

GENERAL REINSURANCE AUSTRALIA LTD

NEW ZEALAND BRANCH

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

GENERAL REINSURANCE AUSTRALIA LTD – NEW ZEALAND BRANCH

CONTENTS

| | |
|--|---|
| APPROVAL BY DIRECTORS | 2 |
| INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS | 4 |
| STATEMENT OF COMPREHENSIVE INCOME | 6 |
| STATEMENT OF CHANGES IN EQUITY | 7 |
| STATEMENT OF FINANCIAL POSITION | 8 |
| NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS..... | 9 |

GENERAL REINSURANCE AUSTRALIA 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 2011.

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 2011 and the results of its operations for the year ended 31 December 2011.

The Directors consider that the financial statements of the Branch have been prepared using accounting policies appropriate to the branch'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)
A Giffen Brown
I John Cholnoky
Kathryn J McCann
Pietro Toffanello (appointed on 1 January 2012)

Christopher J Crowder resigned from the Board of Directors on 31 December 2011.

Events Subsequent to Balance Date

Michael J. Brent resigned on 1 February 2012 as Chief Financial Officer and one of the Company Secretaries. The Board is actively engaged in recruiting a new Chief Financial Officer as soon as is practicable. William G. Gasdaska, Chief Financial Officer of the General Reinsurance group was appointed Interim Chief Financial Officer of the Company on 16 February 2012.

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

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

Signed for and on behalf of the Board of Directors who authorised the issue of these financial statements in Sydney, Australia on the 26th day of April 2012.



Director

F Allan McDonald



Director

Pietro Toffanello

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

Report on the Financial Statements

We have audited the accompanying financial statements of General Reinsurance Australia Ltd – New Zealand branch, which comprises the statement of financial position as at 31 December 2011, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information of General Reinsurance Australia Ltd – New Zealand branch during the financial year as set out on pages 3 to 22.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

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

Opinion

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

- a. give a true and fair view of General Reinsurance Australia Ltd – New Zealand branch's financial position as at 31 December 2011 and of its performance for the year ended on that date; and
- b. comply with generally accepted accounting practice in New Zealand.

Emphasis of Matter

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

Basis of Accounting

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

Report on Other Legal and Regulatory Requirements

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

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



DELOITTE TOUCHE TOHMATSU



Neil Brown
Partner
Chartered Accountants
Melbourne, 26 April 2012

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

| | Note | 2011 \$ | 2010 \$ |
|--|------|---------------------|--------------------|
| Revenue | | | |
| Premiums | 5(a) | 11,589,099 | 15,578,735 |
| Investment income | 5(b) | 6,746,142 | 3,883,536 |
| Other income | | - | 10,000 |
| | | <u>18,335,241</u> | <u>19,472,271</u> |
| Expenses | | | |
| Claims | 5(c) | 35,581,478 | 11,078,613 |
| Commissions and brokerage | 5(e) | 1,670,686 | 6,141,524 |
| Management expenses | 5(d) | 3,482,298 | 5,901,762 |
| | | <u>40,734,462</u> | <u>23,121,899</u> |
| Net loss before income tax expense | | (22,399,221) | (3,649,628) |
| Income tax benefit | 6(a) | <u>5,610,466</u> | <u>(1,089,344)</u> |
| Net loss | | <u>(16,788,755)</u> | <u>(2,560,284)</u> |
| Other comprehensive income | | - | - |
| Total comprehensive loss for the year, net of tax, attributable to the Branch | | <u>(16,788,755)</u> | <u>(2,560,284)</u> |

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

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

| | 2011 | 2010 |
|--|--------------------------|--------------------------|
| | \$ | \$ |
| Head Office balance as at 1 January | 33,075,558 | 30,128,557 |
| Comprehensive loss | (16,788,755) | (2,560,284) |
| Cash settlements | <u>1,437,736</u> | <u>5,507,285</u> |
| Head Office balance as at 31 December | <u><u>17,724,539</u></u> | <u><u>33,075,558</u></u> |

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 AUSTRALIA LTD – NEW ZEALAND BRANCH
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

| | Note | 2011 \$ | 2010 \$ |
|--------------------------------|------|--------------------|-------------------|
| ASSETS | | | |
| Cash and cash equivalents | 7 | 8,780,826 | 2,201,743 |
| Trade receivables | 8 | 10,991,467 | 6,575,271 |
| Reinsurance recoveries | 11 | 79,254,022 | 6,095,072 |
| Other assets | 10 | 2,794,769 | 855,759 |
| Investments | 9 | 78,906,241 | 73,225,096 |
| Deferred income tax | 6(b) | 4,734,198 | 907,371 |
| TOTAL ASSETS | | 185,461,523 | 89,860,312 |
| LIABILITIES | | | |
| Outstanding claims | 12 | 154,467,627 | 46,468,319 |
| Unearned premium | 12 | 11,706,845 | 9,030,415 |
| Accruals and other liabilities | 13 | 1,562,512 | 1,286,020 |
| TOTAL LIABILITIES | | 167,736,984 | 56,784,754 |
| NET ASSETS | | 17,724,539 | 33,075,558 |
| EQUITY | | | |
| Head Office Account | | 17,724,539 | 33,075,558 |
| TOTAL EQUITY | | 17,724,539 | 33,075,558 |

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

GENERAL REINSURANCE AUSTRALIA LTD – NEW ZEALAND BRANCH
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

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.

These general purpose financial statements cover General Reinsurance Australia Ltd - New Zealand Branch (the Branch). The Branch is domiciled in New Zealand, registered address at 205 Queen Street, Auckland. The Branch is a 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 26 April 2012.

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

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

The functional and presentation currency is New Zealand dollars.

The New Zealand Branch is part of General Reinsurance 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.

GENERAL REINSURANCE AUSTRALIA LTD – NEW ZEALAND BRANCH
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

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 reported 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 4.

B Branch Assets

The 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. The debts of the Branch may result in claims against the entire company's assets, not solely the assets presented on the Branch's Statement of Financial Position.

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 and 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 and 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 within depreciation.

(c) *Investments and Receivables*

All investments are integral to insurance operations. Investments are measured at fair value at each balance date. Fair value is determined by reference to market quotations. Realised gains and losses and movements in unrealised gains and losses are included within the Statement of Comprehensive Income as part of investment income. Interest income is accounted for as earned. 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 measured at fair value, are assessed for indicators of impairment at each balance date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

GENERAL REINSURANCE AUSTRALIA LTD – NEW ZEALAND BRANCH
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

1 Summary of Significant Account Policies (Continued)

(d) *Impairment of Financial Assets (Continued)*

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

(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) *Liability adequacy test*

The liability adequacy test is an assessment of whether the carrying amount of the unearned premium liability is adequate and is conducted at each balance 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 balance 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 the inflation and discount rates applied 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 the balance date, where appropriate.

GENERAL REINSURANCE AUSTRALIA LTD – NEW ZEALAND BRANCH
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

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 the inflation and discount 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 loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the balance date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive 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 the balance 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 dollars 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 the 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.

GENERAL REINSURANCE AUSTRALIA LTD – NEW ZEALAND BRANCH
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

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 balance date 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 claims, 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.

GENERAL REINSURANCE AUSTRALIA LTD – NEW ZEALAND BRANCH
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

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 Head Office. The business is subdivided into 24 reserving 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 2011 underwriting year, these were (in years):

| | 2011 | 2010 |
|---|-------------|-------------|
| Facultative, Property: | 1.09 | 1.09 |
| Facultative, Casualty: | 1.92 | 2.72 |
| Proportional Treaty, Property & Marine: | N/A | 0.99 |
| Proportional Treaty, Casualty: | N/A | N/A |
| Non-proportional Treaty, Property & Marine: | 0.75 | 1.30 |
| Non-proportional Treaty, Casualty: | 4.63 | 4.59 |

The reductions in average reporting times for Facultative Casualty and Non-proportional Treaty Property & Marine were because of changes in the portfolio composition, with an increase in lines of business that have shorter reporting times.

GENERAL REINSURANCE AUSTRALIA LTD – NEW ZEALAND BRANCH
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

3 Actuarial Assumptions and Methods (Continued)

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 Ratio

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.

Discount Rates

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 3.444% (2010 - 5.431%).

Sensitivity Analysis

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

| | | Loss before retrocession | Net Loss | Equity |
|--|-----------------------------|---------------------------------|-----------------|---------------|
| | | (\$) | (\$) | (\$) |
| Recognised amount per Financial Statements | | (67,261,759) | (16,788,755) | 17,724,539 |
| Variable | Movement in variable | | | |
| Run-off | +10% | (68,496,258) | (18,030,241) | 16,483,053 |
| Loss Ratios | -10% | (66,027,129) | (15,546,747) | 18,966,547 |
| Expense Rate | +0.5% | (67,785,886) | (17,288,357) | 17,224,937 |
| | -0.5% | (66,737,624) | (16,289,145) | 18,224,149 |
| Discount Rate | +1% | (64,926,509) | (15,424,060) | 19,089,234 |
| | -1% | (69,722,979) | (18,241,254) | 16,272,040 |

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; and future economic and environmental factors. The 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 are applied to the central estimates, and the results were aggregated, allowing for diversification between different lines of business.

GENERAL REINSURANCE AUSTRALIA LTD – NEW ZEALAND BRANCH
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

3 Actuarial Assumptions and Methods (Continued)

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

| | 2011 | 2010 |
|---|-------------|-------------|
| Facultative, Property & Marine: | 7.6% | 8.2% |
| Facultative, Casualty: | 15.0% | 15.7% |
| Proportional Treaty, Property & Marine: | 8.8% | 9.6% |
| Proportional Treaty, Casualty: | 19.4% | 20.6% |
| Non-proportional Treaty, Property & Marine: | 11.6% | 11.9% |
| Non-proportional Treaty, Casualty: | 15.2% | 15.9% |

The fall in risk margin percentages from 2010 to 2011 was due to a significant increase in the central estimates of liabilities, as a result of which a smaller additional percentage is required to take reserves to a 75% level of sufficiency.

The higher percentage applied to the Proportional Treaty Casualty book is 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 operations 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.

GENERAL REINSURANCE AUSTRALIA LTD – NEW ZEALAND BRANCH
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

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

- 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 the Branch invests is driven by the nature and term of insurance liabilities. The management of assets and liabilities is closely monitored to attempt to match the maturity dates of assets with the expected pattern of claim payments.
- The diversification of business over classes within the reinsurance portfolio, separate geographical segments and large numbers of uncorrelated individual risks 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.

(c) Credit Risk

Financial assets or liabilities arising from reinsurance contracts are stated in the Statement of Financial Position at the amount that best represents the maximum credit risk exposure at the 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. The Branch utilises a retrocession arrangement with its immediate parent (General Reinsurance Corporation) to limit its exposure to risks.

GENERAL REINSURANCE AUSTRALIA LTD – NEW ZEALAND BRANCH
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

| 5 NET LOSS | 2011 | 2010 |
|---|--------------------|--------------------|
| Net loss before income tax is arrived at after crediting and charging the following specific items: | \$ | \$ |
| (a) Premiums | | |
| Premiums in respect of reinsurance | 19,448,539 | 18,383,889 |
| Unearned premium (increase)/decrease | (2,678,551) | 1,706,095 |
| | <u>16,769,988</u> | <u>20,089,984</u> |
| Retrocession premiums paid | (5,180,889) | (4,511,249) |
| Unearned retrocession premium (increase)/decrease | - | - |
| | <u>(5,180,889)</u> | <u>(4,511,249)</u> |
| Net premiums earned | <u>11,589,099</u> | <u>15,578,735</u> |
| (b) Investment income | | |
| Bond interest | 4,508,020 | 4,020,957 |
| Deposits and short dated investments | 90,028 | 143,924 |
| Net realised gains/(losses) | 12,957 | 550,839 |
| Net unrealised gains/(losses) | 2,182,569 | (775,449) |
| Foreign exchange gains on investments | 4,548 | - |
| Fund management fees | (51,980) | (56,735) |
| | <u>6,746,142</u> | <u>3,883,536</u> |
| (c) Claims | | |
| Amounts pertaining to risks written in | | |
| - Current year | | |
| Claims incurred | 38,502,470 | 4,586,921 |
| Retrocession recoveries | (31,648,070) | (1,647,334) |
| Net claims incurred | <u>6,854,400</u> | <u>2,939,587</u> |
| - Prior years | | |
| Claims incurred | 74,364,190 | 12,586,764 |
| Retrocession recoveries | (45,637,112) | (4,447,738) |
| Net claims incurred | <u>28,727,078</u> | <u>8,139,026</u> |
| Total net claims incurred | <u>35,581,478</u> | <u>11,078,613</u> |
| (d) Management expenses | | |
| Included in management expenses are: | | |
| Other expenses of management | 3,734,584 | 5,542,597 |
| Exchange variances – (losses)/gains | (330,383) | 131,620 |
| Lease expenses | 78,097 | 227,545 |
| | <u>3,482,298</u> | <u>5,901,762</u> |

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.

GENERAL REINSURANCE AUSTRALIA LTD – NEW ZEALAND BRANCH
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

| 5 | NET LOSS (Continued) | 2011 | 2010 |
|--------------------------------|-----------------------------|---------------------|--------------------|
| | | \$ | \$ |
| (e) Underwriting result | | | |
| Net earned premiums | | 11,589,099 | 15,578,735 |
| Net claims incurred | | (35,581,478) | (11,078,613) |
| Commissions and brokerage | | (1,670,686) | (6,141,524) |
| | | <u>(25,663,065)</u> | <u>(1,641,402)</u> |

6 INCOME TAX

(a) Income tax benefit:

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

| | | |
|--------------------------------------|---------------------|--------------------|
| Net loss before income tax | <u>(22,399,221)</u> | <u>(3,649,628)</u> |
| Prima facie income tax thereon @ 28% | | |
| (2010: 30%) | (6,271,782) | (1,094,888) |
| Permanent differences | 3,981 | 38,174 |
| Effect of change in tax rate | 60,491 | - |
| Prior year under/(over) provision | 596,844 | (32,630) |
| Total income tax benefit | <u>(5,610,466)</u> | <u>(1,089,344)</u> |
| Consisting of: | | |
| Current tax benefit | (1,783,639) | - |
| Deferred tax benefit | <u>(3,826,827)</u> | <u>(1,089,344)</u> |
| | <u>(5,610,466)</u> | <u>(1,089,344)</u> |

(b) Deferred tax

At 31 December, the deferred income tax asset comprises:

| | | |
|--|------------------|----------------|
| Timing differences based on 28% tax rate (2010: 30%) | <u>4,734,198</u> | <u>907,371</u> |
|--|------------------|----------------|

| | Opening Balance | Credited to Income | Closing Balance |
|--------------------------------|------------------------|---------------------------|------------------------|
| | \$ | \$ | \$ |
| 2011 | | | |
| Temporary differences | | | |
| Plant and equipment | 6,393 | (1,882) | 4,511 |
| Provisions | 38,787 | (38,787) | - |
| Accruals and other liabilities | 23,719 | (83,621) | (59,902) |
| Tax loss | 948,667 | 3,847,737 | 4,796,404 |
| Prepayments | (110,195) | 103,380 | (6,815) |
| | <u>907,371</u> | <u>3,826,827</u> | <u>4,734,198</u> |
| 2010 | | | |
| Temporary differences | | | |
| Plant and 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) |
| | <u>(181,973)</u> | <u>1,089,344</u> | <u>907,371</u> |

Losses of \$5,433,200 (2010: \$2,713,882) have been utilised by General Reinsurance Life Australia Ltd – New Zealand Branch, and the company will be reimbursed the tax value thereof.

GENERAL REINSURANCE AUSTRALIA LTD – NEW ZEALAND BRANCH
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

| | 2011 | 2010 |
|--------------------------------------|-------------------|-------------------|
| | \$ | \$ |
| 7 CASH AND CASH EQUIVALENTS | | |
| Cash on deposit | <u>8,780,826</u> | <u>2,201,743</u> |
| 8 TRADE RECEIVABLES | | |
| Trade debtors | <u>10,991,467</u> | <u>6,575,271</u> |
| 9 INVESTMENTS | | |
| Government securities, at fair value | 68,124,146 | 59,277,918 |
| Corporate securities, at fair value | <u>10,782,095</u> | <u>13,947,178</u> |
| | <u>78,906,241</u> | <u>73,225,096</u> |

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

| | | |
|----------------------------|------------------|----------------|
| 10 OTHER ASSETS | | |
| Accrued income | 865,195 | 811,729 |
| Deferred acquisition costs | 13,000 | 16,998 |
| Current tax recoverable | 1,842,433 | - |
| Other | <u>74,141</u> | <u>27,032</u> |
| | <u>2,794,769</u> | <u>855,759</u> |

Other Assets – Other includes fixed assets and a makegood asset net of accumulated amortisation. The fixed assets have been fully depreciated

| | | |
|----------------------------------|-------------------|------------------|
| 11 REINSURANCE RECOVERIES | <u>79,254,022</u> | <u>6,095,072</u> |
|----------------------------------|-------------------|------------------|

During the year ended 31 December 2011, the Branch received retrocession recoveries of \$4,126,231 under the Company's retrocession agreement with General Reinsurance Corporation.

| | | |
|----------------------------------|---------------------|--------------------|
| 12 OUTSTANDING CLAIMS | | |
| Outstanding claims reserves | 110,590,486 | 19,488,960 |
| Claims incurred but not reported | 37,320,585 | 25,279,895 |
| Unexpired risk liability | 5,313,715 | 3,583,151 |
| Risk Margin | 12,731,035 | 4,767,085 |
| Discount to present value | <u>(11,488,194)</u> | <u>(6,650,772)</u> |
| | <u>154,467,627</u> | <u>46,468,319</u> |

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

| | | |
|---|-------|-------|
| - for the current and succeeding years: discount rate | 3.44% | 5.43% |
|---|-------|-------|

The inflation rate is implicit in the underlying statistics. The weighted average term to settlement for the outstanding claims provisions is approximately 2.51 years (2010: - 3.47 years). The drop in the expected time to settlement is because the increase in outstanding claims was driven by catastrophe losses, which are usually settled quicker than liability claims, for example.

GENERAL REINSURANCE AUSTRALIA LTD – NEW ZEALAND BRANCH
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

12 Outstanding Claims (Continued)

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 2011. There were no qualifications in the Chief Actuary's report. The Actuary is satisfied as to 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.

Net undiscounted outstanding claims for the nine most recent accident years

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | Total |
|---|------|------|------|------|------|------|------|------|------|-------|
| | \$M | \$M | \$M | \$M | \$M | \$M | \$M | \$M | \$M | \$M |
| Estimate of net ultimate claims cost: | | | | | | | | | | |
| At end of accident year | 13 | 13 | 12 | 12 | 13 | 15 | 17 | 16 | 30 | |
| One year later | 12 | 12 | 11 | 13 | 13 | 19 | 15 | 20 | | |
| Two years later | 12 | 12 | 11 | 12 | 14 | 17 | 15 | | | |
| Three years later | 11 | 12 | 10 | 12 | 13 | 17 | | | | |
| Four years later | 11 | 9 | 9 | 13 | 12 | | | | | |
| Five years later | 11 | 9 | 9 | 11 | | | | | | |
| Six years later | 11 | 8 | 8 | | | | | | | |
| Seven years later | 10 | 8 | | | | | | | | |
| Eight years later | 10 | | | | | | | | | |
| Current estimate of net cumulative claims cost | 10 | 8 | 8 | 12 | 12 | 17 | 15 | 20 | 30 | |
| Cumulative net payments | (9) | (7) | (7) | (9) | (9) | (13) | (11) | (1) | (1) | |
| Net undiscounted outstanding claims for the nine most recent accident years | 1 | 1 | 1 | 2 | 3 | 4 | 4 | 19 | 29 | 64 |

GENERAL REINSURANCE AUSTRALIA LTD – NEW ZEALAND BRANCH
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

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 | 64 |
| Outstanding claims – accident years 2002 and prior | 6 |
| Discount to present value | (4) |
| Claims handling costs | 1 |
| Risk margin | 3 |
| Unexpired risk liability | 5 |
| Net outstanding claims | <u>75</u> |

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 ("OCL").

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.

| | 2011 \$ | 2010 \$ |
|--|-------------------|------------------|
| UNEARNED PREMIUM | | |
| Balance as at 1 January 2011 | 9,030,415 | 10,717,183 |
| Deferral of premium on contracts written in the period | 11,706,845 | 9,030,415 |
| Earning of premiums written | (9,030,415) | (10,717,183) |
| Balance as at 31 December 2011 | <u>11,706,845</u> | <u>9,030,415</u> |

13 ACCRUALS AND OTHER LIABILITIES

| | | |
|-------------------------------|------------------|------------------|
| Sundry creditors and accruals | 112,936 | 562,941 |
| Profit commission payable | 24,937 | 179,072 |
| Annual leave | 49,288 | 38,787 |
| Other taxes | 1,375,351 | 505,220 |
| | <u>1,562,512</u> | <u>1,286,020</u> |

14 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

There are no capital commitments or contingent liabilities as at 31 December 2011 (2010 - Nil)

15 LEASE COMMITMENTS

| | | |
|---|----------------|----------------|
| Not later than one year | 70,200 | 36,070 |
| Later than one year but not later than five years | 280,800 | 190,800 |
| Greater than five years | 70,200 | 87,675 |
| | <u>421,200</u> | <u>314,545</u> |

GENERAL REINSURANCE AUSTRALIA LTD – NEW ZEALAND BRANCH
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

16 RELATED PARTY TRANSACTIONS

Material transactions have occurred during the year ended 31 December 2011 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 and total \$5,180,889 (2010: \$4,511,249)
- (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 \$3,112,617 (2010: \$4,315,885)
- (iii) Investment management fees have been charged to the branch by GR-NEAM Dublin Ltd, for investment management services provided, amounting to \$37,403 (2010: \$33,930).

The entity is a 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 a reinsurer.

18 CREDIT RATING

General Reinsurance Australia Ltd has a "AA+" credit rating from Standard and Poor's (rating dated 8 August 2011).

2011 2010

20 ADDITIONAL INFORMATION

| | | |
|---------------------|---|---|
| Number of employees | 3 | 3 |
|---------------------|---|---|

21 CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

All financial assets, except investments which are carried at fair value, 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 \$19,772,293 (2010: \$8,777,014). This consists of cash and cash equivalents and trade receivables. The total carrying amount of financial liabilities measured at amortised cost is \$1,562,512 (2010: \$1,286,020). This consists of amounts due to related parties and accruals and other liabilities.

22 EVENTS SUBSEQUENT TO BALANCE DATE

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

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