



General Reinsurance Life Australia Ltd.
New Zealand Branch

Financial Report
for the Financial Year ended
31 December 2016

A Berkshire Hathaway Company

CONTENTS

DIRECTORS' REPORT	3
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	7
STATEMENT OF CHANGES IN EQUITY	8
STATEMENT OF FINANCIAL POSITION	9
STATEMENT OF CASH FLOWS	10
NOTES TO THE FINANCIAL REPORT	11
INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS	35

DIRECTORS' REPORT

The Directors present their report together with the annual financial report for the financial year ended 31 December 2016 and the auditor's report thereon. The New Zealand Branch (the branch) is a foreign operation of General Reinsurance Life Australia Ltd (the company) incorporated in Australia.

Directors

The Directors of the company during or since the end of the financial year were:

Kathryn J McCann (commenced as Chairperson 19 August 2016)
 F Allan McDonald (ceased 19 August 2016)
 Mark Phillips (ceased 1 January 2017)
 Keith Scott (commenced 1 January 2017)
 Winfried Heinen
 Meredith J Brooks (commenced 1 January 2016)
 Andres Webersinke

Name and qualifications

Experience and special responsibilities

Kathryn J McCann

B.App.Sci (Computing Science),
 - Chairperson
 - Non-Executive Director
 - Member of Board Audit Committee
 - Member of Board Risk Committee
 - Member of Board Remuneration Committee

Ms. McCann has 30 years' experience in the finance and business management industry. She is a director of Astro Japan Property Group Limited and General Reinsurance Australia Ltd. She holds a Master of Business Administration degree and held the position of Principal of a major management consulting firm up to 2002. Director since August 2006 and a member of the Board Audit Committee since November 2006, she has also been the Chair of the Remuneration Committee from March 2010 until January 2017. She was appointed as Chairperson effective 19 August 2016.

F Allan McDonald

B.Ec, FCPA, FGIA, FAIM
 - Non-Executive Director
 - Member of Board Audit Committee
 - Member of Board Risk Committee
 - Member of Board Remuneration Committee

Mr. McDonald is also a director of Astro Japan Property Group Limited, General Reinsurance Australia Ltd and Brookfield Capital Management Limited. He has 49 years' industry experience, has been a director of General Reinsurance Life Australia Ltd since May 1981 and was appointed as Chairman in May 1992. He is also a member of the Board Audit, Risk and Remuneration Committees. He retired effective 19 August 2016.

Mark Phillips

B. Com, M. Com
 - Non-Executive Director
 - Member of Board Audit Committee
 - Member of Board Risk Committee
 - Member of Board Remuneration Committee

Mr Phillips has over 35 years' experience in the financial services industry. Following twenty years at the Commonwealth Bank of Australia, he held Managing Director roles over the course of ten years within listed financial services businesses. Mr Phillips was appointed to the Board of General Reinsurance Australia Ltd in January 2014 and became a member of the Board Audit and Board Remuneration Committees at the same time. He was appointed as Chair of the Board Audit Committee in May 2014 and Chair of the Board Risk Committee in November 2014. He retired effective 1 January 2017.

Keith Scott

FAICD, FCII, MA (European)
 - Non-Executive Director
 - Chair of Board Audit Committee
 - Chair of Board Risk Committee
 - Member of Board Remuneration Committee

Mr Scott has almost 15 years' board level experience across the Australian and Asian insurance markets following extensive international executive reinsurance experience with Swiss Re. He was appointed to the Board of General Reinsurance Australia Ltd. in January 2017 and also holds the positions of Independent Director at Insurance Manufacturers of Australia Pty Limited and Non Executive Director of Aviva Life Insurance Company Limited (Hong Kong). He holds a Master of Arts in European Languages and is a Fellow of the Australian Institute of Company Directors and a Fellow of the Chartered Insurance Institute, London. Mr Scott became a member of the Board Remuneration Committee and Chair of the Board Audit and Risk Committees upon his appointment to the Board of the company in January 2017.

DIRECTORS' REPORT (continued)

Name and qualifications

Winfried Heinen

Doctorate Mathematics
- Non-Executive Director

Meredith J Brooks

B.A. (Actuarial Studies), FIAA
- Non-Executive Director
- Member of Board Audit Committee
- Member of Board Risk Committee
- Chair of Board Remuneration Committee

Andres Webersinke

Master of Mathematics (German university degree comparable)
Actuary (DAV), FIAI, FASSA
- Managing Director

Experience and special responsibilities

Dr Heinen is an executive director of General Reinsurance AG (Germany) and a non-executive director of General Reinsurance Africa Limited (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 society of actuaries. He was appointed to the Board of General Reinsurance Life Australia Ltd. on 17 August 2012.

Ms Brooks has over 30 years' experience in the financial services industry, including extensive experience in funds management both in Australia and overseas. She also holds the positions of Non-executive Director at BT Investment Management Limited and JO Hambro Capital Holdings Limited, Chair at Critical Path Inc., Council Member at Glaucoma Australia and was also appointed to the Board of General Reinsurance Australia Ltd. in January 2016. She holds a Bachelor of Arts in Actuarial Studies and is a Fellow of the Institute of Actuaries of Australia. Ms Brooks became a member of the Board Audit, Remuneration, and Risk Committees upon her appointment to the Board of the company in January 2016. She became Chair of the Board Remuneration Committee effective January 2017.

Mr Webersinke has worked for the Gen Re Group since 1993. He was previously Head of the Research & Development Service Unit in Cologne and prior to that the Principal Officer of Gen Re's Singapore branch. He was appointed to the Board effective 17 June 2014.

Meetings of directors

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the directors of the company during the financial year ended 31 December 2016 are:

Director	Directors' Meetings		Board Audit Committee		Board Remuneration Committee		Board Risk Committee	
	A	B	A	B	A	B	A	B
Kathryn J McCann	3	4	3	4	3	4	3	4
F Allan McDonald	2	3	2	3	2	3	2	3
Mark Phillips	4	4	4	4	4	4	4	4
Winfried Heinen	2	4	-	-	-	-	-	-
Meredith J Brooks	4	4	4	4	4	4	4	4
Andres Webersinke	4	4	-	-	-	-	-	-

A - The number of meetings attended.

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

DIRECTORS' REPORT (continued)

Company secretaries

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

<i>Name and qualifications</i>	<i>Experience and special responsibilities</i>
Herman Beukes B.Com, CA, GDip FP	Mr. Beukes has been in the employment of the Gen Re group since 2003, and prior to transferring to Australia spent 3 years as the Chief Financial Officer of the South African office. He was appointed as Chief Financial Officer effective 21 May 2012 and Company Secretary effective 1 July 2012. In July 2015 Mr. Beukes was promoted to Regional Financial Controller for the Asia Pacific region.

Principal activities

The principal activity of the branch is reinsurance underwriting.

There has been no significant change in the nature of this activity during the year.

Review of operations

Operating Results

The net profit of the branch for the year, after provision for income tax, amounted to \$3,963,000 compared with the 2015 profit of \$9,994,000.

State of affairs

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

Events subsequent to balance date

Effective 1 January 2017, Keith Scott was appointed as Director of the company's board. Effective 1 January 2017, Mark Phillips retired from the board.

There has not arisen in the interval between the end of the financial year and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the branch, to affect significantly the operations of the branch, the results of those operations, or the state of affairs of the branch in subsequent financial years.

Indemnification of officers and auditors

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

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

DIRECTORS' REPORT (continued)

Likely developments

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

Environmental regulation

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

Disclosures

No disclosure has been made in respect of s211 (a) and (e) to (j) of the Companies Act 1993 following a unanimous decision by the shareholders in accordance with s211 (3) of the Act.

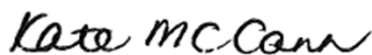
Acknowledgements

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

Approval

Signed in accordance with a resolution of the Directors made pursuant to Section 211(1)(k) of the Corporations Act 1993.

On behalf of the Directors:



K.J. McCann
Chair



A. Webersinke
Managing Director

Sydney, 10 March 2017

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	2016 \$'000	2015 \$'000
Premium revenue		61,436	56,254
Outwards reinsurance expense		(1,421)	(1,309)
Net premium revenue	5(a)	60,015	54,945
Claims expense		(43,103)	(39,521)
Reinsurance and other recoveries		(4)	5
Net claims incurred	5(c)	(43,107)	(39,516)
Change in life insurance contract policy liabilities	13(a)	(7,313)	(2,255)
Policy acquisition costs	5(d)	(4,144)	(2,445)
General and administration expenses	5(b)	(3,264)	(1,988)
Net underwriting profit		2,187	8,741
Interest income		3,859	4,078
Net investment gains		426	836
Investment expenses		(68)	(76)
Net investment income	5(e)	4,217	4,838
Profit before income tax		6,404	13,579
Income tax expense on profit	6(a)	(2,441)	(3,585)
Net profit	7	3,963	9,994
Items that may be reclassified subsequently to profit/loss		-	-
Items that will not be reclassified subsequently to profit/loss		-	-
Other comprehensive income		-	-
Total comprehensive income for the year attributable to the members of the company		3,963	9,994

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

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

For the financial year ended 31 December 2016	Head Office Account	Retained Earnings	Total
	\$'000	\$'000	\$'000
Balance at 1 January	532	29,301	29,833
Total comprehensive income for the year	-	3,963	3,963
Transfers to Australian statutory fund	-	-	-
Balance at 31 December	532	33,264	33,796

For the financial year ended 31 December 2015

Balance at 1 January	532	21,457	21,989
Total comprehensive income for the year	-	9,994	9,994
Transfers to Australian statutory fund	-	(2,150)	(2,150)
Balance at 31 December	532	29,301	29,833

All retained earnings are attributable to the shareholder. Shareholder's access to the retained profits and shareholder's capital is restricted to the extent these monies within the Statutory Funds are required to meet solvency and capital adequacy requirements under the Australian Life Insurance Prudential Standards.

Transfers are made between the New Zealand branch statutory fund and the Australian company statutory fund in order to maintain capital requirements and aid in liquidity of either fund.

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 2016

	Note	2016 \$'000	2015 \$'000
Assets			
Cash and cash equivalents		11,252	9,871
Investments	18	126,541	117,137
Receivables	8	1,068	585
Accrued investment income		1,144	946
Other assets	10	143	1,326
Reinsurance recoverable	9	21	25
Total assets		140,169	129,890
Liabilities			
Outstanding claims	11	9,305	9,484
Other payables	12	3,298	2,835
Current tax liabilities		668	2,438
Deferred tax liabilities	6(b)	4,833	4,344
Life insurance contract policy liabilities	13	88,269	80,956
Total liabilities		106,373	100,057
Net assets		33,796	29,833
Equity			
Head office account		532	532
Retained earnings		33,264	29,301
Total equity		33,796	29,833

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 2016

	Note	2016 \$'000	2015 \$'000
Cash flows from operating activities			
Premiums received		60,954	56,033
Outwards reinsurance paid		(1,309)	(1,236)
Claims paid		(43,283)	(40,064)
Other payments to employees, suppliers and related parties		(5,884)	(23,327)
Interest received		5,961	5,745
Investment expenses paid		(68)	(76)
Income tax paid		(3,711)	-
Net cash provided by/(used in) operating activities	17	12,660	(2,925)
Cash flows from investing activities			
Payments for purchase of investments		(21,469)	(43,785)
Proceeds from sale/maturity of investments		10,190	41,115
Net cash used by investing activities		(11,279)	(2,670)
Cash flows from financing activities			
Capital transfer to Australian statutory fund		-	(2,150)
Net cash used in financing activities		-	(2,150)
Net increase/(decrease) in cash and cash equivalents during the financial year		1,381	(7,745)
Cash and cash equivalents at beginning of financial year		9,871	17,616
Cash and cash equivalents at end of financial year		11,252	9,871

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 2016

1 SUMMARY OF ACCOUNTING POLICIES

Statement of compliance

These general purpose financial statements cover General Reinsurance Life Australia Ltd. - New Zealand Branch (the branch). The branch is domiciled in New Zealand, registered address at 205 Queen Street, Auckland. The branch is a Financial Markets Conduct reporting entity under the Financial Markets Conduct Act 2013, and its financial statements comply with this Act and the Companies Act 1993.

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

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

The accounting policies below have been applied in preparing the financial statements for the financial year ended 31 December 2016 and comparative information presented in these financial statements for the financial year ended 31 December 2015.

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

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

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

The financial statements were authorised for issue by the Directors on 10 March 2017.

Basis of preparation

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

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. There have been no significant changes to accounting policies during the financial year. The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

1 SUMMARY OF ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

(a) Principles of Life Insurance contract business

The life insurance operations of the branch are reported in the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position and Statement of Changes in Equity of the branch. The life insurance operations of the branch comprise the selling and administration of reinsurance of life insurance contracts.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). Insurance contracts include those where the insured benefits are payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness.

The company has a stop loss retrocession in place with the parent entity, which 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 branch 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) Outstanding claims

Provision is made for the estimated cost of unsettled lump sum claims.

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

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

Reserves for claims incurred but not reported and claims considered likely to arise are included in the actuarial valuation of policy liabilities as discussed in Note 3.

(c) Basis of expense apportionment

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

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 5(d).

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

- Expenses directly identifiable with the branch have been recorded as incurred.
- On a predetermined rate based on the estimated time spent on matters relating to the branch.

(d) Policy liabilities

Policy liabilities consist of life insurance contract liabilities.

The value of the majority 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.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

1 SUMMARY OF ACCOUNTING POLICIES (continued)

(e) Assets backing policy liabilities

The branch has determined that all assets held are assets backing policy liabilities on the basis that all assets of the branch are available for the settlement of claims if required. All assets of the branch 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.

Restrictions on assets

Investments held in the life insurance statutory funds can only be used within the restrictions imposed under the Australian Life Insurance Act 1995 (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.

(f) 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.

(g) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid and outstanding claims are recognised as revenue. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as for outstanding claims liability.

(h) Premiums

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

Refunds of premiums arising under contractual obligations are accounted for as a reduction in premium income.

(i) Unearned premiums

Unearned premium represents the portion of premium that relates to the unexpired terms of contracts. Unearned premiums are earned during the period to which the premiums relate.

(j) Investments

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

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

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

1 SUMMARY OF ACCOUNTING POLICIES (continued)

(k) Deferred acquisition costs

The branch adopts the practice of deferring to the following accounting periods, expenses and levies directly related to premium income. 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 contract policy insurance liabilities and are amortised through Profit or Loss 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).

(l) Foreign currency

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

(m) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by balance date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items. In principle, deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date.

(n) Receivables and revenue recognition

Receivables are recognised as follows:

- Premium receivables and recoveries are recognised in accordance with New Zealand IFRS 4 "Insurance Contracts".
- Income receivable on financing and investment activities is accrued using the effective interest method.
- Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

1 SUMMARY OF ACCOUNTING POLICIES (continued)

(o) Other payables

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

(p) 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.

Examples of evidence that may indicate a review of collectability are bankruptcy of counterparties, disputes with counterparties or non-collection for over 180 days.

(q) Goods and services tax

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

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

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

(r) Accounting standards and amendments issued but not yet effective

At the date of authorisation of the financial report, the following Standards and Amendments, including those Standards or Amendments issued by the IASB/IFRIC where an equivalent New Zealand Standard or Interpretation has not been approved, were on issue but not yet effective and have not been applied in preparing the branch's financial statements. Assessment of the impact of the initial application of these Standards is still to be completed, however these accounting standards are not expected to have a material impact on the branch's results or financial position, and may have an impact on disclosures.

<u>Standard</u>	<u>Effective for annual reporting periods beginning on or after</u>	<u>Expected to be initially applied in the financial year</u>
NZ IFRS 9 Financial Instruments	1 January 2021	31 December 2021
NZ IFRS 15 Revenue from contracts with customers	1 January 2018	31 December 2018

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

2 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

(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 the Australian Prudential Regulatory Authority ("APRA") and the New Zealand Society of Actuaries. 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 branch
- 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.

(c) Recoverability of deferred tax assets

Determining whether deferred tax assets are recognised requires an estimation of future taxable profits against which the assets can be released. This estimation process is based on relevant available information pertaining to the business and the exercise of management judgement.

Recognition therefore involves judgements and estimations regarding the future financial performance of the company and reflects a prudent regard, where considered appropriate, for the inherent uncertainties associated with making such estimations and judgements in relation to deferred tax assets.

Details of the carrying amount of the deferred tax asset are set out in Note 6.

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 are in compliance with the standards of the New Zealand Society of Actuaries and the Insurance (Prudential Supervision) Act 2010.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

3 ACTUARIAL ASSUMPTIONS AND METHODS (continued)

(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 New Zealand IFRS 4 "Life Insurance Contracts".

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

Policy liabilities for the majority of the business have been calculated on a projection basis, with the residual business being calculated by the accumulation method as permitted under NZ IFRS4. The result of using this method rather than the projection method required under NZ IFRS4 is not materially different and achieves the principles of the standard.

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

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

The amortisation of these costs was established by financial model projections of representative policy portfolios, allowing for the release of future profits in proportion to a "profit carrier" as required under NZ IFRS4.

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, where applicable,
- (iii) Reserves for expected future payments on reported disability income claims.

(b) Regulatory capital requirements

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

The methods and bases adopted for determining the solvency requirements are in accordance with licensing conditions imposed by the Reserve Bank of New Zealand.

(c) Disclosure of assumptions

(i) Discount rates

Allowance for future interest rates of 3.25% pa (2015: 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

Allowance for future inflation of 2.00% pa (2015: 2.00%) 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.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

3 ACTUARIAL ASSUMPTIONS AND METHODS (continued)

(c) Disclosure of assumptions (continued)

(iii) Future expenses and indexation

The allowance for future expenses was based on the branch's experience in 2016, with allowance for one-offs, as the best available estimate for 2017. 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 NZ10 Insured Lives Tables with allowance for subsequent improvements in mortality, subdivided into smoker and non-smoker classes and adjusted to the classes of life insurance written.

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

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

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

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

(vi) Rate 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:	5% - 50% per annum (2015: 5% - 43% per annum)
Disability Income:	5% - 45% per annum (2015: 5% - 46% per annum)

Rates are based on actual branch experience and market data as obtained from client companies.

(vii) Surrender values

There are currently no policies that provide a surrender value.

(viii) Claim Delay

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

Claim event (in months)

	2016 months	2015 months
Accidental death	9.0	9.0
Death	4.0	4.0
Trauma	9.0	9.0
Total and Permanent Disability	18.0	18.0
Disability income	3.0	3.0
Group Life	4.3	1.5
Group TPD	11.5	4.7
Group Salary Continuance	5.7	1.8

The above is based on actual experience of the branch, and other data obtained from client companies.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

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 and 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. As the assets currently have a shorter average duration than the liabilities a reduction in interest rates would decrease profit and shareholder equity.
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 have little impact on profit and shareholder equity.
Mortality rates	Higher mortality rates would lead to increase claim costs/policy liabilities, reducing profit and shareholder equity. Lower mortality rates would increase profit and shareholder equity.
Morbidity rates	Higher incidence and duration of claim would lead to 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 the impact that changes in assumptions may have.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

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 branch as at year end (after tax and retrocession).

Current value	Profit \$'000		Retained earnings \$'000	
	+1%	-1%	+1%	-1%
		3,963		33,264
	+1%	-1%	+1%	-1%
Interest rates	7,410	516	36,711	29,817
Inflation rates*	3,094	4,832	32,395	34,133
	+10%	-10%	+10%	-10%
Expenses	3,963	3,963	33,264	33,264
Mortality and morbidity incidence	1,093	5,396	30,394	34,697
Morbidity termination rates	7,423	(1,924)	36,724	27,377
Discontinuance rates	3,963	3,963	33,264	33,264
Claim reporting delay	2,530	5,396	31,831	34,697

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

4 RISK MANAGEMENT POLICIES AND PROCEDURES

Insurance contracts – Risk management policies and procedures

The financial condition and operation of the branch are affected by a number of key risks including insurance risk, interest rate risk, currency risk, credit risk, market risk, liquidity risk, financial risk, compliance risk, fiscal risk and operational risk. Notes on the company's policies and procedures in respect of managing these risks are set out in this note.

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

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

The Board and senior management of the company have developed, implemented and maintain a sound and prudent Internal Capital Adequacy Assessment Process (ICAAP), Risk Management Strategy (RMS) and a Risk Appetite Statement (RAS).

The ICAAP is reviewed on an annual basis, unless circumstances necessitate a more frequent review.

The ICAAP 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.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

4 RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

Key aspects of the processes established in the RMS to mitigate risks include:

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

Financial risks

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

(a) Liquidity risk

Underwriting reinsurance contracts exposes the branch to liquidity risk through the obligation to make payments of unknown amounts on unknown dates. The assets backing insurance liabilities consist of government securities and other quality securities which can generally be readily sold or exchanged for cash.

The branch also has the option to request additional capital injections from the Parent, General Reinsurance AG (GRAG), following board approval.

(b) Interest rate risk

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

(c) Credit risk

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

(d) Terms and conditions of reinsurance business

The terms and conditions attaching to reinsurance contracts affect the level of insurance risk accepted by the company. All reinsurance contracts are subject to pre-determined capacity limits and underwriting guidelines and authorities. There are no special terms and conditions in any non-standard contracts that have a material impact on the financial statements.

(e) Concentration of insurance risk

The branch's exposure to concentrations of insurance risk is mitigated by a portfolio diversified into two major classes of business (individual and group) written out of 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 by reviewing the type of insured event and also the geographical area of the risk.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

4 RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

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

5 PROFIT FROM ORDINARY ACTIVITIES

(a) Revenues from operating activities	2016	2015
	\$'000	\$'000
General insurance revenue		
Gross written premiums	61,436	56,254
Outwards reinsurance expense	<u>(1,421)</u>	<u>(1,309)</u>
Net premium revenue	<u>60,015</u>	<u>54,945</u>
(b) Included in general and administration expenses are:		
- Expenses of management - policy maintenance	(3,191)	(2,988)
- Net foreign exchange (losses)/gains	<u>(73)</u>	<u>1,000</u>
	<u>(3,264)</u>	<u>(1,988)</u>
(c) Net claims incurred		
Gross claims incurred - death and disability*	(43,103)	(39,521)
Reinsurance recoveries - death and disability	<u>(4)</u>	<u>5</u>
	<u>(43,107)</u>	<u>(39,516)</u>
(d) Policy acquisition costs		
Policy acquisition costs - premium discount	<u>(4,144)</u>	<u>(2,445)</u>

* Movements in Disability Income (individual and group) claims reserves are excluded from gross claims incurred and disclosed in note 13(a).

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

5 PROFIT FROM ORDINARY ACTIVITIES (continued)

(e) Net investment income

	2016 \$'000	2015 \$'000
Interest income	3,859	4,078
Investment expenses	(68)	(76)
Net investment gain		
- Changes in fair values	217	1,590
- Realised gain/(loss)	209	(754)
Investment gain	<u>426</u>	<u>836</u>
	<u>4,217</u>	<u>4,838</u>

(f) Remuneration of auditors

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

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

6 INCOME TAX

(a) Income tax expense

	2016 \$'000	2015 \$'000
Tax expense comprises:		
Current tax expense relating to current year	(1,628)	(4,036)
Current tax (expense)/benefit relating to prior years	(323)	310
Deferred tax (expense)/benefit relating to temporary differences	(489)	141
Income tax expense relating to gain from ordinary activities	<u>(2,441)</u>	<u>(3,585)</u>

The prima facie income tax expense on the pre-tax accounting profit reconciles to the income tax expense shown in the financial statements, as follows:

Profit before income tax	<u>6,404</u>	<u>13,579</u>
Income tax expense calculated at 28% (2015: 28%) of operating profit	(1,793)	(3,802)
Permanent differences	(324)	(279)
Transitional adjustment	-	186
Prior year (under)/over provision	<u>(323)</u>	<u>310</u>
Total income tax expense	<u>(2,441)</u>	<u>(3,585)</u>

(b) Deferred tax

At 31 December the deferred tax liability comprises:

Timing differences	<u>4,833</u>	<u>4,344</u>
--------------------	---------------------	---------------------

The tax balances and reconciliation above are based on the current corporate tax rates of 28% in New Zealand on taxable profits under New Zealand Income Tax Law.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

6 INCOME TAX (continued)

(b) Deferred tax (continued)

	Opening balance \$'000	Charged to profit/loss \$'000	Closing balance \$'000
2016 Temporary differences			
Tax losses	-	-	-
Unrealised foreign exchange differences	-	-	-
Insurance provisions	(4,344)	(489)	(4,833)
	<u>(4,344)</u>	<u>(489)</u>	<u>(4,833)</u>
2015 Temporary differences			
Tax losses	416	(416)	-
Unrealised foreign exchange differences	(122)	122	-
Insurance provisions	(4,778)	434	(4,344)
	<u>(4,484)</u>	<u>140</u>	<u>(4,344)</u>

Losses of General Reinsurance Australia Ltd. – New Zealand Branch of \$786,000 (2015: \$1,288,000) have been utilised by General Reinsurance Life Australia Ltd. – New Zealand Branch, and the company will be reimbursed the tax value thereof.

7 COMPONENTS OF PROFITS

Components of profit related to the movement in life insurance contract policy liabilities

	2016 \$'000	2015 \$'000
Planned margins of revenue over expenses released	8,025	7,248
Difference between actual and assumed experience	(5,256)	1,031
Investment earnings on assets in excess of life insurance policy liabilities	1,194	1,715
Profit for the year	<u>3,963</u>	<u>9,994</u>

8 RECEIVABLES

	2016 \$'000	2015 \$'000
Premiums receivable	1,068	585
Less: Provision for doubtful debts	-	-
	<u>1,068</u>	<u>585</u>

All balances are expected to be realised within 12 months.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

9 REINSURANCE RECOVERABLE

	2016 \$'000	2015 \$'000
Reinsurance recoverable	<u>21</u>	<u>25</u>
Reconciliation of reinsurance recoverable		
Balance as at 1 January	25	20
Movement in incurred recoveries	<u>(4)</u>	<u>5</u>
Balance as at 31 December	<u><u>21</u></u>	<u><u>25</u></u>

10 OTHER ASSETS

	2016 \$'000	2015 \$'000
Sundry assets	-	677
Due from related parties:		
- General Reinsurance Australia Ltd	<u>143</u>	<u>649</u>
Other assets	<u><u>143</u></u>	<u><u>1,326</u></u>

11 OUTSTANDING CLAIMS

	2016 \$'000	2015 \$'000
Outstanding claims		
Balance as at 1 January	9,484	10,027
Claims paid	(30,349)	(27,921)
Reported new claims	32,624	29,809
Other change in outstanding claims	<u>(2,454)</u>	<u>(2,431)</u>
Balance as at 31 December	<u><u>9,305</u></u>	<u><u>9,484</u></u>

All balances are expected to be realised within 12 months.

12 OTHER PAYABLES

	2016 \$'000	2015 \$'000
Accruals	1,041	49
Other payables*	<u>2,257</u>	<u>2,786</u>
	<u><u>3,298</u></u>	<u><u>2,835</u></u>

All balances are expected to be realised within 12 months.

* For amounts owing to related parties see note 16 below.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

13 LIFE INSURANCE CONTRACT LIABILITIES

	2016 \$'000	2015 \$'000
(a) Reconciliation of movements in life insurance contract policy liabilities		
Life insurance contract policy liabilities		
Gross life insurance contract policy liabilities at 1 January	80,956	78,701
Increase in life insurance contract policy liabilities reflected in the statement of profit or loss and other comprehensive income	7,313	2,255
Foreign exchange difference	-	-
Gross life insurance contract policy liabilities at 31 December	88,269	80,956
Reinsurer's share of life insurance liabilities		
Opening balance at 1 January	(25)	(20)
Increase/(decrease) in reinsurance assets reflected in the statement of profit or loss and other comprehensive income	4	(5)
Reinsurer's share of life insurance liabilities at 31 December	(21)	(25)
Total net life insurance contract policy liabilities	88,248	80,931
Maturity profile of net policy liabilities at 31 December		
1 year or less	(68)	(674)
Within 1 to 5 years	14,712	12,215
Over 5 years	73,604	69,390
	88,248	80,931
(b) Components of net life insurance contract policy liabilities		
Future policy benefits	590,892	531,401
Future expenses	80,410	68,782
Future charges for acquisition costs	(12,822)	(11,620)
Future premiums in excess of charges for acquisition costs	(648,204)	(570,828)
Best estimate liability	10,276	17,735
Shareholder profit margins	77,993	63,221
Gross insurance contract liabilities	88,269	80,956
Policy liabilities ceded under reinsurance	(21)	(25)
Total net life insurance contract policy liabilities	88,248	80,931

14 APRA CAPITAL ADEQUACY

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

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

The company is required to maintain its APRA solvency margin and to notify the RBNZ if it carries on insurance business in New Zealand that is not reinsurance.

The company is required to maintain its APRA solvency margin to meet the requirements of APRA and the Reserve Bank of New Zealand. The company has complied with all externally imposed capital requirements throughout the year.

The following information refers to APRA's capital adequacy requirements. The calculation of capital and some other balances are based on different methodologies from those used to prepare these financial statements. The column labelled "Statutory Fund 1" represents the Australian statutory fund and the New Zealand Branch is reflected in the column labelled "Statutory Fund 2".

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

14 APRA CAPITAL ADEQUACY (continued)

2016

	Statutory Fund 1	Statutory Fund 2	Shareholder Fund	Total
	AUD'000	AUD'000	AUD'000	AUD'000
Capital base/Common Equity Tier 1 Capital				
Tier 1 Capital	112,925	32,531	3,030	148,486
Premium liability deficit net of tax	(14,804)	(4,232)	-	(19,036)
Excess deferred tax assets over deferred tax liabilities	(11,002)	-	-	(11,002)
	87,119	28,299	3,030	118,448
Prescribed Capital Amount (PCA)				
Asset Risk Charge	2,916	1,897	146	4,959
Insurance Risk Charge	-	-	-	-
Asset Concentration Risk Charge	-	-	-	-
Operational Risk Charge	9,359	1,816	-	11,175
Combined Stress Scenario Adjustment	3,077	1,657	71	4,805
	15,352	5,370	217	20,939
Capital in excess of PCA	71,767	22,929	2,813	97,509
PCA coverage ratio	5.6748	5.2698	13.9631	5.6568

General Reinsurance Life Australia Ltd has a "AA+" credit rating from Standard and Poor's as at 31 December 2016 (2015: AA+).

2015

	Statutory Fund 1	Statutory Fund 2	Shareholder Fund	Total
	AUD'000	AUD'000	AUD'000	AUD'000
Capital base/Common Equity Tier 1 Capital				
Tier 1 Capital	94,782	28,195	2,955	125,932
Premium liability deficit net of tax	(13,965)	(3,932)	-	(17,897)
Excess deferred tax assets over deferred tax liabilities	(21,551)	-	-	(21,551)
	59,266	24,263	2,955	86,484
Prescribed Capital Amount (PCA)				
Asset Risk Charge	2,242	2,203	167	4,612
Insurance Risk Charge	-	-	-	-
Asset Concentration Risk Charge	-	-	-	-
Operational Risk Charge	9,521	1,639	-	11,160
Combined Stress Scenario Adjustment	961	857	71	1,889
	12,724	4,699	238	17,661
Capital in excess of PCA	46,542	19,564	2,717	68,823
PCA coverage ratio	4.6578	5.1634	12.4160	4.8969

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

15 CONTINGENT ASSETS, COMMITMENTS AND CONTINGENT LIABILITIES

There were no outstanding contingencies at the end of the year (2015: NIL).

16 RELATED PARTIES

Ultimate controlling entity

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

Parent entity

The immediate parent entity is General Reinsurance AG ('GRAG'), incorporated in Germany.

Directors

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

F Allan McDonald
Andres Webersinke
Kathryn J McCann

Mark Phillips
Winfried Heinen
Meredith J Brooks

	2016	2015
	\$'000	\$'000
<i>Related party balances at reporting date</i>		
General Reinsurance AG	(1,404)	(1,294)
General Reinsurance Australia Ltd	143	649
Head Office:		
General Reinsurance Life Australia Ltd	(853)	(1,493)
<i>Management charges paid to related entities</i>		
General Reinsurance Life Australia Ltd	(2,831)	(2,572)
New England Asset Management, Inc.	(41)	(50)

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.

Related party: General Reinsurance AG

Retrocession premiums	(1,421)	(1,309)
Reinsurance recoverable	21	25

Intercompany balances are at no interest and are due on demand.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

17 NOTES TO THE STATEMENT OF CASH FLOWS

	2016 \$'000	2015 \$'000
Reconciliation of net operating cash flows to net profit		
Net profit after income tax	3,963	9,994
Profit on sale of investments	(209)	-
Unrealised movement in fair value of investments	2,084	696
Change in operating assets and liabilities		
Increase in receivable	(483)	(221)
Decrease/(increase) in reinsurance recoverable	4	(5)
Increase/(decrease) in payables and provisions	2,088	(1,097)
Decrease in underwriting provisions:		
- outstanding claims	(180)	(543)
Decrease in amount owing to head office	(639)	(16,302)
Increase in life insurance contract policy liabilities	7,312	2,256
Movement in tax accounts	(1,280)	2,297
Net cash provided by/(used in) operating activities	12,660	(2,925)

18 FINANCIAL INSTRUMENTS

(a) Credit Risk Exposure

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

(b) Interest Rate Risk

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

(c) Net fair value of financial assets and liabilities

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

(d) Significant accounting policies

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

(e) Capital risk management

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

The capital structure of the branch consists of cash and cash equivalents (as disclosed in the Statement of Financial Position) and equity, comprising head office account and retained earnings (as disclosed in the Statement of Changes in Equity).

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

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

18 FINANCIAL INSTRUMENTS (continued)

(f) Categories of financial instruments		2016	2015
		\$'000	\$'000
Financial assets	Note		
Cash and cash equivalents		11,252	9,871
Financial assets at fair value through profit or loss (i)			
Fixed interest securities		126,541	117,137
Loans and receivables			
Receivables	8	1,068	585
Reinsurance recoverable	9	21	25
Financial liabilities			
Amortised cost			
Payables	12	3,298	2,835

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

(g) Financial risk management objectives

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

As part of the overall governance framework the Board and senior management of the branch have developed, implemented and maintain a sound and prudent RMS. The RMS identify the branch'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 branch. Annually, the Board declares to the Reserve Bank of New Zealand that adequate strategies have been put in place to monitor those risks, that the branch 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.

(h) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the branch. The branch has adopted the policy of only dealing with creditworthy cedants and bondholders as a means of mitigating the risk of financial loss from defaults. The branch's overall strategy in respect of credit risk management remains unchanged from 2015.

		2016	2015
		\$'000	\$'000
Financial assets	Note		
Cash and cash equivalents		11,252	9,871
Financial assets at fair value through profit or loss			
Fixed interest securities		126,541	117,137
Loans and receivables			
Premiums receivable	8	1,068	585
Reinsurance assets	9	21	25
		<u>138,882</u>	<u>127,618</u>

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

18 FINANCIAL INSTRUMENTS (continued)

(i) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations under the reinsurance contracts it has entered into. Ultimate responsibility for liquidity risk management rests with the Board of directors, which has implemented appropriate liquidity risk management framework for the management of the branch's short, medium and long-term funding and liquidity management requirements. The branch manages liquidity risk by maintaining appropriate levels of financial assets that are readily realisable and by continuously monitoring forecast and actual cash flows in order to match the maturity profiles of assets and liabilities. The company has developed and implemented a Risk Management Strategy. The company's overall strategy in liquidity risk management remains unchanged from 2015.

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

The tables below include both interest and principal cash flows.

	Weighted %	Less than 1 \$'000	1-5 years \$'000	5+ years \$'000	Total \$'000
2016					
Financial liabilities					
Non-interest bearing:	-				
Payables	-	3,298	-	-	3,298
Outstanding claims	-	9,305	-	-	9,305
		<u>12,603</u>	<u>-</u>	<u>-</u>	<u>12,603</u>
2015					
Financial liabilities					
Non-interest bearing:	-				
Payables	-	2,835	-	-	2,835
Outstanding claims	-	9,484	-	-	9,484
		<u>12,319</u>	<u>-</u>	<u>-</u>	<u>12,319</u>

(j) Market risk

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

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

18 FINANCIAL INSTRUMENTS (continued)

(j) Market risk (continued)

Interest rate risk management

The branch's activities expose it to the financial risk of changes in interest rates. Fixed interest rate instruments expose the branch to interest rate risk. The company's Investment Manager closely monitors the branch's exposures to interest rate risk.

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

	Weighted average	Less than 1 year	1-5 years	5+ years	Total
2016	%	\$'000	\$'000	\$'000	\$'000
Non-interest bearing:					
Receivables	-	1,068	-	-	1,068
Variable interest rate instruments:					
Cash	1.46	11,252	-	-	11,252
Fixed interest rate instruments:					
New Zealand Government	2.14	56,130	70,411	-	126,541
		<u>68,450</u>	<u>70,411</u>	<u>-</u>	<u>138,861</u>
2015					
Non-interest bearing:					
Receivables	-	585	-	-	585
Variable interest rate instruments:					
Cash	2.06	9,871	-	-	9,871
Fixed interest rate instruments:					
New Zealand Government	2.75	-	117,137	-	117,137
		<u>10,456</u>	<u>117,137</u>	<u>-</u>	<u>127,593</u>

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

	+100bps		-100bps	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Effect of 100 basis point increase or decrease on profit (+/-)	(1,945)	(3,024)	1,990	298

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 branch's financial assets are primarily denominated in the same currencies as its reinsurance contract liabilities, which mitigates the foreign currency exchange risk for the overseas operations in Australia and Fiji. The branch's overall strategy in respect of foreign currency risk management remains unchanged from 2015.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

18 FINANCIAL INSTRUMENTS (continued)

(j) Market risk (continued)

Foreign currency sensitivity

There is no significant foreign currency exposure and accordingly no foreign currency sensitivities have been disclosed.

Fair value of financial instruments

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

Investments

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

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 significant unobservable inputs used in the measurement of assets and liabilities. Management is required to use its own assumptions regarding unobservable inputs because there is little, if any, market activity in the assets or liabilities or related observable inputs that can be corroborated at the measurement date. Measurements of non-exchange traded derivative contracts and certain other investments carried at fair value are based primarily on valuation models, discounted cash flow models or other valuation techniques that are believed to be used by market participants. Unobservable inputs require management to make certain projections and assumptions about the information that would be used by market participants in pricing assets or liabilities.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

18 FINANCIAL INSTRUMENTS (continued)

(j) Market risk (continued)

Financial assets and liabilities

Financial assets and liabilities measured at fair value in the financial statements as at 31 December 2016 and 2015 and are summarized in the following table by the type of inputs applicable to the level of the fair value measurement (in thousands).

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
2016				
Fixed maturity bonds				
Obligations of the New Zealand Government	126,541	-	-	126,541
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
There were no transfers between Level 1 and Level 2 during the period.				
2015				
Fixed maturity bonds				
Obligations of the New Zealand Government	117,137	-	-	117,137
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

19 ADDITIONAL COMPANY INFORMATION

Principal Place of Business and Registered Office

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

Type of Company

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

20 EVENTS SUBSEQUENT TO BALANCE DATE

Effective 1 January 2017, Keith Scott was appointed as Director of the company's board. Effective 1 January 2017, Mark Phillips retired from the board.

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

Opinion

We have audited the financial statements of General Reinsurance Life Australia Ltd. - New Zealand Branch (the "Branch") which comprise the statement of financial position as at 31 December 2016, the statement of profit or loss and other comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 7 to 34.

In our opinion, the accompanying financial statements present fairly, in all material respects, the Branch financial position as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Branch in accordance with the ethical requirements of Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board (the Code) that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with the Code.

Other than in our capacity as auditor, we have no relationship with or interests in the Branch except that partners and employees of our firm deal with the Branch on normal terms within the ordinary course of trading activities of the business of the Branch.

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

Emphasis of Matter – New Zealand Branch

The New Zealand branch is part of General Reinsurance Life Australia Ltd., which is incorporated in Australia. As described in note 1, the assets of the branch are legally available for the satisfaction of debts of General Reinsurance Life Australia Ltd., not solely those appearing on the accompanying statement of financial position and its debts may result in claims against assets not appearing thereon. Our opinion is not qualified in respect of this matter.

Other Information

The Directors on behalf of the Branch are responsible for the other information. The other information comprises the information included in the Directors' report for the year ended 31 December 2016, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

Directors' Responsibilities for the Financial Statements

The Directors of the Branch are responsible on behalf of the Branch for the preparation and fair presentation of the financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), International Financial Reporting Standards (IFRS), and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible on behalf of the Branch for assessing the ability of the Branch to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Branch or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Branch's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Stuart Alexander
Partner
Chartered Accountants
Sydney, Australia, 10 March 2017