodology, planned profit margins and an estimate of future liabilities are calculated separately for each related product group using best estimate assumptions at each reporting date. Profit margins are released over each reporting period in line with the services that have been provided. The balance of the planned profits is deferred by including them in the value of policy liabilities. Further details of the actuarial assumptions used in these calculations are set out in Note 3.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### (f) Assets backing policy liabilities

The Directors have determined that all assets held within the branch are assets backing policy liabilities. As all assets of the Branch are managed under General Reinsurance Life Australia Ltd.'s Risk Management Statement on a fair value basis and are reported to the Board on this basis, all assets have been valued at fair value through profit or loss where available.

*Financial assets*

Financial assets are classified as fair value through profit or loss. Initial recognition is at cost and subsequent measurement is at fair value. Unrealised profits and losses on subsequent measurement to fair value are recognised in the Statement of 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.
- Fixed interest securities are carried at fair value represented by quoted market value at the balance date.
- Receivables are carried at book value less provision for doubtful debts, which is the best estimate of fair value at the balance date.

### (g) 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.

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

### (h) Income Tax

The Branch adopts the liability method of tax effect accounting. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the Statement of Financial Position as a future income tax benefit or a provision for future income tax expense.

Future income tax benefits are not brought to account unless realisation of the benefit is probable. Future income tax benefits relating to tax losses are only brought to account when their realisation is probable.

Income tax is determined through the application of the Life Insured Based Income method. Tax is calculated at 28% of taxable income. The rates of taxation in effect at the date of the valuation are assumed to continue.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The tax rate of 28% that is applicable from 1 January 2011 is 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 and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### (i) Deferred Acquisition Costs

The costs incurred in acquiring specific life insurance contracts include commission payments and similar distribution costs. The Actuary, in determining the policy liabilities, takes account of the deferral and future recovery of acquisition costs, resulting in policy liabilities being lower than otherwise with those costs being amortised over the period that they will be recoverable. The deferred amounts are recognised in the Statement of Financial Position as a reduction in life insurance liabilities and are amortised through the Statement of Comprehensive Income over the expected duration of the relevant policies.

The acquisition costs deferred are determined as the lesser of actual costs incurred and the allowance for the recovery of those costs from the premiums or policy charges (as appropriate for each policy class), subject to an overall limit that the value of future profits at inception cannot be negative (acquisition losses will be recognised at inception to the extent the latter situation arises).

### (j) Foreign Currency

The functional and presentational currency is New Zealand dollars (NZD). Foreign currency transactions are translated to New Zealand dollars at the rates of exchange ruling at the date of the transaction. Amounts receivable and payable in foreign currencies at the balance date are translated at the rates of exchange ruling on that date. Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the Statement of Comprehensive Income in the financial year in which the exchange rates change.

### (k) Payables

Liabilities are measured at fair value and changes to those fair values are recognised as expenses (and in some cases revenues) in the Statement of Comprehensive Income for the period.

### (l) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of 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 cost of acquisition of an asset or as part of an item of expense; and
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.

## 2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The Branch makes estimates and assumptions that affect the reported amounts of assets and liabilities at year end. Estimates and assumptions 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 areas where critical accounting estimates are applied are noted below.

### (a) Life insurance contract liabilities

Life insurance contract liabilities are computed by suitably qualified personnel on the basis of actuarial methods, with due regard to relevant actuarial principles In accordance with the methods and assumptions disclosed in this financial report and the standards of the New Zealand Society of Actuaries. The methodology takes into account the risks and uncertainties of the particular classes of life insurance business written.

## 2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES continued

### (a) Life insurance contract liabilities continued

The key factors that affect the estimation of these liabilities and related assets are:

- the level of expenses of the branch
- mortality and morbidity experience on life insurance products
- discontinuance experience, which affects the Branch's ability to recover the cost of acquiring new business over the lives of the contracts
- future interest rates
- delay in notification of claim events

### (b) Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the above methods where required. All reinsurance contracts are with the parent company and recoverability of such assets are not considered to be impaired by any counterparty or credit risk.

## 3. ACTUARIAL ASSUMPTIONS AND METHODS

Paul Drysdale, the Appointed Actuary and a Fellow of the Institute of Actuaries of Australia, is satisfied as to the accuracy of the data upon which policy liabilities have been determined.

The amount of policy liabilities has been determined in accordance with the methods and assumptions disclosed in this financial report and are in compliance with the standards of the New Zealand Society of Actuaries and the Insurance (Prudential Supervision) Act 2010 and the Life Insurance Act 1908.

### a) Policy Liabilities

The policy liabilities have been determined in accordance with applicable accounting and actuarial standards. Policy liabilities for life insurance contracts are valued in accordance with AASB 1038 and LPS 1.04, whereas life investment contracts are valued in accordance with AASB 139 and LPS 1.04.

Life insurance contract liabilities have been calculated in a way that allows for the systematic release of planned margins as services are provided to policyholders and premiums are received – Margin on Services. Under this method, policy liabilities equal the amount, which together with future premiums and investment earnings will:

i) meet the expected payment of future benefits and expenses; and
ii) provide for the systematic release of profit as policy services are provided and income is received or recognised.

The major product groups are individual lump sum risk business and individual disability income business. There is also a small volume of group business and catastrophe business. The profit carrier used in order to achieve the systematic release of planned margins was inforce premium.

## 3. ACTUARIAL ASSUMPTIONS AND METHODS continued

### a) Policy Liabilities continued

Policy liabilities for the majority of the business have been calculated on a projection basis, with the residual business being calculated by the "accumulation" method as permitted under NZ IFRS 4. The result of using this method rather than the "projection" method required under NZ IFRS 4 is not materially different and achieve the principals of the standard.

Policy liabilities under the accumulation method have been calculated as the sum of the provisions for:

- i) Unearned premium,
- ii) Level premium reserves for policies written on a level premium basis,
- iii) Surrender values for policies that provide a surrender value,
- iv) plus/minus a provision which adjusts the policy liability to give effect to the requirement for the systematic release of planned surplus and mostly represents recoverable deferred first and/or second year policy costs not matched by the corresponding premium income.

The amortisation of these costs was established by financial model projections of representative policy portfolios, allowing for the release of future profits in proportion to a "profit carrier" as required under NZ IFRS 4.

In addition to the policy liabilities calculated under the projection and accumulation method were reserves for:

- i) Incurred but not reported claims (IBNR)
- ii) Accumulated experience rebates
- iii) Reserves for expected future payments on reported disability income claims

### (b) Solvency Requirement

These are amounts required to meet the prudential standards specified by the Insurance (Prudential Supervision) Act 2010 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.

### (c) Disclosure of Assumptions

#### (i) Discount Rates

Allowance for future interest rates of 3.75% pa (2010: 5.75%) is assumed

Policy liabilities are determined on the basis of using risk-free discount rates based on government bond rates and consideration of the term of the liabilities.

#### (ii) Inflation Rates

Allowance for future inflation of 2.00% pa (2010: 2.75%) is assumed

Some contract terms set a minimum level of policy indexation and this is used to index policy benefits where it exceeds the assumed inflation rate.

#### (iii) Future Expenses and Indexation

The allowance for future expenses was based on the branch's experience in 2011 as the best available estimate for 2012. Expenses are assumed to remain a stable percentage of in-force premiums over the life of the business. Benefits and premiums are assumed to increase by the rate of inflation, or by some other factor, where specified for the policies being reinsured.

## 3. ACTUARIAL ASSUMPTIONS AND METHODS continued

### (iv) Rates of Taxation

Policy liabilities have been calculated gross of tax given that the business is taxed on a profits basis.

### (v) Mortality and morbidity

Mortality: Tables derived from the NZ04 Insured Lives Tables with allowance for subsequent improvements in mortality, subdivided into smoker and non-smoker classes and adjusted to the classes of life insurance written.

Disability: Tables derived from the IAD89-93 and US 85 CIDA tables with adjustments to incidence rates and termination rates of claim.

Trauma: Trauma claims were derived from various studies of the incidence of the individual trauma conditions.

Adjustments made to the base table are made after consideration of:

i) type of product being written (policy terms, underwriting/claims approach, target market, etc)
ii) actual experience investigations undertaken by the Branch

### (vi) Rates of discontinuance

Future rates of discontinuance for the major classes of business vary by policy duration and age. Overall they are assumed to be in the order of:

Lump-sum Risk: 12.0 % per annum (2010: 12.0%)
Disability Income: 15.0 % per annum (2010: 15.0%)

Rates are based on market data as obtained from client companies. Comparison of this to actual Branch experience does not indicate any significant differences.

### (vii) Claim Delay

Significant delays are incurred between the date of the event resulting in a claim and the claim being reported to the branch. The branch establishes IBNR reserves to estimate the cost of these claims based on the expected level of claims and the average delay in reporting. The following delay assumptions are assumed:

| Claim Event | New Zealand | New Zealand |
|---|---|---|
| | **2011** | **2010** |
| Accidental Death | 9.0 mths | 9.0 mths |
| Death | 4.0 mths | 4.0 mths |
| Trauma | 10.0 mths | 10.0 mths |
| TPD | 15.0 mths | 14.0 mths |
| Disability Income | 3.0 mths | 2.5 mths |

The above is based on actual experience of the branch.

## 3. ACTUARIAL ASSUMPTIONS AND METHODS continued

### (d) Sensitivity analysis

The policy liability is derived based on the best estimate of various variables – interest rates, inflation rates, expenses, mortality & morbidity and discontinuance rates. The movement in any assumption can have an impact on the policy liability, profit and shareholder equity positions.

| Variable | Impact of movement in underlying variable |
|---|---|
| Interest Rates | A reduction in interest rates would result in an increase in policy liabilities and therefore reduce profit and shareholder equity. To the extent that assets and liabilities are closely matched any increase in liabilities as a result of a reduction in interest rates would also be accompanied by an increase in the value of the assets backing those liabilities, and therefore impact on overall profit and shareholder equity is minimal. |
| Inflation Rates | An increase in inflation rates would result in an increase in policy liability and therefore a reduction in profit and shareholder equity. To the extent that higher inflation will be accompanied by higher interest rates the effect on policy liabilities is minimal. |
| Expense Rates | Expenses as a proportion of inforce premium are relatively small and therefore any reasonable deviation on the level of expenses have little impact on profit and shareholder equity. |
| Mortality Rates | Higher mortality rates would lead to increase claim costs/policy liabilities, reducing profit and shareholder equity. Lower mortality rates would increase profit and shareholder equity. |
| Morbidity Rates | Higher incidence and duration of claim would lead to increase claim costs/policy liabilities, reducing profit and shareholders equity. Lower morbidity rates would increase profit and shareholder equity. |
| Discontinuance | Higher discontinuance rates may impact on the recoverability of deferred acquisition costs and therefore could impact on profit and shareholder equity if deferred acquisition costs were required to be written down to what would be recoverable. Lower discontinuance rates have no impact on profit or shareholder equity as they do not affect policy liabilities. |

To the extent that future profit margins can absorb the effect of higher claims costs and premium rates are reviewable, then changes in assumptions have little, if any, impact on the policy liability apart from IBNR reserves.

The table below illustrates how changes in key assumptions would impact the reported profit and retained earnings of the branch as at year end (after tax and retrocession).

| | Profit | Retained Profits |
|---|---|---|
| | NZ$ | NZ$ |
| Current Value | $12,755,553 | $36,529,712 |
| Mortality/Incidence +10% | $11,881,189 | $35,655,347 |
| Mortality/Incidence –10% | $13,629,919 | $37,404,078 |
| Termination rates –10%* | $8,926,667 | $32,700,825 |
| Termination rates +10%* | $16,584,441 | $40,358,600 |

* This is approximated by increasing/decreasing disabled life reserve by +/-10%.

The impact of changes in interest rates, inflation, expenses and discontinuance rates have an immaterial impact on profit and equity for the current year.

## 4. RISK MANAGEMENT POLICIES AND PROCEDURES

The financial condition and operating results of the Branch are affected by a number of financial and non-financial risks. Financial risks include interest rate risk, currency risk, credit risk and liquidity risk. The non-financial risks are insurance risk, compliance risk and operational risk.

The Branch's objective is to manage satisfactorily these risks within current resources. Various procedures are put in place to control and mitigate the risks faced by the Branch depending on the nature of the risk.

*Financial risks*
Financial risks are controlled by the majority of investments being in government bonds in the same currency 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.

*Non-Financial risks*
Non-Financial risks are controlled through the use of:

- i) medical and non-medical underwriting procedures and authorities
- ii) claims management procedures and authorities
- iii) product development review and approval procedures
- iv) treaty underwriting procedures and authorities
- v) underwriting and claims peer reviews of clients
- vi) charging adequate premium rates for the business
- vii) quarterly monitoring of profitability overall and by client
- viii) reinsurance agreement terms and conditions
- ix) non-guaranteed reinsurance rates
- x) retrocession arrangements to limit effect of adverse claims experience, via stop-loss and surplus retrocession arrangements

*Concentration of Insurance Risk*
The Branch's exposure to concentrations of insurance risk is mitigated as the Branch has very little group business written out of New Zealand. The portfolio is controlled and monitored by management. Management's review includes identifying and mitigating the concentrations of insurance risk by reviewing the type of business and also the geographical area of the risk.

Additionally the Branch has retrocession arrangements to limit effect of adverse claims experience, via stop-loss and surplus retrocession arrangements with its Parent (GR AG).

## 5. SUMMARY OF SHAREHOLDERS' INTEREST

The total interests of the shareholders in the profit after income tax and net assets of the Branch are as follows:

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Profit After Income Tax | 12,755,553 | 7,884,985 |
| Retained Profits at the Beginning of the Year | 23,242,159 | 15,357,174 |
| Retained Profits at the End of the Year | 35,997,712 | 23,242,159 |
| Contributed Equity | 532,000 | 532,000 |
| Total Shareholders' Interest | 36,529,712 | 23,774,159 |
| Components of Shareholders' Interests | | |
| - Shareholders' Capital | 532,000 | 532,000 |
| - Shareholders' Retained Profits (Non-Participating) | 35,997,712 | 23,242,159 |
| | 36,529,712 | 23,774,159 |

EXPLANATORY NOTE:

Shareholders' access to the retained profits and shareholders' capital is restricted to the extent these moneys are required to meet solvency and capital adequacy requirements under Life Insurance Act 1908.

## 6. RECONCILIATION TO THE LIFE INSURANCE ACT 1908 PROFIT AFTER TAX

(a) Allocation of Profit

As the Branch does not have any participating business, all profit is allocated to shareholders.

| (b) Sources of Profit : | 2011<br>$ | 2010<br>$ |
|---|---|---|
| From life Insurance contracts | | |
| - Non-Participating Business | 12,755,553 | 7,884,985 |
| Retained Profits at Beginning of the Year | 23,242,159 | 15,357,174 |
| Retained Profits at End of the Year | 35,997,712 | 23,242,159 |
| Components of Retained Profits | | |
| - Shareholders (Non-Participating) | 35,997,712 | 23,242,159 |

### 7. MISCELLANEOUS DISCLOSURES

| | | |
|---|---|---|
| Profit before income tax is arrived at after charging/(crediting) the following items: | | |
| Investment management fees | 54,115 | 167,594 |
| Unrealised (gains)/losses on investments | (1,724,554) | 390,301 |

Audit fees and directors' emoluments are borne as part of Head Office overheads and are not separately charged to the New Zealand Branch. The Branch's auditor is Deloitte Touche Tohmatsu.

### 8. REVENUE

| | | |
|---|---|---|
| Life insurance contract premium revenue | 39,742,343 | 40,259,606 |
| *Other revenue* | | |
| Exchange Gains /(Losses) | 45,653 | 114,619 |
| | 45,653 | 114,619 |
| *Investment income* | | |
| Unrealised gains /(losses) on investments | 1,724,554 | (390,301) |
| Interest income | 4,894,426 | 4,228,953 |
| Realised gains/(losses) | 196,902 | 360,699 |
| | 6,815,882 | 4,199,351 |

## 9. LIFE INSURANCE CLAIM EXPENSE

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Death and disability | 29,710,909 | 23,690,173 |

## 10. OTHER EXPENSES

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Policy Acquisition - Life Insurance contracts | | |
| Commissions | - | - |
| Policy Maintenance | | |
| Commissions | - | 2,792,324 |
| Other | 2,921,561 | 3,181,425 |
| Investment management fees | 54,115 | 65,198 |
| Total Administration Expenses | 2,975,676 | 6,038,947 |

## 11. COMPONENTS OF PROFITS

Components of profit related to the movement in life insurance liabilities

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Planned margins of revenues over expenses released | 7,275,047 | 6,805,998 |
| Difference between actual and assumed experience | 1,970,786 | 1,218,014 |
| Investment earnings on assets in (deficit) / excess of Life Insurance policy liabilities | 3,509,720 | (139,027) |
| Profit for the Year | 12,755,553 | 7,884,985 |

## 12. INCOME TAX

**Note 12 a)**

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| **Income tax expense** | | |
| Current tax: | | |
| - Current Tax | (751,180) | 1,523,035 |
| - Under provision | | 784,416 |
| Deferred tax | (11,131) | - |
| **Total tax expense charged to statement of comprehensive income** | (762,311) | 2,307,451 |
| | | |
| **Reconciliation between net profit before tax and tax expense** | | |
| Net profit before tax | 11,993,242 | 10,297,460 |
| Tax at 28% (2010: 30%) | 3,358,108 | 3,089,238 |
| Permanent differences | (1,847,944) | (781,787) |
| Prior year adjustment | (2,272,475) | - |
| | | |
| **Tax (benefit) / charge for the year** | (762,311) | 2,307,451 |

At 31 December 2011 the Branch had no losses carried forward. (2010: tax losses of $5,246,541 not recognised).

**Note 12 b)**

The movements in the provision for income tax during the year are as follows:

| Provision for Income Tax | | |
|---|---|---|
| Opening balance | 1,523,035 | - |
| Current tax expense | (751,180) | 2,307,451 |
| Income tax refund | (44,801) | (784,416) |
| | | |
| Closing balance | 727,054 | 1,523,035 |

**Note 12 c)**

Deferred Tax Asset (DTA)

| | 2011<br>Opening Balance<br>$ | 2011<br>Income Movement<br>$ | 2011<br>Closing Balance<br>$ |
|---|---|---|---|
| Provisions | - | 11,131 | 11,131 |

| | 2010<br>Opening Balance<br>$ | 2010<br>Income Movement<br>$ | 2010<br>Closing Balance<br>$ |
|---|---|---|---|
| Provisions | - | - | - |

## 13. OUTSTANDING PREMIUMS AND RECEIVABLES

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Outstanding Premiums | 8,685,351 | 6,199,737 |
| Other Receivables | 1,069,237 | 911,496 |
| | 9,754,588 | 7,111,233 |
| Receivables within 12 months | 9,754,588 | 7,111,233 |
| Receivables in more than 12 months | - | - |
| Total | 9,754,588 | 7,111,233 |

## 14. INVESTMENTS

| | | |
|---|---|---|
| National Government | 89,683,472 | 78,039,336 |
| | 89,683,472 | 78,039,336 |
| Expected to be realised within 12 months | - | 19,519,398 |
| Expected to be realised in more than 12 months | 89,683,472 | 58,519,938 |
| | 89,683,472 | 78,039,336 |

The Branch has deposited with the Public Trust of New Zealand, New Zealand government securities with a face value of $500,000 which are held as security for the Branch's policyholders and form part of the Life Fund of the Branch as required by the Life Insurance Act 1908. Investments held in the Branch can only be used within the restrictions imposed under the Life Insurance Act.

Interest Rate and Market Risks

Interest bearing securities are government AA investments. The average period of investment is 2.45 years (2010: 2.49 years) with maturities ranging from April 2013 to December 2017. Interest rates will vary in accordance with economic conditions. The average interest rate on these investments as at the end of the year is 6.2%pa (2010: 6%p.a). The investment assets of the Branch are constantly monitored by management and over investment managers to limit the effect of market fluctuations.

The Branch does not invest in derivatives and the Board has not authorised the Branch to conduct derivatives trading.

## 15. TRADE AND OTHER PAYABLES

| | 2011 $ | 2010 $ |
|---|---|---|
| Outstanding life contracts claims payable | 5,590,279 | 5,425,338 |
| Accruals | 323,992 | 638,489 |
| Amounts owing to Controlling Entities | 826,296 | 1,014,025 |
| Amounts owing to Related Entities | 2,837,228 | 2,256,537 |
| Other payables | 12,452 | - |
| | 9,590,247 | 9,334,389 |

All of the above other payables are payable within 12 months.

## 16. POLICY LIABILITIES

### (a) Reconciliation of movements in policy liabilities

| | 2011 $ | 2010 $ |
|---|---|---|
| **Life insurance contract liabilities** | | |
| Gross life insurance contract liabilities at 1 January | 57,835,269 | 54,269,119 |
| Increase/(decrease) in life insurance contract liabilities reflected in the Statement of Comprehensive Income | 1,052,573 | 3,566,150 |
| **Gross life insurance contract liabilities at 31 December** | 58,887,842 | 57,835,269 |
| **Reinsurers' share of life insurance contract liabilities** | | |
| Opening balance at 1 January | (12,124) | (57,647) |
| Increase/(decrease) in reinsurance assets reflected in the Statement of Comprehensive Income | (4,931) | 45,523 |
| **Reinsurers' share of life insurance contract liabilities at 31 December** | (17,055) | (12,124) |
| **Total life insurance contract liabilities** | 58,870,787 | 57,823,145 |
| **Net policy liabilities at 31 December** | | |
| Expected to be realised within 12 months | 14,595,864 | 14,336,121 |
| Expected to be realised in more than 12 months | 44,274,923 | 43,487,024 |
| | 58,870,787 | 57,823,145 |

## 16. POLICY LIABILITIES continued

### (b) Components of net life insurance contract liabilities

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Future policy benefits | 66,558,432 | 64,855,397 |
| Future charges for acquisition costs | (7,687,646) | (7,032,252) |
| Total net life insurance contract liabilities | 58,870,786 | 57,823,145 |

The Branch uses the accumulation method of valuation. Policy liabilities have been determined in such a way that there is no change in the value of future profit margins compared with the basis used at the end of the prior year.

### (c) Solvency requirements of the Life statutory funds

These are amounts required to meet the prudential standards specified by the Life Insurance Act 1908 to provide protection against the impact of fluctuations and unexpected adverse circumstances on the Branch.

The methodology and bases for determining solvency requirements are in accordance with the requirements of Actuarial Standard, Solvency Standard, under the *Life Insurance Act 1908.*

The figures in the table below represent the number of times coverage for each fund of the assets available for solvency over the solvency reserve.

| | | 2011<br>$ | 2010<br>$ |
|---|---|---|---|
| SOLVENCY REQUIREMENT | A | 77,669,126 | 74,937,888 |
| Represented by: | | | |
| - Minimum Termination Value | | 64,580,641 | 62,121,181 |
| - Other Liabilities | | 10,315,925 | 10,359,008 |
| - Solvency Reserve | B | 2,772,560 | 2,457,699 |
| | | 77,669,126 | 74,937,888 |
| ASSETS AVAILABLE FOR SOLVENCY RESERVE | C | 30,837,564 | 19,488,285 |
| Comprised of: | | | |
| - Excess of Net Policy Liability over Minimum Termination Value | | (5,692,799) | (4,285,912) |
| - Excess Assets | | 36,530,363 | 23,774,197 |
| | | 30,837,564 | 19,488,285 |
| Solvency Reserve % : | (B / (A-B)) x 100 | 3.70% | 3.39% |
| Coverage of Solvency Reserve : | C / B | 11.12 | 7.93 |

## 17. RELATED PARTIES

Ultimate Controlling Entity

General Reinsurance Life Australia Ltd, incorporated in Australia, is the Head Office of the Branch. General Reinsurance Life Australia Ltd is a wholly owned subsidiary of General Reinsurance AG ("GRAG"). It provides the Branch with administration and management services. GR - Neam, Limited in Dublin, Ireland ("NEAM") is a member of the General Reinsurance group and provides investment management services, previously provided by Gen Re Capital in Cologne, Germany. Both companies are related to the Branch through common ownership by Berkshire Hathaway, Inc.

General Reinsurance AG is the parent entity of General Reinsurance Life Australia Ltd. Retrocession premium is due to, and retrocession recoveries due from, General Reinsurance AG.

The ultimate controlling entity is Berkshire Hathaway, Inc., incorporated in the United States of America.

Directors

The names of each person holding the position of Director of General Reinsurance Life Australia Ltd during the financial year are Messrs. A.G. Brown, R.E. Deane, K.W. Droste, K.J. McCann, F.A. McDonald, and M.L.C. Molesworth. Mr M.L.C. Molesworth resigned on 31 December 2011 and Mr E Fabrizio was appointed to the Board of Directors on 01 January 2012. Mr R.E. Deane resigned on 31 December 2011.

Loans to Directors

There were no loans to directors during the year.

Related Entities

*i) Retrocession Transactions*

The Branch has in place surplus and stop loss retrocession agreements with GRAG.

*ii) Management Expenses*

The transactions with General Reinsurance Life Australia Ltd "(GRLA)" include all expenses as the expenses are apportioned by the Head Office to the Branch. Transactions under these agreements and the amounts due to or from Head Office and associated entities are as follows:

| | 2011 GRAG $ | 2011 GRLA $ | 2010 GRAG $ | 2010 GRLA $ |
|---|---|---|---|---|
| Retrocession premiums | 826,296 | - | 1,014,025 | - |
| Management expenses incurred | - | 2,837,228 | - | 2,250,787 |
| Net amount owing to related parties | 826,296 | 2,837,228 | 1,014,025 | 2,250,787 |

Commonly Controlled Entity

All dealings with the parent entity and the related entity are in the ordinary course of business and are entered into on normal commercial terms and conditions.

Investment management expenses amounting to $54,115 were paid to NEAM for investment services rendered ($65,198 paid in 2010 to Gen Re Capital).

## 18. EVENTS SUBSEQUENT TO BALANCE DATE

Michael J. Brent resigned on 1 February 2012 as Chief Financial Officer and one of the Company Secretaries. William G. Gasdaska, Chief Financial Officer of the General Reinsurance group was appointed Interim Chief Financial Officer of the Company on 16 February 2012.

Daryl J. Vella resigned as one of the Company Secretaries on 27 March 2012. Cornelia Demmel was appointed as Company Secretary effective 13 February 2012.

## GENERAL REINSURANCE LIFE AUSTRALIA LTD. – NEW ZEALAND LIFE BRANCH
## APPOINTED ACTUARY'S STATEMENT

In accordance with the Life Insurance Act 1908 I have investigated the financial condition of the Branch at 31 December 2011. This investigation included making a valuation of the Branch's policy liabilities and assessing the solvency requirements of the Branch.

As a result of that investigation, it is my opinion that:

(a) the value of the policy liabilities of the Branch has been determined in accordance with Actuarial Standard "Valuation of Policy Liabilities";

(b) the solvency requirement of the Branch has been determined in accordance with Actuarial Standard "Solvency Standard";

(c) the allocation and distribution of the profits of the Statutory Funds of the Branch have been made in accordance with the Life Insurance Act 1908 and the Constitution of the Branch; and

(d) proper records have been kept by the Branch from which its policy liabilities and solvency position were able to be properly determined.

Declaration
As required under The Society of Actuaries of New Zealand's Code of Professional Conduct, I declare that I am a Fellow of the Society of Actuaries New Zealand and as an employee of General Reinsurance Life Australia Ltd my remuneration from my employer contains an element which is contingent on the financial performance of General Reinsurance Life Australia and the General Reinsurance group.

**Paul Drysdale**
**Appointed Actuary**

**26 April 2012**

Deloitte.

# Independent Auditor's Report to the Members of General Reinsurance Life Australia Ltd – New Zealand Branch

**Report on the Financial Statements**

We have audited the accompanying financial statements of General Reinsurance Life Australia Ltd – New Zealand branch, which comprises the statement of financial position as at 31 December 2011, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information of General Reinsurance Life Australia Ltd – New Zealand branch during the financial year as set out on pages 3 to 24.

*Directors' Responsibility for the Financial Statements*

The directors of General Reinsurance Life Australia Ltd are responsible for the preparation of the financial statements that give a true and fair view in accordance with 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 give a true and fair view and 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 Australian Auditing Standards. 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 of the financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

Other than in our capacity as auditor and the provision of taxation advice, we have no relationship with or interests in General Reinsurance Life Australia Ltd.

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

*Opinion*

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

a. give a true and fair view of General Reinsurance Life Australia Ltd – New Zealand branch's financial position as at 31 December 2011 and of its performance for the year ended on that date; and

b. comply with generally accepted accounting practice in New Zealand.

*Emphasis of Matter*

The New Zealand branch is part of General Reinsurance Life 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.

*Basis of Accounting*

Without modifying our opinion, we draw attention to Note 1 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under New Zealand law. As a result, the financial report may not be suitable for another purpose.

**Report on Other Legal and Regulatory Requirements**

We also report in accordance with section 16 of the Financial Reporting Act 1993. In relation to our audit of the financial report for the year ended 31 December 2011:

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Neil Brown
Partner
Chartered Accountants
Melbourne, 26 April 2012