Great Lakes Insurance SE

New Zealand Branch

(Overseas company registered in New Zealand under the Companies Act 1993)

Annual Financial Statements
31 December 2018

Principal place of business

Level 20, 88 Shortland Street, Auckland Central, Auckland

Great Lakes Insurance SE – New Zealand Branch

(Overseas company registered in New Zealand under the Companies Act 1993)

Directors' Report

The Directors present their report together with the financial statements of Great Lakes Insurance SE (GLISE) - New Zealand Branch (the "Branch") for the year ended 31 December 2018 and the auditor's report thereon.

Directors

The Directors holding office at any time during the financial year and up until the date of this report are:

Supervisory Board

Claudia Hasse (Chairman) (Appointed on 01.01.2019)

Alex Wettemann (Appointed on 30.12.2016)

Christoph Carus (Appointed on 30.12.2016)

Dr. Carsten Prussog (Appointed on 30.12.2016)

Claus-Ulrich Kroll (Chairman) (Resigned on 31.12.2018)

Board of Management

Dr. Achim Stegner (CEO) (Appointed on 30.12.2016)

Dr. Stefan Pasternak (CFO) (Appointed on 30.12.2016)

Dr. Tobias Klauss (CRO) (Appointed on 30.12.2016)

Stephane.Deutscher (COO) (Appointed on 01.04.2017)

The Branch outsources certain functions to a related entity, Munichre New Zealand Services Limited (NZS). NZS is incorporated in New Zealand and provides administrative services to Munich Re Group (the Group) including the Branch. NZS is a 100% owned subsidiary of Munich Holdings of Australasia Pty Limited (MHA).

Directors' benefits

Since the end of the period covered by the last report no Director of the Branch has received or become entitled to receive a benefit by reason of a contract made by the Branch or a related entity with the Director or with a firm of which the Director is a member or with a company in which the Director has a substantial financial interest.

Principal activities

The Branch's principal activity is primary insurance.

Review of operations

The result for the year 2018 is a loss after tax of $95,471 (2017: profit after tax of $195,392).

The Branch is classified as a branch of GLISE. Therefore the Branch obtained the same rating as GLISE based on ratings published by Standard & Poor's Ratings services. At the date of this report, GLISE has a credit rating of 'AA-' from Standard & Poor's (2017: 'AA-') and a credit rating of 'A+' from AM Best (2017: 'A+').

The Branch continues to monitor its exposure to financial and non-financial risks and apply policies and procedures to mitigate these where possible. Details are set out in Note 3.

Capital repatriations

There were no capital repatriations by the Branch during the financial year (2017: nil).

Significant changes in the state of affairs

During the year, an operational review of the New Zealand business was undertaken. Subsequent to this review, it was determined that an internal reorganisation would be undertaken and the Branch would cease trading in New Zealand with all New Zealand business being reorganised into GLISE Australian Branch (GLA) and administered by GLA. Following the reorganisation, the Branch would maintain its insurance licence in New Zealand at this point in time. The reorganisation was completed on the 3rd January 2019.

Great Lakes Insurance SE – New Zealand Branch
(Overseas company registered in New Zealand under the Companies Act 1993)

Directors' Report

Matters subsequent to the end of the financial year

The Directors are not aware, at the date of this report, of any other matter or circumstance than those set out above which has arisen since 31 December 2018 that has significantly affected or may significantly affect:

(i) The operations of the Branch.

(ii) The results of those operations; or

(iii) The state of affairs of the Branch in the financial years to 31 December 2018.

Signed in Munich on 2~~0~~7 of March 2019 in accordance with a resolution of the directors:

Chairman of the Board of Management

Member of the Board of Management

Great Lakes Insurance SE – New Zealand Branch

(Overseas company registered in New Zealand under the Companies Act 1993)

Statement Of Comprehensive Income for the year ended 31 December 2018

	Note	2018 $	2017 $
Net (loss)/profit and total comprehensive income from discontinued operations *In which:*		**(95,471)**	195,392
Revenue from operating activities			
Insurance revenue		**2,007,654**	56,816,738
Investment revenue		**59,073**	34,463
Other revenue		**2,470**	25,392
Total revenue from operating activities	4	**2,069,197**	56,876,593
Expenses from operating activities			
Insurance expense		**1,792,265**	56,115,885
Other expenses		**411,015**	488,241
Total expenses from operating activities	5	**2,203,280**	56,604,126
(Loss)/profit before tax		**(134,083)**	272,467
Tax (benefit)/expense	6	**(38,612)**	77,075
Net (loss)/profit for the year		**(95,471)**	195,392
Total comprehensive (loss)/income for the year		**(95,471)**	195,392

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 7 to 25.

Great Lakes Insurance SE – New Zealand Branch

(Overseas company registered in New Zealand under the Companies Act 1993)

Statement of Financial Position
as at 31 December 2018

	Note	2018 $	2017 $
Assets held for distribution		**9,408,370**	15,613,915
In which:			
Cash	9	**4,820,370**	2,277,065
Accounts receivable on insurance business		**770,932**	1,685,705
Deferred acquisition costs	10	**-**	1,312,751
Reinsurance recoveries		**3,495,477**	7,728,099
Sundry debtors		**69**	108,231
Prepaid reinsurance		**-**	2,198,861
Income Tax		**32,836**	-
Profit commission recoverable		**279,407**	279,407
Deferred tax asset	11	**9,279**	23,796
Total assets		**9,408,370**	15,613,915
Liabilities held for distribution		**7,609,709**	14,265,758
In which:			
Payables	12	**4,501,412**	2,736,948
Outstanding claims	13	**2,828,890**	7,736,492
Unearned premiums	14	**-**	2,198,861
Reinsurance deferred acquisition costs		**-**	1,314,050
Profit commission payable		**279,407**	279,407
Total current liabilities		**7,609,709**	14,265,758
Net assets		**1,798,661**	1,348,157
Head office account			
Head office account		**673,835**	127,860
Retained earnings		**1,124,826**	1,220,297
Total head office account		**1,798,661**	1,348,157

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 7 to 25.

Great Lakes Insurance SE – New Zealand Branch

(Overseas company registered in New Zealand under the Companies Act 1993)

Statement Of Changes In Equity for the year ended 31 December 2018

2018	Head office account $	Retained profits $	Total $
Balance at 1 January	**127,860**	**1,220,297**	**1,348,157**
Comprehensive (loss) for the year	**-**	**(95,471)**	**(95,471)**
Transactions with owners of the Branch	**545,975**	**-**	**545,975**
Balance at 31 December	**673,835**	**1,124,826**	**1,798,661**

2017	Head office account $	Retained profits $	Total $
Balance at 1 January	62,971	1,024,905	1,087,876
Comprehensive income for the year	-	195,392	195,392
Transactions with owners of the Branch	64,889	-	64,889
Balance at 31 December	127,860	1,220,297	1,348,157

The Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements set out on pages 7 to 25.

Great Lakes Insurance SE – New Zealand Branch
(Overseas company registered in New Zealand under the Companies Act 1993)

Statement of Cash Flows for the year ended 31 December 2018

	Note	2018 $	2017 $
Net increase in cash from discontinued operations		**2,543,305**	1,489,937
In which:			
Cash flows from operating activities			
Premium received		**849,357**	12,719,997
Claims paid	13	**(2,943,061)**	(12,547,029)
Income tax refund		**431,812**	-
Reinsurance recovery received		**4,501,644**	1,584,405
Management and administration expenses paid		**(357,938)**	(301,899)
Other income		**2,418**	-
Net cash from operating activities	17	**2,484,232**	1,455,474
Cash flows from investing activities			
Interest received		**59,073**	34,463
Net cash from investing activities		**59,073**	34,463
Net increase in cash		**2,543,305**	1,489,937
Cash at 1 January		**2,277,065**	787,128
Cash at 31 December	9	**4,820,370**	2,277,065

The Statement of Cash Flows is to be read in conjunction with the notes to the financial statements set out on pages 7 to 25.

Notes to the financial statements for the year ended 31 December 2018

1. Summary of significant accounting policies

Great Lakes Insurance SE (GLISE) New Zealand Branch (the Branch) is registered to carry on business in New Zealand for a foreign company, Great Lakes Insurance SE, which is domiciled and incorporated in Germany. The Branch's principal activity is general insurance. The Branch is an issuer in terms of the Financial Reporting Act 1993. The Branch is a profit-oriented entity. The Branch is a reporting entity for the purposes of the Financial Markets Conduct Act 2013 and the financial statements have been prepared in accordance with the requirements of that Act and the Financial Reporting Act 2013.

With the introduction of the Insurance (Prudential Supervision) Act 2010 (IPSA), all insurers carrying on insurance business in New Zealand are required to be licensed by the Reserve Bank of New Zealand (RBNZ). The Branch was granted a full licence on 2 April 2013. These financial statements have also been prepared in accordance with the IPSA.

The financial statements were authorised for issue by the directors on 26 March 2019.

(a) Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards. The financial statements also comply with International Financial Reporting Standards (IFRS).

(b) Basis of preparation

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Principles (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate for Tier 1 for-profit entities. The financial statements also comply with International Financial Reporting Standards (IFRS).

As disclosed in Note 22, the Branch ceased trading from 1 January 2019. The Directors have taken this into account and the financial statements will continue to be prepared on a going concern basis until such a time as the Directors determine the Insurance licence is no longer necessary. All assets and liabilities have been recognised as 'held for distribution' at 31 December 2018 in accordance with NZ IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. After tax earnings associated with the discontinued operations have been recognised as net profit and total comprehensive income from discontinued operations in the Statement of Comprehensive Income.

The accounting policies set out below have been applied consistently by the Branch to all periods presented in the financial statements.

The financial statements are prepared on a historical cost basis except for the Outstanding claims liabilities, which are measured on a present value basis at each reporting date.

The financial statements are presented in New Zealand Dollars, which is the Branch's presentation and functional currency.

1. Summary of significant accounting policies (continued)

Adoption of new standards and changes in accounting policies

The following accounting standards and interpretations were issued but is not yet mandatory and have not been adopted by the Branch for the financial year ended 31 December 2018.

An assessment of the impact of the new or amended standards is set out below:

NZ IFRS 16 'Leases'

NZ IFRS 16 amends the accounting for leases. Lessees will be required to bring all leases on Statement of Financial Position as the distinction between operating and finance leases has been eliminated. Lessor accounting remains largely unchanged. The standard is effective for annual reporting periods beginning on or after 1 January 2019 for the Branch. The Branch does not have any leases therefore there will be no financial impact to the Branch.

NZ IFRS 17 'Insurance Contracts'

NZ IFRS 17 was released in August 2017. It introduces three new measurement approaches for accounting for insurance contracts. These include the Building Block Approach for long term contracts, the Premium Allocation Approach for short contracts and a Variable Fee Approach for direct participating contracts. In addition, the level of contract aggregation is likely to be lower than that under current practices. The standard is not mandatory until 1 January 2022 for the Branch. The financial impact has not yet been determined.

Amendments to NZ IFRS 9 'Prepayment Features with Negative Compensation'

The amendments clarifies how to classify a debt instrument if its contractual terms permits the borrower to prepay the instrument at a variable amount that could be more or less than unpaid amounts of principal and interest. The amendments is effective for annual reporting periods beginning on or after 1 January 2019. The amendments is expected to have no impacts on the Branch's financial statements.

Amendments to NZ IFRS 10 and NZ IAS '2017 Omnibus Amendments to NZ IFRS'

This standard amends NZ IFRS as follows:

NZ IFRS 10: Requires the ultimate New Zealand parent entity to present consolidated financial statements in accordance with NZ IFRS 10 (except where the parent is an investment entity)

NZ IAS 28: Requires the ultimate New Zealand parent entity to apply the equity method when accounting for investments in associates and joint ventures (except where the parent is an investment entity).

The standard is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. It is expected to have no impacts on the Branch's financial statements.

(c) Use of estimates and judgements

The preparation of the financial statements in conformity with NZ GAAP requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The areas where critical accounting estimates and judgements are applied are included in Note 2.

1. Summary of significant accounting policies (continued)

(d) Revenue

Revenue is recognised to be the amount of the transaction price when (or as) the performance obligation of a contract is satisfied. The Branch recognises revenue when it transfers control over a product or service to a customer. The Branch's activities are connected with insurance. The adoption of NZ IFRS 15 'Revenue from Contracts with Customers' effective from 1 January 2018 has no impact on the Branch's financial statements.

Premium revenue
Premiums have been brought to account as income from the date of attachment of risk. Premiums for unclosed business are brought to account where the date of attachment of risk of the business written is prior to reporting date and there is insufficient information to accurately identify the business. The estimation of unclosed business is based on previous experience with due allowance for any changes in the pattern of new business and renewals. The earned portion of premiums received and receivable including unclosed business is recognised as revenue.

The pattern of recognition of premium revenue over the policy or indemnity periods is based on the pattern of risk underwritten. Previous claims experience has been used to derive the pattern of risk for the main class of business underwritten. Other classes of business are recognised based on time.

Interest income
Interest income is recognised on an accrual basis.

Reinsurance exchange commission
Reinsurance exchange commission is calculated as a percentage of reinsurance premium.

The pattern of recognition of reinsurance exchange commission follows the reinsurance premium earning pattern.

Administration commission income
Administration commission income is received from the reinsurer based on the Branch's annual budgeted expenses plus a margin of 10%. This is recognised on a straight line basis over the financial year.

Reinsurance recoveries revenue
Reinsurance recoveries revenue is recognised as income in accordance with the reinsurance service received.

(e) Unexpired risk liability

At each reporting date the Branch performs a liability adequacy test and immediately recognises any deficiencies if the carrying amount of unearned premium less any related deferred acquisition costs does not meet estimated future cash flows relating to future claims covered by current insurance contracts.

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related deferred acquisition costs then the unearned premium liability is deemed to be deficient.

The entire deficiency, if any, net of reinsurance, is recognised immediately in the Statement of Comprehensive Income. The deficiency is recognised first by writing down the related deferred acquisition costs with any excess being recorded in the Statement of Financial Position as unexpired risk liability.

(f) Outwards reinsurance

Premiums ceded to reinsurers are recognised as an expense in accordance with the pattern of reinsurance service received.

1. Summary of significant accounting policies (continued)

(g) Claims

Claims incurred expense and a liability for outstanding claims are recognised in respect of all insurance business. The liability covers claims incurred but not yet paid, incurred but not reported (IBNR), incurred but not enough reported (IBNER) and the anticipated direct and indirect costs of settling those claims.

Claims outstanding are assessed by review of individual claim files and estimating the ultimate cost of settling claims which includes IBNRs, IBNERs and settlement costs using statistics based on past experience and trends. The outstanding claims reserve is estimated using actuarial models.

The liability for outstanding claims is measured as the present value of the expected future payments reflecting the fact that all claims do not have to be paid out in the immediate future.

The expected future payments are estimated on the basis of the ultimate cost of settling claims which is affected by factors arising during the period to settlement such as normal inflation and superimposed inflation. The expected future payments are then discounted to a present value at the reporting date using a risk-free discount rate. A risk margin is added to the outstanding claims liabilities to increase the probability that the liability is adequate at 75% probability of sufficiency deemed appropriate by management.

(h) Reinsurance recoveries

Reinsurance recoveries are assessed regularly and expected future recoveries are estimated on the same basis as the liability for outstanding claims, on the basis of the ultimate cost of settling claims which is affected by factors arising during the period to settlement such as normal inflation and superimposed inflation. The expected future recoveries are then discounted to a present value at the reporting date using a discount rate. A risk margin is added to the outstanding recoveries to increase the probability that the asset is adequate at 75% probability of sufficiency deemed appropriate by management.

(i) Acquisition costs

A portion of direct acquisition costs relating to unearned premium revenue is deferred where it represents future benefits to the Branch and can be reliably measured. Deferred acquisition costs are stated at the lower of cost and recoverable amount. Deferred acquisition costs are amortised over the financial years expected to benefit from the expenditure.

(j) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the Statement of Comprehensive Income.

Assets and liabilities expressed in other currencies are translated to the functional currency using the closing exchange rate at the reporting date and income and expenses are translated using the average exchange rate for the year. Realised and unrealised foreign exchange gains and losses resulting from this translation are recognised in the Statement of Comprehensive Income.

(k) Income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled. The tax rates are applied to the cumulative amounts of deductible and assessable temporary differences to measure the deferred tax asset or liability. Deferred tax assets are recognised for deductible temporary differences only if it is probable that future taxable amounts will be available to utilise those temporary differences.

1. **Summary of significant accounting policies (continued)**

(l) Rounding of amounts

Amounts in the financial statements have been rounded off to the nearest dollar.

(m) Financial assets backing insurance contract liabilities

The adoption of NZ IFRS 9 'Financial Instruments' effective from 1 January 2018 has no material impact on the Branch's financial statements. The Branch is an Appendix D insurer prescribed by NZ IFRS 4 'Insurance Contract', therefore, the application of temporary exemption from NZ IFRS 9 'Financial Instruments' is not permitted.

The Branch has determined that all financial assets are deemed to back insurance contract liabilities and are measured at fair value through profit or loss at each reporting date. Unrealised profits and losses on subsequent measurement to fair value are recognised in the Statement of Comprehensive Income.

Fair value is measured as follows:

- Cash assets are carried at face value of the amounts deposited. The carrying amounts of cash assets approximate their fair value. Cash includes cash on hand, deposits held at call with banks and investments in money market instruments, such as Bills of Exchange.
- Fixed interest securities are taken as the bid price of the instrument.
- Receivables are initially recognised and subsequently measured at book value less provision for doubtful debts, which is the best estimate of fair value as they are settled within a short period.

Purchases and sales of financial assets are recognised on trade date, being the date on which the Branch commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Branch has transferred substantially all the risks and rewards of ownership.

(n) Impairment of assets

All assets other than those which are set outside the scope of NZ IAS 36 '*Impairment of Assets*' are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

(o) Cash and receivables

Cash comprises cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Branch in the management of its short-term commitments.

Receivables are initially recognised at fair value plus transaction costs and are subsequently measured at amortised cost, less a provision for doubtful debts. The collectability of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Branch will not be able to collect all amounts that are due in accordance with the original terms of the receivable. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated cash flows, discounted at the effective interest rate.

(p) Payables

Payables are initially recognised at fair value less transaction costs and subsequently measured at amortised cost.

(q) Goods and services tax

Prior to July 2010, Great Lakes Insurance SE did not have a permanent establishment for tax purposes in New Zealand, therefore deemed to have no requirement to register for GST in New Zealand. The Branch portfolio from July 2010 is registered for GST in New Zealand. All amounts are shown exclusive of GST except for receivables and payables that are stated inclusive of GST.

1. Summary of significant accounting policies (continued)

(r) Non-resident withholding tax

The non-resident portfolio of the Branch is subject to a premium withholding tax of 2.8% on the gross premiums received in respect of non-life insurance business. However, no premium withholding tax applies to the closed warranty, bond and surety businesses as these businesses do not constitute insurance for the purposes of the premium withholding tax.

2. Summary of significant actuarial methods and assumptions

The effective date of the actuarial valuation on outstanding claims liabilities is 31 December 2018. The liability valuation is documented in a report prepared by the Appointed Actuary, Ms. Susan Ley FNZSA, FIAA. The report indicates that the Appointed Actuary is satisfied with the nature, sufficiency and accuracy of the data provided upon which the outstanding claims liabilities have been determined. Methods utilised and assumptions made in determining the outstanding claims liability are in accordance with the requirements of NZ IFRS 4 *'Insurance Contracts'* and consistent with the New Zealand Society of Actuaries Professional Standard 30, "Valuation of General Insurance Claims".

(a) Key actuarial valuation methods and assumptions

(i) Outstanding claims liabilities

Provision is made at the end of the year for the estimated cost of claims incurred but not settled at reporting date. These reserves include estimates for claims that have been reported, IBNR, and IBNER, and include estimates of expenses associated with processing and settling these claims.

The process of establishing reserves is subject to considerable variability as it requires the use of informed estimates and judgements. These estimates and judgements are based on numerous factors, and may be revised as additional experience and other data become available or as regulations change.

Outstanding claims liability is estimated by class of business. Historical experience and other statistical information are used to estimate the ultimate claim costs.

To determine outstanding claims provision for a particular line of business, more than one method may be used to estimate ultimate losses and loss expenses and the results are used to select a single point estimate. These methods may include, but are not necessarily limited to, extrapolations of historical reported and paid loss data, application of industry loss development patterns to the reported or paid losses, expected loss ratios developed by management, and historical industry loss ratios. Underlying judgements and assumptions that may be incorporated into these actuarial methods include, but are not necessarily limited to, adjustments to historical data used in models to exclude aberrations in claims data such as catastrophes that are typically analysed separately, adjustments to actuarial models and related data for known business changes and the effect of recent or pending litigation on future claims settlements.

(ii) Key actuarial assumptions

The following key assumptions have been made in determining the outstanding claims liabilities:

	2018	2017
Weighted average term to settlement (years)	**0.8**	0.7
Inflation rate	**Implicit**	Implicit
Discount rate	**1.7% - 3.5%**	1.8% - 4.2%
Claims handling expense ratio	**1.3%**	1.3%
Risk margin	**25.5%**	27.8%

2. Summary of significant actuarial methods and assumptions (continued)

(a) Key actuarial valuation methods and assumptions (continued)

(iii) Process used to determine assumptions

A description of the processes used to determine these assumptions is provided below:

- **Weighted average term to settlement**

  The weighted average term to settlement relates to the number of years until the payments are made on average (inflated and discounted). The payment pattern is selected based on historical settlement patterns. The weighted average term to settlement, while not itself an assumption, provides a summary indication of the future cash flow pattern.

- **Inflation rate**

  Insurance costs are subject to inflationary pressures. Inflation and superimposed inflation are implicitly allowed for in the adopted actuarial valuation methods on the basis that it is reflected in the development of historical claims cost.

- **Discount rate**

  In order to determine the interest rates used to discount the liabilities, an analysis of the term structure of risk-free interest rates was prepared. The yield structure of New Zealand government bonds as at 31 December 2018 is used to derive the future effective annual interest rates.

- **Claims handling expense ratio**

  New Zealand and International Financial Reporting Standards require insurers to establish a provision for outstanding claims, which includes an allowance for claims handling expenses (CHE). The claims handling expense ratio is determined by conducting an expense analysis.

- **Risk margin**

  The overall risk margin was determined allowing for the relative uncertainty of the outstanding claims estimate for each class of business. The overall position is intended to approximate 75% probability of adequacy.

(b) The effect of changes in key actuarial assumptions

Sensitivity analyses are conducted to quantify the impact of changes in the key underlying variables. The variations included in the reported results are calculated using certain assumptions about the variables as disclosed below. The movement in any key variable will impact the financial position and performance for a period. The following information describes how a change in each assumption will affect claims liabilities and provides an analysis of the sensitivity of the outstanding claims liabilities to changes in these assumptions.

- **Weighted average term to settlement**

  A decrease in average term to settlement implies that claims are being paid sooner than anticipated. Expected payment patterns are used in determining the outstanding claims liability. An increase or decrease in the weighted average term would have an opposite effect on outstanding claims liabilities.

- **Risk margin**

  The outstanding claims liabilities includes a risk margin to allow for the inherent uncertainty in the estimates of future claims cost. An increase or decrease in the percentage risk margin will have a corresponding change in the overall outstanding claims liabilities.

- **Discount rate**

  The outstanding claims liabilities are calculated with reference to expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate will have an opposite impact on the overall outstanding claims liabilities.

2. Summary of significant actuarial methods and assumptions (continued)

(b) The effect of changes in key actuarial assumptions (continued)

- **Claims handling expense ratio**

  An estimate for the internal costs of handling claims is included in outstanding claims liabilities. An increase or decrease in the expense rate assumption would have a corresponding change on outstanding claims liabilities.

(c) Sensitivity analysis of changes in key actuarial assumptions

The impact of changes in key actuarial assumptions is summarized below. Each change has been calculated in isolation of the other changes.

The movements are stated in absolute terms where the base assumption is a percentage, for example, if the base risk margin assumption was 22.0%, a 1% increase would mean a 23.0% risk margin. The movements in the net outstanding claims liability would have an opposing net impact on the profit before tax for a year.

Variable	Movement in variable	Change in gross discounted outstanding claim liabilities 2018 $	2017 $
Weighted average term to settlement	+0.5 years	**(24,240)**	(72,487)
	-0.5 years	**24,450**	73,171
Risk margin	+1%	**22,482**	60,663
	-1%	**(22,482)**	(60,663)
Discount rate	+1%	**(20,618)**	(53,435)
	-1%	**21,133**	54,758
Claims handling expense ratio	+1%	**27,846**	76,546
	-1%	**(27,846)**	(76,546)

3. Risk management policies and procedures

The Branch carries on insurance business in New Zealand in the non-life insurance segment.

The financial condition and operating results of the Branch are affected by a number of key financial and non-financial risks. Risk management is the process of identifying, analysing, controlling, monitoring, and reporting risks that could have a material impact on the operations of the Branch. Insurance risk involves the consideration of the market, product design, pricing, underwriting, claims management and valuation risk. The Branch's disclosed objectives and policies in respect of managing these risks are set out in the remainder of this note.

(a) Risk management objectives and policies for mitigating financial risks

Objectives

Through its insurance operations the Branch is exposed to financial risks such as credit risk, liquidity risk and market risk. The Branch's risk management framework seeks to minimise the potential adverse effects of these risks on its financial performance.

The key objective of the Branch's financial management strategy is to ensure sufficient liquidity is available at all times to meet its financial obligations, including settlement of insurance liabilities, and to optimise the Branch's investment returns.

3. Risk management policies and procedures (continued)

(a) Risk management objectives and policies for mitigating financial risks (continued)

(i) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

The following policies and procedures are in place to mitigate the Branch's exposure to credit risks and concentration:

- The credit risk in respect of client balances: Premium paid by managing general agents are paid net of commission so that no commission liability exists until a premium is paid.
- Reinsurance is held with highly rated group entities only.

The carrying amounts of financial assets represent the maximum credit exposure. The table below provides information regarding the maximum exposure to credit risk for the components of the Statement of Financial Position.

		Carrying amount	
		2018	2017
	Note	$	$
Cash	9	**4,820,370**	2,277,065
Accounts receivable from insurance business		**770,932**	1,685,705
Reinsurance recoveries		**3,495,477**	7,728,099
Sundry debtors		**69**	108,231
Profit commission recoverable		**279,407**	279,407
Total		**9,366,255**	12,078,507
No financial assets are either past due or impaired			
Standard & Poor's A- to AAA		**8,595,253**	10,286,482
Unrated		**771,002**	1,792,025
Total		**9,366,255**	12,078,507

All financial assets carried at fair value through profit or loss are categorised as level 1 of the fair value measurement hierarchy. The fair value of level 1 financial assets are based on quoted prices in active markets for identical instruments at the reporting date.

The Branch has a significant credit exposure to its reinsurer and ultimate parent entity Münchener Rückversicherungs-Gesellschaft. Münchener Rückversicherungs-Gesellschaft has a Standard and Poor's credit rating of AA-.

(ii) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments.

The following policies and procedures are in place to mitigate the Branch's exposure to liquidity risk:

- The Branch maintains a sufficient cash balance to meet the needs of the business and to ensure sufficient funding is available to meet outstanding claims obligations.

The table below summarises the maturity profile of the financial liabilities of the Branch at carrying value, except for outstanding claims, where maturity profiles are determined on the discounted estimated timing of cash outflows.

3. Risk management policies and procedures (continued)

(a) Risk management objectives and policies for mitigating financial risks (continued)

(ii) Liquidity risk (continued)

	Note	Total	Up to 1 year $	1-5 years $	Over 5 years $
2018					
Payables	12	**4,501,412**	**4,501,412**	**-**	**-**
Ceded profit commission payable		**279,407**	**279,407**	**-**	**-**
Outstanding claims	13	**2,828,890**	**2,828,890**	**-**	**-**
Total		**7,609,709**	**7,609,709**	**-**	**-**
2017					
Payables	12	2,736,948	2,736,948	-	-
Ceded profit commission payable		279,407	279,407	-	-
Outstanding claims	13	7,736,492	6,775,125	912,241	49,126
Total		10,752,847	9,791,480	912,241	49,126

(iii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk.

The following policies are in place to mitigate the Branch's exposure to market risk:

- The Branch manages its risk within an Asset and Liability Management (ALM) framework.
- The Branch does not trade in derivatives or use derivatives to manage exposures to interest rate risk, foreign currency risk and other price risk.

Interest rate risk

The Branch has determined that all financial assets held are assets backing insurance contract liabilities. The investment income of the Branch will decrease as interest rates decrease. The insurance liabilities are closely matched to reinsurance recoveries.

The Branch's exposure to interest rate risk and the effective weighted average interest rate for each significant class of interest bearing financial asset are set out below:

	Note	Weighted average interest rate	Floating interest rate $	--- Fixed interest maturing in:--- Up to 1 year $	1 to 5 years $	Over 5 years $	Total $
2018							
Cash	9	**1.85%**	**4,820,370**	**-**	**-**	**-**	**4,820,370**
Total			**4,820,370**	**-**	**-**	**-**	**4,820,370**
2017							
Cash	9	1.85%	2,277,065	-	-	-	2,277,065
Total			2,277,065	-	-	-	2,277,065

3. Risk management policies and procedures (continued)

(a) Risk management objectives and policies for mitigating financial risks (continued)

(iii) Market risk (continued)

A +/- 1% movement in the bank interest rate would have an impact of $48,204 (2017: $22,771) on the Profit or Loss.

Currency risk

The Branch operates in New Zealand. Assets are maintained in the local currency to match the expected liabilities. Hence the Branch's currency risk is not considered to be of a material nature.

Other price risk

The Branch does not trade derivatives or hold equity securities in another entity, therefore there is no material exposure to other price risk.

(b) Risk management objectives and policies for mitigating insurance risks

(i) Objectives

The Branch's objectives and policies in respect of managing insurance risks are:

- Understanding insurance risk as the risk of loss, of inadequate claims handling, or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions.
- Measuring the frequency and severity of possible insurance risk loss events.
- Treating insurance risk with controls designed to ensure:
  - Adherence to competency based underwriting guidelines and limits.
  - Improving underwriting platform and pricing tools.
  - Sufficient business pricing peer-reviews.
  - Competency based peer reviewing of all business.
  - Rigorous analysis of: Contemporaneous & Periodic Renewal Monitoring Reports.
- Monitoring insurance risk by reporting and responding to incidents.
- Protecting the Branch by undertaking 100% reinsurance with highly rated group entities.

(ii) Concentrations of insurance risk

The Branch's exposure to concentrations of insurance risk is managed through reinsurance. The Branch conducts significant analysis of single-event exposures on an ongoing basis and continues to be well within the limits mandated by its head office.

(iii) Exposure to risk

The Branch actively manages its exposure to risks by applying prudent underwriting controls to renewals and new business and in managing claims in order to enhance its financial performance. The key policies in place to mitigate insurance risk include:

- ***Management reporting***

  The Branch utilises comprehensive management information systems and actuarial models using historical information to calculate premiums and monitor claims. It reports financial and operational results quarterly and undertakes regular experience analysis to monitor emerging trends.

- ***Underwriting and claims management procedures***

  Underwriting procedures are documented and include limits to delegated authorities and signing powers. Internal auditors from the parent entity review the underwriting and claims management processes to ensure adequate controls are in place and that they are effective. Strict claims management procedures ensure the timely and correct payment of claims in accordance with policy conditions.

3. Risk management policies and procedures (continued)

(c) Capital management

(i) Regulatory capital

The Branch is regulated by the Reserve Bank of New Zealand to carry out insurance business in New Zealand. It has been granted an exemption from compliance with the solvency standard under section 59 of the Insurance (Prudential Supervision) Act 2010 as the licensed entity is Great Lakes Insurance SE. It is the licensed entity that needs to comply with the solvency standard. As at 31 December 2018, Great Lakes Insurance SE's solvency ratio fully met minimum solvency requirements stipulated by the European Union under the Solvency II regulatory regime.

The goal of the current capital management plan for the Branch is to keep positive net assets at all times.

(ii) Ratings capital

Great Lakes Insurance SE maintains the capital strength by reference to a target financial strength rating from an independent ratings agency. The ratings help to reflect the financial strength of Great Lakes Insurance SE and demonstrate to the stakeholders the ability to pay claims in the long term. Rating agencies assess the financial strength of Great Lakes Insurance SE. The Branch is classified as a branch of Great Lakes Insurance SE. Therefore the Branch obtained the same rating as Great Lakes Insurance SE based on ratings published by Standard & Poor's Ratings services as at 31 December 2018. At the date of this report, Great Lakes Insurance SE has a credit rating of AA- from Standard & Poor's (2017: AA-) and a credit rating of A+ from AM Best (2017: A+).

(d) Development of claims

Information about actual claims compared with previous estimates is provided below for claims for which uncertainty about the amount and timing of claim payments is not typically resolved within one year.

	2013 & prior	2014 $	2015 $	2016 $	2017 $	2018 $	Total $
Estimate of gross ultimate claims cost							
At end of underwriting year		7,433,583	8,729,651	10,341,783	6,062,749	-	
One year later		9,817,234	12,979,612	13,464,676	6,662,953	-	
Two years later		9,104,520	11,548,350	12,159,432			
Three years later		9,129,484	11,441,528				
Four years later		9,051,056					
Current estimate of ultimate claims cost	31,034,601	9,051,056	11,441,528	12,159,432	6,662,953	-	70,349,571
Cumulative gross payments	30,104,271	9,001,175	11,348,598	11,791,080	5,826,886	-	68,072,010
Undiscounted outstanding claims for the five most recent underwriting years	930,331	49,881	92,930	368,352	836,067	-	2,277,560

Notes to the financial statements for the year ended 31 December 2018

4. Revenue from operating activities

	Note	2018 $	2017 $
Insurance revenue			
Premium revenue	8	**2,219,436**	30,431,686
Reinsurance (expenses)/recovery	7,8	**(1,968,559)**	7,268,862
Reinsurance exchange commissions	8	**1,537,372**	18,440,285
Administration commission income	8	**219,405**	675,905
Total insurance revenue		**2,007,654**	56,816,738
Investment revenue			
Interest		**59,073**	34,463
Total investment revenue		**59,073**	34,463
Other revenue			
Other income		**53**	25,392
Foreign currency gains		**2,417**	-
Total other revenue		**2,470**	25,392
Total revenue from operating activities		**2,069,197**	58,876,593

5. Expenses from operating activities

	2018 $	2017 $
Insurance expense		
Outwards reinsurance expense	**2,219,436**	30,431,686
Claims (recoveries)/expense	**(1,964,543)**	7,249,809
Acquisition expense	**1,537,372**	18,434,390
Insurance admin expenses	-	-
Total insurance expense	**1,792,265**	56,115,885
Total other expenses	**411,015**	488,241
Total expenses from operating activities	**2,203,280**	56,604,126

6. Taxes

(a) Income tax (benefit)/expense

	2018 $	2017 $
Deferred tax	**14,516**	56,782
Current tax	**(53,128)**	20,293
Tax (benefit)/expense	**(38,612)**	77,075

(b) Reconciliation of prima facie tax payable to income tax expense

	2018 $	2017 $
(Loss)/profit before tax	**(134,083)**	272,467
Prima facie income tax (benefit)/expense at the New Zealand Tax rate of 28% (2017: 28%)	**(37,543)**	76,291
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Movement in temporary differences	-	1,313
Non-assessable income	**(1,069)**	(613)
Under provision prior year	-	84
Tax (benefit)/expense	**(38,612)**	77,075

7. Net claims incurred

	2018 Current year $	2018 Prior year $	2018 Total $	2017 Current year $	2017 Prior year $	2017 Total $
Gross claims expenses/(recoveries)						
Gross claims incurred - undiscounted	**1,286,556**	**(2,194,038)**	**(907,482)**	6,062,749	1,689,718	7,752,467
Discount movement	**(3,039)**	**59,624**	**56,585**	(28,243)	107,791	79,548
Discounted risk margin movement	**68,263**	**(1,181,909)**	**(1,113,646)**	636,714	(1,218,920)	(582,206)
Discounted gross claims expenses	**1,351,780**	**(3,316,323)**	**(1,964,543)**	6,671,220	578,589	7,249,809
Reinsurance and other recoveries revenue/(expense)						
Reinsurance and other recoveries revenue - undiscounted	**(1,286,556)**	**2,200,996**	**914,440**	(6,062,749)	(1,711,055)	(7,773,804)
Discount movement	**3,039**	**(59,627)**	**(56,588)**	28,243	(108,543)	(80,300)
Discounted risk margin movement	**(68,263)**	**1,178,970**	**1,110,707**	(636,714)	1,221,956	585,242
Discounted reinsurance and other recoveries revenue	**(1,351,780)**	**3,320,338**	**1,968,559**	(6,671,220)	(597,642)	(7,268,862)
Net claims incurred	**-**	**4,016**	**4,016**	-	(19,053)	(19,053)

Current year claims relate to risks borne in the current financial year. Prior year claims relate to a reassessment of the risks borne in all previous financial years.

8. Underwriting result

	2018 $	2017 $
Premium revenue	**2,219,436**	30,431,686
Outwards reinsurance	**(2,219,436)**	(30,431,686)
Net premium	**-**	-
Claims expense/recovery	**1,964,543**	(7,249,809)
Reinsurance expenses/recovery	**(1,968,559)**	7,268,862
Underwriting expenses	**(1,537,372)**	(18,434,390)
Reinsurance exchange commission	**1,537,372**	18,440,285
Administration commission income	**219,404**	675,905
Underwriting result	**215,388**	700,853

9. Cash

	2018 $	2017 $
Cash at bank	**4,820,370**	2,277,065

Cash at bank bears average interest of 2018: 1.85% (2017: 1.85%).

10. Deferred acquisition costs

	2018 $	2017 $
Deferred acquisition costs	-	1,312,751
Reconciliation of movement in deferred acquisition costs		
Balance at 1 January	**1,312,751**	8,497,323
Costs deferred in current financial year	-	1,312,751
Amortisation of costs deferred in previous financial years	**(1,312,751)**	(8,497,323)
Balance at 31 December	-	1,312,751

11. Deferred tax assets

	2018 $	2017 $
Deferred tax assets	**9,279**	**23,796**

Deferred tax assets relate to timing differences and comprises the tax effect of the following amounts recognised in the Statement of Comprehensive Income:

	2018 $	2017 $
Loss adjusted expense	**6,298**	19,618
Debtors	**2,981**	3,814
Deferred acquisition costs	-	364
Total deferred tax assets	**9,279**	23,796

12. Payables

	2018 $	2017 $
Amount due to reinsurer – related party	**3,669,537**	2,400,084
Amount due to others	**401,904**	316,571
Current tax Liabilities	**429,971**	-
Transfer of tax credits to related party	-	20,293
Total payables	**4,501,412**	2,736,948

13. Outstanding claims liabilities

(a) Outstanding claims liabilities

	2018 $	2017 $
Central estimate of gross outstanding claims	**2,248,333**	6,068,896
Claims handling expense	**29,231**	59,209
Discount to present value	**(22,788)**	(79,373)
Risk margin	**574,114**	1,687,760
Total outstanding claims liabilities - discounted	**2,828,890**	7,736,492
Current	**2,828,890**	6,775,125
Non-current	-	961,367
Total outstanding claims liabilities - discounted	**2,828,890**	7,736,492
Reconciliation of movement in discounted outstanding claims liabilities		
Balance at 1 January	**7,736,492**	13,033,712
Additional provisions recognised	**(1,964,541)**	7,249,809
Liabilities paid	**(2,943,061)**	(12,547,029)
Balance at 31 December	**2,828,890**	7,736,492

13. Outstanding claims liability (continued)

(b) Inflation and discount rates

The liability for outstanding claims is measured as the present value of the expected future payments reflecting the fact that all claims do not have to be paid out in the immediate future. The expected future payments are estimated on the basis of the ultimate cost of settling claims which is affected by factors arising during the period to settlement such as normal inflation and superimposed inflation. The expected future payments are then discounted to a present value at the reporting date using a discount rate.

14. Unearned premium liability

	2018 $	2017 $
Unearned premium liability-current	-	2,198,861
Reconciliation of movement in unearned premium		
Balance at 1 January	**2,198,861**	13,922,599
Deferral of premium on contracts written in the period	-	2,198,861
Earning of premium written in previous periods	**(2,198,861)**	(13,922,599)
Balance at 31 December	-	2,198,861

15. Liability adequacy test

A liability adequacy test has been conducted using the net central estimate of the present value of expected future cash flows and has identified a deficit.

	2018 $	2017 $
Unearned premium liabilities	-	2,198,861
Related deferred acquisition costs	-	(1,312,751)
Related reinsurance assets	-	(884,812)
	-	1,298
Net deficiency	-	-
Write down of deferred acquisition costs	-	-
Probability of sufficiency %	**60%**	60%

The risk margin has been arrived at by determining margins for each line of business and then applying reductions on account of diversification over the various lines of business. This was done by applying a suitable correlation matrix to the expected values and uncertainties of the individual unexpired risk liabilities.

16. Remuneration of auditors

	2018 $	2017 $
KPMG-Audit fees	**34,120**	34,058

Notes to the financial statements for the year ended 31 December 2018

17. Reconciliation of (loss)/profit after income tax to net cash flows from operating activities

	2018 $	2017 $
Net (loss)/profit for the year	**(95,471)**	195,392
Adjustments for investment revenue	**(59,073)**	(34,464)
Net cash from operating activities before change in assets and liabilities	**(154,544)**	160,928
Change in assets and liabilities during the financial year		
Increase in receivables	**9,280,310**	29,233,081
Decrease in other creditors and accruals	**(6,656,051)**	(27,995,312)
Increase net deferred tax asset	**14,517**	56,777
Net cash from operating activities	**2,484,232**	1,455,474

18. Related party transactions

(a) Parent entities

The ultimate parent entity is Münchener Rückversicherungs-Gesellschaft, a company incorporated in Germany with limited liability.

(b) Directors

Disclosures relating to directors are set out in Note19.

(c) Guarantees

No guarantees have been given to or received from any related parties that are outside the normal trading arrangements.

(d) Transactions with related parties

	Transaction description	2018 $	2017 $
Munich Reinsurance Company (New Zealand Branch)	Reinsurance	**(1,396,111)**	(5,540,002)
Munich Holdings of Australasia Pty Limited	Management expenses	**(347,006)**	(277,691)
Munich Re New Zealand Service Limited	Management expenses	**(29,005)**	(101,596)
Rural Affinity Insurance Agency Pty Limited	Underwriting activity	**201,375**	371,274
Great Lakes Insurance SE	Home office expenses	**8,422**	-
Total		**(1,562,325)**	(5,548,015)

(e) Outstanding balances

Current account balances (payable)/receivable with related parties at the reporting date were:

	Transaction description	2018 $	2017 $
Munich Reinsurance Company (New Zealand Branch)	Reinsurance	**(2,990,540)**	(2,400,084)
Rural Affinity Insurance Agency Pty Limited	Underwriting activity	**-**	20,334
Total		**(2,990,540)**	(2,379,750)

No provision for doubtful debts has been raised by either the Branch or the parent entity in relation to any outstanding related party balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

18. Related party transactions (continued)

(f) Terms and conditions

All related party transactions were made on normal commercial terms and conditions and at market rates (including market rental rates). Outstanding balances are unsecured and are payable in cash.

(g) Outwards reinsurance

The non-resident portfolio of the Branch is protected by a Facultative Obligatory reinsurance contract with the parent entity, Münchener Rückversicherungs-Gesellschaft, a company incorporated in Germany with limited liability. The resident portfolio of the Branch is protected by 100% quota share with Munich Reinsurance Company New Zealand Branch.

(h) Key management personnel and director transactions

The key management personnel also provide services to the immediate parent and a number of fellow subsidiary undertakings for which payment is made by the immediate parent undertaking.

All KMP are employees of Munich Re Group (the Group). The Branch receives services from the Group such as the provision of KMP. The Branch does not remunerate KMP or directly reimburse the Group for this cost.

19. Directors' disclosure

The Directors holding office at any time during the financial year and up until the date of this report were:

Supervisory Board

Claudia Hasse (Chairman) (Appointed on 01.01.2019)

Alex Wettemann (Appointed on 30.12.2016)

Christoph Carus (Appointed on 30.12.2016)

Dr. Carsten. Prussog (Appointed on 30.12.2016)

Claus-Ulrich Kroll (Chairman) (Resigned on 31.12.2018)

Board of Management

Dr. Achim Stegner (CEO) (Appointed on 30.12.2016)

Dr. Stefan Pasternak (CFO) (Appointed on 30.12.2016)

Dr. Tobias Klauss (CRO) (Appointed on 30.12.2016)

Stephane.Deutscher (COO) (Appointed on 01.04.2017)

20. Contingencies

The Branch has no known contingent liabilities or contingent assets at the reporting date or the prior year reporting date.

21. Commitments

(a) Capital commitments

There were no capital commitments contracted for at the reporting date or the prior year reporting date that have not been recognised as a liability.

(b) Lease commitments

There were no lease commitments contracted for at the reporting date or the prior year reporting date that have not been recognised as a liability.

22. Events occurring after the reporting date

During the year, an operational review of the New Zealand business was undertaken. Subsequent to this review, it was determined that an internal reorganisation would be undertaken and the Branch would cease trading in New Zealand with all New Zealand business being reorganised into GLA and administered by GLA. Following the reorganisation, the Branch would maintain its insurance licence in New Zealand at this point in time. The reorganisation was completed on the 3rd January 2019.

23. Solvency of licensed entity

GLISE is the entity licensed by the RBNZ to conduct insurance business in New Zealand. The 31 December 2018 solvency disclosures for the licensed entity as calculated in accordance with the requirements of the home jurisdiction are as follows:

	2018	**2017**
	€'000	**€'000**
Branch's Own Funds	**438,264**	432,071
Solvency Capital Requirement	**170,646**	180,463
Solvency Margin	**267,618**	251,608
Solvency Capital Ratio	**257%**	239%

The solvency amounts shown above for GLISE are prepared in accordance with Solvency II's Quantitative Reporting Template (QRT).

Great Lakes Insurance SE – New Zealand Branch

(Overseas company registered in New Zealand under the Companies Act 1993)

Directors' Declaration

The Board of Management is pleased to present the financial statements of Great Lakes Insurance SE (overseas Branch registered in New Zealand under the Companies Act 1993) for the year ended 31 December 2018, and the auditors' report thereon.

In the Board of Management's opinion, the financial statements and notes set out on pages 3 to 25:

(a) comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Branch as at 31 December 2018 and the results of operations for the year ended on that date; and

(b) have been prepared using the appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

The Board of Management believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Branch and facilitate compliance of the financial statements with the Financial Reporting Act 1993. There are reasonable grounds to believe that, as at the time this statement is made, the Branch will be able to pay all debts or claims as and when they are due.

The Board of Management consider that they have taken adequate steps to safeguard the assets of the company, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be significant to provide a reasonable assurance as to the integrity and reliability of the financial statements.

For and on behalf of the Board of Management.

Member of the Board of Management

Date

Member of the Board of Management

Date 27/3/2019

KPMG

Independent Auditor's Report

To the directors of Great Lakes Insurance SE - New Zealand Branch

Report on the financial statements

Opinion

In our opinion, the accompanying financial statements of Great Lakes Insurance SE - New Zealand Branch (the branch) on pages 3 to 25:

i. present fairly in all material respects the branch's financial position as at 31 December 2018 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

— the balance sheet as at 31 December 2018;

— the statements of comprehensive income, changes in equity and cash flows for the year then ended; and

— notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the branch in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Subject to certain restrictions, partners and employees of our firm may also deal with the branch on normal terms within the ordinary course of trading activities of the business of the branch. These matters have not impaired our independence as auditor of the branch. The firm has no other relationship with, or interest in, the branch.

Emphasis of matter

We draw attention to Note 1(b) to the financial statements which describes the basis of preparation. The branch ceased trading from 1 January 2019. The Directors have taken this into account and the financial statements have continued to be prepared on a going concern basis since the Branch will maintain its insurance licence in New Zealand to use in the future. Our opinion is not modified in respect of this matter.

KPMG

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the directors as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter	How the matter was addressed in our audit
Valuation of Outstanding claims ($2,828,890)	
Refer to Note 13 to the Financial Report. Outstanding claims is a key audit matter as a result of significant complexity relating to: *Valuation of Outstanding claims* The valuation of outstanding claims is significant to the key audit matter as: ▪ judgment is required by us to consider the central estimate of the outstanding claims. This is a significant estimate as the eventual outcomes of incurred but unsettled claims at the balance sheet date are inherently uncertain; ▪ there is limited information available and a greater level of uncertainty inherent in assessing estimations of claims which have been incurred by the balance sheet date but have not yet been reported to the branch; ▪ judgment is required when considering the application of historical experience of claims development to determine current estimates, including the greater variability between the original estimation and the ultimate settlement of claims where there is a long time delay between the claim being incurred and the ultimate settlement; ▪ the claims estimation uses an actuarial modelling process which involves complex and subjective actuarial methodologies, judgements and assumptions about future events and developments, both within and external to the branch. Small changes in these methodologies, judgments and assumptions can have significant implications to the quantification of outstanding claims; ▪ judgment is required to assess the estimation of the period the claims are expected to be settled in; and ▪ the estimation of claims at year end relies on the integrity of the key underlying data.	Our audit procedures included: *Valuation of Outstanding claims* We challenged the branch's actuarial methods and key assumptions for significant classes of business. We assessed the selection of methods and key assumptions to consider evidence of management bias. We challenged the actuarial methods and key assumptions by performing an assessment of the accuracy of previous estimates and comparability to the industry and with previous periods. We were assisted by KPMG actuarial specialists in interpreting and evaluating the branch's actuarial modelling processes and methodology for determining the level of provisions for outstanding claims. We also considered the work and findings of the appointed actuary of the branch. Our procedures around the financial records and controls included, amongst others: ▪ testing accounting and actuarial controls such as the reconciliation of key data; ▪ testing key controls of claims case estimates; ▪ testing a sample of paid claims; and ▪ with the assistance of our IT specialists, testing the general IT control environment of the claim systems.

The key audit matter	How the matter was addressed in our audit
Risk margins and probability of adequacy The evaluation of the risk margins and probability of adequacy is significant to the key audit matter as it is complex and necessitated a significant level of judgment by us in our audit. Outstanding claims include statistically determined risk margins developed by the branch to make allowance for the inherent uncertainty in estimating ultimate claim settlements. The risk margins are included to achieve a specified probability of adequacy for the total outstanding claims reserves.	*Risk margins and probability of adequacy* With the assistance of our actuarial specialists we assessed the branch's estimation of risk margins with a view to identifying management bias. We evaluated the branch's actuarial methodologies for consistency with those used in the industry and with prior periods.

Other information

The Directors, on behalf of the branch, are responsible for the other information included in the entity's Financial Report. Other information includes the Directors' Report. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

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

Use of this independent auditor's report

This independent auditor's report is made solely to the directors as a body. Our audit work has been undertaken so that we might state to the directors those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the directors as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Directors for the financial statements

The Directors, on behalf of the branch, are responsible for:

— the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;

— implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and

— assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objective is:

— 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 independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Ian Moyser.

For and on behalf of

KPMG

KPMG
Sydney

11 April 2019