General Reinsurance Life Australia Ltd.

(ABN 73 002 166 869)

Financial Report for the Financial Year ended 31 December 2013

A Berkshire Hathaway Company

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BOARD AND OFFICERS

Board of Directors

F.A. McDonald, Chairman
A.G. Brown
W. Heinen
E. Fabrizio
K.J. McCann
M. Philips (commenced 1 January 2014)

Management

E. Fabrizio, Managing Director
P. Drysdale, Appointed Actuary
H. Beukes, Chief Financial Officer & Chief Risk 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

Head Office

General Reinsurance Life Australia Ltd.

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

A.B.N. 73 002 166 869

DIRECTORS' REPORT

The Directors present their report together with the financial report of General Reinsurance Life Australia Ltd. for the year ended 31 December 2013 and the auditor's report thereon. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

Directors

The directors of the Company at any time during or since the end of the financial year are:

Name and qualifications	*Age*	*Experience and special responsibilities*
F Allan McDonald B.Ec, FCPA, FCIS, FAIM Chairman Non-Executive Director Member of Audit Committee	74	Mr McDonald is also a director of Astro Japan Property Group Limited, Billabong International Ltd. (ceased 24 October 2012), General Reinsurance Australia Ltd., Brookfield Capital Management Limited, Brookfield Office Properties Inc. and O'Connell Street Associates Pty Ltd. He has 48 years industry experience. He has been a Director since May 1995 and Chairman since March 1996.
Allan Giffen Brown FCA Non-Executive Director Chairman of Audit Committee	76	Mr Brown has 50 years' experience as a chartered accountant. He is a director of Edward H. O'Brien Industries Pty Ltd., Business Print (Australia) Pty Ltd., and General Reinsurance Australia Ltd. He is a Fellow of The Institute of Chartered Accountants in Australia. He was an audit partner and managing partner of audit firms with expertise in audit management, financial management, investigations and company restructurings. He has been a Director since July 2004 and Chairman of the Board Audit Committee since October 2004.
Winfried Heinen Doctorate Mathematics Non-Executive Director	54	Dr Heinen is also a director of Gen Re, Gen Re Life (US) and Gen Re South Africa. He holds a Masters and a PhD in Mathematics and has been employed with Gen Re since 1988. He is a member of the German and Mexican societies of actuaries. He was appointed on 17 August 2012.
Edward Fabrizio Managing Director	46	Mr Fabrizio was appointed Managing Director of the Company on 1st January 2012. He has 23 years industry experience most of which was as Chief Actuary & Deputy General Manager for General Reinsurance Life Australia Ltd. He is a Fellow of the Institute of Actuaries of Australia, a Fellow of the New Zealand Society of Actuaries, MBA, BEc and FAICD.
Kathryn Jane McCann B.App.Sci (Computing Science), MBA, MAICD Non-Executive Director	52	Ms McCann has 29 years' experience in the finance and business management industry. She is a director of Astro Japan Property Group Limited and General Reinsurance Australia Ltd. (GRA). She holds a Master of Business Administration and held the position of Principal of a major management consulting firm up to 2002. She was appointed a director on 2 August 2006 and a member of the Board Audit Committee on 9 November 2006. She is also the Chair of the Remuneration Committee.
Mark Philips B. Com, M. Com Non-Executive Director Member of Board Audit Committee	53	Mark worked for 20 years at the Commonwealth Bank of Australia and was instrumental in the development of several new business divisions including securities and trading markets, infrastructure finance, property lending and government finance. Mark has also held Managing Directors roles at Keybridge Capital Ltd and Record Investments Ltd.

DIRECTORS' REPORT (continued)

Meetings of Directors

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

Director	*Directors' Meetings*		*Board Audit Committee*		*Board Remuneration Committee*	
	A	B	A	B	A	B
F Allan McDonald	4	4	2	2	3	3
A. G. Brown	4	4	2	2	3	3
E Fabrizio	4	4	-	-	-	-
W Heinen*	2	4	-	-	-	-
Kathryn J McCann	4	4	2	2	3	3

A - Number of meetings attended.
B - Number of meetings held during the time the Director held office during the year.

*Jeremy Poole has attended two of the board meetings on behalf of W. Heinen.

Company Secretary

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

Name and qualifications	*Age*	*Experience and special responsibilities*
Herman Beukes B.Com (Hons), CA, G.Dip FP	37	Mr. Beukes started his career in the auditing profession in 2000 at Deloitte & Touche in Pretoria, South Africa. He is a qualified South African Chartered Accountant and also completed a Post Graduate Diploma in Financial Planning at Stellenbosch University. He has been in the employment of the Gen Re group for 10 years, and prior to transferring to Australia spent 3 years as the Chief Financial Officer of the South African office. He was appointed as Chief Financial Officer effective 21 May 2012 and Company Secretary effective 1 July 2012.

DIRECTORS' REPORT (continued)

Principal Activities

The principal activity of the Company during the year was to conduct life reinsurance business. There has been no significant change during the year.

Review of Operations

Operating Results

The Company's result for the year was a profit after tax of $16.3 million (2012 $23.0 million loss). Retained profits held at the end of the year for the Company were $67.5 million (2012: $51.2 million).

During 2013 $28.0 million (2012: $26.9 million) in new annual premiums were written and in-force annual premiums increased from $223.5 million in 2012 to $232.9 million in 2013. Realised net investment income was $25.7million in 2013 (2012: $21.6 million). Net unrealised investment losses for the year were $4.5 million (2012: losses of $5.9 million).

Dividends

No dividends have been paid during the year (2012: nil).

Business Review

The focus in 2013 was on reviewing and repricing of the Company's group and disability income business and this has largely been completed. Well publicised challenges in the life insurance market with respect to the profitability of risk business for both insurers and reinsurers has resulted in new opportunities for the Company where our emphasis on sound risk management has enabled us to establish new reinsurance relationships.

State of Affairs

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

Events Subsequent to Balance Date

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

Rounding of Amounts to Nearest Thousand Dollars

The Company is of a kind referred to in ASIC Class Order 98/0100 dated 10 July 1998, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' report and financial report. Amounts have been rounded off to the nearest thousand dollars in the Directors' report and financial report in accordance with that Class Order, unless stated otherwise.

Acknowledgements

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

DIRECTORS' REPORT (continued)

Indemnification of Officers and Auditors

General Re Corporation (incorporated in the USA) has provided indemnification to each of the Directors of the Company, as part of the group's global policy.

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

Likely Developments

The Company will continue to focus on profitability, product risk management and high quality technical advice to provide a wide range of value-added services to our clients and the market.

Environmental Regulation

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

Auditor Independence declaration

The Auditors' Independence Declaration is included on page 8.

Approval

Signed in accordance with a resolution of the directors made pursuant to s298(2) of the Corporations Act 2001.

On behalf of the Directors

F.A. McDonald
Director

E. Fabrizio
Director

Sydney, 18 March 2014

Deloitte.

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The Directors
General Reinsurance Life Australia Ltd
Level 24, 123 Pitt Street
Sydney NSW 2000

18 March 2014

Dear Board Members

General Reinsurance Life Australia Ltd

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of General Reinsurance Life Australia Ltd.

As lead audit partner for the audit of the financial statements of General Reinsurance Life Australia Ltd for the financial year ended 31 December 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Stuart Alexander
Partner
Chartered Accountants

STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

	Note	2013 $'000	2012 $'000
Life insurance premium revenue	8	227,620	220,726
Outward reinsurance expense	20	(7,557)	(8,522)
Net premium revenue		**220,063**	**212,204**
Investment income	8	6,836	15,729
Other revenue	8	4,028	13,889
Net revenue		**230,927**	**241,822**
Life insurance claims expense	9	(156,628)	(139,030)
Reinsurance recoveries (expense)	20	804	42,208
Net claims expense		**(155,824)**	**(96,822)**
Other expenses	10	**(15,251)**	**(11,263)**
Change in life insurance contract policy liabilities	17	(38,011)	(159,954)
Change in life investment contract policy liabilities	17	-	-
Net claims and expenses		**(209,086)**	**(268,039)**
Profit (loss) before income tax		21,841	(26,217)
Income tax benefit (expense)	12(a)	(5,582)	3,208
Net profit (loss)		**16,259**	**(23,009)**
Other comprehensive income		-	-
Comprehensive income (loss) for the year attributable to the members of General Reinsurance Life Australia Ltd.		**16,259**	**(23,009)**

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

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

For the financial year ended 31 December 2013	**Note**	**Issued Capital** $'000	**Retained Earnings** $'000	**Total** $'000
Balance at 1 January		49,632	51,239	100,871
Comprehensive income (loss) for the year		-	16,259	16,259
Balance at 31 December	5	**49,632**	**67,498**	**117,130**

For the financial year ended 31 December 2012		**Issued Capital** $'000	**Retained Earnings** $'000	**Total** $'000
Balance at 1 January		19,632	74,248	93,880
Comprehensive income (loss) for the year		-	(23,009)	(23,009)
Shares issued		30,000	-	30,000
Balance at 31 December	5	**49,632**	**51,239**	**100,871**

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

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2013

	Note	2013 $'000	2012 $'000
Assets			
Cash and cash equivalents	19(a)	20,779	64,731
Outstanding premiums and receivables	13	56,127	73,341
Reinsurance recoverable		547	1,504
Investments	14	551,399	410,805
Deferred tax asset	12(c)	16,237	14,005
Total assets		**645,089**	**564,386**
Liabilities			
Trade and other payables	15	54,421	41,411
Deferred tax liability	12(b)	5,183	4,908
Current tax liability		10,252	4,121
Provisions	16	1,885	2,647
Life insurance contract policy liabilities	17(a)	456,218	410,428
Total liabilities		**527,959**	**463,515**
Net assets		**117,130**	**100,871**
Equity			
Issued capital	22	49,632	49,632
Retained profits		67,498	51,239
Total equity		**117,130**	**100,871**

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

STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

	Note	2013 $'000	2012 $'000
Cash flows from operating activities			
Premiums received		216,371	203,939
Fees received		4,028	1,235
Portfolio recapture		-	12,654
Interest received		10,988	13,627
Policy payments		(110,258)	(141,803)
Income tax received (paid)		(1,408)	2,847
Payments to employees and suppliers		(12,857)	(7,934)
Net cash provided by operating activities	**19 (c)**	**106,864**	**84,565**
Cash flows from investing activities			
Proceeds from maturity of debt securities		10,012	158,233
Purchase of debt securities		(160,828)	(256,417)
Net cash used in investing activities		**(150,816)**	**(98,184)**
Cash flows from financing activities			
Capital contribution received		-	30,000
Dividends paid		-	-
Net cash provided by (used in) financing activities		**-**	**30,000**
Net change in cash and cash equivalents held		(43,952)	16,381
Cash and cash equivalents at the beginning of the year		64,731	48,350
Cash and cash equivalents at the end of the year	19(a)	**20,779**	**64,731**

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

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

This general purpose financial report has been prepared in accordance with applicable Accounting Standards and Interpretations, the Corporations Act 2001 and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with the AIFRS ensures that the financial statements and notes comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the Directors on 18 March 2014.

Adoption of new and revised Accounting Standards

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

Accounting Standards and Interpretations issued but not yet effective

At the date of authorisation of the financial report, the following Standards and Interpretations were in issue but not yet effective. Initial application of the following Standards and Interpretations is not expected to have any material impact to the financial report of the company:

Reference	*Title*	*Effective for annual reporting periods beginning on or after*	*Expected to be initially applied in the financial year ending*
AASB 9	**Financial Instruments** effective for annual reporting periods beginning on or after 1 January 2015. The standard includes requirements for the classification and measurement of financial assets. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.	1 January 2018	1 January 2018
AASB 2012-3	**Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities** effective for annual periods beginning on or after 1 January 2014. This amendment adds application guidance to AASB 132 to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. Initial application is not expected to result in any material impact.	1 January 2014	1 January 2014

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

These amendments are not effective for the annual reporting period ended 31 December 2013 and have not been applied in preparing the Company's financial statements. The nature of the impact of the application of these standards is in respect of disclosures only. The Company expects to adopt these standards for the annual reporting periods beginning on or after the operative dates set out above. The Directors anticipate that the adoption of these standards and interpretation in future periods will have no material financial impact on the financial statements of the Company.

Basis of preparation

The financial report has been prepared in accordance with the historical cost convention, except for investments which are stated at fair value and provisions for outstanding claims which have been inflation adjusted and discounted as required by the Accounting Standard AASB 1038 "Life Insurance Contracts".

Significant accounting policies

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

(a) Principles for Life Insurance contract business

The life insurance operations of the Company are conducted within separate funds as required by the Life Insurance Act 1995 (the Life Act) and are reported in aggregate with the shareholder's fund in the Statement of Profit or Loss and Comprehensive Income, Statement of Financial Position and Statement of Cash Flows of the Company. The life insurance operations of the Company comprise the selling and administration of life insurance.

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 Stop loss retrocession is linked to the market value of investments held by the Company, with the intent to offset the effects of changes in discount rate on policy liabilities. Life insurance contract business written by the Company is non-participating and all profits and losses are allocated to the Shareholders. All products sold meet the definition of a life insurance contract.

(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.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Claims expense

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 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 in Note 3.

(d) Basis of expense apportionment

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

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.

Apportionment under Part 6, Division 2 of the Life Act has been made as follows:

- Expenses directly identifiable with the Statutory Funds and the Shareholder's Fund have been recorded in the appropriate fund as incurred.
- Other expenses, including auditor's fees and directors' Fees are apportioned between the Statutory Funds and the Shareholder's Fund on a predetermined rate based on the estimated time spent on matters relating to each fund.

(e) Policy liabilities

Policy liabilities consist of life insurance contract liabilities.

Life Insurance contract 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.

(f) Assets backing policy liabilities

The Company has determined that all assets held within its statutory funds are assets backing policy liabilities. As all assets of the Company are managed under the Company's Risk Management Strategy and Framework on a fair value basis and are reported to the Board on this basis, all assets have been valued at fair value through the Statement of Profit or Loss and Comprehensive Income where available.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Assets backing policy liabilities (continued)

Financial assets

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

- Cash and cash equivalents are carried at face value of the amounts deposited or drawn. The carrying amounts of cash and cash equivalents approximate to their fair value. For the purposes of the Cash Flow Statement, cash and cash equivalents include cash on hand.
- Fixed interest securities are carried at fair value represented by the quoted market value at balance date.
- Receivables are carried at book value less provision for doubtful debts, which is the best estimate of fair value at balance date.

(g) Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction 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, and to unused tax losses.

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 relevant 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 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.

(h) Deferred acquisition costs

The costs incurred in acquiring specific life insurance contracts include commission payments and similar distribution costs. The policy liabilities takes into account the deferral and future recovery of acquisition costs, resulting in policy liabilities being lower than otherwise determined, 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 Profit or Loss and 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 are recognised at inception to the extent the latter situation arises).

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Foreign currency

Foreign currency transactions are translated to Australian currency at the rates of exchange of the transaction date. Amounts receivable and payable in foreign currencies at 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 Profit and Loss Comprehensive Income in the financial year in which the exchange rates change.

(j) Provision for employee entitlements

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

Salaries and annual leave

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

Long service leave

A liability for long service leave is recognised, and is measured as the present value of expected future payments to be made in respect of employees' services. Consideration is given to expect future wage and salaries levels, experience of employee departures and periods of service.

(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 Profit or Loss and 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;
ii) for receivables and payables which are recognised inclusive of GST; and
iii) for cash flows which are inclusive of the GST paid and received.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) 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.

(n) Outwards reinsurance

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

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The Company 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 as required by Prudential Standard LPS 340 – Valuation of Policy Liabilities, issued by the Australian Prudential Regulation Authority (APRA). The methodology takes into account the risks and uncertainties of the particular classes of life insurance business written.

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

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

(b) Assets arising from reinsurance contracts

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

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

3. ACTUARIAL ASSUMPTIONS AND METHODS

The Appointed Actuary is Paul Drysdale, Fellow of the New Zealand Society of Actuaries and Fellow of the Institute of Actuaries of Australia. The Appointed Actuary is satisfied as to the nature, sufficiency and accuracy of the data upon which policy liabilities have been determined.

The amount of policy liabilities has been determined in accordance with the methods and assumptions disclosed in this financial report and with the life insurance prudential standards of the Australian Prudential Regulation Authority (APRA) as required under the Life Insurance Act 1995.

(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 Life Insurance Contracts and LPS 340 Valuation of Policy Liabilities.

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, referred to as the Margin on Services method. 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, individual disability income business, group life business and group salary continuance business. The profit carrier used in order to achieve the systematic release of planned margins was inforce premium.

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 LPS 340. The result of using this method rather than the "projection" method required under AASB1038 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) Capitalised losses, where applicable,
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 LPS 340

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.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

3. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

(b) Regulatory capital requirement

These are amounts required to meet the life insurance prudential standards specified by the Life Insurance Act 1995 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 regulatory capital requirements are in accordance with Prudential Standard LPS 110 Capital Adequacy issued by the Australian Prudential Regulation Authority.

(c) Disclosure of assumptions

(i) Discount rates

Australia: Allowance for future interest rates of 4.25% pa (2012: 3.25%) is assumed
New Zealand: Allowance for future interest rates of 4.75% pa (2012: 3.50%) 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

Australia: Allowance for future inflation of 2.50% pa (2012: 2.75%) is assumed
New Zealand: Allowance for future inflation of 2.25% pa (2012: 2.25%) 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 company's experience in 2013, with allowance for one-offs, as the best available estimate for 2014. 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.

(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 IA95-97 Insured Lives Tables for Australia and the NZ047 Insured Lives Tables for the New Zealand branch 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.

Different claim rates are used for Australian business and Overseas business.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

3. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

(c) Disclosure of assumptions (continued)

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

i) type of product being written (policy terms, underwriting/claims approach, target market), and

ii) actual experience investigations undertaken by the Company.

(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: 14% per annum (2012: 14%)
Disability Income: 16% per annum (2012: 16%)

The same discontinuance rates were used for Australia and Overseas business.
Rates are based on actual company experience and market data as obtained from client companies.

(vii) Surrender values

There is no remaining business with surrender values.

(viii) Claim Delay

Significant delays are incurred between the date of the event resulting in a claim and the claim being reported to the company. The company 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	Australia 2013	Australia 2012	New Zealand 2013	New Zealand 2012
Accidental Death	9.0 mths	9.0 mths	9.0 mths	9.0 mths
Death	4.0 mths	4.0 mths	4.0 mths	4.0 mths
Trauma	9.0 mths	10.0 mths	9.0 mths	10.0 mths
TPD	18.0 mths	15.0 mths	18.0 mths	15.0 mths
Disability Income	3.0 mths	3.0 mths	3.0 mths	3.0 mths
Group life	3.6 mths	3.0 mths	-	-
Group TPD	13.9 mths	7.8 mths	-	-
Group salary continuance	4.8 mths	6.1 mths	-	-

The above is based on actual experience of the Company.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

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 an increase in the value of assets backing those policy liabilities. 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 would be 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 policy liabilities will reduce, there will be a decrease in the value of assets backing those policy liabilities and there would be a reduction in profit and shareholder equity.
Expense Rates	Expenses as a proportion of inforce premium are relatively small and therefore any reasonable deviation on the level of expenses will have little impact on profit and shareholder equity.
Mortality Rates	Higher mortality rates would lead to increased claim costs/policy liabilities, reduced profit and shareholder equity. Lower mortality rates would increase profit and shareholder equity.
Morbidity Rates	Higher incidence and duration of claim would lead to increased claim costs/policy liabilities, reduced profit and shareholders' equity. Lower morbidity incidence rates would increase profit and shareholder equity. Lower morbidity termination rates would lead to increased claim costs/policy liabilities, reduced profit and shareholders' equity. Higher morbidity incidence rates would decrease profit and shareholder equity.
Discontinuance	Higher discontinuance rates may impact on the recoverability of deferred acquisition costs and therefore would impact on profit and shareholder equity if deferred acquisition costs were required to be written down to what would be recoverable. Lower discontinuance rates would increase profit and shareholder equity if there are capitalised losses that can be recovered, otherwise they will have no impact on profit or shareholder equity.

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. Retrocession arrangements can also suppress or distort the impact that changes in assumptions may have.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

3. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

(d) Sensitivity analysis (continued)

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

	Profit A$'000	**Retained Earnings** A$'000
Current Value	16,259	67,498
Interest Rates +1%	28,513	79,752
Interest Rates –1%	4,005	55,244
Inflation Rates +1%*	2,311	53,550
Inflation Rates –1%*	30,207	81,446
Expenses +10%	15,336	66,575
Expenses –10%	17,182	68,421
Mortality/Incidence +10%	-2,696	48,543
Mortality/Incidence –10%	44,468	95,707
Termination Rates –10%	-4,187	47,052
Termination Rates +10%	56,258	107,497
Discontinuance Rates –10%	17,287	68,526
Discontinuance Rates +10%	15,231	66,470

* It has been assumed this will be accompanied by an increase/decrease in interest rates of +/-1%.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

4. RISK MANAGEMENT POLICIES AND PROCEDURES

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

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

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

In accordance with Prudential Standards LPS 220 *Risk Management* and LPS 230 *Reinsurance* issued by APRA, the Board and senior management of the company have developed, implemented and maintain a sound and prudent Risk Management Strategy (RMS). The Financial Condition Report also outlines the reinsurance management strategy.

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

The ICAAP Summary Statement, and RMS identify the Company's policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the Company. Annually, the Board certifies to APRA that adequate strategies have been put in place to monitor those risks, that the Company has systems in place to ensure compliance with legislative and prudential requirements and that the Board has satisfied itself as to compliance with the RMS.

The ICAAP, RMS have been approved by the Board. Key aspects of the processes established in the RMS to mitigate risks include:

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

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

4. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

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 significant reduces any interest rate, currency, credit and liquidity risk that the company may incur.

(a) Interest rate risk

None of the financial assets or liabilities arising from reinsurance contracts entered into by the company are directly exposed to interest rate risk. The Stop Loss Reinsurance contract is exposed to interest rate risk which is aimed to offset the effects of changes in discount rates on policy liabilities.

(b) Credit risk

Financial assets or liabilities arising from insurance and reinsurance contracts are stated in the Statement of Financial Position at the amount that best represents the maximum credit risk exposure at balance date.

(c) Terms and conditions of reinsurance business

The terms and conditions attaching to reinsurance contracts affect the level of insurance risk accepted by the company. There are no special terms and conditions in any non-standard contracts that have a material impact on the financial statements. Reinsurance contracts written in Australia and New Zealand are subject to substantially the same terms and conditions.

(d) Concentration of insurance risk

The company's exposure to concentrations of insurance risk is mitigated by a portfolio diversified into two major classes of business (Treaty and Facultative) written out of Australia and New Zealand. The portfolio is controlled and monitored through the company's Risk Management Strategy and Framework. This includes identifying and mitigating the concentrations of insurance risk through the retrocession arrangements.

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 procedures and authorities
iv) treaty underwriting procedures and authorities
v) underwriting and claim 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 the effect of adverse claims experience, via stop-loss and surplus retrocession arrangements

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

5. SUMMARY OF SHAREHOLDER'S INTEREST

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

	Statutory Funds 2013 $'000	**Share-holder's Funds** 2013 $'000	**Total** 2013 $'000	**Statutory Funds** 2012 $'000	**Share-holder's Funds** 2012 $'000	**Total** 2012 $'000
Profit (Loss) After Income Tax	16,114	145	16,259	(23,377)	368	(23,009)
Retained Profits at the beginning of the Year	50,146	1,093	51,239	73,523	725	74,248
Retained profits at the end of the year	**66,260**	**1,238**	**67,498**	**50,146**	**1,093**	**51,239**
Contributed equity	40,100	9,532	49,632	37,000	12,632	49,632
Total shareholder's interest	**106,360**	**10,770**	**117,130**	**87,146**	**13,725**	**100,871**

Components of shareholder's interests in statutory funds (1)

	Statutory Funds 2013 $'000	**Statutory Funds** 2012 $'000
- Shareholder's Capital	40,100	37,000
- Shareholder's Retained Profits (Non-Participating)	66,260	50,146
	106,360	87,146

(1) Shareholder's access to the retained profits and shareholder's capital is restricted to the extent these monies are required to meet solvency and capital adequacy requirements under the Life Insurance Prudential Standards.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

6. RECONCILIATION TO THE LIFE INSURANCE ACT 1995 OPERATING PROFIT AND RETAINED PROFIT OF THE STATUTORY FUNDS

(a) Allocation of profit after tax

As the Company does not have any participating business, all profit after tax is allocated to the shareholder.

(b) Distribution of retained profits

Distribution of profits to the shareholder is governed by the requirements of Section 62 of the Life Act and the approval of the Appointed Actuary. The Company has complied with the applicable provisions of Part 4 Division 6 of the Life Act and the provisions governing distribution of profit in its constitution.

(c) Sources of the profit

	Statutory Funds 2013 $'000	Shareholder's Funds 2013 $'000	Total 2013 $'000	Statutory Funds 2012 $'000	Shareholder's Funds 2012 $'000	Total 2012 $'000
From life Insurance contracts						
- Non-Participating Business	6,037	10,077	16,114	(16,348)	(7,029)	(23,377)
Retained Profits at beginning of the year	39,393	10,807	50,146	45,687	27,836	73,523
Transfer (to) Shareholder's Fund						
- Non-Participating Business	-	-	-	10,000	(10,000)	-
Retained profits at the end of the year	**45,370**	**20,884**	**66,260**	**39,339**	**10,807**	**50,146**
Components of Retained Profits						
- Shareholder's (Non-Participating)	45,370	20,884	66,260	39,339	10,807	50,146

7. AUDITOR'S REMUNERATION

	Statutory Funds 2013 $	Shareholder's Funds 2013 $	Total 2013 $	Statutory Funds 2012 $	Shareholder's Funds 2012 $	Total 2012 $
Amounts paid or due and payable for audit fees for:						
- Auditors of the Company	234,181	-	234,181	294,507	18,271	312,778

The company's auditor is Deloitte Touche Tohmatsu.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

8. REVENUE

	Statutory Funds 2013 $'000	Share-holder's Funds 2013 $'000	Total 2013 $'000	Statutory Funds 2012 $'000	Share-holder's Funds 2012 $'000	Total 2012 $'000
Life insurance premium revenue	**227,620**	**-**	**227,620**	**220,726**	**-**	**220,726**
Other revenue						
Recapture fees	-	-	-	12,654	-	12,654
Exchange gains	3,925	-	3,925	1,178	-	1,178
Seminar fees	50	-	50	57	-	57
Other revenue	53	-	53	-	-	-
	4,028	**-**	**4,028**	**13,889**	**-**	**13,889**
Investment income						
Unrealised gains (losses) on investments	(18,252)	(623)	(18,875)	(5,860)	(50)	(5,910)
Interest income	24,878	605	25,483	19,131	632	19,763
Realised gains	42	186	228	1,876	-	1,876
	6,668	**168**	**6,836**	**15,147**	**582**	**15,729**

9. LIFE INSURANCE CLAIMS EXPENSE

	Statutory Funds 2013 $'000	Share-holder's Funds 2013 $'000	Total 2013 $'000	Statutory Funds 2012 $'000	Share-holder's Funds 2012 $'000	Total 2012 $'000
Death and disability	156,628	-	156,628	139,030	-	139,030

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

10. OTHER EXPENSES

	Statutory Funds 2013 $'000	Share-holder's Funds 2013 $'000	Total 2013 $'000	Statutory Funds 2012 $'000	Share-holder's Funds 2012 $'000	Total 2012 $'000
Policy acquisition - life insurance contracts						
Premium discount	4,428	-	4,428	-	-	-
Policy maintenance						
Management expenses**	10,578	(44)	10,534	10,973	33	11,006
Investment management expenses	285	4	289	236	21	257
Total Administration Expenses	15,291	(40)	15,251	11,209	54	11,263
Analysis of expenses by nature						
Employee benefits expenses	5,154	-	5,154	6,867	-	6,867
Other expenses	10,137	(40)	10,097	4,342	54	4,396
Total	15,291	(40)	15,251	11,209	54	11,263

** Shareholder Fund balance captures a reversal of an accrual raised in 2012.

11. COMPONENTS OF PROFITS

Components of profit related to the movement in life insurance liabilities

	Statutory Funds 2013 $'000	Share-holder's Funds 2013 $'000	Total 2013 $'000	Statutory Funds 2012 $'000	Share-holder's Funds 2012 $'000	Total 2012 $'000
Planned margins of revenues over expenses released	11,345	-	11,345	13,722	-	13,722
Difference between actual and assumed experience	33,202	-	33,202	(18,593)	-	(18,593)
Reversal of capital losses	(18,776)	-	(18,776)	(21,827)	-	(21,827)
Investment earnings on assets in excess of Life Insurance policy liabilities	(9,657)	145	(9,512)	3,321	368	3,689
Profit (loss) for the Year	16,114	145	16,259	(23,377)	368	(23,009)

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

12. INCOME TAX

(a) Income taxation

	2013 $'000	2012 $'000
Income tax expense (benefit)		
Current tax	8,101	2,928
Deferred tax	(2,519)	(6,136)
Total tax expense (benefit) charged to Statement of Profit or Loss and Comprehensive Income	**5,582**	**(3,208)**
Reconciliation between (loss) profit before tax and tax expense		
Profit (loss) before tax	21,841	(26,217)
Tax at the effective tax rate of 30% (2012: 30%)	6,552	(7,865)
Tax effect of non-deductible expenses, non-assessable income and expenses	(356)	16
Lower tax in foreign jurisdiction	(260)	33
Foreign exchange differential	(608)	(324)
Prior years adjustments	254	4,932
Tax expense (benefit) for the year	**5,582**	**(3,208)**

The profit before tax as disclosed in the Statement of Profit or Loss and Comprehensive Income represents the net income which is taxable at the rate of 30% (New Zealand 28%) and which relates to profits attributable to shareholder assets. The effective rate is 25.6%. (2012: 12.2%).

Losses of General Reinsurance Australia Ltd – New Zealand Branch of NZ $8,572,464 (2012: $Nil) have been utilised by General Reinsurance Life Australia Ltd – New Zealand Branch, and the company will be reimbursed the tax value thereof.

(b) Deferred tax liability

2013	**Opening Balance** $'000	**Income Movement** $'000	**Closing Balance** $'000
Investments	1,353	(1,353)	-
Insurance provisions	3,428	1,637	5,065
Unrealised foreign exchange	19	99	118
Accrued Interest	108	(108)	-
	4,908	275	5,183
2012			
Investments	2,057	(704)	1,353
Insurance provisions	-	3,428	3,428
Unrealised foreign exchange	-	19	19
Accrued Interest	506	(398)	108
	2,563	2,345	4,908

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

12. INCOME TAX (continued)

(c) Deferred Tax Asset

2013	Opening Balance $'000	Income Movement $'000	Closing Balance $'000
Carry forward losses	5,292	(5,292)	-
Deficiency reserve	6,831	4,795	11,626
Unrealised foreign exchange	51	(38)	13
Investments	-	3,036	3,036
Provisions	1,831	(269)	1,562
	14,005	2,232	16,237
2012			
Carry forward losses	4,912	380	5,292
Deficiency reserve	-	6,831	6,831
Unrealised foreign exchange	-	51	51
Provisions	646	1,185	1,831
	5,558	8,447	14,005

13. OUTSTANDING PREMIUMS AND RECEIVABLES

	Statutory Funds 2013 $'000	Share-holder's Funds 2013 $'000	Total 2013 $'000	Statutory Funds 2012 $'000	Share-holder's Funds 2012 $'000	Total 2012 $'000
Outstanding premiums	46,738	-	46,738	34,669	-	34,669
Amounts due from related entities	-	-	-	32,197	-	32,197
Other receivables	9,274	115	9,389	6,361	114	6,475
	56,012	115	56,127	73,227	114	73,341
Receivables expected to be realised within 12 months	56,012	115	56,127	73,227	114	73,341
Receivables expected to be realised in more than 12 months	-	-	-	-	-	-
Total	**56,012**	**115**	**56,127**	**73,227**	**114**	**73,341**

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

14. INVESTMENTS

	Statutory Funds 2013 $'000	Share-holder's Funds 2013 $'000	Total 2013 $'000	Statutory Funds 2012 $'000	Share-holder's Funds 2012 $'000	Total 2012 $'000
Debt securities						
National Government	540,404	10,995	551,399	396,944	13,861	410,805
Total debt securities	540,404	10,995	551,399	396,944	13,861	410,805
Total financial assets at fair value through profit or loss						
Expected to be realised within 12 months	52,262		52,262	4,738	-	4,738
Expected to be realised in more than 12 months	488,142	10,995	499,137	392,206	13,861	406,067
Total	540,404	10,995	551,399	396,944	13,861	410,805

Investments held in the Statutory Funds can only be used within the restrictions imposed under the Life Act. The main restrictions are that the assets in a Fund can only be used to meet the liabilities and expenses of that Fund, to acquire investments to further the business of the Fund or as distributions when solvency and capital adequacy requirements are met.

Interest Rate and Market Risks

Interest bearing securities are government backed AA+ and AAA investments. The average duration of the investment portfolio is 3.21 years (2012: 3.85 years) with maturities ranging from 15 June 2014 to 15 July 2022. Interest rates will vary in accordance with economic conditions. The average interest rate on these investments as at the end of the year is 5.36% pa (2012: 5.35% pa) and yield as at the end of the year is 3.14% pa (2012: 2.80% pa) . The investments of the Company are constantly monitored by management and the Company's investment managers to limit the effect of market fluctuations.

The Company does not invest in derivatives and on this basis does not have a Derivative Risk Statement (DRS). The Board has not authorised the Company to conduct derivatives trading.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

15. TRADE AND OTHER PAYABLES

	Statutory Funds 2013 $'000	**Share-holder's Funds** 2013 $'000	**Total** 2013 $'000	**Statutory Funds** 2012 $'000	**Share-holder's Funds** 2012 $'000	**Total** 2012 $'000
Outstanding life contracts claims payable	44,158	-	44,158	39,525	-	39,525
Accruals	624	-	624	887	50	937
Amounts owing to related entities	9,157	482	9,639	472	477	949
Other payables	-	-	-	-	-	-
	53,939	**482**	**54,421**	**40,884**	**527**	**41,411**

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

16. PROVISIONS

	Statutory Funds 2013 $'000	**Share-holder's Funds** 2013 $'000	**Total** 2013 $'000	**Statutory Funds** 2012 $'000	**Share-holder's Funds** 2012 $'000	**Total** 2012 $'000
Employee Entitlements	1,885	-	1,885	2,647	-	2,647
	1,885	-	1,885	2,647	-	2,647
Payable within 12 months	1,464	-	1,464	2,333	-	2,333
Payable after 12 months	421	-	421	314	-	314
	1,885	**-**	**1,885**	**2,647**	**-**	**2,647**

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

17. POLICY LIABILITIES

	2013 $'000	2012 $'000
(a) Reconciliation of movements in policy liabilities		
Life insurance contract liabilities		
Gross life insurance contract liabilities at 1 January	410,428	248,725
Unrealised exchange difference on opening balance in New Zealand branch	8,737	1,749
Increase in life insurance contract liabilities reflected in the statement of profit or loss and comprehensive income	37,053	159,954
Gross life insurance contract liabilities at 31 December	**456,218**	**410,428**
Reinsurer's share of life insurance liabilities		
Opening balance at 1 January	(1,504)	(675)
Unrealised exchange difference on opening balance in New Zealand branch	(1)	(1)
Increase (decrease) in reinsurance assets reflected in the statement of profit or loss and comprehensive income	958	(828)
Reinsurer's share of life insurance liabilities at 31 December	**(547)**	**(1,504)**
Total life insurance contract liabilities	**455,671**	**408,924**
Net policy liabilities at 31 December		
Expected to be realised within 12 months	(11,240)	(12,109)
Expected to be realised in more than 12 months	466,911	421,033
	455,671	**408,924**

(b) Components of net life insurance contract liabilities

	2013 $'000	2012 $'000
Future policy benefits	1,694,792	1,744,250
Future expenses	129,317	130,544
Future charges for acquisition costs	(57,572)	(58,926)
Future premiums in excess of charges for acquisition costs	(1,406,519)	(1,512,557)
Best estimate liability	360,018	303,311
Shareholder profit margins	96,200	107,117
Gross insurance contract liabilities	456,218	410,428
Policy liabilities ceded under reinsurance	547	1,504
Total net life insurance contract liabilities	**455,671**	**408,924**

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

17. POLICY LIABILITIES (continued)

(c) Regulatory capital requirements

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

The figures in the table below represent the prescribed capital amount coverage.

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

	Statutory Fund 1 2013 $'000	**Statutory Fund 2** 2013 $'000	**Share-holder Fund** 2013 $'000	**Total** 2013 $'000
Capital base				
Common Equity Tier 1 Capital				79,120
Additional Tier 1 Capital				-
Tier 2 Capital				-
Capital Base				79,120
Prescribed Capital Amount				16,592
Net assets				**117,130**
Regulatory Adjustments to Net Assets				(38,011)
Tier 2 Capital:				-
Capital Base				79,119
Asset Risk Charge	2,185	2,261	461	4,907
Insurance Risk Charge	-	-	-	-
Asset Concentration Risk Charge	-	-	-	-
Operational Risk Charge	8,253	1,329	-	9,582
Aggregation Benefit	-	-	-	-
Combined Stress Scenario Adjustment	937	969	197	2,103
Prescribed Capital Amount	11,375	4,559	658	16,592
Capital Base	48,997	19,349	10,774	79,120
Prescribed Capital Amount Coverage	431%	424%	1637%	477%

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

17. POLICY LIABILITIES (continued)

	Statutory Fund 1 2012 $'000	Statutory Fund 2 2012 $'000	Share-holder Fund 2012 $'000	Total 2012 $'000
Capital base				
Common Equity Tier 1 Capital				60,811
Additional Tier 1 Capital				-
Tier 2 Capital				-
Capital Base				60,811
Prescribed Capital Amount				36,399
Net assets				**100,871**
Regulatory Adjustments to Net Assets				(40,060)
Tier 2 Capital:				-
Capital Base				60,811
Asset Risk Charge	16,150	2,549	621	19,320
Insurance Risk Charge	-	-	-	-
Asset Concentration Risk Charge	-	-	-	-
Operational Risk Charge	7,600	1,198	-	8,798
Aggregation Benefit	-	-	-	-
Combined Stress Scenario Adjustment	6,922	1,093	266	8,281
Prescribed Capital Amount	30,672	4,840	887	36,399
Capital Base	38,720	8,194	13,897	60,811
Prescribed Capital Amount Coverage	126%	169%	1567%	167%

(d) Disclosures on asset restrictions, managed assets and trustee activities

Investments held in the statutory funds ('funds') can only be used within the restrictions imposed under the Life Act. The main restrictions are that the assets in the fund can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of the fund or as distributions when solvency and capital adequacy requirements are met. Participating policyholders can receive a distribution when solvency requirements are met, whilst shareholders can only receive a distribution when the higher level of capital adequacy requirements is met.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

18. DISAGGREGATED INFORMATION OF LIFE INSURANCE BUSINESS BY FUND

	Statutory Fund 1 2013 $'000	Statutory Fund 2 2013 $'000	Share-holder's Funds 2013 $'000	Total 2013 $'000
Investments	439,220	101,184	10,995	551,399
Other assets	77,741	15,444	505	93,690
Life insurance contract policy liabilities	394,408	61,810	-	456,218
Other Liabilities	40,185	30,835	721	71,741
Retained earnings	46,321	19,939	1,238	67,498
Net premium revenue	180,997	39,066	-	220,063
Other income	89	3,939	-	4,028
Investment income	6,228	440	168	6,836
Net claims expense	(128,469)	(27,355)	-	(155,824)
Other expenses	(50,202)	(3,102)	42	(53,262)
Profit (Loss) before tax	8,643	12,988	210	21,841
Profit/(Loss) after tax	6,037	10,077	145	16,259
Transfers from/(to) other funds	-	-	-	-
	6,037	**10,077**	**145**	**16,259**

	2012 $'000	2012 $'000	2012 $'000	2012 $'000
Investments	331,855	65,089	13,861	410,805
Other assets	134,458	19,009	114	153,581
Life insurance contract policy liabilities	352,516	57,912	-	410,428
Other liabilities	37,119	15,256	712	53,087
Retained earnings	40,284	9,862	1,093	51,239
Net premium revenue	178,360	33,844	-	212,204
Other income	12,719	1,170	-	13,889
Investment income	12,553	2,594	582	15,729
Net claims expense	(68,532)	(28,290)	-	(96,822)
Other expenses	(167,411)	(3,752)	(54)	(171,217)
Profit before tax	(32,311)	5,566	528	(26,217)
Profit after tax	(16,348)	(7,029)	368	(23,009)
Transfers from (to) other funds				
	(16,348)	**(7,029)**	**368**	**(23,009)**

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

19. CASH AND CASH EQUIVALENTS

(a) Reconciliation of cash

For the purpose of the Statement of Cash Flows, cash and cash equivalents include cash on hand and at bank. Cash and cash equivalents at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	Statutory Funds 2013 $'000	Share-holder's Funds 2013 $'000	Total 2013 $'000	Statutory Funds 2012 $'000	Share-holder's Funds 2012 $'000	Total 2012 $'000
Cash and cash equivalents	20,394	385	20,779	64,281	450	64,731

(b) Interest rate risk

Cash and cash equivalents are represented by current accounts with major Australian and New Zealand banks. The interest rate is variable and cash is available at call. Variable interest rates applying to these accounts represents an interest rate risk.

(c) Reconciliation of profit after tax to net cash provided by operating activities

	2013 $'000	2012 $'000
Profit after tax	**16,259**	**(23,009)**
Add (less) items classified as investing or financing activities:		
Realised (gains) losses on investments	(228)	(1,876)
Purchased interest	1,997	2,980
Accrued interest included in settlements	(42)	(1,243)
Add (less) non-cash items:		
Unrealised (gains) losses on investments	4,459	5,910
Unrealised exchange (gains) losses	3,772	(1,177)
Change in assets and liabilities during the financial year:		
(Increase) decrease in outstanding premium	(12,069)	(4,395)
(Increase) decrease in other debtors	1,221	(829)
(Increase) decrease in accrued investment income	(2,914)	(3,539)
(Decrease) increase in amount due to related entity	(313)	476
(Increase) decrease in deferred tax assets	(2,232)	(8,447)
(Decrease) increase in amount owing to controlling entity	40,887	(36,543)
(Decrease) increase in reinsurance claims payable	4,633	(13,704)
(Decrease) increase in payables	-	(679)
(Decrease) increase in employee entitlements	(762)	826
(Decrease) increase in deferred tax liability	275	2,345
(Decrease) increase in current tax liability	6,131	5,767
(Decrease) increase in policy liabilities	45,790	161,702
Net cash inflow provided by operating activities	**106,864**	**84,565**

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

20. RELATED PARTIES

Ultimate controlling entity

The immediate controlling entity is General Reinsurance AG ("GRAG"), incorporated in Germany. 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 GRLA during the financial year are F.A. McDonald, A.G. Brown, K.J. McCann, W. Heinen and E. Fabrizio.

Loans to Directors

There were no loans to directors during the year.

Directors' Shareholdings/Dividends

No shares were held by any Directors during the financial year. No dividends were paid to the Directors during the financial year.

Parent entity - related party transactions

The Company has in place surplus, stop loss and quota share retrocession agreements with GRAG. Transactions under these agreements and the amounts due to or from the parent and associated entities are as follows:

	2013	2012
Related party balances at reporting date	$'000	$'000
General Reinsurance AG	(6,662)	32,197
General Reinsurance Australia Ltd	(2,977)	(951)
Management charges paid to related entities		
General Reinsurance Australia Ltd	331	704

Retrocessions

The company is a party to retrocession agreements with related parties. These agreements are entered into under normal commercial terms and conditions. Details of transactions are listed below.

	Retrocession Premiums		Claim Recoveries	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
General Reinsurance AG	7,557	8,522	804	41,379

Commonly controlled entity

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

Dividends for the year ended 31 December 2013 paid to General Reinsurance AG in 2013 were nil (2012: nil).

Investment management expenses amounting to $130,125 (2012: $257,000) were paid to NEAM for investment services rendered.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

21. KEY MANAGEMENT PERSONNEL REMUNERATION

The compensation of key management personnel of the Company is set out below:

	2013 $	2012 $
(a) short-term employee benefits	903,528	839,724
(b) post-employment benefits	-	-
(c) other long-term benefits	9367	6,540
(d) termination benefits	-	65,346
(e) share-based payments	-	-
Total	**912,895**	**911,610**

22. ISSUED CAPITAL

	Statutory Funds 2013 $'000	Share-holder's Funds 2013 $'000	Total 2013 $'000	Statutory Funds 2012 $'000	Share-holder's Funds 2012 $'000	Total 2012 $'000
2,681,608 ordinary shares (2012: 2,681,608), fully paid	-	49,632	49,632	-	49,632	49,632

Ordinary shares carry voting rights of 1 vote per share and carry the rights to dividends. There are no authorised shares.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

23. FINANCIAL INSTRUMENTS

(a) Significant accounting policies

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

(b) Capital risk management

The company manages its capital so it will be able to continue operating as a going concern while maximising the return to stakeholders through the optimisation of equity.

The capital structure of the company consists of cash and cash equivalents and equity, comprising issued capital and retained earnings as disclosed in Note 19 and the Statement of Changes in Equity respectively.

The Company's capital is managed through ICAAP. The ICAAP is subject to regular and robust reviews which occur at a minimum every three years.

(c) Categories of financial instruments

	Note	2013 $'000	2012 $'000
Financial assets			
Cash and cash equivalents	19(a)	20,779	64,731
Reinsurance Recoverable		547	1,504
Fair value through Statement of Profit or Loss and Comprehensive Income (i)	14	551,399	410,805
Receivables	13	56,127	73,341
Financial liabilities			
Trade and other payables	15	54,421	41,411
Outstanding claims liability	17(a)	456,218	410,428

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

(d) Financial risk management objectives

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

As part of the overall governance framework the Company has established a number of Board and management committees to overview and manage financial risks. The Board and senior management of the Company have developed, implemented and maintained a RMS.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

23. FINANCIAL INSTRUMENTS (continued)

The RMS identify the company's policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the company. Annually, the Board certifies to APRA that adequate strategies have been put in place to monitor those risks, that the Company has systems in place to ensure compliance with legislative and prudential requirements and that the Board has satisfied itself as to compliance with the RMS.

(e) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted the policy of only dealing with creditworthy cedants and bondholders as a means of mitigating the risk of financial loss from defaults. These policies and procedures are in place to mitigate the Company's exposure to credit risk. The Company's overall strategy in credit risk management remains unchanged from 2012.

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The table below shows the maximum exposure to credit risk for the components of the Statement of Financial Position. The maximum exposure is shown gross, before the effect of mitigation through the use of retrocession.

	Note	2013 $'000	2012 $'000
Financial assets			
Fair value through Statement of Profit or Loss and Comprehensive Income	14	551,399	410,805
Cash and cash equivalents	19(a)	20,779	64,731
Premiums receivable	13	46,738	34,669
Amounts due from related entities	13	-	32,197
Other debtors and prepayments	13	9,389	6,475
Reinsurance recoveries		547	1,504
Total		**628,852**	**550,381**

(f) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations and other expenses under reinsurance contracts entered into. Ultimate responsibility for liquidity risk management rests with the Board of Directors, who have built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of assets and liabilities. As required by APRA Prudential Standard LPS 220, the Company has developed and implemented a Risk Management Strategy. The Company's overall strategy in liquidity risk management remains unchanged from 2012.

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

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

23. FINANCIAL INSTRUMENTS (continued)

The tables include the principal cash flows. The adjustment column represents the possible future cash flows attributable to the instrument included in the maturity analysis which are not included in the carrying amount of the financial liability on the statement of financial position.

	Weighted average interest rate	0- 1 year	1-5 years	5+ years	Total
2013	%	$'000	$'000	$'000	$'000
Outstanding claims liabilities	-	44,158	-	-	44,158
Financial liabilities					
Payables	-	10,263	-	-	10,263
Employee entitlements	-	1,464	421	-	1,885
Total		55,885	421	-	56,306
2012					
Outstanding claims liabilities	-	39,525	-	-	39,525
Financial liabilities					
Payables	-	1,886	-	-	1,886
Employee entitlements	-	2,333	314	-	2,647
Total		43,744	314	-	44,058

(g) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange (currency risk), market interest rates (interest rate risk) and market prices (price risk). The Company's policies and procedures put in place to mitigate the Company's exposure to market risk are discussed below. There has been no change to the Company's exposure to market risks or the manner in which it manages and measures the risk.

Interest rate risk management

The Company's activities expose it to the financial risk of changes in interest rates. Fixed interest rate instruments expose the Company to fair value interest rate risk. The Company's Investment manager closely monitors the Company's exposures to interest rate risk.

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

The following tables detail the Company's expected maturity for its financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except when the Company anticipates that the cash flow will occur in a different period. The adjustment column represents the possible future cash flows attributable to the instrument included in the maturity analysis which are not included in the carrying amount of the financial asset on the statement of financial position.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

23. FINANCIAL INSTRUMENTS (continued)

	Weighted average interest rate	0- 1 year	1-5 years	5+ years	Total
	%	$'000	$'000	$'000	$'000
2013					
Non-interest bearing:					
Cash	-	-	-	-	-
Net trade debtors	-	46,738	-	-	46,738
Other insurance receivables	-	9,389	-	-	9,389
Receivable from related party	-	-	-	-	-
Variable interest rate instruments:					
Cash	3.20	20,779	-	-	20,779
Fixed interest rate instruments:					
Government securities	5.36	52,262	320,127	179,010	551,399
Total		129,168	320,127	179,010	628,305
2012					
Non-interest bearing:					
Cash	-	-	-	-	-
Net trade debtors	-	34,669	-	-	34,669
Other insurance receivables	-	6,475	-	-	6,475
Receivable from related party	-	32,197	-	-	32,197
Variable interest rate instruments:					
Cash	3.61	64,731	-	-	64,731
Fixed interest rate instruments:					
Government securities	5.35	4,738	233,436	172,631	410,805
Total		142,810	233,436	172,631	548,877

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates at the reporting date.

Fixed Interest securities	2013 $'000	2012 $'000
100 basis point increase on profit (+/-)	(17,756)	(15,816)
100 basis point decrease on profit (+/-)	18,681	16,761

Foreign currency risk management

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

The Company is mainly exposed to New Zealand dollars (NZD) through its Branch in New Zealand. The Company's financial assets are primarily denominated in the same currencies as its insurance contract liabilities, which mitigates the foreign currency exchange risk for the overseas operations in New Zealand. The Company's overall strategy in foreign currency risk management remains unchanged from 2012.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

23. FINANCIAL INSTRUMENTS (continued)

The net carrying amount of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows (in Australian dollars):

	2013 AUD $'000	2012 AUD $'000
New Zealand Branch		
Financial assets	125,585	89,759
Financial liabilities	(101,601)	(78,953)
Net Total	23,984	10,806

Foreign currency sensitivity

The following table details the Company's sensitivity to a 10% increase and decrease in the Australian Dollar against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number indicates an increase in profit or loss and other equity where the Australian Dollar strengthens against the respective currency.

	10% increase In AUD/NZD		**10% decrease In AUD/NZD**	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Income statement impact	964	1,076	(876)	(978)

Fair value of financial instruments

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

Investments

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

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

23. FINANCIAL INSTRUMENTS (continued)

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

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

Financial assets and liabilities

Financial assets and liabilities measured at fair value in the financial statements as at 31 December 2013 and 2012 are summarized in the following table by the type of inputs applicable to the level of the fair value measurement (in thousands).

2013 Investments	**Total Fair Value**	**Quoted prices Level 1**	**Significant Other Observable Inputs Level 2**	**Significant unobservable Inputs Level 3**
Fixed maturities bonds				
Obligations of Australia and New Zealand governments	551,399	551,399	-	-
Total fixed maturities bonds	551,399	551,399	-	-

2012 Investments	**Total Fair Value**	**Quoted prices Level 1**	**Significant Other Observable Inputs Level 2**	**Significant unobservable Inputs Level 3**
Fixed maturities bonds				
Obligations of Australia and New Zealand governments	410,805	410,805	-	-
Total fixed maturities bonds	410,805	410,805	-	-

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

24. FRANKING ACCOUNT

The Branch paid an unfranked dividend of $Nil during the year (2012: $Nil). The ability to utilise the franking account credits is dependent on there being sufficient available profits to declare a dividend. The franking account represents amounts on an income tax paid basis.

25. ADDITIONAL INFORMATION

Principal Place of Business and Registered Office
Level 24, Angel Place
123 Pitt Street
SYDNEY 2000

Number of Employees
At 31 December 2013 the company had 26 employees (2012: 27)

Type of Company
The company operates as a for profit unlisted public company.

26. CONTINGENCIES

There are no outstanding contingencies at the end of the year. (2012: Nil)

27. EVENTS SUBSEQUENT TO BALANCE DATE

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

DIRECTORS' DECLARATION

In the opinion of the Directors of General Reinsurance Life Australia Ltd. (“the Company”):

(a) the financial report and notes, set out on pages 9 to 47, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company as at 31 December 2013 and of its performance, as represented by the results of its operations and cash flows, for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

(c) in the Directors’ opinion, the financial statement and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Signed in accordance with a resolution of the Directors made in pursuant to s.295(5) of the Corporations Act 2001 on 18 March 2014:

F.A. McDonald	**E. Fabrizio**
Director	**Director**

Sydney, 18 March 2014

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Independent Auditor's Report to the Members of General Reinsurance Life Australia Ltd

We have audited the accompanying financial report of General Reinsurance Life Australia Ltd, which comprises the statement of financial position as at 31 December 2013, the Statement of Profit or Loss and 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, and the directors' declaration as set out on pages 9 to 48.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of a financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of a financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report 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 report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, 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 report that gives a true and fair view, 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 report.

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

Deloitte.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of General Reinsurance Life Australia Ltd, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of General Reinsurance Life Australia Ltd is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the company's financial position as at 31 December 2013 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Stuart Alexander
Partner
Chartered Accountants
Sydney, 18 March 2014

The people behind the promise®

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