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GENERAL REINSURANCE AUTRALIA LTD

NEW ZEALAND BRANCH

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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GENERAL REINSURANCE AUTRALIA LTD – NEW ZEALAND BRANCH

APPROVAL BY DIRECTORS

The directors are pleased to present the financial statements of General Reinsurance Australia Ltd (New Zealand Branch) for the year ended 31 December 2010.

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.

The Directors are responsible for the preparation, in accordance with New Zealand Law and generally accepted accounting practice, of financial statements which give a true and fair view of the financial position of General Reinsurance Australia Ltd - New Zealand Branch as at 31 December 2010 and the results of its operations for the year ended 31 December 2010.

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

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

Directors

The directors of the company in office at the date of this report are:

F Allan McDonald (Chairman)
Christopher J Crowder
A Giffen Brown
I John Cholnoky
Kathryn J McCann

Signed for and on behalf of the board of directors who authorised the issue of these financial statements, in Sydney on 24th day of March 2011.

Director F A McDonald

Director C J Crowder

Deloitte.

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

Report on the Annual Report

We have audited the accompanying annual report of General Reinsurance Australia Ltd – New Zealand Branch, which comprises the statement of financial position as at 31 December 2010, the statement of comprehensive income, and statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information of General Reinsurance Australia Ltd – New Zealand Branch during the financial year as set out on pages 5 to 23.

Directors' Responsibility for the Annual Report

The directors of General Reinsurance Australia Ltd - New Zealand Branch are responsible for the preparation of the annual report that gives a true and fair view in accordance with generally accepted accounting practice in New Zealand and for such internal control as the directors determine is necessary to enable the preparation of the annual report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual 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 annual report that gives a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the annual report.

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

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

Deloitte.

Opinion

In our opinion, the annual report of General Reinsurance Australia Ltd – New Zealand branch:

a) gives a true and fair view of General Reinsurance Australia Ltd – New Zealand branch's financial position as at 31 December 2010 and of its performance for the year ended on that date; and

b) complies with generally accepted accounting practice in New Zealand; and

c) complies with International Financial Reporting Standards.

Emphasis of Matter

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Neil Brown
Partner
Chartered Accountants
Melbourne, 24 March 2011

GENERAL REINSURANCE AUTRALIA LTD – NEW ZEALAND BRANCH
STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

	Note	2010	2009
		$	$
Revenue			
Premiums	5(a)	15,578,735	20,100,030
Investment income	5(b)	3,883,536	2,270,659
Other income		10,000	-
		19,472,271	22,370,689
Expenses			
Claims	5(c)	11,078,613	8,266,478
Commissions and brokerage	5(e)	6,141,524	2,559,484
Management expenses	5(d)	5,901,762	5,322,683
		23,121,899	16,148,645
Net (loss)/profit before income tax expense		(3,649,628)	6,222,044
Income tax (benefit)/expense	6(a)	(1,089,344)	1,582,646
Net (loss)/profit		(2,560,284)	4,639,398
Other comprehensive income		-	-
Total comprehensive income for the year, net of tax, attributable to Head Office		(2,560,284)	4,639,398

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

GENERAL REINSURANCE AUTRALIA LTD – NEW ZEALAND BRANCH
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 $	2009 $
Head Office balance as at 1st January	30,128,557	17,150,180
Comprehensive income	(2,560,284)	4,639,398
Cash settlements	5,507,285	8,338,979
Head Office balance as at 31 December	33,075,558	30,128,557

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

GENERAL REINSURANCE AUTRALIA LTD – NEW ZEALAND BRANCH
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

	Note	2010 $	2009 $
ASSETS			
Cash and cash equivalents	7	2,201,743	6,023,837
Trade receivables	8	6,575,271	8,058,225
Reinsurance Recoveries	11	6,095,072	-
Other current assets	10	855,759	1,641,416
Investments	9	73,225,096	61,067,872
TOTAL ASSETS		**88,952,941**	**76,791,350**
LIABILITIES			
Outstanding claims	12	46,468,319	34,587,092
Unearned premium	12	9,030,415	10,717,183
Accruals and other liabilities	13	1,286,020	1,176,545
Deferred income tax	6(b)	(907,371)	181,973
TOTAL LIABILITIES		**55,877,383**	**46,662,793**
NET ASSETS		33,075,558	30,128,557
EQUITY			
Head Office Account		33,075,558	30,128,557
TOTAL EQUITY		**33,075,558**	**30,128,557**

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

This general purpose financial statements cover General Reinsurance Australia Ltd - New Zealand branch (the Branch). The Branch is domiciled in New Zealand, registered address at 23-29 Albert Street, Auckland. The Branch is a reporting entity for the purposes of the Financial Reporting Act 1993.

As a single entity that operates in the reinsurance industry, the financial statements have been prepared in accordance with the Financial Reporting Act 1993 and New Zealand Equivalents to International Financial Reporting Standards Reporting standards (NZ IFRS), and its interpretations as appropriate to profit-oriented entities that qualify for and apply differential reporting concessions.

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

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

These Financial Statements were authorised for issue by the directors on 24 March 2011.

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

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

The functional and presentation currency is New Zealand dollars.

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

1 Summary of Significant Account Policies (Continued)

A General Accounting Policies

The general accounting policies recognised as appropriate for the measurement and reporting of results, and the financial position have been followed in the preparation of these financial statements. The historical cost method has been followed except in the case of investments integral to insurance operations which are at net market values and provisions for outstanding claims which have been valued at the present value of future payments as required by NZ IFRS Insurance Contracts.

B Branch Assets

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

C Specific Accounting Policies

The following specific accounting policies, which significantly affect the financial performance and financial position have been applied:

(a) *Property, Plant and Equipment*
The cost of purchased property, plant & equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended use.

(b) *Depreciation*
Depreciation is calculated on a straight line basis so as to write off the cost of property, plant & equipment over their estimated effective working lives. Furniture and equipment are written off over a period of between 3 years and 5 years. All fixed assets with individual residual values less than $15,000 have been written off during the year and included with depreciation.

(c) *Investments and Receivables*
All investments are integral to insurance operations. Investments are measured at fair value at each balance date. Fair values are determined by reference to market quotations. Interest income is accounted for as earned. However, the majority of the portfolio is invested in highly liquid government bonds. Trade receivables are initially valued at fair value and are subsequently measured at amortised cost. Provision for doubtful debts is recognised when collection is doubtful.

(d) *Impairment of Financial Assets*
Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all

1 Summary of Significant Account Policies (Continued)

(d) *Impairment of Financial Assets Continued*
financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. A trade receivable is deemed to be uncollectible upon notification of insolvency of the debtor or upon receipt of similar evidence that the Branch will be unable to collect the trade receivable. Changes in the carrying amount of the allowance account are recognised in profit or loss. Subsequent recoveries of trade receivables previously written off are credited against the allowance account.

(e) *Premiums*
Inwards reinsurance premium comprises amounts charged to the cedant, excluding amounts collected on behalf of third parties. The earned portion of premiums received and receivable is recognised as revenue. Premiums in relation to unclosed business have been brought to account and are based on historical data.

(f) *Unearned premiums*
Unearned premiums are earned over the period of indemnity in accordance with the pattern of the incidence of risk expected under the contract.

(g) The *liability adequacy test* is an assessment of whether the carrying amount of the unearned premium liability is adequate and is conducted at each reporting date. If current estimates of the expected future cash flows relating to future claims arising from the rights and obligations under current general insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate, exceed the unearned premium liability then the unearned premium liability is deemed to be deficient. The test is performed at the level of a portfolio of contracts that are subject to broadly similar risks and that are managed together as a single portfolio. Any deficiency arising from the test is recognised in the Statement of Comprehensive Income, with the corresponding impact on the Statement of Financial Position.

(h) *Salaries and Annual Leave*
Liabilities for salaries and annual leave are recognised, and are measured, as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date.

(i) *Outstanding Claims*
Provision is made for the best estimated cost of all unsettled claims. The provision includes an estimate, based on past experience, of the cost of unreported claims and their expected settlement costs.

The outstanding claims liability includes the effect of inflation on the ultimate claim size and is discounted for investment income using a market risk related return. The details of inflation and discounted rates are included in Note 12.

(j) *Outwards Reinsurance*
Premiums ceded to retrocessionaires are recognised as an expense in accordance with the pattern of reinsurance service rendered. Accordingly, a portion of outward reinsurance premiums is treated as a prepayment at balance date, where appropriate.

1 Summary of Significant Account Policies (Continued)

(k) *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 the liability for outstanding claims. The details of discount and inflation rates applied are included in Note 12.

(l) *Income tax*

Current tax
Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting 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 balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items. In principle, deferred tax liabilities are recognised for all taxable temporary differences.

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

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

(m) *Operating Leases*
Operating lease payments are charged to the Statement of Comprehensive Income in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

(n) *Foreign Currency*
Foreign currency transactions are translated to New Zealand currency at the rates of exchange ruling at the date of the transactions. Amounts receivable and payable in foreign currencies are translated at the rates of exchange ruling at balance date. Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account in the Statement of Comprehensive Income in the financial year in which the exchange rates change, as exchange gains or losses.

2 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The branch makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements 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.

All the branch's assets are available to support the branch's insurance liabilities.

The ultimate liability arising from claims made under insurance contracts
Provision is made at the year end for the estimated cost of claims incurred but not settled at the Statement of Financial Position date, including the cost of claims incurred but not yet reported to the branch.

The estimated cost of claims includes direct expenses to be incurred in settling the claims gross of the expected value of salvage and other recoveries. The branch takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ('IBNR') is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the branch, where more information about the claim event is generally available. IBNR claims may often not be apparent to the insured until many years after the events giving rise to the claims has happened. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- Changes in branch processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics of previous periods
- Changes in the legal environment
- The effects of inflation
- Changes in the mix of business
- The impact of large losses
- Movements in industry benchmarks
- Medical and technological developments

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these, the branch has regard to the claim circumstance as reported, and information about the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

2 Critical Accounting Judgements and Estimates (Continued)

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions. Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in note 3.

Assets from reinsurance contracts
Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure the balance is reflective of the amounts that will ultimately be recovered.

3 ACTUARIAL ASSUMPTIONS AND METHODS

The branch writes Facultative and Treaty (both proportional and non-proportional) reinsurance covers for Property and Casualty lines of business, and Treaty Marine business. In recent years there has been an increasing preference to write business on a non-proportional basis, and indeed Facultative covers are no longer written on a proportional basis.

Actuarial assumptions
The branch's business is valued using the same assumptions as its parent. The business is subdivided into 24 groups for the purposes of calculating IBNR reserves. For each underwriting year of each reserving group, the main assumptions required by the reserving methodology (Bornhuetter-Ferguson) are: the proportion of claims (by amount) still to be reported; and the (run-off) loss ratio at which future claims are expected to be reported.

These assumptions are selected based on past development patterns of incurred claims and loss ratios, and with consideration given to recent years' pricing practices. Claims inflation is intrinsically allowed for in this process, so projected payments only need to be discounted to allow for the time value of money and loaded for claims handling expenses.

Weighted Average Reporting Time
This is not a reserving assumption, but it does provide an indication of the speed at which claims are assumed to be reported. For the branch's major categories of business, weighted by expected ultimate premiums for the 2010 and 2009 underwriting years, these were (years):

	2010	**2009**
Facultative, Property:	1.09	1.10
Facultative, Casualty:	2.72	2.74
Proportional Treaty, Property & Marine:	0.99	1.01
Proportional Treaty, Casualty:	N/A	N/A
Non-proportional Treaty, Property & Marine:	1.30	1.21
Non-proportional Treaty, Casualty:	4.59	4.80

Run-off Loss Ratios
These were selected having regard to emerging experience for older underwriting years and to the pricing levels and conditions achieved in more recent underwriting years (where experience to date may not yet be sufficiently reliable, particularly for long-tailed lines of business).

Expense Rate
A 1% loading for claims handling expenses is supported by analysis of the current level of the branch's Claims department expenses viz-a-viz the level and duration of unpaid liabilities.

3 Actuarial Assumptions and Methods (continued)

Discount Rate
The discount rates were based on market yields on Australian Commonwealth Government securities as at the balance date and varied according to the expected year of payment of the claims liabilities. The weighted average discount rate was 5.431% (2009: 5.226%).

Sensitivity Analysis
The sensitivity of the branch's profit and equity to key valuation assumptions is tabulated below:

		Profit before retrocession ($)	Net Profit ($)	Equity ($)
Recognised amount per Financial Statements		(3,668,960)	(2,560,284)	33,075,558
Variable	**Movement in variable**			
Run-off	+10%	(4,759,883)	(3,652,575)	31,983,267
Loss Ratios	-10%	(2,577,515)	(1,467,420)	34,168,422
Expense Rate	+0.5%	(3,812,585)	(2,683,045)	32,952,797
	-0.5%	(3,525,327)	(2,437,516)	33,198,326
Discount Rate	+1%	(2,862,321)	(1,819,750)	33,816,092
	-1%	(4,527,502)	(3,350,250)	32,285,592

Risk Margin
There are many sources of uncertainty as to the eventual (final) values of outstanding claims, including but not restricted to: quality of data used in the valuation; appropriateness of the valuation model and assumptions; impact of past legislative reform; future legislative changes; future economic and environmental factors; etc. Risk margin increases the branch's reserves to a level that is intended to have a 75% probability of adequacy. The assumptions regarding uncertainty for each line of business were applied to the net central estimates, and the results were aggregated, allowing for diversification between different lines of business.

The risk margins applied to the branch's major categories of business were:

	2010	2009
Facultative, Property & Marine:	8.2%	13.7%
Facultative, Casualty:	15.7%	15.5%
Proportional Treaty, Property & Marine:	9.6%	10.1%
Proportional Treaty, Casualty:	20.6%	24.6%
Non-proportional Treaty, Property & Marine:	11.9%	15.4%
Non-proportional Treaty, Casualty:	15.9%	15.5%

The higher percentage applied to the Proportional Treaty Casualty book was due to the relatively small size of the portfolio, which goes hand-in-hand with greater uncertainty as to what the ultimate outcome will be.

4 INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES

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

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

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

In accordance with Prudential Standards GPS 220 *Risk Management* and GPS 230 *Reinsurance Management* issued by the Australian Prudential Regulation Authority (APRA), the Board and senior management of the company have developed, implemented and maintain a sound and prudent Risk Management Strategy (RMS) and a Reinsurance Management Strategy (REMS). This also applies to the operations of the branch.

The RMS and REMS identify the branch 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.

The RMS and REMS have been approved by the Board of General Reinsurance Australia Ltd. 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 insurance risks.

- Reinsurance is used to limit the branch's exposure to large single claims and catastrophes.

- The mix of assets in which we invest 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 seeks to reduce variability in loss experience.

(b) Interest Rate Risk

None of the financial assets or liabilities arising from insurance or reinsurance contracts entered into by the branch are directly exposed to interest rate risk.

Insurance and reinsurance contracts are entered into annually. At the time of entering into the contract, all terms and conditions are negotiable or, in the case of renewals, renegotiable.

4 Insurance Contracts – Risk Management Policies and Procedures (continued)

(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.

(d) Terms and Conditions of Reinsurance Business

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

(e) Concentration of Insurance Risk

The branch's exposure to concentrations of insurance risk is mitigated by a portfolio diversified into two classes of business (Treaty and Facultative) written out of New Zealand. The portfolio is controlled and monitored through the branch'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.

5 NET PROFIT

Operating profit before tax is arrived at after crediting and charging the following specific items:

		2010 $	2009 $
(a)	**Premiums**		
	Premiums in respect of reinsurance	18,383,889	25,817,558
	Unearned premium increase/(decrease)	1,706,095	(1,621,903)
		20,089,984	24,195,655
	Retrocession premiums paid	(4,511,249)	(4,095,625)
	Unearned retrocession premium (increase)/decrease	-	-
		(4,511,249)	(4,095,625)
	Net premiums earned	15,578,735	20,100,030
(b)	**Investment income**		
	Bond interest	4,020,957	3,482,022
	Deposits and short dated investments	143,924	209,774
	Net realised gains/(losses)	550,839	-
	Net unrealised gains/(losses)	(775,449)	(1,336,965)
	Fund management fees	(56,735)	(84,172)
		3,883,536	2,270,659
(c)	**Claims**		
	Amounts pertaining to risks written in		
	- Current year		
	Claims incurred	4,586,921	1,030,681
	Retrocession recoveries	(1,647,334)	-
	Net claims incurred	2,939,587	1,030,681
	- Prior year		
	Claims incurred	12,586,764	7,235,797
	Retrocession recoveries	(4,447,738)	-
	Net claims incurred	8,139,026	7,235,797
	Total net claims incurred	11,078,613	8,266,478
(d)	**Management expenses**		
	Included in management expenses are:		
	Depreciation of fixed assets	-	21,375
	Other expenses of management	5,542,597	5,225,455
	Exchange variances – gains/(losses)	131,620	(88,736)
	Lease expenses	227,545	164,589
		5,901,762	5,322,683

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

5 Net Profit (Continued)

	2010 $	2009 $
(e) Underwriting result		
Net earned premiums	15,578,735	20,100,030
Net claims incurred	(11,078,613)	(8,266,478)
Commissions and brokerage	(6,141,524)	(2,559,484)
Underwriting (loss)/profit	(1,641,402)	9,274,068

6 INCOME TAX

(a) Income tax expense:

The prima facie income tax payable on pre-tax operating profit is reconciled to the current income tax expense shown in the Statement of Comprehensive Income as follows:

	2010 $	2009 $
Operating profit before income tax	(3,649,628)	6,222,044
Prima facie income tax thereon @ 30% (2009: 30%)	(1,094,888)	1,866,613
Permanent differences	38,174	10,159
Prior year under/(over) provision	(32,630)	(294,126)
Total income tax expense	(1,089,344)	1,582,646
Consisting of:		
Current tax expense	-	1,540,476
Deferred tax benefit	(1,089,344)	42,170
	(1,089,344)	1,582,646

(b) Deferred tax

At 31 December, the deferred income tax asset (liability) comprises:

	2010 $	2009 $
Timing differences based on 30% tax rate	907,371	(181,973)

	Opening Balance	Charged to Income	Closing Balance
2010	$	$	$
Temporary differences			
Plant & equipment	(9,660)	16,053	6,393
Provisions	20,520	18,267	38,787
Other Liabilities	69,604	(45,885)	23,719
Tax loss	-	948,667	948,667
Prepayments	(262,437)	152,242	(110,195)
	(181,973)	1,089,344	907,371
2009	$	$	$
Temporary differences			
Plant & equipment	4,398	(14,058)	(9,660)
Provisions	20,291	229	20,520
Other Liabilities	61,358	8,245	69,604
Unrealised FX differences	92,075	(92,075)	-
Outstanding claims	55,271	(55,271)	-
Prepayments	(373,196)	110,759	(262,437)
	(139,803)	(42,170)	(181,973)

		2010	2009
7	**CASH AND CASH EQUIVALENTS**	**$**	**$**
	Cash on deposit	2,201,743	6,023,837
8	**TRADE RECEIVABLES**		
	Trade debtors	6,575,271	8,058,225
9	**INVESTMENTS**		
	Government securities, at fair value	59,277,918	40,673,291
	Corporate securities, at fair value	13,947,178	20,394,581
		73,225,096	61,067,872

The branch has deposited with the Public Trust of New Zealand, New Zealand government securities with a face value of $500,000 which are held as security to the branch's policyholders as required by the Insurance Companies Deposit Act 1953.

10	**OTHER CURRENT ASSETS**		
	Accrued income	811,729	702,487
	Deferred acquisition costs	16,998	923,792
	Other	27,032	15,137
		855,759	1,641,416
11	**REINSURANCE RECOVERIES**	6,095,072	-

		2010	2009
12	**OUTSTANDING CLAIMS**	**$**	**$**
	Outstanding claims	19,488,960	15,097,129
	Claims incurred but not reported	25,279,895	22,652,729
	Unexpired risk liability	3,583,151	-
	Risk Margin	4,767,085	4,310,903
	Discount to present value	(6,650,772)	(7,473,669)
		46,468,319	34,587,092

The following average discount rates were used in the measurement of outstanding claims:		
- for the current and succeeding years: discount rate	5.43%	5.23%

The inflation rate is implicit in the underlying statistics. The weighted average term to settlement for the outstanding claims provisions which have been subject to discounting is approximately 3.47 years (2009: 4.65 years).

Actuarial assessments of the provision for outstanding claims and discounting have been made by Ms Siu Yin Liu, Business Unit Chief Actuary, General Reinsurance Australia Ltd; Fellow of the Institute of Actuaries; Fellow of the Institute of Actuaries of Australia, on behalf of the parent entity as of 31 December 2010. There were no qualifications in the Chief Actuary's report. The Actuary is satisfied that the nature, sufficiency, and accuracy of the data used to determine the outstanding claims liability. The amount of outstanding claims liability has been determined in accordance with the standards of the New Zealand Society of Actuaries

12 Outstanding Claims Continued

Claims Development tables

Gross undiscounted outstanding claims for the nine most recent accident years

	2002 $M	2003 $M	2004 $M	2005 $M	2006 $M	2007 $M	2008 $M	2009 $M	2010 $M	Total $M
Estimate of gross ultimate claims cost:										
At end of accident year	-	-	-	-	-	-	(1)	1	8	
One year later	-	-	-	-	-	-	4	7		
Two years later	-	-	(1)	-	-	1	8			
Three years later	-	-	-	-	6	10				
Four years later	-	1	-	1	10					
Five years later	-	-	2	11						
Six years later	-	3	14							
Seven years later	3	11								
Eight years later	12									
Current estimate of gross cumulative claims cost	15	15	15	12	16	11	11	8	8	
Cumulative net payments	(15)	(15)	(15)	(14)	(12)	(13)	(10)	(8)	(3)	
Gross undiscounted outstanding claims for the nine most recent accident years.	-	-	-	(2)	4	(2)	1	-	5	6

Net undiscounted outstanding claims for the nine most recent accident years

	2002 $M	2003 $M	2004 $M	2005 $M	2006 $M	2007 $M	2008 $M	2009 $M	2010 $M	Total $M
Estimate of net ultimate claims cost:										
At end of accident year	-	-	-	-	-	-	(1)	1	8	
One year later	-	-	-	-	-	-	4	7		
Two years later	-	-	(1)	-	-	2	8			
Three years later	-	-	-	-	5	4				
Four years later	-	1	-	1	6					
Five years later	-	-	1	5						
Six years later	-	2	6							

Seven years later	2	5								
Eight years later	5									
Current estimate of net cumulative claims cost	7	8	6	6	11	6	11	8	8	
Cumulative net payments	(7)	(8)	(6)	(8)	(7)	(8)	(10)	(8)	(3)	
Net undiscounted outstanding claims for the nine most recent accident years	-	-	-	(2)	4	(2)	1	-	5	6

12 Outstanding Claims Continued

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

	Total $M
Net undiscounted outstanding claims for the 9 most recent accident years	6
Outstanding claims – accident years 2000 and prior	13
Foreign exchange	2
Discount and risk margin on outstanding claims	(2)
Unexpired risk liability	3
IBNR	18
Net outstanding claims at 31 December 2010	40

The unearned premium liability was found to be deficient as at 31 December 2010. The entire deficiency of $3.9 million was recognised in the balance sheet, with deferred acquisition costs written down by $0.3 million and an additional liability of $3.6 million was setup.

The probability of sufficiency ("POS") adopted in performing the liability adequacy test was set at the 75th percentile, which is the same as that adopted in determining the outstanding claims liabilities.

The POS for OCL is set at a level that is appropriate and sustainable to cover the Company's and the Group's claims obligations after having regard to the prevailing market environment and prudent industry practice.

	2010	2009
	$	$
UNEARNED PREMIUM		
Balance as at 1 January 2010	10,717,183	9,116,755
Deferral of premium on contracts written in the period	9,030,415	10,717,183
Earning of premiums written	(10,717,183)	(9,116,775)
Balance as at 31 December 2010	9,030,415	10,717,183

13 ACCRUALS AND OTHER LIABILITIES

Sundry creditors and accruals	562,941	234,185
Profit commission payable	179,072	194,049
Annual leave	38,787	68,400
Income Tax payable	-	47,931
Other taxes	505,220	631,980
	1,286,020	1,176,545

14 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

There are no capital commitments or contingent liabilities as at 31 December 2010 (2009 - Nil)

15 LEASE COMMITMENTS

Not later than one year	36,070	85,942
Later than one year but not later than five years	190,800	-
Greater than five years	87,675	
	314,545	85,942

16 RELATED PARTY TRANSACTIONS

Material transactions have occurred during the year ended 31 December 2010 with related parties:

(i) retrocessional transactions have been charged to the branch by General Reinsurance Australia Ltd (the head office). These amounts ultimately are payable to General Reinsurance Corporation. $4,511,249 (2009: $4,095,625)

(ii) management fees have been charged to the branch by General Reinsurance Australia Ltd (the head office) to cover operational and management costs incurred in relation to the branch totalling $4,315,885 (2009: $4,243,388)

(iii) investment management fees have been charged to the branch by NEAM Ltd, for investment management services provided. $33,930 (2009: $44,101).

16 Related Party Transactions Continued

The entity is branch of General Reinsurance Australia Ltd, which is a wholly owned subsidiary of General Reinsurance Corporation.

The ultimate parent entity is Berkshire Hathaway Inc. of Omaha, Nebraska, USA.

17 BUSINESS ACTIVITIES

The branch operates as an underwriter in the reinsurance industry.

18 CREDIT RATING

General Reinsurance Australia Ltd has a “AA+” credit rating from Standard and Poor’s (rating date 4 February 2010).

19 SUBSEQUENT EVENT

Subsequent to balance date, a major event occurred which is expected to impact the company's 2011 financial results. On 22nd February 2011 an earthquake with a magnitude 6.3 struck 10 kilometres south-east of the centre of Christchurch, New Zealand's second most populous city. Whilst losses from this event are expected to be substantial, significant uncertainties are involved in estimating its magnitude. The company, through its retrocession program and investment portfolio, will be able to meet all claims arising from this event.

	2010	2009
20 ADDITIONAL INFORMATION		
Number of employees	3	5

21 CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

All financial assets, except investments which are carried at fair value through profit and loss, are classified as loans and receivables and all financial liabilities are classified as financial liabilities measured at amortised cost. The total carrying amount of loans and receivables is $8,777,014 (2009: $14,082,062) . This consists of cash and cash equivalents and trade receivables. The total carrying amount of financial liabilities measured at amortised cost is $1,286,020 (2009: is $1,176,545) This consists of amounts due to related parties and accruals and other liabilities..

GENERAL REINSURANCE AUSTRALIA LTD

ABN 16 008 427 450

FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

GENERAL REINSURANCE AUSTRALIA LTD.

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GENERAL REINSURANCE AUSTRALIA LTD.

DIRECTORS' REPORT TO THE MEMBERS

The Directors present their report together with the annual financial report for the financial year ended 31 December 2010 and the auditors' report thereon. These deal with the forty seventh year of trading of the company. In order to comply with the Corporations Act 2001, the Directors report as follows:

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

F Allan McDonald (Chairman)
Christopher J Crowder
A Giffen Brown
I John Cholnoky
Kathryn J McCann

Principal Activities
The principal activity of the company is reinsurance underwriting.

There has been no significant change in the nature of these activities during the year.

Review of Operations
The net loss of the company for the year, after provision for income tax, amounted to $41,279,332 compared with the 2009 profit of $108,344,027.

Dividends
An unfranked dividend of $60,590,808 was paid during 2010 in respect of the year ended 31 December 2009 (2009: $75,710,635).

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
Additional share capital of $25 million was subscribed on 14 March 2011 to maintain the company's solvency margin.

Subsequent to balance date, three major events occurred which are expected to impact the company's 2011 financial results. Severe Queensland flooding occurred in January 2011 in Rockhampton, Ipswich, Toowoomba and Brisbane. On 3 February 2011, Cyclone Yasi struck the North Queensland coast between Townsville and Cairns causing widespread damage. On 22nd February 2011 an earthquake with a magnitude 6.3 struck 10 kilometres south-east of the centre of Christchurch, New Zealand's second most populous city. Whilst losses from these events are expected to be substantial, significant uncertainties are involved in estimating their magnitude. The company, through its retrocession program and investment portfolio, will be able to meet all claims arising from these events.

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

Indemnification of Officers and Auditors
General Re Corporation (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 indemnity, an officer or auditor of the company or of any state body corporate against liability incurred as such an officer or auditor.

Future Developments
There are no future developments in the normal operations of the company that require comment in this report other than the comments made under the Review of Operations. The directors consider that the disclosure of any other current negotiations and future developments would prejudice the interest of the company.

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

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 thousands in the directors' report and financial report in accordance with that Class Order, unless stated otherwise.

Directors
Particulars of the qualifications, experience and special responsibilities of each director during or since the end of the financial year are set out hereunder:

Name and Qualifications	*Age*	*Experience and Special Responsibilities*
F Allan McDonald B.Ec, FCPA, FCIS, FAIM Chairman Non-Executive Director Member of Audit Committee	71	Mr McDonald is also a director of Astro Japan Property Management Limited, Billabong International Ltd, General Reinsurance Life Australia Ltd, Brookfield Multiplex Funds Management Limited, O'Connell Street Associates Pty Ltd and Securities Exchange Guarantee Corporation Ltd. He has 46 years industry experience. Director since May 1981, appointed Chairman May 1992.

Name and Qualifications	*Age*	*Experience and Special Responsibilities*
A Giffen Brown FCA Non-Executive Director Chairman of Audit Committee	73	Mr Brown has 47 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 Life Australia Ltd. He is a Fellow of The Institute of Chartered Accountants in Australia. He was an audit partner and managing partner of two audit firms with expertise in audit management, financial management, investigations and company reconstructions. Director since July 2004, Chairman of the Audit Committee since October 2004.
I John Cholnoky Non-Executive Director	53	President of General Reinsurance Corporation. Other directorships include General Reinsurance Corporation and other General Re group companies. Director since January 1997.
Christopher J Crowder Managing Director	50	Mr Crowder commenced his service with the group in 1984. Former Senior Vice President of General Reinsurance Corporation. Regional Treaty Manager for Non-Life business Asia Pacific. He was appointed to the Board on 1 January 2008.
Kathryn J McCann B.App.Sci (Computing Science) MBA, MAICD Non-Executive Director Member of Audit Committee	49	Ms McCann has 27 years experience in the finance and business management industry. She is a director of Urbis Pty Ltd and General Reinsurance Life Australia Ltd. 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 2 August 2006 and a member of the Board Audit Committee since 9 November 2006. She is also the Chair of the Remuneration Committee.

Meeting 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 2010 are:

Director	*Directors' Meetings*		*Board Audit Committee*		*Board Remuneration Committee*	
	A	B	A	B	A	B
F Allan McDonald	4	4	2	2	2	2
Christopher J Crowder	4	4	-	-	-	-
I John Cholnoky	3	4	-	-	-	-
A Giffen Brown	4	4	2	2	2	2
Kathryn J McCann	4	4	2	2	2	2

A - The number of meetings attended.
B - The number of meetings held during the time the director held office during the year.

Company Secretaries

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

Name and Qualifications	*Age*	*Experience and Special Responsibilities*
Daryl J Vella B.Ec, CA	39	Mr Vella has 16 years experience in the insurance industry both within Australia and the U.K., commencing his career with Coopers & Lybrand in 1994. He was appointed Financial Controller in 2008 and Company Secretary in 2009. He is an Associate of the Institute of Chartered Accountants in Australia.
Jeanette Davies Resigned 9 November 2010	66	Mrs Davies commenced service with General Reinsurance Australia Ltd in 1970. She was appointed Administration Manager in 1984, Assistant Company Secretary in 1997 and Human Resources Manager in 2005. She retired in November 2010.
Michael J Brent FCA, GAICD, B. Fin Admin Appointed 9 November 2010	54	Mr Brent has 32 years experience commencing his career with KPMG in 1979. He joined General Reinsurance Australia Ltd in 1988 and was appointed Chief Financial Officer in 2004. He is a Fellow of the Institute of Chartered Accountants in Australia and a Member of the Institute of Company Directors. Mr Brent is a director of Sir Eric Woodward Memorial School Association.

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.

Auditor's independence declaration

The auditor's independence declaration is included on page 6 of the financial report.

Signed in accordance with a resolution of the directors made pursuant to Section 298(2) of the Corporations Act 2001 on 24 March 2011

On behalf of the directors:

F A McDonald	C J Crowder
Director	Director

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

~~550 Bourke Street~~
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24 March 2011

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

Dear Board Members

General Reinsurance 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 Australia Ltd.

As lead audit partner for the audit of the financial statements of General Reinsurance Australia Ltd for the financial year ended 31 December 2010, 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

Neil Brown
Partner
Chartered Accountants

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

We have audited the accompanying financial report of General Reinsurance Australia Ltd, which comprises the statement of financial position as at 31 December 2010, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on pages 9 to 42.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the 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 the financial report that 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 compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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 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 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 2010 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

Neil Brown
Partner
Chartered Accountants
24 March 2011

GENERAL REINSURANCE AUSTRALIA LTD.

DIRECTORS' DECLARATION

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and the performance of the entity.

(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 pursuant to Section 295(5) of the Corporations Act 2001 on 24 March 2011.

On behalf of the directors:

F A McDonald
Director

C J Crowder
Director

GENERAL REINSURANCE AUSTRALIA LTD.
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

	Note	2010 $'000	2009 $'000
ASSETS			
Cash and cash equivalents	7	15,974	43,028
Receivables	8	25,921	28,394
Reinsurance recoveries	9	53,462	6,531
Investments	12	611,558	712,924
Plant and equipment	11	509	243
Deferred tax asset	6	27,682	24,624
Other	10	11,965	13,263
TOTAL ASSETS		747,071	829,007
LIABILITIES			
Payables	13	-	830
Other payables	17	8,989	9,162
Outstanding claims	14	396,894	318,722
Unearned premiums	14	35,081	37,797
Provisions	15	3,453	11,610
Current tax liabilities	16	-	39,512
Deferred tax liabilities	6	2,757	9,608
TOTAL LIABILITIES		447,174	427,241
NET ASSETS		299,897	401,766
EQUITY			
Contributed equity	19	92,245	92,245
Retained earnings		207,652	309,521
Total Equity		299,897	401,766

Notes to the Financial Statements are included on pages 14 to 42.

GENERAL REINSURANCE AUSTRALIA LTD.
STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

	Note	2010 $'000	2009 $'000
Premium revenue	5(a)	83,472	87,232
Outwards reinsurance expense		(14,701)	(16,583)
Net premium revenue		68,771	70,649
Claims expense		156,086	77,540
Reinsurance and other recoveries	5(a)	(46,410)	(2,127)
Net claims incurred	5(c)	109,676	75,413
Acquisition costs		(12,287)	(6,596)
General and administration expenses		(20,793)	(7,275)
Underwriting result		(73,985)	132,191
Net investment income	5(d)	27,589	6,578
Profit/(Loss) from ordinary activities before income tax expense		(46,396)	138,769
Income tax benefit/(expense) to (loss)/profit from continuing operations	6(a)	5,117	(30,425)
Net (loss)/profit		(41,279)	108,344
Other comprehensive income		-	-
Total comprehensive income for the year attributable to the Owner		(41,279)	108,344

Notes to the Financial Statements are included on pages 14 to 42.

GENERAL REINSURANCE AUSTRALIA LTD.
STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

	Contributed Equity $'000	Retained Earnings $'000	Total $'000
Balance at 1 January 2009	92,245	276,888	369,133
Total comprehensive income for the year	-	108,344	108,344
Dividends paid	-	(75,711)	(75,711)
Balance at 31 December 2009	**92,245**	**309,521**	**401,766**
Balance at 1 January 2010	**92,245**	**309,521**	**401,766**
Total comprehensive income for the year	-	(41,279)	(41,279)
Dividends paid	-	(60,590)	(60,590)
Balance at 31 December 2010	**92,245**	**207,652**	**299,897**

Notes to the Financial Statements are included on pages 14 to 42.

GENERAL REINSURANCE AUSTRALIA LTD.
STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

	Note	2010 $'000	2009 $'000
Cash flows from operating activities			
Premiums received		85,526	79,561
Outwards reinsurance paid		(15,521)	(16,583)
Claims paid		(84,224)	(135,256)
Reinsurance recoveries received		(2,142)	(607)
Other payments to employees and suppliers		(30,046)	(28,140)
Cash flows provided by/(used by) underwriting activities		(46,407)	(101,025)
Interest received		44,796	50,351
Payments for purchase of investments		(111,133)	(95,555)
Proceeds from sale of investments		196,875	208,985
Investment expenses paid		(546)	(886)
Income tax received/(paid)		(46,529)	6,152
Net cash used by operating activities	23	37,056	68,022
Cash flows from investing activities			
Payments for fixed assets		-	-
Net cash (used by)/provided by investing activities		-	-
Cash flows from financing activities			
Dividends paid		(60,590)	(75,711)
Net cash provided by financing activities		(60,590)	(75,711)
Net (decrease) in cash and cash equivalents during the year		(23,534)	(7,689)
Cash and cash equivalents at beginning of financial year		43,028	53,870
Exchange fluctuations on cash and cash equivalents held in foreign currencies		(3,520)	(3,153)
Cash and cash equivalents at end of financial year	7	15,974	43,028

Notes to the Financial Statements are included on pages 14 to 42.

1 SUMMARY OF 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 ('A-IFRS'). Compliance with the A-IFRS 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 24 March 2011.

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.

AASB Standards 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:

	Title	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
Revised AASB 124	Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards	1 January 2011	1 January 2011
AASB 9	Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9	1 January 2013	1 January 2013
IFRS 7	Amendments to IFRS 7: Disclosures – Transfers of Financial Assets	1 July 2011	1 July 2011
IFRS 9	Revised IFRS 9 Financial Instruments (addressing accounting for financial liabilities and the derecognition of financial assets and financial liabilities)	1 January 2013	1 January 2013

These amendments are not effective for the annual reporting period ending 31 December 2010 and have not been applied in preparing the company's financial statements. The nature of the impact of the application of these standards is disclosure 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.

1 SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Basis of preparation

The financial report has been prepared in accordance with the historical cost convention, except for investments which are at fair value and provisions for outstanding claims which have been inflation adjusted and discounted as required by the Accounting Standard AASB 1023 "General 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) **Outstanding Claims**

Provision is made for the estimated cost of all unsettled claims. The provision includes an estimate, based on past experience, of the cost of unreported claims and their expected settlement costs.

The 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 size and is discounted for investment income using a risk free rate. The details of inflation and discount rates are included in Note 14.

(b) **Outwards Reinsurance**

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

(c) **Reinsurance and Other Recoveries Receivable**

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

(d) **Premiums**

Inward reinsurance premium comprises 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. Premiums in relation to unclosed business have been brought to account and are based on historical data.

(e) **Unearned Premiums**

Unearned premiums are earned during the period to which the premiums relate.

1 SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(f) **Liability Adequacy**

At each reporting date, a liability adequacy test is performed on insurance liabilities less related deferred acquisition costs to ensure that the carrying value is adequate, using current estimates of future cash flows, taking into account the relevant investment returns. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognised by recognising an additional liability for claims provisions or a provision for unexpired risks. The unexpired risks provision is assessed in aggregate for business classes which are managed together.

(g) **Investments**

Investments are measured at fair value at each balance date with any resulting gain/loss recognised in profit & loss. Fair values are determined by reference to market quotations.

(h) **Assets Backing General Insurance Liabilities**

The Company has determined that all assets are held to back general insurance liabilities on the basis that all assets of the Company are available for the settlement of claims if required.

(i) **Depreciation**

Depreciation is calculated on a straight line basis so as to write off the net book value of fixed assets over their estimated effective working lives to their estimated residual value. The following estimated useful lives are used in the calculation of depreciation:

furniture and equipment	3 to 5 years
leasehold improvements	10 years or term of lease

Fixed assets with cost greater than $15,000 are capitalised and depreciated in accordance with the above guidelines. All other fixed assets are expensed in the year of acquisition.

(j) **Deferred Acquisition Costs**

The company adopts the practice of deferring to the following accounting period, expenses and levies directly related to premium income, in the same manner as unearned premium is calculated. These are measured at the lower of cost and recoverable amount.

(k) **Foreign Currency**

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

(l) **Income Tax**

<u>Current tax</u>

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 reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

1 SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Deferred tax

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

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

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

(m) **Receivables and Revenue Recognition**

Trade receivables are recognised as follows:

Reinsurance trade receivables are recognised in accordance with AASB 1023 "General Insurance Contracts" at amortised cost, using the effective interest rate method.

Income receivable on financing and investment activities is accrued in accordance with the terms and conditions of the underlying financial instrument.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment is established where there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows have been impacted.

(n) **Accounts Payable**

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.

(o) **Recoverable Amount of Assets**

The recoverable amount of an asset is the net amount expected to be recovered through the net cash inflows arising from its continued use and subsequent disposal. Assets are written down to recoverable amounts where the carrying value exceeds the recoverable amount.

The expected net cash flows included in determining recoverable amounts of non-current assets are discounted to their present values using a market-determined, risk-adjusted discount rate.

1 SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(p) **Provision for Employment 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 reporting 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.

(j) *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 that date.

(ii) *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 services provided by employees up to the reporting date. Consideration is given to expected future wage and salaries levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on government guaranteed securities with terms to maturity that match, as closely as possible, the estimated cash outflows.

(q) **Superannuation**

The company makes contributions on behalf of employees to their accumulation superannuation funds.

(r) **Goods and Services Tax**

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

(k) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of acquisition 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 cash flow statement 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.

2 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The company makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements 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.

2 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

All the company's assets are available to support the company's insurance liabilities.

The ultimate liability arising from claims made under insurance contracts
Provision is made at the year end for the estimated cost of claims incurred but not settled at the Statement of Financial Position date, including the cost of claims incurred but not yet reported ('IBNR') to the company.

The estimated cost of claims includes direct expenses to be incurred in settling the claims gross of the expected value of salvage and other recoveries. The company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the company, where more information about the claim event is generally available. IBNR claims may often not be apparent to the insured until many years after the events giving rise to the claims has happened. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- Changes in company processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics with previous periods
- Changes in the legal environment
- The effects of inflation
- Changes in the mix of business
- The impact of large losses
- Movements in industry benchmarks
- Medical and technological development.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these, the company has regard to the claim circumstance as reported, and information about the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions. Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in note 3.

Assets from reinsurance contracts
Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure the balance is reflective of the amounts that will ultimately be recovered.

3 ACTUARIAL ASSUMPTIONS AND METHODS

The company writes Facultative and Treaty (both proportional and non-proportional) reinsurance covers for Property and Casualty lines of business, and Treaty Marine business. In recent years there has been an increasing preference to write business on a non-proportional basis, and indeed Facultative covers are no longer written on a proportional basis.

Weighted Average Reporting Time
This is not a reserving assumption, but it does provide an indication of the speed at which claims are assumed to be reported. For the company's major categories of business, weighted by expected ultimate premiums for the 2010 and 2009 underwriting years, these were:

	2010 Years	**2009 Years**
Facultative, Property:	1.09	1.10
Facultative, Casualty:	2.67	3.53
Proportional Treaty, Property & Marine:	0.99	1.01
Proportional Treaty, Casualty:	2.14	2.37
Non-proportional Treaty, Property & Marine:	0.75	0.90
Non-proportional Treaty, Casualty:	4.60	4.73

Run-off Loss Ratios

These were selected having regard to emerging experience for older underwriting years and to the pricing levels and conditions achieved in more recent underwriting years (where experience to date may not yet be sufficiently reliable, particularly for long-tailed lines of business).

Expense Rate
A 1% loading for claims handling expenses is supported by analysis of the current level of the company's Claims department expenses viz-a-viz the level and duration of unpaid liabilities.

Discount Rate
The discount rates were based on market yields on Commonwealth Government securities as at the balance date and varied according to the expected year of payment of the claims liabilities. The weighted average discount rate on a gross basis was 5.43% (2009: 5.50%).

3 ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

Sensitivity Analysis

The sensitivity of the company's profit and equity to key valuation assumptions is tabulated below:

		Underwriting profit before retrocessions ($'000)	Net Profit ($'000)	Equity ($'000)
Recognised amount per Financial Statements		(82,500)	(41,279)	299,897
Variable	**Movement in variable**			
Run-off	+10%	(90,053)	(48,835)	292,341
Loss Ratios	-10%	(74,943)	(33,718)	307,458
Expense Rate	+0.5%	(83,812)	(42,404)	298,772
	-0.5%	(81,188)	(40,154)	301,022
Discount Rate	+1%	(75,926)	(35,236)	305,940
	-1%	(89,822)	(48,027)	293,149

Risk Margin

There are many sources of uncertainty as to the eventual (final) values of outstanding claims, including but not restricted to: quality of data used in the valuation; appropriateness of the valuation model and assumptions; impact of past legislative reform; future legislative changes; future economic and environmental factors; etc. A risk margin increases the company's reserves to a level that is intended to have a 75% probability of adequacy. The assumptions regarding uncertainty for each line of business were applied to the net central estimates, and the results were aggregated, allowing for diversification between different lines of business.

The risk margins applied to the company's major categories of business were:

	2010	**2009**
Facultative, Property & Marine:	8.7%	13.5%
Facultative, Casualty:	15.4%	15.5%
Proportional Treaty, Property & Marine:	8.7%	8.3%
Proportional Treaty, Casualty:	20.6%	30.3%
Non-proportional Treaty, Property & Marine:	9.6%	14.2%
Non-proportional Treaty, Casualty:	16.6%	16.3%

The higher percentage applied to the Proportional Treaty Casualty book was due to the relatively small size of the portfolio, which goes hand-in-hand with greater uncertainty as to what the ultimate outcome will be.

4 INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES

(a) The financial condition and operation of the company 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 company has an objective to control insurance risk thus minimizing substantial unexpected losses that would expose the Company to an adverse financial capital loss.

In accordance with Prudential Standards GPS 220 *Risk Management* and GPS 230 *Reinsurance Management* issued by the Australian Prudential Regulation Authority (APRA), the Board and senior management of the company have developed, implemented and maintain a sound and prudent Risk Management Strategy (RMS) and a Reinsurance Management Strategy (REMS).

The RMS and REMS identify the company's policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the company. Annually, the Board 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 the compliance with the RMS and REMS.

The RMS and REMS 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 insurance risks.
- Reinsurance is used to limit the company's exposure to large single claims and catastrophes.
- The mix of assets in which we invest 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 seeks to reduce variability in loss experience.

(b) Interest Rate Risk

None of the financial assets or liabilities arising from insurance or reinsurance contracts entered into by the company are directly exposed to interest rate risk.

Insurance and reinsurance contracts are entered into annually. At the time of entering into the contract, all terms and conditions are negotiable or, in the case of renewals, terms are renegotiable.

4 INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES (CONTINUED)

(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.

(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. Insurance contracts written in Australia and New Zealand are subject to substantially the same terms and conditions.

(e) 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 by reviewing the type of insured event and also the geographical area of the risk.

5 RESULT FROM ORDINARY ACTIVITIES

Result from ordinary activities has been arrived at after including		**2010 $'000**	**2009 $'000**
(a) Revenues from operating activities			
General insurance revenue			
Gross written premiums		81,406	91,731
Movement in unearned premiums		2,066	(4,499)
Premium revenue		83,472	87,232
Reinsurance and other recoveries		(46,410)	(2,127)
Total general insurance revenue		37,062	85,105

		2010 $'000	**2009 $'000**
Other operating revenue			
Management fees received from related entities:			
- General Reinsurance AG		747	1,158
- General Reinsurance Life Australia Ltd		1,163	-
Expenses from ordinary activities – refer Notes 5b to 5d			
(b) Profit/(loss) from before income tax include the following specific items			
Depreciation and amortization		150	153
Amounts transferred to provisions for:			
- profit commission	Note 15	37	24
Management charges from related entities			
- General Re - New England Asset Management		302	742
- General Reinsurance Corporation		1,742	1,643
- General Reinsurance AG		1,421	2,663

5

(c) Net claims incurred	2010 Current year $'000	2010 Prior years $'000	2010 Total $'000	2009 Current year $'000	2009 Prior years $'000	2009 Total $'000
Gross claims incurred and related expenses	140,683	(2,143)	138,540	29,375	(80,918)	(51,543)
Reinsurance and other recoveries	(47,572)	-	(47,572)	-	2,127	2,127
Net claims incurred - undiscounted	93,111	(2,143)	90,968	29,375	(78,791)	(49,416)
Discount and discount movement						
- gross claims incurred	(42,587)	51,127	8,540	(4,099)	(6,102)	(10,201)
- reinsurance and other recoveries	4,601	411	5,012	-	-	-
Net discount movement	(37,986)	51,538	13,552	(4,099)	(6,102)	(10,201)
Risk margin movement	13,292	(8,136)	5,156	4,049	(19,845)	(15,796)
Net claims incurred	68,417	41,259	109,676	29,325	(104,738)	(75,413)

	2010 $'000	2009 $'000
(d) Net investment income		
Interest	40,653	49,284
Changes in fair values	(3,675)	(8,542)
Expenses	(465)	(797)
Unrealised exchange gain/(loss)	(8,924)	(33,367)
	27,589	6,578
(e) Remuneration of auditors		
Audit and review of the financial report	134,916	168,178
Taxation and other services	-	73,769
The company's auditor is Deloitte Touche Tohmatsu	134,916	241,947

6 **INCOME TAX**

(a) Income tax expense/(benefit)

	2010 $'000	2009 $'000
Tax expense/(benefit) comprises:		
Current tax expense	8,280	32,491
Deferred tax relating to the origination and reversal of temporary differences	(13,397)	(2,066)
Income tax expense/(benefit) relating to result from ordinary activities	(5,117)	30,425

		2010	2009
6	**Income Tax Continued**	**$'000**	**$'000**
	(a) Income tax expense/(benefit) comprises (continued)		
	The prima facie income tax expense on pre-tax accounting profit/(loss) reconciles to the income tax expense/(benefit) shown in the financial statements, as follows:		
	Profit/(loss) from ordinary activities	(46,396)	138,769
	Income tax expense/(benefit) calculated at 30% (2009: 30%) of operating profit/(loss)	(13,919)	41,631
	Current year expense/(benefit)	(13,919)	41,631
	Adjustment for Permanent differences:		
	- Non deductible entertainment	100	120
	Prior year under/(over) provision	8,702	(11,326)
	Total income tax expense/(benefit)	(5,117)	30,425
	(b) At 31 December the deferred tax asset comprises:		
	Timing differences	27,682	24,624
	(c) At 31 December the deferred tax liability comprises:		
	Timing differences	2,757	9,608

The tax balances and reconciliation above are based on the current corporate tax rates of 30% (2009 – 30%) applicable in Australia and 30% (2009 – 30%) in New Zealand on taxable profits under Australian and New Zealand Income Tax Law respectively.

	Opening Balance $'000	Charged to income $'000	Closing Balance $'000
2010			
Temporary differences			
Plant and equipment	8	2	10
Doubtful debts	66	-	66
Provisions	13,540	(12,870)	670
Other liabilities	1,705	88	1,793
Tax losses	-	23,083	23,083
Unrealised foreign exchange differences	89	(305)	(216)
Investments	(923)	(35)	(958)
Outstanding claims	741	97	838
Prepayments	(210)	(151)	(361)
	15,016	9,909	24,925
Presented in the Statement of Financial Position as follows:			
Deferred tax asset			27,682
Deferred tax liability			(2,757)
			24,925

6	Income Tax Continued	Opening Balance $'000	Charged to income $'000	Closing Balance $'000
	2009			
	Temporary differences			
	Plant and equipment	94	(86)	8
	Doubtful debts	66	-	66
	Provisions	17,103	(3,563)	13,540
	Other liabilities	1,537	168	1,705
	Unrealised foreign exchange differences	5,023	(4,934)	89
	Investments	(7,716)	6,793	(923)
	Outstanding claims	1,287	(546)	741
	Prepayments	(312)	102	(210)
		17,082	(2,066)	15,016
	Presented in the Statement of Financial Position as follows:			
	Deferred tax asset			24,624
	Deferred tax liability			(9,608)
				15,016

		2010 $'000	2009 $'000
7	**CASH AND CASH EQUIVALENTS**		
	Cash on hand and at bank	5,127	8,257
	Cash on deposit	8,389	11,250
	Treasury bills and bank endorsed bills of exchange	2,458	23,521
		15,974	43,028
8	**RECEIVABLES**		
	Premiums receivable	26,142	28,615
	Less: provision for doubtful debts	(221)	(221)
		25,921	28,394
9	**REINSURANCE RECOVERIES**		
	Reinsurance recoveries	53,462	6,531
	Reconciliation of reinsurance recoveries		
	Balance as at 1 January 2010	6,531	9,316
	Movement in incurred	47,451	(2,228)
	Less reinsurance receipts	(520)	(557)
	Balance as at 31 December 2010	53,462	6,531
10	**OTHER ASSETS**		
	Deferred acquisition costs	266	2,189
	Accrued income	7,750	8,787
	Other	106	66
	Due by related entities:		
	- General Reinsurance Life Australia Ltd	952	1,231
	- General Reinsurance Corporation	-	74
	- General Reinsurance AG	2,891	916
		11,965	13,263

		2010	2009
		$'000	$'000
10	**OTHER ASSETS (CONTINUED)**		
	Reconciliation of deferred acquisition costs		
	Balance as at 1 January 2010	2,189	3,183
	Acquisition costs deferral	266	2,189
	Amortisation charged to income	(2,189)	(3,183)
	Balance as at 31 December 2010	266	2,189
11	**PLANT AND EQUIPMENT**		
	Leasehold improvements	464	443
	Less: accumulated amortisation	(282)	(236)
		182	207
	Furniture and equipment, at cost	1,904	1,596
	Less: accumulated depreciation	(1,577)	(1,560)
		327	36
		509	243
	Total gross carrying amount		
	- Furniture and equipment		
	Balance as at 1 January 2010	1,596	1,603
	Additions	320	-
	Disposals	-	-
	Foreign exchange difference on opening balance	(12)	(7)
	Balance as at 31 December 2010	1,904	1,596
	Accumulated depreciation		
	- Furniture and equipment		
	Balance as at 1 January 2010	(1,560)	(1,557)
	Depreciation expense	(28)	(10)
	Disposals	-	-
	Foreign exchange difference on opening balance	11	7
	Balance as at 31 December 2010	(1,577)	(1,560)
12	**INVESTMENTS**		
	Insurance activities, at fair value:		
	Fixed interest securities	611,558	712,924
13	**PAYABLES**		
	Owing to immediate parent entity	-	830

The balance is payable at the demand of the parent

14 OUTSTANDING CLAIMS AND UNEARNED PREMIUM

	2010 $'000	2009 $'000
Outstanding Claims		
Gross outstanding claims	423,342	369,049
Unexpired risk liability	6,308	-
Discount to present value	(76,817)	(85,372)
Risk margin	44,061	35,045
Liability for outstanding claims	396,894	318,722
Reconciliation of outstanding claims		
Balance at start of year	318,722	531,519
Change in discount to present value	8,555	(10,128)
Change in unexpired risk liability	6,308	-
Change in risk margin	9,016	(15,810)
Claims paid	(46,364)	(133,393)
Claims incurred	100,657	(53,466)
Balance at end of year	396,894	318,722

The following average discount rates were used in the measurement of outstanding claims:

- For the current and succeeding years:

	2010	2009
Discount rate	5.43%	5.50%

The weighted average term to settlement for the outstanding claims provisions which have been subject to discounting is approximately 5.84 years (2009 – 8.74 years)

Claims Development tables

Gross undiscounted outstanding claims for the nine most recent accident years

	2002 $M	2003 $M	2004 $M	2005 $M	2006 $M	2007 $M	2008 $M	2009 $M	2010 $M	Total $M
Estimate of gross ultimate claims cost:										
At end of accident year	(1)	1	1	-	1	1	(1)	4	85	
One year later	1	(5)	5	-	-	(1)	4	34		
Two years later	2	1	0	(2)	1	(3)	25			
Three years later	-	(2)	(1)	(0)	9	46				
Four years later	(1)	6	1	3	33					
Five years later	4	(5)	10	41						
Six years later	11	15	49							
Seven years later	15	69								
Eight years later	80									
Current estimate of gross cumulative claims cost	110	79	64	42	43	43	28	38	85	
Cumulative net payments	(119)	(80)	(64)	(42)	(41)	(54)	(33)	(39)	(21)	
Estimate of gross ultimate claims cost:	(9)	(1)	0	0	2	(11)	(5)	(1)	64	40

14 OUTSTANDING CLAIMS AND UNEARNED PREMIUM (CONTINUED)

Claims Development tables

Net undiscounted outstanding claims for the nine most recent accident years

	2002 $M	2003 $M	2004 $M	2005 $M	2006 $M	2007 $M	2008 $M	2009 $M	2010 $M	Total $M
Estimate of net ultimate claims cost:										
At end of accident year	(1)	0	1	-	1	1	(1)	4	85	
One year later	1	(5)	5	-	-	(1)	4	34		
Two years later	6	8	3	2	3	10	25			
Three years later	-	(2)	(1)	-	8	35				
Four years later	(0)	3	0	3	21					
Five years later	2	(2)	10	24						
Six years later	5	7	22							
Seven years later	9	34								
Eight years later	39									
Current estimate of net cumulative claims cost	61	43	39	28	33	45	28	38	85	
Cumulative net payments	(64)	(42)	(36)	(25)	(25)	(38)	(33)	(39)	(21)	
Net undiscounted outstanding claims for the nine most recent accident years	(3)	2	3	4	8	7	(5)	(1)	64	79

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

	Total $M
Net undiscounted outstanding claims for the 9 most recent accident years	79
Outstanding claims – accident years 2001 and prior	121
Foreign exchange	-
Discount and risk margin on outstanding claims	(32)
Claims settlement costs	3
Unexpired risk liability	6
IBNR	166
Net outstanding claims at 31 December 2010	343

14 OUTSTANDING CLAIMS AND UNEARNED PREMIUM (CONTINUED)

The unearned premium liability was found to be deficient as at 31 December 2010. The entire deficiency of $7.4 million was recognised in the Statement of Financial Position, with deferred acquisition costs written down by $1.1 million and an additional liability of $6.3 million was set up.

The probability of sufficiency ("POS") adopted in performing the liability adequacy test was set at the 75th percentile, which is the same as that adopted in determining the outstanding claims liabilities.

The POS for OCL is set at a level that is appropriate and sustainable to cover the Company's and the Group's claims obligations after having regard to the prevailing market environment and prudent industry practice.

Unearned Premiums	**2010 $'000**	**2009 $'000**
Balance as at 1 January 2010	37,797	34,248
Deferral of premium on contracts written in the period	35,081	37,797
Earning of premiums written in previous periods	(37,797)	(34,248)
Balance as at 31 December 2010	35,081	37,797

15 PROVISIONS

		$'000	**$'000**
Profit commission	(i)	998	1,035
Annual leave	(ii)	570	646
Long service leave	(ii)	1,421	1,486
Legal fees	(iii)	-	8,000
Makegood	(iv)	464	443
		3,453	11,610

		Balance 31 December 2009 $'000	**Payments $'000**	**Provisions $'000**	**Balance 31 December 2010 $'000**
Profit commission	(i)	1,035	-	(37)	998
Annual leave	(ii)	646	(544)	468	570
Long service leave	(ii)	1,486	(184)	119	1,421
Legal fees	(iii)	8,000	(8,000)	-	-
Makegood	(iv)	443	-	21	464
Balance 31 December 2009		11,610	(8,728)	571	3,453

(i) The provision for profit commission represents the present value of the best estimate of the future payments that will be required.

(ii) The provision for annual leave and long service leave represents the present value of the best estimate of future expenses based on current employee records.

(iii) The provision for legal fees and other expenses represents the present value of the best estimate for future expenses' expected to be incurred in defending various legal matters. All these legal matters were vigorously defended.

(iv) The provision for make good represents the estimated amount to restore leasehold premises to its original condition.

	2010 $'000	2009 $'000
16 TAX LIABILITIES		
Current income tax liability	-	39,512

17 OTHER LIABILITIES

	2010 $'000	2009 $'000
Other Liabilities		
Sundry payables and accruals	8,989	9,162

18 FRANKING ACCOUNT

	2010 $'000	2009 $'000
Franking credits available for the subsequent financial year	118,497	71,967

The company paid an unfranked dividend of $60,590,808 during the year (2009: $75,710,635). 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.

19 CONTRIBUTED EQUITY

	2010 $'000	2009 $'000
Ordinary shares fully paid	92,245	92,245

2010 - 46,122,322 shares
2009 - 46,122,322 shares
All ordinary shares have the same rights and obligations, including one vote per share and the same rights to dividends.

20 CONTINGENT ASSETS, COMMITMENTS AND CONTINGENT LIABILITIES

	2010 $'000	2009 $'000
Leases		
The company has office space and equipment rental commitments in respect of non-cancellable operating leases not provided for in the financial statements and:		
Due: not later than one year	1,405	1,822
later than one year but not later than five years	4,905	6,656
later than five years	147	-
	6,457	8,478

21 ULTIMATE PARENT ENTITY

The ultimate parent entity of General Reinsurance Australia Ltd is Berkshire Hathaway Inc., a company incorporated in the United States of America.

22 RELATED PARTIES

Directors The names of each person holding the position of director of General Reinsurance Australia Ltd

during the financial year were:

F Allan McDonald	A Giffen Brown	I John Cholnoky
Christopher J Crowder	Kathryn J McCann	

22 RELATED PARTIES (CONTINUED)

	2010	2009
Related party balances at reporting date	**$'000**	**$'000**
General Reinsurance AG	2,891	916
General Reinsurance Life Australia Ltd	952	1,231
General Reinsurance Corporation	-	(830)
Management charges paid to related entities		
General Reinsurance AG	1,421	2,663
General Reinsurance Corporation	1,742	1,643
Management charges received from related entities		
General Reinsurance AG	747	1,158
General Reinsurance Life Australia Ltd	1,163	-

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	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
General Reinsurance Corporation	14,332	16,275	53,462	(2,299)

23 NOTES TO THE CASH FLOW STATEMENT

	2010	2009
Reconciliation of net operating cash flows to operating profit/(loss) after income tax	**$'000**	**$'000**
Operating profit/(loss) after income tax	(41,279)	108,344
Depreciation and amortisation	28	153
(Profit)/loss on sale of investments	(2,386)	(345)
Unrealised exchange variance on investments	9,011	33,367
Payments for purchase of investments	(111,133)	(95,555)
Proceeds from sale and maturity of investments	195,142	208,895
Unrealised movement in fair value of investments	6,061	8,886
Unrealised foreign exchange (gain)/loss on cash balances	3,520	3,153
Change in operating assets and liabilities		
(Increase)/decrease in premiums receivable	4,770	(11,221)
(Increase)/decrease in other assets	(39,285)	17,674
Increase/(decrease) in payables	(377)	(7,477)
Increase/(decrease) in underwriting provisions:		
- unearned premium	(2,716)	3,549
- outstanding claims	71,863	(212,796)
- profit commission	0	73
Movement in tax accounts	(51,719)	36,577
Increase/(decrease) in other operating liabilities	(4,443)	(25,255)
Net cash from operating activities	37,057	68,022

24 FINANCIAL INSTRUMENTS

(a) Credit Risk Exposure

The credit risk on financial assets of the company which has been recognised on the Statement of Financial Position,
other than investments, is generally the carrying amount, net of any provisions for doubtful debts.

(b) Interest Rate Risk

The company'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 (i).

(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 company approximates 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, financial liability are disclosed in note 1 of the financial statements.

(e) 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 the debt and equity balances.

The capital structure of the Company consists of cash and cash equivalents and equity, comprising issued capital and retained earnings as disclosed in note 7 and the Statement of Changes in Equity respectively.

The Company's management reviews the capital structure on a semi-annual basis. As a part of this review the committee considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the committee the Company will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the repayment of existing debt. The Company's overall strategy remains unchanged from 2009.

(f) Categories of financial instruments		**2010**	**2009**
Financial assets	**Note**	**$'000**	**$'000**
Fair value through profit or loss (i)	12	611,558	712,924
Receivables		25,921	28,394
Financial liabilities			
Trade creditors and other payables	13, 17	8,989	9,992
Provisions	15	9,761	11,610
Current tax liability	16	-	39,512
Outstanding claims liability	14	396,894	318,722

(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 at 'fair value through profit or loss'.

24 FINANCIAL INSTRUMENTS (CONTINUED)

(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 Company.

As part of the overall governance framework the Board and senior management of the Company have developed, implemented and maintain a sound and prudent Risk Management Strategy (RMS) and a Reinsurance Management Strategy (REMS).

The RMS and REMS identify the Company's policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the company. Annually, the Board 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 the compliance with the RMS and REMS.

(h) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the 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. The policies and procedures in place to mitigate the Company's exposure to credit risk. The Company's overall strategy in credit risk management remains unchanged from 2009.

The Company does not have any significant credit risk exposure to any single counterparty or any Company 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.

		2010	2009
Financial assets	**Note**	**$'000**	**$'000**
Cash and cash equivalents	7	15,974	43,028
Financial assets at fair value through profit or loss			
Fixed interest securities	12	611,558	712,924
Loans and receivables			
Premiums receivable	8	25,921	28,394
Reinsurance assets	9	53,462	6,531
Other insurance receivables	10	11,965	11,076
		718,880	801,953

(i) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments. Ultimate responsibility for liquidity risk management rests with the board of directors, who has 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 GPS 220, the Company has developed and implemented a Risk Management Strategy. The Company's overall strategy in liquidity risk management remains unchanged from 2009.

24 FINANCIAL INSTRUMENTS (CONTINUED)

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, except for outstanding claims liabilities, where maturity profiles are determined on the discounted estimated timing of net cash outflows.

The tables include both interest and 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	Less than 1 year	1-5 years	5+ years	Total
2010	**%**	**$'000**	**$'000**	**$'000**	**$'000**
Outstanding claims liabilities	-	157,438	172,142	67,314	396,894
Financial liabilities					
Non-interest bearing:					
Payables	-	8,989	-	-	8,989
Income tax payable	-	-	-	-	-
Employee entitlements	-	570	-	1,421	1,991
Other provisions	-	1,463	-	-	1,463
	-	168,460	172,142	68,735	409,337
2009					
Outstanding claims liabilities	-	44,231	153,651	120,840	318,722
Financial liabilities					
Non-interest bearing:					
Payables	-	9,162	-	-	9,162
Income tax payable	-	39,512	-	-	39,512
Employee entitlements	-	2,132	-	-	2,132
Other provisions		21,478	-	-	21,478
	-	116,515	153,651	120,840	391,006

(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's 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 market risks or the manner in which it manages and measures the risks.

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.

24 FINANCIAL INSTRUMENTS (CONTINUED)

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 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 assets on the Statement of Financial Position.

2010	Weighted average interest rate %	Less than 1 year $'000	1-5 years $'000	5+ years $'000	Total $'000
Non-interest bearing:					
Receivables	-	25,921	-	-	25,921
Reinsurance recoverables	-	32,975	15,172	5,315	53,462
Other insurance receivables	-	11,965	-	-	11,965
Variable interest rate instruments:					
Cash	2.38	15,974	-	-	15,974
Fixed interest rate instruments:					
Australian Government/semi government securities	6.21	35,182	321,565	57,148	413,895
Other bonds	6.92	60,981	83,523	53,159	197,663
		182,998	420,260	115,622	718,880

2009	Weighted average interest rate %	Less than 1 year $'000	1-5 years $'000	5+ years $'000	Total $'000
Non-interest bearing:					
Receivables	-	28,394	-	-	28,394
Reinsurance recoverables	-	522	1,020	4,989	6,531
Other insurance receivables	-	11,076	-	-	11,076
Variable interest rate instruments:					
Cash	1.56	43,028	-	-	43,028
Fixed interest rate instruments:					
Australian Government/semi government securities	6.10	29,958	440,769	2,640	473,367
Other bonds	6.78	16,677	146,269	76,612	239,558
		129,654	588,057	84,242	801,954

24 FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate sensitivity

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

	2010 $'000	2009 $'000
Effect of 100 basis point increase or decrease on profit (+/-)	16,284	19,385

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) via its branch in New Zealand and US dollars (USD) via its USD investment portfolio. 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 2009.

The carrying amount of the Company's foreign currency denominated monetary assets and monetary liabilities in AUD at the reporting date is as follows:

	Net Liabilities		Net Assets	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
New Zealand dollar	-	-	29,139	39,050
US dollar	-	-	29,962	72,820
Euro	5,477	5,710	-	-
Canadian dollar	3,786	588	-	-
British pound	1,280	1,241	-	-
PNG kina	164	218	-	-
Western Samoa Tala	63	65	-	-
Hong Kong dollar	546	613	-	-
Fiji dollar	49	-	-	-
Japanese Yen	148	150	-	-
Singapore dollar	33	23	-	-
South Korean Won	80	76	-	-
Malaysian Ringgit	6	6	-	-
French Pacific Franc	16	23	-	-

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. The sensitivity analysis includes external loans as well as loans to foreign operations within the Company where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in profit or loss and other equity where the Australian Dollar strengthens against the respective currency.

24 FINANCIAL INSTRUMENTS (CONTINUED)

	10% increase impact on Profit or Loss					10% decrease impact on Profit or Loss			
	Liabilities		Assets			Liabilities		Assets	
	2010	2009	2010	2009		2010	2009	2010	2009
	$'000	$'000	$'000	$'000		$'000	$'000	$'000	$'000
New Zealand dollar	-	-	(2,649)	(3,550)	(i)	-	-	2,914	3,905
US dollar	-	-	(2,724)	(6,620)		-	-	2,996	7,282
Euro	498	519	-	-		(548)	(571)	-	-
Canadian dollar	344	53	-	-		(379)	(59)	-	-
British pound	116	113	-	-		(128)	(124)	-	-
PNG kina	15	20	-	-		(16)	(22)	-	-
Western Samoa Tala	6	6	-	-		(6)	(6)	-	-
Hong Kong dollar	50	56	-	-		(55)	(61)	-	-
Fiji dollar	4	-	-	-		(5)	-	-	-
Japanese Yen	13	14	-	-		(15)	(15)	-	-
Singapore dollar	3	2	-	-		(3)	(2)	-	-
South Korean Won	7	7	-	-		(8)	(8)	-	-
Malaysian Ringgit	1	1	-	-		(1)	(1)	-	-
French Pacific Franc	1	2	-	-		(2)	(2)	-	-

(i) This is mainly attributable to exposure outstanding on NZD receivable from the Company's New Zealand branch.

(k) 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; 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 maturitysecurities 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 in limited partnerships, with the exception of one investment in real estate, which were included in other invested assets 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.

24 FINANCIAL INSTRUMENTS (CONTINUED)

(k) Fair value of financial instruments (Continued)

A framework exists for measuring Fair values are measured 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 further description of the inputs used in the valuation of assets and liabilities under the three levels are as 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 Company 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 measured at fair value in the financial statements as of December 31, 2010 are summarized in the following table by the type of inputs applicable to the fair value measurement (in thousands).

2010 Investments Fixed maturity bonds	Total Fair Value	Quoted Prices Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
US Treasury securities and obligations of US Government corporations and agencies	2,810	-	2,810	-
Obligations of Australian and New Zealand Governments	534,344	101,253	433,091	-
Corporate bonds	72,760	-	29,640	43,120
Mortgage and asset-backed securities	1,644	-	1,644	-
Total fixed maturities	611,558	101,253	467,185	43,120

There are no transfers between level 1 and level 2 during the period.

24 FINANCIAL INSTRUMENTS (CONTINUED)

(k) Fair value of financial instruments (Continued)

2009 Investments Fixed maturity bonds	Total Fair Value	Quoted Prices Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
US Treasury securities and obligations of US Government corporations and agencies	4,170	-	4,170	-
Obligations of Australian and New Zealand Governments	599,236	-	599,236	-
Corporate bonds	90,236	-	41,079	49,263
Mortgage and asset-backed securities	19,176	-	19,176	-
Total fixed maturities	712,924	-	633,661	49,263

There are no transfers between level 1 and level 2 during the period.

A reconciliation of assets and liabilities measured at fair value on a recurring basis with the use of significant unobservable inputs (Level 3) from 1 January 2010 to 31 December 2010 follows (in thousands of dollars).

	Fixed Maturity Bonds	Total
Balance at 1 January 2010	49,263	49,263
Movement in book value	-	-
Unrealised gains/(losses)	(4,596)	(4,596)
FX movements	(1,547)	(1,547)
Transfers in and/or out of level 3	-	-
Balance at 31 December 2010	43,120	43,120

There were no gains or losses in earnings attributable to the change in unrealised losses related to assets still held at 31 December 2010.

25 APRA CAPITAL ADEQUACY

The following information refers to APRA's capital adequacy requirements and calculations of capital and some other balances are based on different methodologies from those used to prepare this financial report.	**2010** **$'000**	**2009** **$'000**
Tier 1 Capital	216,402	402,522
Less: Net deferred tax assets	(24,925)	(20,958)
Adjusted Tier 1 Capital	191,477	381,564
Minimum Capital Requirement (MCR)	132,461	105,652
MCR coverage ratio	144.55%	361.15%

General Reinsurance Australia Ltd has a "AA+" credit rating from Standard and Poor's (rating date: 4 February 2010).

26 KEY MANAGEMENT PERSONNEL REMUNERATION

	2010 $'000	2009 $'000
The compensation of the specified directors and specified executives, being the key management personnel of the company, is set out below:		
(a) short-term employee benefits	2,935	3,162
(b) post-employment benefits	-	-
(c) other long-term benefits	83	36
(d) termination benefits	-	-
(e) share-based payments	-	-
	3,018	3,198

27 Reconciliation of US-GAAP balances to Australian IFRS

In accordance with US Accounting Standard SSAP 97 (Investments in Subsidiary, Controlled, and Affiliated Entities), a reconciliation is required between US-GAAP accounting results and those required in the local jurisdiction. The information below reconciles the company's results after tax and net assets based on A-IFRS to the US-GAAP accounting results.

	2010 $'000	2009 $'000
US-GAAP Profit after tax	4,591	113,976
Adjustment items:		
Deferred tax adjustments re foreign exchange movements	7,287	18,595
Market value of investments reclassified to Equity	(5,992)	(14,426)
Adjustments required to be included from an A-IFRS materiality perspective	(19,347)	(2,321)
FX on USD investments reclassified to Equity	(9,110)	(33,477)
Net Claims risk margin and discounting	(18,708)	(32,100)
Profit/(Loss) after tax per Australian GAAP	(41,279)	108,344
US-GAAP Net Assets	262,850	331,125
Adjustment items:		
Claims discounting and risk margin	16,496	43,010
Adjustments required to be included from an A-IFRS materiality perspective	3,055	14,029
Tax adjustments	17,496	13,602
Net assets per Australian GAAP	299,897	401,766

28 ADDITIONAL COMPANY INFORMATION

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

Number of Employees
At 31 December 2010 the company had 49 employees (2009: 56)

Type of Company
The company is an unlisted public company.

29 EVENTS SUBSEQUENT TO BALANCE DATE

Additional share capital of $25 million was subscribed on 14 March 2011 to maintain the company's solvency margin.

Subsequent to balance date, three major events occurred which are expected to impact the company's 2011 financial results. Severe Queensland flooding occurred in January 2011 in Rockhampton, Ipswich, Toowoomba and Brisbane. On 3 February 2011, Cyclone Yasi struck the North Queensland coast between Townsville and Cairns causing widespread damage. On 22nd February 2011 an earthquake with a magnitude 6.3 struck 10 kilometres south-east of the centre of Christchurch, New Zealand's second most populous city. Whilst losses from these events are expected to be substantial, significant uncertainties are involved in estimating their magnitude. The company, through its retrocession program and investment portfolio, will be able to meet all claims arising from these events.