General Reinsurance Australia Ltd.

New Zealand Branch

Financial Report
for the Financial Year ended
31 December 2018

A Berkshire Hathaway Company

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DIRECTORS' REPORT

The Directors present their report together with the annual financial report for the financial year ended 31 December 2018 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.

Directors

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

Kathryn J McCann (commenced as Chairperson 19 August 2016)
Keith Scott (commenced 1 January 2017)
John Nesbitt (commenced 1 December 2018)
Andrew Flitcroft (commenced 1 August 2015)
Andrew Gifford (commenced 11 May 2018)
Meredith J Brooks (commenced 1 January 2016 and resigned 31 December 2018)
Herman Beukes (commenced 25 August 2017 and resigned 11 May 2018)

Name and qualifications	*Experience and special responsibilities*
Kathryn J McCann B.App.Sci (Computing Science), MBA, MAICD - Chair of the Board - Non-Executive Director - Member of Board Audit Committee - Member of Board Risk Committee - Member of Board Remuneration Committee	Ms McCann has over 30 years' experience in the finance and business management industry. She is a director of Astro Japan Property Group Limited and General Reinsurance Life Australia Ltd. She holds a Master of Business Administration degree and held the position of Principal of a major management consulting firm up to 2002. Director since August 2006 and a member of the Board Audit Committee since November 2006. She was appointed as Chair of the Board effective 19 August 2016.
Keith Scott FAICD, FCII, MA (Cantab) - Non-Executive Director - Chair of Board Risk Committee - Chair of Board Remuneration Committee - Member of Board Audit Committee	Mr Scott has over 15 years' board level experience across the Australian and Asian insurance markets following extensive international executive reinsurance experience with Swiss Re. He was appointed to the Board in January 2017 and also holds the positions of Independent Director at Insurance Manufacturers of Australia Pty Limited and Non Executive Director of Aviva Life Insurance Company Limited (Hong Kong). He is a Fellow of the Australian Institute of Company Directors and a Fellow of the Chartered Insurance Institute, London.
John Nesbitt FCA, F Fin, GAICD - Non-Executive Director - Chair of Board Audit Committee - Member of Board Risk Committee - Member of Board Remuneration	Mr Nesbitt's experience spans a diverse range of industries including investment and asset management, banking, superannuation, insurance, property, construction, infrastructure, technology and chartered accounting. He was appointed to Board on 1 December 2018 and is the chair of the Board Audit Committee. Mr Nesbitt concurrently holds directorships at Members Equity Bank Limited, and AMP Capital Holdings Limited.
Andrew Flitcroft ANZIIF (Fellow), CIP - Managing Director	Mr Flitcroft has over 30 years' experience in the insurance and reinsurance industries. He joined Gen Re in 1996 after an eleven year career in the primary market, and over the course of his twenty years with the company he has held various underwriting and leadership positions across both the facultative and treaty units. These roles have included responsibilities for various parts of the business in Australia, New Zealand and the Group's Asian offices. He was appointed to the Board effective 1 August 2015 and currently holds the position of Managing Director General Reinsurance Australia.

DIRECTORS' REPORT (continued)

Name and qualifications	*Experience and special responsibilities*
Andrew Gifford B.A., JD	Mr Gifford is a member of the Bar of the State of Illinois and is an authorised house counsel in the State of Connecticut. Prior to joining the Gen Re group in 2012, Mr. Gifford was a partner with the law firms Locke Lord Bissell & Liddell LLP and DLA Piper LLP where he handled a wide range of matters, including litigation, for financial and professional services firms. At Gen Re, Mr Gifford has held various roles in the Global Legal Department and is currently Gen Re's Global General Counsel and Corporate Secretary. He is also a director for various Gen Re group entities, including the group holding company General Re Corporation and the group's largest regulated entity General Reinsurance Corporation, and sits on the group Audit and Risk Committees. Mr. Gifford is a graduate of the University of Michigan Law School where he received a Juris Doctorate degree.
Meredith J Brooks B.A. (Actuarial Studies), FIAA - Non-Executive Director - Member of Board Audit - Member of Board Risk - Member of Board Remuneration Committee	Ms Brooks has over 30 years' experience in the financial services industry, including extensive experience in funds management both in Australia and overseas. She also holds the positions of Non-executive Director at BT Investment Management Limited and JO Hambro Capital Holdings Limited, Council Member at Glaucoma Australia and was also appointed to the Board of General Reinsurance Life Australia Ltd. in January 2016. She holds a Bachelor of Arts in Actuarial Studies and is a Fellow of the Institute of Actuaries of Australia. Ms Brooks became a member of the Board Audit, Remuneration, and Risk Committees upon her appointment to the Board of the company in January 2016. She was appointed as Chair of the Remuneration Committee in January 2017.
Herman Beukes B.Com, CA (SA), GDip FP	Mr Beukes was employed by Gen Re from 2003 through to May 2018. Prior to transferring to Australia spent 3 years as the Chief Financial Officer of the South African office. He was appointed as Chief Financial Officer effective 21 May 2012. In July 2015 Mr. Beukes was promoted to Chief Financial Officer for the Asia Pacific region.

DIRECTORS' REPORT (continued)

Meetings of directors

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the directors of the Company during the financial year ended 31 December 2018 are:

Director	*Directors' Meetings*		*Board Audit Committee*		*Board Remuneration Committee*		*Board Risk Committee*	
	A	B	A	B	A	B	A	B
Kathryn J McCann	4	4	4	4	4	4	4	4
Meredith J Brooks	4	4	4	4	4	4	4	4
Keith Scott	4	4	4	4	4	4	4	4
John Nesbitt	-	-	-	-	-	-	-	-
Andrew Flitcroft	4	4	-	-	-	-	-	-
Andrew Gifford	3	3	-	-	-	-	-	-
Herman Beukes	1	1	-	-	-	-	-	-

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

Company secretaries

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

Scott Unterrheiner (appointed 14 November 2017)

Name and qualifications	*Experience and special responsibilities*
Scott Unterrheiner B.Com, CA,	Mr Unterrheiner has been employed by Gen Re for 6 years. He is currently the Chief Financial Officer for Australia and New Zealand, and previously held roles as the Asia Pacific Chief Risk Officer, and Finance Manager for Australia and New Zealand. Prior to joining Gen Re he worked in various roles within the financial services industry in both Sydney and London.

Principal activities

The principal activity of the branch is reinsurance underwriting.

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

Review of operations

Operating Results

The net loss of the branch for the year, after provision for income tax, amounted to $1,116,000 compared with the net profit of $5,828,000.

State of affairs

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

Events subsequent to balance date

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

Indemnification of officers and auditors

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

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

DIRECTORS' REPORT (continued)

Likely developments

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

Environmental regulation

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

Disclosures

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

Acknowledgements

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

Approval

Signed in accordance with the resolution of Directors made pursuant to section 211(1)(k) of the Companies Act 1993.

On behalf of the Directors:

Kate McCann

K. J. McCann
Chair

A. Flitcroft
Managing Director

Sydney, 19 March 2019

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	2018 $'000	2017 $'000
Premium revenue		17,778	13,924
Outwards reinsurance expense		(4,833)	(3,033)
Net premium revenue	5(a)	**12,945**	**10,891**
Claims benefit/(expense)		(6,585)	8,744
Reinsurance and other recoveries		(6,264)	(11,494)
Net claims incurred	5(c)	**(12,849)**	**(2,750)**
Acquisition costs		(132)	(243)
Unexpired risk liability		(210)	(584)
General and administration expenses	5(b)	(3,039)	(700)
Net underwriting profit		**(3,285)**	**6,614**
Interest income		1,569	1,573
Net investment gains		137	(107)
Investment expenses		(37)	(30)
Net investment income	5(d)	**1,669**	**1,436**
Profit/(Loss) before income tax		**(1,616)**	**8,050**
Income tax benefit on profit	6(a)	500	(2,222)
Profit/(Loss) after income tax		**(1,116)**	**5,828**
Items that may be reclassified subsequently to profit/loss		-	-
Items that will not be reclassified subsequently to profit/loss		-	-
Other comprehensive income		-	-
Total comprehensive income for the year attributable to the members of the company		**(1,116)**	**5,828**

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

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

For the financial year ended 31 December 2018	Head Office Account	Retained Earnings	Total
	$'000	$'000	$'000
Balance at 1 January	10,000	23,939	33,939
Total comprehensive income for the year	-	(1,116)	(1,116)
Balance at 31 December	**10,000**	**22,823**	**32,823**

For the financial year ended 31 December 2017	Head Office Account	Retained Earnings	Total
	$'000	$'000	$'000
Balance at 1 January	10,000	18,111	28,111
Total comprehensive income for the year	-	5,828	5,828
Balance at 31 December	**10,000**	**23,939**	**33,939**

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 2018

	Note	2018 $'000	2017 $'000
Assets			
Cash and cash equivalents	7	19,075	9,500
Investments	11	59,637	63,109
Receivables	8	9,001	6,734
Accrued investment income		399	603
Other assets	10	4,723	121
Deposit with related party	17	4,077	10,586
Reinsurance recoverable	9	7,477	19,516
Current tax assets		1,752	-
Deferred tax assets	6(b)	1,456	956
Total assets		**107,597**	**111,125**
Liabilities			
Unearned premiums	12	8,393	7,105
Outstanding claims	12	61,524	62,948
Unexpired risk liability	21	3,537	3,327
Other payables	14	1,255	1,383
Provisions	13	65	69
Current tax liabilities		-	2,354
Total liabilities		**74,774**	**77,186**
Net assets		**32,823**	**33,939**
Equity			
Head Office Account	15	10,000	10,000
Retained earnings		22,823	23,939
Total equity		**32,823**	**33,939**

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 2018

	Note	2018 $'000	2017 $'000
Cash flows from operating activities			
Premiums received		18,865	14,939
Commissions paid		(753)	(706)
Outwards reinsurance paid		(6,899)	(5,762)
Claims paid		(7,689)	(4,218)
Reinsurance recoveries received		5,439	(520)
Other payments from/(to) employees, suppliers, and related parties		313	16,409
Interest received		1,761	1,340
Investment expenses paid		(37)	(30)
Income tax paid		(4,107)	(100)
Net cash provided by operating activities	18	**6,893**	**21,352**
Cash flows from investing activities			
Payments for purchase of investments		(21,820)	(41,235)
Proceeds from sale/maturity of investments		24,502	19,505
Payments for fixed assets		-	-
Net cash provided by investing activities		**2,682**	**(21,730)**
Net cash provided by financing activities		**-**	**-**
Net increase in cash and cash equivalents during the financial year		**9,575**	**(378)**
Cash and cash equivalents at beginning of financial year		9,500	9,878
Cash and cash equivalents at end of financial year	7	**19,075**	**9,500**

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

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

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 FMC reporting entity under the Financial Markets Conduct Act 2013, and its financial statements comply with this Act and the Companies Act 1993.

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

The annual financial statements have been prepared in accordance with the Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). They fully comply with the New Zealand Equivalents of International Financial Reporting Standards and other applicable Financial Reporting Standards as appropriate for profit-oriented entities ('NZ IFRS'). 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 2018 and comparative information presented in these financial statements for the financial year ended 31 December 2017.

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

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

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

The financial statements were authorised for issue by the Directors on 19 March 2019.

Basis of preparation

The financial report has been prepared in accordance with the historical cost convention, except for assets backing insurance liabilities which are stated at fair value and provisions for outstanding claims and related reinsurance recoveries which have been inflation adjusted and discounted as required by NZ IFRS 4 "Insurance Contracts".

Summary of significant accounting policies

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. There have been no significant changes to accounting policies during the financial year. The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

Prior period reclassification

Notes within the financial statements required reallocations for prior year comparatives (2017), specifically Note 9. Reinsurance recoverable . This reclassification did not alter the balance of the account, the net profit, net assets or net cashflows.

(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 provision also includes a claims handling expense of 1% of the gross outstanding claims liabilities which is supported by analysis of the current level of the branch's Claims department expenses.

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 using a risk free rate. The details of discount rates applied is included in Note 3.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

1 SUMMARY OF ACCOUNTING POLICIES (continued)

(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 for the outstanding claims liability. The Company retrocession program currently retrocedes 20% of all risks written, plus an additional 1) 80% of Non Proportional Natural Catastrophe contracts, and 2) 80% of Property Facultative policies where the Company's exposure exceeds 25 million Australian Dollars.

(d) Premiums

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

(e) Unearned premiums

Unearned premiums represents the portion of premiums that relate to the unexpired terms of contracts. The unearned portion of premium is recognised as an unearned premium liability in the Statement of Financial Position.

(f) Liability adequacy

At each reporting date, a liability adequacy test is performed on unearned premium reserves 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.

(g) Investments

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

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

(h) Assets backing 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) 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.

(j) Foreign currency

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

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

1 SUMMARY OF ACCOUNTING POLICIES (continued)

(k) Income tax

Current tax

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

Deferred tax

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

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

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

(l) Receivables and revenue recognition

Receivables are recognised as follows:

- Reinsurance premium receivables are recognised in accordance with NZ IFRS 4 “Insurance Contracts”.
- Income receivable on financing and investment activities is accrued using the effective interest method.
- Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off.

(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) Impairment of financial assets

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

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

(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.

Salaries and annual leave

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

(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 YEAR ENDED 31 DECEMBER 2018

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) Leases

The branch has operating leases for office space and equipment whereby the lessor retains substantially all the risks and benefits of ownership of the leased items. Lease payments are recognised on a straight line basis over the term of the lease. The branch leases office space and data processing equipment under non-cancellable leases expiring in various years through 2018 to 2021. Several of the leases have renewal options with various terms and rental rate adjustments.

(s) Accounting standards and interpretations issued but not yet effective

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

Standard	*Effective for annual reporting periods beginning on or after*	*Expected to be initially applied in the financial year ending*
NZ IFRS 9 Financial Instruments	1 January 2021	31 December 2021
NZ IFRS 16 Leases	1 January 2019	31 December 2019
NZ IFRS 17 Insurance Contracts	1 January 2021	31 December 2021

NZ IFRS 9 Financial Instruments

NZ IFRS 9 was issued during 2014 and replaces existing accounting requirements for financial instruments. Accounting standards currently permit deferral of adoption of NZ IFRS 9 to 1 January 2021; however, the International Accounting Standards Board has tentatively decided to extend this to 1 January 2022.

The Company has elected to apply this temporary exemption as it meets the following relevant criteria:
• the carrying amount of the Company’s insurance liabilities within the scope of NZ IFRS 4 (being outstanding claims, unearned premiums and unexpired risk liability) exceed 80% of the carrying amount of the Company’s total liabilities; and
• the Company does not engage in any significant activity unconnected with insurance, on the basis that its business is almost exclusively in the nature of issuing reinsurance protection and deriving a return from the investment of insurance premiums.

The following information is provided to assist users in comparing the Company’s financial statements with entities which have adopted NZ IFRS 9:

Impact on financial assets

The Company’s investments are currently designated as fair value through profit or loss on initial recognition and are subsequently remeasured to fair value at each reporting date, reflecting the Company’s business model for managing and evaluating the investment portfolio. Adoption of NZ IFRS 9 does not result in any changes to accounting for these investments.

Financial assets within the scope of NZ IFRS 4, such as premiums receivable and reinsurance and other recoveries on paid claims, which together form the majority of the carrying value of the Company’s trade and other receivables, as well as reinsurance recoverable are outside the scope of NZ IFRS 9 and are unaffected by the new requirements. Trade and other receivables also includes other financial assets with a relatively small carrying value which are measured at amortised cost, all of which are receivable within 12 months. The application of NZ IFRS 9 will not materially impact these balances.

Impact on financial liabilities

Financial liabilities within the scope of NZ IFRS 4, such as outstanding claims, unearned premiums and unexpired risk liability, are outside the scope of NZ IFRS 9 and are therefore unaffected by the new requirements. Trade and other payables also includes other financial liabilities measured at amortised cost arising from the Company’s activities, the accounting for which is materially unchanged by NZ IFRS 9.

NOTES TO THE FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

NZ IFRS 16 Leases
NZ IFRS 16 was issued in January 2016 and it replaces NZ IAS 17 Leases, NZ IFRIC 4 Determining whether an Arrangement contains a Lease, NZ SIC-15 Operating Leases-Incentives and NZ SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. NZ IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under NZ IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under NZ IFRS 16 is substantially unchanged from today's accounting under NZ IAS 17. Lessors will continue to classify all leases using the same classification principle as in NZ IAS 17 and distinguish between two types of leases: operating and finance leases.

NZ IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under NZ IAS 17.

Transition to NZ IFRS 16
The branch plans to adopt NZ IFRS 16 by recognising the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings at the date of initial application. The branch will elect to apply the standard to contracts that were previously identified as leases applying NZ IAS 17. The branch will therefore not apply the standard to contracts that were not previously identified as containing a lease applying NZ IAS 17.

The branch will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The branch has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

(s) Accounting standards and interpretations issued but not yet effective (continued)

During 2018, the branch has performed a detailed impact assessment of NZ IFRS 16. In summary the impact of NZ IFRS 16 adoption is expected to be, as follows:

The weighted average incremental borrowing rate applied to the lease liability from initial recognition will be 6.24%

The difference between the operating lease commitments disclosed by applying NZ IAS 17 and the lease liability recognised in the statement of financial position as the date of initial application (1 January 2019) are shown below. The difference arises due to the requirement of paragraph 18 of NZ IAS 16 Leases to include lease options within the lease term. The company has two, three year lease options which on the balance of probabilities would be renewed.

	$'000
Lease Liability recognised under NZ IFRS 16	3,574
Operating Lease commitments per NZ IAS 17	53
Difference	**3,521**

NZ IFRS 17 'Insurance Contracts'
In August 2017, the NZA SB issued NZ IFRS 17 Insurance Contracts (NZ IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, NZ IFRS 17 will replace NZ IFRS 4 that was issued in 2012. NZ IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of NZ IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. The core of NZ IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

NZ IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies NZ IFRS 9 and NZ IFRS 15 on or before the date it first applies NZ IFRS 17.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

NZ IFRS 15 'Revenue from Contracts with Customers'

The NZ IFRS has issued a new standard for the recognition of revenue. This replaces NZ IAS 18 which covers contracts for goods and services and NZ IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards.

The Company's main sources of income is Revenue from contracts under NZ IFRS 4 Insurance Contracts, interest, and gains on financial instruments held at fair value. All of these are outside the scope of the new revenue standard.

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.

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.

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. All reinsurance contracts are with the parent company and the recoverability of such assets is not considered to be impaired by any counterparty or credit risk.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

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 (in years):

	2018	2017
Proportional, Property & Marine:	1.16	1.13
Proportional, Casualty:	3.48	2.98
Non-proportional, Property & Marine:	0.98	0.97
Non-proportional, Casualty:	5.04	5.27

Run-off loss ratios

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

Expense rate

A 1% loading for claims handling expenses is supported by analysis of the current level of the branch's Claims department expenses applied to the reserves and duration of unpaid liabilities.

Discount rate

The discount rates were based on market yields on Australian 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 2.07% (2017: 2.42%).

Sensitivity analysis

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

2018		Underwriting profit before retrocessions $'000	Net Profit $'000	Equity $'000
Recognised amount per Financial Statements		7,812	(1,116)	32,823
Variable	**Movement in variable**			
Run-off	+ 10.0%	4,933	(2,901)	31,038
Loss Ratios	- 10.0%	10,666	657	34,596
Expense	+ 0.5%	7,473	(1,356)	32,583
Rate	- 0.5%	8,151	(876)	33,063
Discount	+ 1.0%	9,811	194	34,133
Rate	- 1.0%	5,665	(2,521)	31,418
2017				
Recognised amount per Financial Statements		21,141	5,828	33,939
Variable	**Movement in variable**			
Run-off	+ 10.0%	18,707	4,227	32,338
Loss Ratios	- 10.0%	23,543	7,421	35,532
Expense	+ 0.5%	20,801	5,586	33,697
Rate	- 0.5%	21,481	6,070	34,181
Discount	+ 1.0%	22,817	6,911	35,022
Rate	- 1.0%	19,346	4,665	32,776

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

3 ACTUARIAL ASSUMPTIONS AND METHODS (continued)

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:

	2018	2017
Proportional, Property & Marine:	7.3%	10.1%
Proportional, Casualty:	17.2%	23.7%
Non-proportional, Property & Marine:	8.1%	8.4%
Non-proportional, Casualty:	13.5%	13.5%

4 RISK MANAGEMENT POLICIES AND PROCEDURES

Insurance contracts – Risk management policies and procedures

The financial condition and operation of the branch are affected by a number of key risks including insurance risk, interest rate risk, currency risk, credit risk, market risk, liquidity risk, financial risk, compliance risk, fiscal risk and operational risk. Notes on the 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 the company level is also applicable at the branch.

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

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, Risk Appetite 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 declares to the Reserve Bank of New Zealand 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 Internal Capital Adequacy Assessment Process (ICAAP) Summary Statement is reviewed internally on an annual basis, unless circumstances necessitate a more frequent review.

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 programmes are structured to adequately protect the solvency and capital position. Each year, as part of setting the coming year's reinsurance cover, comprehensive modelling of event probability and amount of exposure is undertaken under a range of scenarios.
- The branch's investment portfolio is managed with respect to key criteria such as the average duration and credit quality.
- The mix of assets in which the branch invests is driven by the nature and term of insurance liabilities. The management of assets and liabilities is closely monitored to attempt to match the maturity dates of assets with the expected pattern of claim payments.
- The diversification of business over classes within the reinsurance portfolio, separate geographical segments and large numbers of uncorrelated individual risks also reduce variability in loss experience.

Financial risks

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

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

4 RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

(a) Interest rate risk

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

(b) Credit risk

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

(c) Foreign currency risk

The branch undertakes transactions denominated in foreign currencies; consequently, exposures to exchange fluctuations arise. Exchange rate exposures are managed by matching assets and liabilities as closely as possible by currency for the branch.

(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. 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 New Zealand. The portfolio is controlled and monitored through the Company's Risk Appetite Statement, 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.

Non-financial risks

Non-financial risks are controlled through the use of:

- i) claims management procedures and authorities
- ii) product development/review procedures and authorities
- iii) treaty underwriting procedures and authorities
- iv) underwriting and claim peer reviews of clients
- v) charging adequate premium rates for the business
- vi) quarterly monitoring of profitability overall and by client
- vii) reinsurance agreement terms and conditions

5 PROFIT FROM ORDINARY ACTIVITIES

Profit from ordinary activities has been arrived at after including	2018 $'000	2017 $'000
(a) Revenues from operating activities		
General insurance revenue		
Gross written premiums	20,841	15,313
Movement in unearned premiums	(3,063)	(1,389)
Premium revenue	17,778	13,924
Outwards reinsurance expense	(4,833)	(3,033)
Net premium revenue	**12,945**	**10,891**
(b) Included in general and administration expenses are:		
- Expenses of management	(2,660)	(1,593)
- Foreign exchange (losses)/gains	(331)	941
- Lease expenses	(41)	(41)
- Depreciation and amortisation	(7)	(7)
	(3,039)	**(700)**

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

5 PROFIT FROM ORDINARY ACTIVITIES (continued)

(c) Net claims incurred

	Current year $'000	Prior years $'000	Total $'000
2018			
Gross claims incurred and related expenses	(5,684)	(932)	(6,616)
Claims handling expenses	(58)	76	17
Reinsurance and other recoveries	1,609	(6,867)	(5,258)
Net claims incurred - undiscounted	**(4,133)**	**(7,723)**	**(11,856)**
Discount movement			
- gross claims incurred	381	(255)	127
- reinsurance and other recoveries	(92)	73	(19)
Net discount movement	**289**	**(182)**	**107**
Risk margin movement			
- gross claims incurred	(460)	346	(114)
- reinsurance and other recoveries	117	(1,104)	(987)
Net risk margin movement	**(343)**	**(758)**	**(1,101)**
Net claims incurred	**(4,187)**	**(8,663)**	**(12,849)**
2017			
Gross claims incurred and related expenses	(3,823)	11,866	7,654
Claims handling expenses	(37)	187	539
Reinsurance and other recoveries	1,142	(11,736)	(10,594)
Net claims incurred -undiscounted	**(2,718)**	**317**	**(2,401)**
Discount movement			
- gross claims incurred	342	(384)	(42)
- reinsurance and other recoveries	(81)	80	(1)
Net discount movement	**261**	**(304)**	**(43)**
Risk margin movement			
- gross claims incurred	(369)	963	593
- reinsurance and other recoveries	92	(991)	(899)
Net risk margin movement	**(277)**	**(28)**	**(306)**
Net claims incurred	**(2,734)**	**(15)**	**(2,750)**

(d) Net investment income

	2018 $'000	2017 $'000
Interest	1,569	1,573
Realised gains	124	-
Changes in fair values	13	(107)
Expenses	(37)	(30)
	1,669	**1,436**

(e) Remuneration of auditors and directors

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

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

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

6 INCOME TAX

(a) Income tax expense

	2018 $'000	2017 $'000
Tax expense comprises:		
Current tax expense that relates to current year	-	(2,444)
Current tax expenses relating to prior years' over provision	-	-
Deferred tax expense relating to temporary differences	500	222
Deferred tax expense relating to prior years' under provision	-	-
Income tax benefit/(expense) relating to gain from ordinary activities	**500**	**(2,222)**

The prima facie income tax expense on the pre-tax accounting profit reconciles to the income tax expense shown in the Statement of Profit or Loss and Other Comprehensive Income, as follows:

	2018 $'000	2017 $'000
Profit/(Loss) before income tax	1,616	8,050
Income tax expense calculated at 28% (2017: 28%) of operating profit	452	(2,254)
Adjustment for Permanent differences:		
- Non-deductible entertainment expense	93	(3)
- Realised and unrealised exchange loss with Home Office	(45)	35
Prior years' over/(under) provision	-	-
Total income tax benefit/(expense)	**500**	**(2,222)**

(b) Deferred tax

	2018 $'000	2017 $'000
At 31 December the deferred tax asset comprises:		
Temporary differences	**1,456**	**956**

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.

	Opening balance $'000	Transfers not charged to income $'000	Charged to income $'000	Closing balance $'000
2018 Temporary differences				
Unrealised foreign exchange differences	(19)	-	(221)	(240)
Accruals and other liabilities	201	-	68	269
Deferred losses available for future years	-	-	638	638
Insurance provisions	774	-	15	789
Total temporary differences	**956**	**-**	**500**	**1,456**

	Opening balance $'000	Transfers not charged to income $'000	Charged to income $'000	Closing balance $'000
2017 Temporary differences				
Unrealised foreign exchange differences	(107)	-	88	(19)
Accruals and other liabilities	76	-	125	201
Tax losses carried forward	-	-	-	-
Insurance provisions	765	-	9	774
Total temporary differences	**734**	**-**	**222**	**956**

No losses of General Reinsurance Australia Ltd. - New Zealand Branch were sold to General Reinsurance Life Australia Ltd. – New Zealand Branch during the year (2017: $NIL).

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

7 CASH AND CASH EQUIVALENTS

	2018 $'000	2017 $'000
Cash on hand and at bank	19,063	9,480
Cash on deposit	12	20
Total cash and cash equivalents	**19,075**	**9,500**

8 RECEIVABLES

	2018 $'000	2017 $'000
Premiums receivable	9,051	6,819
Less: Provision for doubtful debts	(50)	(85)
Total receivables	**9,001**	**6,734**

All balances are expected to be realised within 12 months.

9 REINSURANCE RECOVERABLE

	2018 $'000	2017 $'000
Reinsurance recoverable on paid losses	2,393	1,135
Reinsurance recoverable on unpaid losses	5,084	18,381
Total reinsurance recoveries	**7,477**	**19,516**
Reconciliation of reinsurance recoverable on unpaid losses		
Balance as at 1 January	18,381	27,803
Foreign currency revaluation	(7,033)	1,552
Movement in incurred recoveries	(11,703)	(11,494)
Less reinsurance recoveries received	5,439	520
Balance as at 31 December	**5,084**	**18,381**
Reinsurance recoverable at 31 December		
Expected to be realised within 12 months	7,477	19,516
Expected to be realised in more than 12 months	-	-
	7,477	**19,516**

10 OTHER ASSETS

	2018 $'000	2017 $'000
Deferred acquisition costs (see note 21)	13	97
Sundry assets	-	-
Property plant and equipment	9	16
Due from related entities:		
- General Reinsurance Corporation	3,815	-
- General Reinsurance Life Australia	886	8
Total other assets	**4,723**	**121**
Expected to be realised within 12 months	4,714	105
Expected to be realised in more than 12 months	9	16
	4,723	**121**

11 INVESTMENTS

	2018 $'000	2017 $'000
Insurance activities, at fair value:		
Fixed interest securities	**59,637**	**63,109**

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018	2017
12 OUTSTANDING CLAIMS AND UNEARNED PREMIUMS	**$'000**	**$'000**
Outstanding claims		
Gross outstanding claims	58,658	60,069
Discount to present value	(3,336)	(3,209)
Risk margin	6,202	6,088
Liability for outstanding claims	**61,524**	**62,948**
Reconciliation of outstanding claims		
Balance at start of year	62,948	75,323
Foreign currency revaluations	(320)	655
Change in discount to present value	(127)	42
Change in risk margin	114	(593)
Claims paid	(7,866)	(4,218)
Movement in incurred claims	6,775	(8,261)
Balance at end of year	**61,524**	**62,948**
Outstanding claim liabilities at 31 December		
Expected to be paid within 12 months	20,236	34,172
Expected to be paid in more than 12 months	41,288	16,401
	61,524	**62,948**
The following average discount rates were used in the measurement of outstanding claims:	2.07%	2.37%

The weighted average term to settlement for the outstanding claims provisions which have been subject to discounting is approximately 2.95 years (2017 – 2.44 years).

Net undiscounted central estimate of ultimate claims

	2010 $M	2011 $M	2012 $M	2013 $M	2014 $M	2015 $M	2016 $M	2017 $M	2018 $M	**Total $M**
Estimate of net ultimate claims cost:										
At end of accident year	15	29	17	12	16	8	12	5	4	
One year later	20	52	12	8	13	6	12	4		
Two years later	29	50	11	7	12	5	16			
Three years later	24	43	12	5	9	5				
Four years later	21	40	11	5	8					
Five years later	21	39	10	4						
Six years later	20	39	15							
Seven years later	20	39								
Eight years later	19									
Current estimate of net cumulative claims	19	39	15	4	8	5	16	4	4	
Cumulative net payments	(19)	(31)	(9)	(1)	(6)	(1)	(1)	-	-	
Net undiscounted outstanding claims for the nine most recent accident years:	**-**	**8**	**6**	**3**	**2**	**4**	**15**	**4**	**4**	**46**

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

12 OUTSTANDING CLAIMS AND UNEARNED PREMIUMS (continued)

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

	2018 $'000	2017 $'000
Net undiscounted outstanding claims for the 9 most recent accident years	46,183	40,498
Net outstanding claims – accident years 2008 and prior	5,786	1,612
Claims handling costs	550	588
Discount to present value	(3,103)	(2,995)
Risk margin	5,965	4,864
Reinsurance recoverable on paid losses	(1,334)	(1,135)
Net outstanding claims liability	**54,047**	**43,432**

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.

MATURITY PROFILE OF NET OUTSTANDING CLAIMS LIABILITY

	2018 $'000	2017 $'000
1 year or less	17,540	15,698
Within 1 to 5 years	24,048	19,013
Over 5 years	12,459	8,721
	54,047	**43,432**

UNEARNED PREMIUM

	2018 $'000	2017 $'000
Gross		
Balance as at 1 January	8,651	7,255
Foreign currency revaluations	971	12
Deferral of premiums on contracts written in the period	10,730	8,639
Earning of premiums written in previous periods	(8,651)	(7,255)
Balance as at 31 December	**11,701**	**8,651**
Retroceded		
Balance as at 1 January	(1,546)	-
Deferral of premiums on contracts written in the period	(1,762)	(1,546)
Balance as at 31 December	**(3,308)**	**(1,546)**
Net unearned premiums liability	**8,393**	**7,105**

13 PROVISIONS

		Opening Balance $'000	Payments $'000	Provision $'000	Closing Balance $'000
Annual leave	(i)	69	(12)	8	**65**
		69	(12)	8	**65**

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

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

14 OTHER PAYABLES

	2018 $'000	2017 $'000
Sundry payables and accruals	1,255	1,383
Due to related entities:		
- General Reinsurance Life Australia Ltd.	-	-
- General Reinsurance Corporation	-	680
Total other payables	**1,255**	**1,383**

All balances are expected to be paid within 12 months.

15 HEAD OFFICE ACCOUNT

	2018 $'000	2017 $'000
Designated equity	**10,000**	**10,000**

16 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:

	2018 $'000	2017 $'000
Not later than one year	49	48
Later than one year but not later than five years	4	53
Later than five years	-	-
Total leases	**53**	**101**

17 RELATED PARTIES

Parent and ultimate controlling entities

The immediate parent and ultimate controlling entity respectively are General Reinsurance Corporation and Berkshire Hathaway Inc., both incorporated in the United States of America.

Directors

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

Kathryn J McCann
Keith Scott
John Nesbitt
Andrew Flitcroft
Andrew Gifford
Meredith J Brooks (resigned 31 December 2018)
Herman Beukes

Key Management Personnel

Key management personnel are remunerated by the company with no direct costs incurred by the branch.

Related party balances at reporting date		2018 $'000	2017 $'000
General Reinsurance Life Australia Ltd.		886	8
General Reinsurance Corporation		3,815	(680)
Head Office Account:	General Reinsurance Australia Ltd.	4,077	10,586
Management charges paid to related entities			
New England Asset Management, Inc.		22	19
Head Office:	General Reinsurance Australia Ltd	1,928	1,058

Retrocessions

The company is a party to a retrocession agreement with the immediate parent entity which cover the branch's operations. This agreement is entered into under normal commercial terms and conditions. Details of transactions are listed below.

Related party: General Reinsurance Corporation

	2018	2017
Retrocession premiums	(4,833)	(3,033)
Claim recoveries	(6,264)	(503)
Reinsurance recoverable on paid losses	2,393	1,269
Reinsurance recoverable on unpaid losses	5,084	14,726

All inter-company balances are at no interest and are due on demand.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

18 NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of net operating cash flows to net (loss)	2018 $'000	2017 $'000
Net profit	(1,116)	5,828
Depreciation	7	7
Profit on sale of investments	(124)	-
Unrealised movement in fair value of investments and amortisation	914	1,233
Change in operating assets and liabilities		
Decrease/(increase) in premiums receivable	(2,267)	(1,496)
Decrease/(increase) in reinsurance recoveries	12,039	9,107
Decrease/(Increase) in other assets	1,326	16,607
Decrease/(Increase) in payables and provisions	646	(116)
(Decrease)/increase in underwriting provisions:		
- unearned premium	1,288	(150)
- outstanding claims	(1,424)	(12,375)
- unexpired risk liability	210	584
Movement in tax accounts	(4,606)	2,123
Net cash provided by operating activities	**6,893**	**21,352**

19 FINANCIAL INSTRUMENTS

(a) Credit Risk Exposure

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

(b) Interest Rate Risk

The branch's exposure to interest rate risk is managed through adjustments to the investment portfolio. The 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.

(d) Significant accounting policies

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

(e) Capital risk management

The Company manages its capital to ensure that on a legal entity level it meets regulatory solvency requirements and it will continue operating as a going concern.

The capital structure of the branch consists of Cash and cash equivalents (as disclosed in Note 7) and Equity, comprising Head Office Account and Retained Earnings (as disclosed in the Statement of Changes in Equity).

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

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

19 FINANCIAL INSTRUMENTS (continued)

(f) Categories of financial instruments

	Note	2018 $'000	2017 $'000
Financial assets			
Cash and cash equivalents	7	19,075	9,500
Financial assets at fair value through profit or loss *(i)*			
Fixed interest securities	11	59,637	63,109
Loans and receivables			
Deposit with related party	17	4,077	10,586
Accrued investment income		399	603
Other assets	10	4,701	8
Financial liabilities			
Amortised cost			
Other payables	14	1,255	1,383

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

(g) Financial risk management objectives

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

As part of the overall governance framework the Board and senior management of the company have developed, implemented and maintain the RMS and 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 declares to the Reserve Bank of New Zealand 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 2017.

(i) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations under the reinsurance contracts it has entered into. Ultimate responsibility for liquidity risk management rests with the Board of directors, which has implemented appropriate liquidity risk management framework for the management of the branch's short, medium and long-term funding and liquidity management requirements. The branch manages liquidity risk by maintaining appropriate levels of financial assets that are readily realisable and by continuously monitoring forecast and actual cash flows in order to match the maturity profiles of assets and liabilities. The company has developed and implemented a Risk Management Strategy. The company's overall strategy in liquidity risk management remains unchanged from 2017.

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
2018	%	$'000	$'000	$'000	$'000
Financial liabilities					
Non-interest bearing:	-				
Payables	-	1,255	-	-	1,255
		1,255	**-**	**-**	**1,255**

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

19 FINANCIAL INSTRUMENTS (continued)

(i) Liquidity risk (continued)

2017					
Financial liabilities					
Non-interest bearing:					
Payables	-	1,383	-	-	1,383
		1,383	**-**	**-**	**1,383**

(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 branch'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 to interest rate risk. The company's Investment Manager closely monitors the branch's exposures to interest rate risk. The branch's exposure to interest risk is managed through adjustment to the investment portfolio.

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

	Weighted average interest rate	Less than 1 year	1-5 years	5+ years	Total
2018	**%**	**$'000**	**$'000**	**$'000**	**$'000**
Non-interest bearing:					
Premium Receivable	-	9,051	-	-	9,051
Deposit with related party	-	4,077	-	-	4,077
Accrued investment income	-	399	-	-	399
Other insurance receivables	-	4,714	-	-	4,714
Variable interest rate instruments:					
Cash	1.61	19,075	-	-	19,075
Fixed interest rate instruments:					
New Zealand Government	1.74	-	59,637	-	59,637
		37,316	**59,637**	**-**	**96,953**

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

19 FINANCIAL INSTRUMENTS (continued)

Interest rate risk management (continued)

2017					
Non-interest bearing:					
Premium Receivable	-	6,819	-	-	6,819
Deposit with related party	-	10,586	-	-	10,586
Accrued investment income	-	603	-	-	603
Other insurance receivables	-	105	-	-	105
Variable interest rate instruments:					
Cash	1.59	9,500	-	-	9,500
Fixed interest rate instruments:					
New Zealand Government	1.88	-	61,601	1,508	63,109
		27,613	**61,601**	**1,508**	**90,722**

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

	+100bps		-100bps	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Effect of 100 basis point increase or decrease on profit (+/-)	(1,014)	(1,172)	1,038	1,203

Foreign currency risk management and sensitivity analysis

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. The branch's overall strategy in respect of foreign currency risk management remains unchanged from 2017.

The exposure to Australian dollars on reinsurance liabilities net of the corresponding retrocession recoveries are as follows:

	2018	**2017**
	$'000	**$'000**
Exposure to Australian dollars at 31 December	2,481	8,239
Unrealised gain/(loss) from a 10% change in foreign exchange rates	248	824

Fair value of financial instruments

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

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

19 FINANCIAL INSTRUMENTS (continued)

(j) Market risk (continued)

Investments

The estimated fair values for fixed maturity securities in the Statement of Financial Position were generally based on quoted market prices.

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

Financial assets and liabilities

Financial assets and liabilities measured at fair value in the financial statements as at 31 December 2018 and 2017 are summarised in the following table by the type of inputs applicable to the level of the fair value measurement (in thousands).

2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Fixed maturity bonds				
Obligations of the New Zealand Government	59,637	-	-	59,637
	59,637	**-**	**-**	**59,637**

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

2017	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Fixed maturity bonds				
Obligations of the New Zealand Government	63,109	-	-	63,109
	63,109	**-**	**-**	**63,109**

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

20 AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY ("APRA") CAPITAL ADEQUACY

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

On 22 May 2013 the company was issued with a full License under the Act. The license 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.

	2018 AU$'000	2017 AU$'000
Capital base/Common Equity Tier 1 Capital		
Net assets	309,424	409,513
Premium liability deficit	(14,114)	(6,755)
Deferred tax assets	(5,192)	(3,561)
Reinsurance assets receivable not meeting governing law requirements	(4,301)	(3,318)
	285,817	**395,879**
Prescribed Capital Amount (PCA)		
Insurance Risk Charge	59,312	52,016
Insurance Concentration Risk Charge	74,786	57,334
Asset Risk Charge	15,791	17,774
Operational Risk Charge	6,419	5,560
Less: Aggregation Benefit	(11,763)	(12,884)
	144,545	**119,800**
Capital in excess of PCA	**276,079**	**276,079**
PCA coverage ratio	**1.9774**	**3.3045**

General Reinsurance Australia Ltd. has an "AA+" credit rating from Standard and Poor's as at 31 December 2018.

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. If the unearned premium liability less related deferred acquisition costs exceeds the present value (PV) of expected future cash flows plus additional risk margin then the unearned premium liability is deemed to be adequate. 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:

	2018 $'000	2017 $'000
PV of expected future cash flows for future claims		
Central estimate of PV of expected future cash flows	(11,935)	(8,959)
Risk margin	(3,975)	(3,588)
	(15,910)	**(12,546)**
Risk margin	**33%**	**40%**
At probability of adequacy	**75%**	**75%**

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

21 LIABILITY ADEQUACY TEST (continued)

Reconciliation of LAT deficiency on those portfolios that are in deficit:

Unearned premium liability	4,867	4,069
Future premiums	1,662	970
Deferred acquisition costs	(783)	(585)
Future commissions	(423)	(224)
Reinsurance asset	(1,035)	(767)
Present value of expected future cash flows for future claims	(10,216)	(8,595)
Present value of expected future cash flows for future reinsurance recoveries	1,761	1,317
LAT deficiency	**4,167**	**3,815**
Of which:		
write-down of deferred acquisition costs	*630*	488
unexpired risk liability	*3,537*	3,327

Reconciliation of deferred acquisition costs

Balance as at 1 January	97	13
Acquisition costs deferred	120	592
Amortisation charged to profit or loss	(356)	(612)
Movement in LAT write-down	142	103
Foreign currency revaluation	10	1
Balance as at 31 December	**13**	**97**

22 ADDITIONAL BRANCH INFORMATION

Principal Place of Business

Level 15 Forsyth Barr Tower
55 Shortland Street
Auckland 1010
New Zealand

Number of Employees

At 31 December 2018 the branch had 2 employees (2017: 2).

Type of Company

The branch is part of a company which operates as a for profit unlisted public company in Australia.

23 EVENTS SUBSEQUENT TO BALANCE DATE

There were no events subsequent to balance date.

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

Opinion

We have audited the financial statements of General Reinsurance Australia Ltd. - New Zealand Branch (the "Branch") which comprise the statement of financial position as at 31 December 2018, the statement of profit or loss and other comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 6 to 32.

In our opinion, the accompanying financial statements present fairly, in all material respects, the Branch financial position as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

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

Emphasis of Matter – New Zealand Branch

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	**How the scope of our audit responded to the Key Audit Matter**
Valuation of outstanding claims Refer to notes 1(a), 3, 12 to the financial statements, which also describes the elements that make up the balance. 2018 NZ$ 61,524 *(in thousands)*	Our audit procedures included, but were not limited to: • obtaining an understanding of key controls, including key data reconciliation and management review of the estimates,

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
The valuation of policy liabilities involves a complex estimation process that management make in determining the balance. The valuation of outstanding claims involves significant judgements and assumptions and relies on the quality of underlying data given the inherent uncertainty in estimating the expected present value of future payments for claims incurred. In particular, judgement arises over the estimation of payments for claims that have been incurred at the reporting date but have not yet been reported to the Company, as there is generally less information available in relation to these claims, and claims that have been reported but there is uncertainty over the amount which will be settled. The outstanding claims liability also includes a margin that relates to the inherent uncertainty in the central estimate. The margin, determined using actuarial techniques and methodologies, is based on past experience and industry practice to ensure realistic provisioning for outstanding claims.	• obtaining an understanding of the claims process and test controls in relation to actuarial data; • assessing the appropriateness of valuation methodologies, processes and models with respect to actuarial standards; • comparing valuation assumptions to results of experience studies or other sources of assumptions to assess reasonableness; • reviewing that appropriate technical and peer review controls have been performed and perform reasonableness checks for a sample of valuation spreadsheet calculations; • discussing with management and reviewing documentation of model integrity checks and other documented data checks; • reviewing calculations, methodology and checks performed by the management, and • assessing the appropriateness of the disclosures in the notes to the financial statements.

Other Information

The directors on behalf of the Branch are responsible for the other information. The other information comprises the information included in the Directors' report for the year ended 31 December 2018, but does not include the financial statements and our auditor's report thereon.

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

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

Responsibilities of the Directors for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Max Rt Murray

Max Murray
Partner
Chartered Accountants
Sydney, Australia, 19 March 2019

Siu Yin Liu
2018 GRANZ Section 78 report.docx

Tel. +61 2 8236 6103
Fax +61 2 9222 1520
siuyin.liu@genre.com

Sydney, 26 April 2019

APPOINTED ACTUARY'S STATEMENT

of General Reinsurance Australia Ltd. – New Zealand Branch ("the Branch")

Section 78 report as at 31 December 2018

It is the Branch's established policy to seek the advice of the Appointed Actuary in respect of actuarial information in their respective financial statements, and to always adopt that advice. For the 2018 financial statements of the Branch such advice was provided and adopted for:

a) The outstanding claims liability;

b) Discounting on the reinsurance recoverable;

c) Disclosures in relation to actuarial valuation assumptions and methods;

d) Analysis of net claims incurred;

e) Development of net undiscounted central estimate of ultimate claims; and

f) The liability adequacy test.

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

a) The unearned premiums; and

b) The deferred acquisition cost.

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

26 April 2019

As at 31 December 2018, as required by the Reserve Bank of New Zealand, General Reinsurance Australia Ltd. ("the Company") maintained a solvency margin calculated in accordance with the Australian Prudential Regulation Authority's 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
- The Company, 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, as the Appointed Actuary of General Reinsurance Australia Ltd. – New Zealand Branch for the purposes of Section 76 of the Insurance (Prudential Supervision) Act 2010 who provided advice for and reviewed the 2018 financial statements for the Branch.

SY Liu, MA, FIA, FIAA