General Reinsurance Australia Ltd.

New Zealand Branch

Financial Report for the Financial Year ended 31 December 2013

A Berkshire Hathaway Company

CONTENTS

DIRECTORS' REPORT

The Directors present their report together with the annual financial report for the financial year ended 31 December 2013 and the auditor's report thereon. The New Zealand Branch (the "Branch") is a foreign operation of General Reinsurance Australia Ltd (the "Company") incorporated in Australia.

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 2013 and the results of its operations for the financial year ended 31 December 2013.

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.

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

F Allan McDonald, Chairman
A Giffen Brown
William G Gasdaska (commenced 15 Nov 2013)
I John Cholnoky (retired 14 Nov 2013)

Kathryn J McCann
Pietro A Toffanello
Mark Phillips (commenced 1 Jan 2014)

Events Subsequent to Balance Date

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 18 March 2014.

F Allan McDonald
Director

Pietro Toffanello
Director

Sydney, 18 March 2014

STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

	Note	2013 $	2012 $
Premium revenue	5(a)	22,205,293	19,185,420
Outwards reinsurance expense		(3,459,364)	(12,755,589)
Net premium revenue		**18,745,929**	**6,429,831**
Claims expense		(2,631,356)	102,272,239
Reinsurance and other recoveries	5(a)	(14,651,127)	(48,230,293)
Net claims incurred	5(b)	**(17,282,483)**	**54,041,946**
Acquisition costs		363,069	(2,658,558)
General and administration expenses		(8,768,469)	(3,718,454)
Underwriting result		**27,623,012**	**(53,989,127)**
Net investment income	5(c)	**584,606**	**3,105,978**
Profit/(loss) before income tax benefit		**28,207,618**	**(50,883,149)**
Income tax (expense)/benefit	6(a)	(8,085,840)	11,812,899
Net profit/(loss)		**20,121,778**	**(39,070,250)**
Items that may be reclassified subsequently to profit/loss		-	-
Items that will not be reclassified subsequently to profit/loss		-	-
Other comprehensive income		**-**	**-**
Total comprehensive income/(loss) for the year attributable to the members of General Reinsurance Australia Ltd.		**20,121,778**	**(39,070,250)**

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

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

For the financial year ended 31 December 2013	Head Office Account $	Retained Earnings $	Total $
Balance at 1 January	48,409,893	(29,095,442)	19,314,451
Profit / (Loss) and comprehensive income for the year	-	20,121,778	20,121,778
Cash Settlements	(11,926,334)	-	(11,926,334)
Balance at 31 December	**36,483,559**	**(8,973,664)**	**27,509,895**

For the financial year ended 31 December 2012	Head Office Account $	Retained Earnings $	Total $
Balance at 1 January	7,749,731	9,974,808	17,724,539
Profit / (Loss) and comprehensive income for the year	-	(39,070,250)	(39,070,250)
Cash settlements	40,666,162	-	40,666,162
Balance at 31 December	**48,409,893**	**(29,095,442)**	**19,314,451**

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

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2013

	Note	2013 $	2012 $
Assets			
Cash and cash equivalents	7	7,546,773	4,059,150
Receivables	8	15,105,295	8,523,436
Reinsurance recoverable	9	79,493,648	106,346,043
Investments	11	75,837,514	91,163,562
Deferred tax asset	6(b)	10,118,511	20,419,451
Other assets	10	3,218,613	824,634
Total assets		**191,320,354**	**231,336,276**
Liabilities			
Outstanding claims	12	146,880,878	196,290,405
Unearned premiums	12	12,516,612	11,899,518
Other payables	13	4,412,969	3,831,902
Total liabilities		**163,810,459**	**212,021,825**
Net assets		**27,509,895**	**19,314,451**
Equity			
Head office account		36,483,559	48,409,893
Retained Earnings		(8,973,664)	(29,095,442)
Total equity		**27,509,895**	**19,314,451**

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

STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

	Note	2013 $	2012 $
Cash flows from operating activities			
Premiums received		15,628,262	21,653,451
Outwards reinsurance paid		(3,464,192)	(12,755,589)
Claims paid		(41,347,169)	(61,270,938)
Reinsurance recoveries received/(paid)		27,304,062	32,632,898
Other payments to employees and suppliers and intercompany settlements		1,426,892	(25,610,516)
Interest received		4,638,352	5,035,706
Investment expenses paid		33,633	37,996
Income tax received/(paid)		148,693	2,719,318
Net cash provided by operating activities	17	**4,368,533**	**(37,557,674)**
Cash flows from investing activities			
Payments for purchase of investments		(26,472,361)	(33,477,212)
Proceeds from sale of investments		37,517,785	25,653,048
Net cash provided by investing activities		**11,045,424**	**(7,824,164)**
Cash flows from financing activities			
Cash settlements		(11,926,334)	40,660,162
Net cash provided by financing activities		**(11,926,334)**	**40,660,162**
Net increase/(decrease) in cash and cash equivalents during the financial year		3,487,623	(4,721,676)
Cash and cash equivalents at beginning of financial year		4,059,150	8,780,826
Cash and cash equivalents at end of financial year	7	**7,546,773**	**4,059,150**

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

NOTES TO THE FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF ACCOUNTING POLICIES

Statement of compliance

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.

On 22 May 2013 the Branch became an issuer as required by the Insurance (Prudential Supervision) Act 2010. Prior to 1 January 2013 the Branch qualified for Differential Reporting exemptions as it had no public accountability, and there was no separation between owners and the governing body. All available reporting exemptions allowed under the Framework for Differential Reporting were previously adopted, except for the recognition of deferred tax.

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

The accounting policies below have been applied in preparing the financial statements for the financial year ended 31 December 2013 and comparative information presented in these financial statements for the financial year ended 31 December 2012.

The financial statements have been prepared in accordance with the Financial Reporting Act 1993, New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards as appropriate to profit oriented entities.

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

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.

NOTES TO THE FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF ACCOUNTING POLICIES (continued)

Application of new and revised Accounting Standards

Standards, amendments and interpretations to existing standards effective 2013 or early adopted by the Branch.

The adoption of full New Zealand Equivalent of International Financial Reporting Standards with effect from 1 January 2013 has required the Company to comply fully with:

- NZIAS 7 Statement of Cash flows disclosures
- NZIFRS 13 Fair Value Measurement
- NZIFRS 7 Financial Instruments

The financial impact of the change in accounting policies has been disclosed where applicable.

Increased disclosure has been made in these financial standards for the following standard:

- NZIAS 1 Presentation of Financial Statements

Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Branch.

A number of new or revised accounting standards have been published and are mandatory for the Branch's accounting periods subsequent to 1 January 2014 and the Branch has decided not to early adopt. When adopted in future periods these accounting standards are not expected to have a material impact on the Branch's results or financial positions, however, they may have an impact on disclosures.

Basis of preparation

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

The financial statements refer to General Reinsurance Australia Ltd ("the Company") and General Reinsurance Australia Ltd - New Zealand Branch ("the Branch").

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:

NOTES TO THE FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(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 amount and is discounted for investment income using a risk free rate. The details of inflation and discount rates applied are included in Note 12.

(b) Outwards reinsurance

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

(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 outstanding claims liability.

(d) Premiums

Inward reinsurance premiums comprise amounts charged to the ceding entity, 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.

(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 recording an additional liability for claims provisions or a provision for unexpired risks. The provision for unexpired risks is assessed in aggregate for business classes which are managed together.

NOTES TO THE FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(g) Investments

Investments are measured at fair value at each balance date with any resulting unrealised gains or losses recognised in the Statement of Profit or Loss and Comprehensive Income. Fair values are determined with reference to market quotations.

(h) Assets backing general insurance liabilities

The Branch has determined that all assets are held to back general insurance liabilities on the basis that all assets of the Branch 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

(j) Deferred acquisition costs

The Branch 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 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 Profit or Loss and Comprehensive Income in the financial year in which the exchange rates change, as exchange gains or losses.

(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 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).

NOTES TO THE FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF ACCOUNTING POLICIES (continued)

Deferred tax

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

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

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

(m) Accounts payable

These amounts represent liabilities for goods and services provided to the Branch 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.

(n) 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.

(o) Provision for employment entitlements

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

(p) Superannuation

The Branch makes contributions on behalf of employees to their accumulation superannuation funds. The contributions are recognised as an expense over the period of services provided by the employees.

NOTES TO THE FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(q) Goods and services tax

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

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

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

(r) Impairment of Financial Assets

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

NOTES TO THE FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

All the Branch's assets are available to support the Branch's reinsurance liabilities, with the exception of collateralised funds held under retrocession arrangements.

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 balance date, including the cost of claims incurred but not yet reported (‘IBNR’) 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 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 have 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 from 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 unpaid 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.

NOTES TO THE FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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 the specific assumptions used in deriving the liability for 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.

The Appointed Actuary is Siu Yin Liu, Fellow of the Institute and Faculty of Actuaries and Fellow of the Institute of Actuaries of Australia. The Appointed Actuary is satisfied as to the nature, sufficiency and accuracy of the data upon which policy liabilities have been determined.

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 underwriting year, these were:

	2013	2012
Facultative, Property:	1.09	1.09
Facultative, Casualty:	1.95	1.65
Proportional Treaty, Property & Marine:	1.10	1.10
Proportional Treaty, Casualty:	-	-
Non-proportional Treaty, Property & Marine:	0.83	0.80
Non-proportional Treaty, Casualty:	4.57	4.49

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% (2012: 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.

NOTES TO THE FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

3. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

Discount rate

The discount rates were based on market yields on Commonwealth Government securities as at 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 3.22% (2012: 2.86%).

Sensitivity analysis

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

		Underwriting profit before retrocessions $	Net profit $	Equity $
Recognised amount per Financial Statements		16,436,077	20,121,778	27,509,895
Variable	**Movement in variable**			
Run-off	+10%	13,559,995	18,047,371	25,435,488
Loss Ratios	-10%	19,057,942	22,012,957	26,401,074
Expense	+0.5%	15,682,418	19,594,810	26,982,927
Rate	-0.5%	17,189,759	20,648,766	28,036,883
Discount	+1%	19,512,299	21,641,876	29,029,993
Rate	-1%	13,187,106	18,497,379	25,885,496

Risk margin

There are many sources of uncertainty as to the eventual 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. A 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 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:

	2013	2012
Facultative, Property & Marine:	7.2%	7.3%
Facultative, Casualty:	13.9%	13.6%
Proportional Treaty, Property & Marine:	9.3%	9.7%
Proportional Treaty, Casualty:	25.9%	20.7%
Non-proportional Treaty, Property & Marine:	4.2%	2.9%
Non-proportional Treaty, Casualty:	13.4%	13.7%

The low percentage applied to the Non-proportional Treaty Property & Marine book is due to the fact that a high proportion of the reserves are for catastrophe events where limits on major catastrophe treaties have been fully utilised, hence the reduced need for an additional risk margin.

The high percentage applied to the Proportional Treaty Casualty book is due to the relatively small size of the portfolio, which means that there is greater uncertainty as to what the ultimate outcome will be.

NOTES TO THE FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

4. RISK MANAGEMENT POLICIES AND PROCEDURES

(a) Insurance contracts – Risk management policies and procedures

The financial condition and operation of the Branch are affected by a number of key risks including insurance risk, interest rate risk, currency risk, credit risk, market risk, liquidity risk, financial risk, compliance risk, fiscal risk and operational risk. Notes on the 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

Risk management that is completed at a Company level is also applicable to the Branch. The Company has an objective to control insurance risk thus minimizing substantial unexpected losses that would expose the Company to a loss of capital.

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

The ICAAP Summary Statement, 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 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 reinsurance risks.
- Reinsurance is used to limit the Company's exposure to large single claims and catastrophes.
- The Company's investment portfolio is prudently managed with respect to key criteria such as the average duration and credit quality.
- The mix of assets in which the Company invests is driven by the nature and term of insurance liabilities. The management of assets and liabilities is closely monitored to attempt to match the maturity dates of assets with the expected pattern of claim payments.
- The diversification of business over classes within the reinsurance portfolio, separate geographical segments and large numbers of uncorrelated individual risks also reduce variability in loss experience.

NOTES TO THE FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

4. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

(b) Interest rate risk

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

(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.

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

(e) Concentration of insurance risk

The Branch's exposure to concentrations of insurance risk is mitigated by a portfolio diversified into two major classes of business (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. PROFIT FROM ORDINARY ACTIVITIES

Profit from ordinary activities has been arrived at after including	2013 $	2012 $
(a) Revenues/Expenses from operating activities		
General insurance revenue		
Gross written premiums	23,063,918	19,502,938
Movement in unearned premiums	(858,625)	(317,518)
Premium revenue	22,205,293	19,185,420
Reinsurance and other recoveries	14,651,127	48,230,293
Total general insurance revenue	**36,856,420**	**67,415,713**

NOTES TO THE FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

5. PROFIT FROM ORDINARY ACTIVITIES (continued)

	2013 $	2012 $
Included in general and administration expenses are:		
- Expenses of management	4,450,999	4,449,445
- Exchange variances – losses/(gains)	4,233,934	(811,227)
- Lease expenses	83,536	80,236

(b) Net claims incurred	2013 Current Year $	2013 Prior Years $	2013 Total $	2012 Current Year $	2012 Prior years $	2012 Total $
Gross claims incurred and related expenses	3,846,271	(5,680,942)	(1,834,671)	3,351,685	97,902,415	101,254,100
Reinsurance and other recoveries	-	(14,546,739)	(14,546,739)	-	(48,846,153)	(48,846,153)
Net claims incurred -undiscounted	**3,846,271**	**(20,227,681)**	**(16,381,410)**	**3,351,685**	**49,056,262**	**52,407,947**
Discount movement						
- gross claims incurred	(325,394)	2,079,831	1,754,437	(236,716)	1,423,931	1,187,215
- reinsurance and other recoveries	-	(1,538,006)	(1,538,006)	-	(331,991)	(331,991)
Net discount movement	**(325,394)**	**541,825**	**216,431**	**(236,716)**	**1,091,940**	**855,224**
Risk margin movement						
- gross claims incurred	330,392	(2,881,514)	(2,551,122)	306,721	(475,797)	(169,076)
- reinsurance and other recoveries	-	1,433,618	1,433,618	-	947,851	947,851
Net risk margin movement	**330,392**	**(1,447,896)**	**(1,117,504)**	**306,721**	**472,054**	**778,775**
Net claims incurred	**3,851,269**	**(21,133,752)**	**(17,282,483)**	**3,421,690**	**50,620,256**	**54,041,946**

(c) Net investment income	2013 $	2012 $
Interest	4,638,352	5,035,706
Changes in fair values	(4,011,394)	(1,803,776)
Expenses	(42,352)	(61,230)
Unrealised exchange gain/(loss)	-	(64,722)
	584,606	3,105,978

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.

NOTES TO THE FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

6. INCOME TAX

(a) Income tax

	2013 $	2012 $
Tax (expense)/benefit comprises:		
Current tax (expense)/benefit	182,494	(3,872,355)
Deferred tax relating to the origination and reversal of temporary differences	7,903,346	15,685,254
Income tax (expenses)/benefit relating to loss from ordinary activities	**(8,085,840)**	**11,812,899**
The prima facie income tax benefit on the pre-tax accounting loss reconciles to the income tax benefit shown in the financial statements, as follows:		
Profit/(loss) from ordinary activities	28,207,618	(50,883,149)
Income tax (expense)/benefit calculated at 28% (2012: 28%) of operating profit/(loss)	(7,898,133)	14,247,282
Adjustment for permanent differences	(5,364)	(7,719)
Prior year under provision	(182,343)	(2,426,664)
Total income tax (expense)/benefit	**(8,085,840)**	**11,812,899**

(b) Deferred tax

	2013 $	2012 $
At 31 December the deferred tax asset comprises:		
Timing differences	10,118,511	20,419,451

NOTES TO THE FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

6. INCOME TAX (continued)

The tax balances and reconciliation above are based on the current corporate tax 28% (2012 – 28%) in New Zealand on taxable profits under New Zealand Income Tax Law.

	Opening Balance $	Transfers not charged to income $	Charged to income $	Closing Balance $
2013 Temporary differences				
Plant and equipment	-	-	-	-
Provisions	58,112	-	(48,032)	10,080
Accruals and other liabilities	(605,055)	-	1,112,955	507,900
Tax loss carried forward	18,988,159	(2,397,445)	(6,950,091)	9,640,474
Insurance provisions	1,978,235	-	(2,018,178)	(39,943)
	20,419,451	(2,397,445)	(7,903,346)	10,118,511

2012 Temporary differences				
Plant and equipment	4,511	-	(4,511)	-
Provisions	-	-	58,112	58,112
Accruals and other liabilities	(59,902)	-	(545,153)	(605,055)
Tax loss carried forward	4,796,404	-	14,191,755	18,988,159
Insurance provisions	(6,815)	-	1,985,050	1,978,235
	4,734,198	-	15,685,253	20,419,451

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

The Directors have recognised a deferred tax asset on the basis of forecasts showing that there will be future taxable profits in the future for these to be utilised against.

7. CASH AND CASH EQUIVALENTS

	2013 $	2012 $
Cash on hand and at bank	7,326,422	3,553,544
Cash on deposit	220,351	505,606
	7,546,773	4,059,150

NOTES TO THE FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

8. RECEIVABLES

		2013 $	2012 $
Premiums receivable		15,105,295*	8,523,436

* All due within 12 months

9. REINSURANCE RECOVERIES

		2013 $	2012 $
Reinsurance recoveries		79,493,648	106,346,043
Reconciliation of reinsurance recoveries			
Balance as at 1 January		106,346,043	79,254,022
Movement in incurred recoveries		451,667	59,724,919
Less reinsurance recoveries (received)/paid		(27,304,062)	(32,632,898)
Balance as at 31 December		79,493,648	106,346,043

10. OTHER ASSETS

		2013 $	2012 $
Deferred acquisition costs	21	136,457	-
Accrued income		663,366	816,570
Intercompany receivable	16	2,400,290	-
Property Plant and Equipment		18,500	8,064
		3,218,613	824,634
Reconciliation of deferred acquisition costs			
Balance as at 1 January		-	13,000
Acquisition costs deferral		136,457	-
Amortisation charged to income		-	(13,000)
Balance as at 31 December		136,457	-

NOTES TO THE FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

11. INVESTMENTS

	2013 $	2012 $
Insurance activities, at fair value:		
Fixed interest securities	75,837,514	91,163,562

12. OUTSTANDING CLAIMS AND UNEARNED PREMIUMS

Outstanding claims

	2013 $	2012 $
Gross outstanding claims	139,883,317	186,812,874
Unexpired risk liability	5,533,265	7,216,550
Discount to present value	(8,546,541)	(10,300,978)
Risk margin	10,010,837	12,561,959
Liability for outstanding claims	146,880,878	196,290,405

Reconciliation of outstanding claims

	2013 $	2012 $
Balance at start of year	196,290,405	154,467,627
Change in discount to present value	1,754,437	(169,076)
Change in unexpired risk liability	(1,683,285)	1,902,835
Change in risk margin	(2,551,123)	1,187,216
Claims paid	(41,347,169)	(61,270,938)
Movement in outstanding claims	(5,582,389)	100,172,741
Balance at end of year	146,880,878	196,590,405

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

	2013	2012
-For the current and succeeding years: Discount rate	3.22%	2.86%

The weighted average term to settlement for the outstanding claims provisions which have been subject to discounting is approximately 2.08 years (2012: 2.08 years).

NOTES TO THE FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

12. OUTSTANDING CLAIMS AND UNEARNED PREMIUMS (continued)

Net undiscounted central estimate of ultimate claims

	2005 $M	2006 $M	2007 $M	2008 $M	2009 $M	2010 $M	2011 $M	2012 $M	2013 $M	Total $M
Estimate of net ultimate claims cost:										
At end of accident year	12	12	13	15	17	15	29	17	12	
One year later	11	13	13	19	15	20	52	11		
Two years later	11	12	14	17	15	29	50			
Three years later	10	12	13	17	14	24				
Four years later	9	13	12	16	13					
Five years later	9	12	12	14						
Six years later	8	11	11							
Seven years later	8	10								
Eight years later	8									
Current estimate of net cumulative claims cost	8	10	11	14	13	24	50	11	12	
Cumulative net payments	(7)	(9)	(9)	(13)	(11)	(21)	(18)	(5)	(0)	
Net undiscounted outstanding claims for the nine most recent accident years	**1**	**1**	**2**	**1**	**2**	**3**	**32**	**6**	**12**	**60**

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	60
Net outstanding claims – accident years 2004 and prior	1
Claims handling costs	1
Discount to present value	(6)
Risk margin	5
Unexpired risk liability	6
Net outstanding claims liability	**67**

NOTES TO THE FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

12. OUTSTANDING CLAIMS AND UNEARNED PREMIUMS (continued)

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 Branch's claims obligations after having regard to the prevailing market environment and prudent industry practice.

	2013 $	2012 $
UNEARNED PREMIUM		
Balance as at 1 January 2013	11,899,518	11,706,845
Deferral of premiums on contracts written in the period	12,516,612	11,899,518
Earning of premiums written in previous periods	(11,899,518)	(11,706,845)
Balance as at 31 December 2013	12,516,612	11,899,518

13. OTHER PAYABLES

Sundry creditors and accruals	672,833	1,032,649
Profit commission payable	20,234	14,584
Annual leave	59,076	61,604
Income taxation payable	2,541,947	2,430,819
Other taxes	1,118,879	292,246
	4,412,969	3,831,902

14. CONTINGENT ASSETS, COMMITMENTS AND CONTINGENT LIABILITIES

Leases

The Branch has office space and equipment rental commitments in respect of non-cancellable operating leases not provided for in the financial statements and due in:

not later than one year	48,429	69,816
later than one year but not later than five years	143,256	315,264
later than five years	-	-
	191,684	385,080

NOTES TO THE FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

15. 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.

16. 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
Pietro A Toffanello	Kathryn J McCann	William G Gasdaska

	2013 $	2012 $
Related party balances at reporting date		
General Reinsurance AG	-	-
General Reinsurance Life Australia Ltd	2,400,290	18,000
General Reinsurance Corporation	-	(35,391)
Management charges paid to related entities		
General Reinsurance Australia Limited	3,656,948	3,683,435

Retrocessions

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

	Retrocession Premiums		**Claim Recoveries**	
	2013 $	2012 $	2013 $	2012 $
General Reinsurance Corporation	3,464,192	12,755,589	27,304,062	32,632,898

Intercompany balances are at no interest and on demand.

NOTES TO THE FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

17. NOTES TO THE STATEMENT OF CASH FLOWS

	2013 $	2012 $
Reconciliation of net operating cash flows to operating profit / (loss) after income tax		
Operating loss after income tax	20,121,778	(39,070,250)
Depreciation and amortisation	6,000	11,500
Profit on sale of investments	(415,709)	-
Unrealised exchange variance on investments	-	64,722
Unrealised movement in fair value of investments	4,427,103	1,803,776
Unrealised foreign exchange (gain)/loss on cash balances	-	-
Change in operating assets and liabilities		
(Increase)/decrease in premiums receivable	(6,581,859)	2,468,031
(Increase)/decrease in reinsurance recoveries	26,852,395	(27,092,021)
(Increase)/decrease in other assets	(2,393,979)	1,970,135
Increase/(decrease) in payables	581,067	2,269,390
Increase/(decrease) in underwriting provisions:		
- unearned premium	617,094	192,673
- outstanding claims	(49,146,297)	35,509,623
Movement in tax accounts	10,300,940	(15,685,253)
Net cash from operating activities	**4,368,533**	**(37,557,674)**

18. FINANCIAL INSTRUMENTS

(a) Credit Risk Exposure

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

(c) Net fair value of financial assets and liabilities

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

NOTES TO THE FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

18. FINANCIAL INSTRUMENTS (continued)

(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 equity. The capital structure of the Company consists of cash and cash equivalents and equity, comprising issued capital and retained earnings.

The Company's management committee 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 and new share issues. The Company's overall strategy remains unchanged from 2012.

(f) Categories of financial instruments

	Note	2013 $	2012 $
Financial assets			
Cash and cash equivalents	7	7,546,773	4,059,150
Reinsurance recoverable	9	79,493,648	106,346,043
Fair value through profit or loss	11	75,837,514	91,163,562
Receivables	8	15,105,295	8,523,436
Other assets	10	818,323	824,634
Due from related parties	10	2,400,290	18,000
Financial liabilities			
Other payables	13	4,412,969	3,831,902
Outstanding claims liability	12	146,880,878	196,290,405

(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. The Chief Risk Officer (CRO) is to review, monitor and report on the Risk Management Strategy (RMS) to the Managing Director.

NOTES TO THE FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

18. FINANCIAL INSTRUMENTS (continued)

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 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 Branch. The Branch has adopted the policy of only dealing with creditworthy cedants and bondholders as a means of mitigating the risk of financial loss from defaults. The Branch's overall strategy in respect of credit risk management remains unchanged from 2012.

	Note	2013 $	2012 $
Financial assets			
Cash and cash equivalents	7	7,546,773	4,059,150
Financial assets at fair value through profit or loss			
Fixed interest securities	11	75,837,514	91,163,562
Loans and receivables			
Premiums receivable	8	15,105,295	8,523,436
Reinsurance assets	9	79,493,648	106,346,043
Other assets	10	3,218,613	824,634
		181,201,843	210,916,825

(i) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations under the reinsurance contracts it has entered into. Ultimate responsibility for liquidity risk management rests with the Board of directors, which has implemented appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining appropriate levels of financial assets that are readily realisable and by continuously monitoring forecast and actual cash flows in order to match the maturity profiles of assets and liabilities. 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 2012.

NOTES TO THE FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

18. FINANCIAL INSTRUMENTS (continued)

(i) Liquidity risk (continued)

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

The tables below include both interest and principal cash flows.

	Weighted average interest rate	Less than 1 year	1-5 years	5+ years	Total
2013	**%**	$	$	$	$
Financial liabilities					
Non-interest bearing:					
Payables	-	4,412,969	-	-	4,412,969
Employee entitlements	-	59,076	-	-	59,076
		4,472,045	-	-	4,472,045
2012					
Financial liabilities					
Interest bearing:					
Reinsurance funds held	-	-	-	-	-
Non-interest bearing:					
Payables	-	3,831,902	-	-	3,831,902
Employee entitlements	-	61,604	-	-	61,604
		3,893,506	-	-	3,893,506

NOTES TO THE FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

18. FINANCIAL INSTRUMENTS (continued)

(j) Market risk

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

Interest rate risk management

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

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

The following tables detail the expected maturity of the Branch's 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 where the Branch anticipates that the cash flow will occur in a different period.

2013	Weighted average interest rate %	Less than 1 year $	1-5 years $	5+ years $	Total $
Non-interest bearing:					
Receivables	-	15,105,295	-	-	15,105,295
Other assets	-	3,218,613	-	-	3,218,613
Variable interest rate instruments:					
Cash	2.40	7,546,773	-	-	7,546,773
Fixed interest rate instruments:					
New Zealand Government securities	3.59	1,518,005	68,908,669	5,410,839	75,837,514
Other bonds	-	-	-	-	-
		27,388,686	68,908,669	5,410,840	101,708,195

NOTES TO THE FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

18. FINANCIAL INSTRUMENTS (continued)

	Weighted average interest rate	Less than 1 year	1-5 years	5+ years	Total
2012	%	$	$	$	$
Non-interest bearing:					
Receivables	-	8,523,436	-	-	8,523,436
Other assets	-	824,634	-	-	824,634
Variable interest rate instruments:					
Cash	2.74	4,059,150	-	-	4,059,150
Fixed interest rate instruments:					
New Zealand government securities	2.95	16,172,640	71,398,557	-	87,571,197
Other bonds	3.26	2,029,560	1,562,805	-	3,592,365
		31,609,420	72,961,362	-	104,570,782

Interest rate sensitivity

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

	+100bps		-100bps	
	2013	2012	2013	2012
	$	$	$	$
Effect of 100 basis point increase or decrease on profit (+/-)	(1,765,525)	(1,911,494)	1,830,882	1,997,442

Foreign currency risk management

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

The Branch's financial assets are primarily denominated in the same currencies as its reinsurance contract liabilities, which mitigates the foreign currency exchange risk for the overseas operations in New Zealand. The Company's overall strategy in respect of foreign currency risk management remains unchanged from 2012.

The Branch does not carry any monetary assets or liabilities which are denominated in a foreign currency.

At year end the Branch has a net balance sheet exposure to Australian dollars of NZD $21.2m (2012: $46.7m) which is due to insurance liabilities and their corresponding retrocession recoveries. A 10% change in foreign exchange rates would result in an unrealised foreign exchange gain / loss of NZD $2.1m (2012: $4.7m).

NOTES TO THE FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

18. FINANCIAL INSTRUMENTS (continued)

Fair value of financial instruments

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

Investments

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

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

- **Level 1** – Inputs represent unadjusted quoted prices for identical assets or liabilities exchanged in active markets.
- **Level 2** – Inputs include directly or indirectly observable inputs other than Level 1 inputs such as quoted prices for similar assets prices for similar assets or liabilities exchanged in active or inactive markets; quoted prices for identical assets or liabilities exchanged in inactive markets; other inputs that are considered in fair value determinations of the assets or liabilities, such as interest rates and yield curves that are observable at commonly quoted intervals; volatilities, prepayment speeds, loss severities, credit risks and default rates and inputs that are derived principally from or corroborated by observable market data by correlation or other means. Fair values for the Branch's investments in fixed maturity securities are primarily based on market prices and market data available for instruments with similar characteristics since active markets are not common for many instruments. Pricing evaluations are based on yield curves for instruments with similar characteristics such as credit rating, estimated duration and yields for other instruments of the issuer or entities in the same industry sector.

NOTES TO THE FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

18. FINANCIAL INSTRUMENTS (continued)

- **Level 3** – Inputs include unobservable inputs used in the measurement of assets and liabilities. Management is required to use its own assumptions regarding unobservable inputs because there is little, if any, market activity in the assets or liabilities or related observable inputs that can be corroborated at the measurement date. Measurements of non-exchange traded derivative contracts and certain other investments carried at fair value are based primarily on valuation models, discounted cash flow models or other valuation techniques that are believed to be used by market participants. Unobservable inputs require management to make certain projections and assumptions about the information that would be used by market participants in pricing assets or liabilities.

Financial assets and liabilities

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

2013 Investments	Total Fair Value	Quoted Prices Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Fixed maturity bonds				
Obligations of Australian and New Zealand Governments	75,837,514	75,837,514	-	-
Corporate bonds	-	-	-	-
Total fixed maturity bonds	75,837,514	75,837,514	-	-

There were no transfers between Level 1 and Level 2 during the period.

2012 Investments	Total Fair Value	Quoted Prices Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Fixed maturity bonds				
Obligations of Australian and New Zealand Governments	87,571,197	87,571,197	-	-
Corporate bonds	3,592,365	3,592,365	-	
Total fixed maturity bonds	91,163,562	91,163,562	-	-

NOTES TO THE FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

18. FINANCIAL INSTRUMENTS (continued)

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 2013 to 31 December 2013 follows (in thousands of dollars).

	Fixed Maturity Bonds	Total
Balance at 1 January 2013	-	-
Movement in book value	-	-
Unrealised gains/(losses)	-	-
Foreign exchange movements	-	-
Transfers in and/or out of level 3	-	-
Balance at 31 December 2013	-	-

19. SOLVENCY REQUIREMENTS

These are amounts required to meet the prudential standards specified by the Insurance (Prudential Supervision) Act 2010 (the “Act”) to provide protection to the policy owners against the impact of fluctuations and unexpected adverse experience of the business.
The methods and bases adopted for determining the solvency requirements are in accordance with Reserve Bank of New Zealand Solvency Standards.

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

The Company is required to maintain its APRA solvency margin and to notify the RBNZ if it carries on insurance business in New Zealand that is not reinsurance. The Company has complied with all externally imposed capital requirements throughout the year.

20. APRA CAPITAL ADEQUACY OF THE COMPANY

The following information refers to APRA’s capital adequacy requirements. The calculation of capital and some other balances are based on different methodologies from those used to prepare these financial statements.	2013 $’000	2012 $’000
Tier 1 Capital	386,978	348,482
Net Surplus/(deficit) in OCL	(9,714)	-
Less: Net deferred tax assets	(18,398)	(16,952)
Adjusted Tier 1 Capital	358,866	331,530
Prudential Capital Requirement (PCR)	132,338	127,835
PCR coverage ratio	2.71%	2.59%

General Reinsurance Australia Ltd has a “AA+“ credit rating from Standard and Poor’s as at balance date.

NOTES TO THE FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

20. APRA CAPITAL ADEQUACY OF THE COMPANY (CONTINUED)

Prudential Capital Requirement Reconciliation:	2013 $'000
Insurance Risk Charge	64,942
Insurance Concentration Risk Charge	50,000
Asset Risk Charge	34,004
Operational Risk Charge	6,119
Less: Aggregation Benefit	(22,727)
	132,338

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

21. LIABILITY ADEQUACY TEST

The liability adequacy test (LAT) is used to assess the sufficiency of the unearned premium liability to cover all expected future cash flows relating to future claims against in-force insurance contracts. The LAT is carried out on each portfolio of contracts in line with APRA's reporting categories, which each cover broadly similar risks. The following table details the value of the expected future income/expenditure items arising from in-force contracts:

	2013 $	2012 $
Unearned premium liability	12,516,620	11,899,525
Future premiums	3,988,355	3,436,655
Deferred acquisition costs	(333,768)	(269,415)
Future commissions	(241,693)	(140,667)
PV of expected future cashflows for future claims:		
Central estimate of PV of expected future cashflows	(14,587,398)	(14,961,386)
Risk margin	(4,711,921)	(5,106,130)
Risk margin	*32%*	*34%*
At probability of adequacy	*75%*	*75%*

Deficit as determined on a portfolio level:		
Unearned premium liability	6,171,335	6,102,692
Future premiums	3,666,757	2,503,076
Deferred acquisition costs	(197,310)	(269,415)
Future commissions	(362,376)	(140,667)
Reinsurance asset	-	-
PV of expected future cashflows for future claims	(15,008,980)	(15,681,650)
LAT deficiency	5,730,574	7,485,964
Of which:		
write-down of deferred acquisition costs	*197,310*	*269,415*
unexpired risk liability	*5,533,264*	*7,216,549*

NOTES TO THE FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

22. ADDITIONAL BRANCH INFORMATION

Principal Place of Business and Registered Office

Level 10 Phillips Fox Tower
National Ban Centre
205 Queens St
Auckland 1010
New Zealand

Number of Employees

At 31 December 2013 the Branch had 3 employees (2012: 3).

Type of Company

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

23. EVENTS SUBSEQUENT TO BALANCE DATE

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

APPOINTED ACTUARY'S STATEMENT

of General Reinsurance Australia Ltd – New Zealand Branch

Section 78 report as at 31 December 2013

It is the Company's established policy to seek the advice of the Appointed Actuary in respect of actuarial information in the financial statements, and to always adopt that advice. For the 2013 financial statements of the New Zealand Branch, such advice was provided and adopted for:

(a) The liability adequacy test;
(b) The Net Outstanding Claims Liability; and
(c) The reinsurance and other recovery assets, where applicable.

I have also reviewed the following items in the financial statements and find them to be appropriately stated:

(a) The unearned premium; and
(b) The deferred acquisition cost.

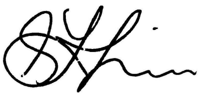
The above therefore satisfy the requirements of Section 77 of the *Insurance (Prudential Supervision) Act 2010.*

As at 31 December 2013, as required by the Reserve Bank of New Zealand, General Reinsurance Australia Ltd maintained a solvency margin calculated in accordance with the Australian Prudential Regulation Authority's requirements, on both the pre- and post- 1 January 2014 capital requirements.

In summary, I have been provided with all the information and explanations that I required for my review, and in my opinion:

- The actuarial information contained in the financial statements has been appropriately included in the statements; and
- The actuarial information used in the preparation of the financial statements has been used appropriately; and
- General Reinsurance Australia Ltd. the licensed insurer is maintaining the solvency margin that applies under a condition imposed under section 21 (2)(b)

The review was carried out by Siu Yin Liu, Fellow of the Institute and Faculty of Actuaries, Fellow of the Institute of Actuaries of Australia and employee of General Reinsurance Australia Ltd, in the capacity of the Appointed Actuary of General Reinsurance Australia Ltd – New Zealand Branch for the purposes of Section 76 of the *Insurance (Prudential Supervision) Act 2010*.



Siu Yin Liu, MA, FIA, FIAA
Appointed Actuary

18 March 2014

Deloitte.

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

Report on the Financial Statements

We have audited the financial statements of General Reinsurance Australia Ltd – New Zealand branch on pages 4 to 37 which comprise the statement of financial position as at 31 December 2013, statement of profit or loss and comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the Financial Statements

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

Auditor's Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 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 the accounting policies used and the reasonableness of accounting estimates, as well as the overall presentation of the financial statements.

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

Other than in our capacity as auditor, we have no relationship with or interests in General Reinsurance Australia Ltd – New Zealand branch.

Opinion

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

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of General Reinsurance Australia Ltd – New Zealand branch as at 31 December 2013, and its financial performance and cash flows for the year ended on that date.

Emphasis of Matter

The New Zealand branch is part of General Reinsurance Australia Ltd, which is incorporated in Australia. As described in Note 1 the assets of the branch are legally available for the satisfaction of debts of 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.

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 statements for the year ended 31 December 2013:

- 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

Chartered Accountants
18 March 2014
Christchurch, New Zealand

The people behind the promise.

General Reinsurance Australia Ltd.
Level 24, 123 Pitt Street, Sydney, NSW 2000
Tel. 02 8236 6100, Fax 02 9222 1540

A.B.N. 16 008 427 450

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