



General Reinsurance Australia Ltd.

(ABN 16 008 427 450)

Financial Report
for the Financial Year ended
31 December 2020

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 2020 and the auditor's report thereon. In order to comply with the Corporations Act 2001, the Directors report as follows

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 Gifford (commenced 11 May 2018)
 Neal Mullen (commenced 1 May 2019)

Name and qualifications

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

Keith Scott

FAICD, FCII, MA (Cantab)

- Non-Executive Director
- Chair of Board Risk Committee
- Chair of Board Remuneration Committee
- Member of Board Audit Committee

John Nesbitt

FCA, F Fin, GAICD

- Non-Executive Director
- Chair of Board Audit Committee
- Member of Board Risk Committee
- Member of Board Remuneration Committee

Neal Mullen

BBus, ANZIIF (Snr Assoc), AAICD

- Managing Director

Experience and special responsibilities

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.

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.

Mr Nesbitt's executive experience over a period of 40 years has spanned a diverse range of industries including investment and asset management, banking, superannuation, insurance, property, construction, infrastructure, technology and chartered accounting. He held senior finance and executive roles including positions as CFO and CEO. The last 7 years of his executive career were with Suncorp Group Limited where his final role was CEO of Suncorp Bank which followed a period of 4 years as Group CFO. He was appointed to the Board on 1 December 2018 and is the chair of the Board Audit Committee. Mr Nesbitt concurrently holds directorships at Credit Corp Group Limited and Evolve Housing Limited.

Mr Mullen has over 20 years' experience in the insurance and reinsurance industries in the UK and Australia. His experience spans multiple lines of business and disciplines including primary and reinsurance portfolio management as well as complex individual risk underwriting roles. During his career he has held a number of leadership positions spanning both Primary Insurance and Reinsurance. He joined Gen Re in 2016 as Casualty Facultative Manager, in this role he was responsible for maintaining and strengthening the Australia and New Zealand Casualty Facultative offering for Gen Re and was appointed Managing Director of General Reinsurance Australia on 1 May 2019.

DIRECTORS' REPORT (continued)

Name and qualifications

Andrew Gifford
B.A., JD

Experience and special responsibilities

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.

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 2020 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
Keith Scott	4	4	4	4	4	4	4	4
John Nesbitt	4	4	4	4	4	4	4	4
Neal Mullen	4	4	-	-	-	-	-	-
Andrew Gifford	4	4	-	-	-	-	-	-

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
B Com, CA,

Mr Unterrheiner has been employed by Gen Re for 8 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 company is reinsurance underwriting.

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

DIRECTORS' REPORT (continued)

Review of operations

Operating Results

The net profit of the company for the year, after provision for income tax, amounted to \$8,486,000 compared with the 2019 profit of \$27,089,000.

Dividends

No dividend was proposed or declared relating to the financial period (2019 \$NIL).

State of affairs

General Reinsurance Australia Limited is committed to the Australian and New Zealand markets and continues to support our clients' long term success. We have and will leverage our balance sheet strength through a disciplined approach to business opportunities. Australia and New Zealand were the first significant markets to renew globally in the COVID environment, and we achieved our strategy to selectively participate in the market with that disciplined approach.

COVID - 19 response

The outbreak of the COVID-19 pandemic early in the 2020 year directly affected the operations of the company. The potential effects of the pandemic, including the impact of regulatory or legislative actions continue to be evaluated and carefully managed. The retrocession agreements with our parent company entities mean that the financial impact of the pandemic on the Australian and New Zealand businesses is mitigated.

The COVID-19 pandemic has impacted claims both directly and potentially indirectly through the associated economic downturn, and increased uncertainty that the claims outcome may differ to reserves held. The most impacted business lines are considered to be at this time Travel, Business Interruption, Trade Credit and Professional Indemnity. Reserving assumptions, including risk margins, have been adjusted to ensure the potential exposure and additional uncertainty have been appropriately captured.

During the year employees mostly worked remotely from the office. The smooth transition to working remotely enabled the company to continue to service clients while ensuring the safety and wellness of the local team members.

The Board and senior management will continue to monitor the impact of the COVID-19 event. We thank all our employees for their continued contribution and positive approach during a difficult year.

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 company, to affect significantly the operations of the company, the results of those operations, or the state of affairs of the company in subsequent financial years.

Indemnification of officers and auditors

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.

Likely developments

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

DIRECTORS' REPORT (continued)

Environmental regulation

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

Rounding of amounts to nearest thousand dollars

The company is of a kind referred to in ASIC Corporations Instrument 2016/191 dated 24 March 2016, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' report and financial report. Amounts have been rounded off to the nearest thousand dollars in the Directors' report and financial report in accordance with that Instrument, unless stated otherwise.

Acknowledgements

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

Auditor's independence declaration

The auditor's Independence Declaration is contained on page 7.

Approval

Signed in accordance with a resolution of the Directors made pursuant to Section 298(2) of the Corporations Act 2001 on 17 March 2021.

On behalf of the Directors.



K. J. McCann
Chair



N. Mullen
Managing Director

Sydney, 17 March 2021

The Directors
General Reinsurance Australia Ltd
Level 20, 1 O'Connell Street,
SYDNEY 2000 NSW

17 March 2021

Dear Board Members

General Reinsurance Australia Ltd.

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of General Reinsurance Australia Ltd

As lead audit partner for the audit of the financial statements of General Reinsurance Australia Ltd. for the financial year ended 31 December 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

DELOITTE TOUCHE TOHMATSU

Max Murray

Partner
Chartered Accountants

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

	Note	2020 \$'000	2019 \$'000
Premium revenue		187,902	187,901
Outwards reinsurance expense		(66,619)	(65,649)
Net premium revenue	5(a)	121,283	122,252
Claims expense		(235,077)	(103,767)
Reinsurance and other recoveries		144,304	37,132
Net claims incurred	5(c)	(90,773)	(66,635)
Acquisition costs		(14,975)	(14,810)
Unexpired risk liability		5,411	39
General and administration expenses	5(b)	(16,776)	(15,795)
Net underwriting profit/(loss)		4,170	25,051
Interest income		7,637	12,311
Net investment gains		(351)	1,269
Investment expenses		(395)	(291)
Net investment income	5(d)	6,891	13,289
Profit before income tax		11,061	38,340
Income tax (expense)/benefit on profit	6(a)	(2,575)	(11,251)
Profit after income tax		8,486	27,089
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 shareholders of the company		8,486	27,089

This Statement of Profit or Loss and Other Comprehensive Income is presented in Renminbi Yuan ("RMB") and is expressed in thousands of RMB, unless otherwise indicated.

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

For the financial year ended 31 December 2020	Contributed Equity	Retained Earnings	Total
	\$'000	\$'000	\$'000
Balance at 1 January	132,245	204,799	337,044
Dividends declared / paid during the year	-	-	-
Total comprehensive income for the year	-	8,486	8,486
Balance at 31 December	132,245	213,285	345,530

For the financial year ended 31 December 2019

	\$'000	\$'000	\$'000
Balance at 1 January	132,245	177,710	309,955
Dividends declared / paid during the year	-	-	-
Total comprehensive income for the year	-	27,089	27,089
Balance at 31 December	132,245	204,799	337,044

Financial statements are prepared on an accrual basis and are based on the accounting policies and assumptions set out in the accounting policy note.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	Note	2020 \$'000	2019 \$'000
Assets			
Cash and cash equivalents	7	73,367	72,250
Investments	13	705,937	631,335
Receivables	8	60,075	78,820
Other assets	10	167	4,992
Reinsurance recoverable	9	177,617	89,401
Current tax assets	14	1,601	-
Deferred tax assets	6(b)	10,207	5,675
Plant and equipment	11	22	48
Right-of-use assets	12	8,238	6,419
Total assets		1,037,231	888,940
Liabilities			
Unearned premiums	15	44,927	55,728
Outstanding claims	15	542,771	408,395
Unexpired risk liability	26	8,221	13,626
Reinsurance funds held	16	51,421	13,000
Other payables	18	33,779	52,513
Lease liabilities	19	9,131	6,419
Provisions	17	1,451	1,469
Current tax liabilities		-	746
Total liabilities		691,701	551,896
Net assets		345,530	337,044
Equity			
Contributed equity	20	132,245	132,245
Retained earnings		213,285	204,799
Total equity		345,530	337,044

This statement is prepared in accordance with the accounting policies adopted by the Company, which are set out in the accompanying notes to the financial statements.

STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

	Note	2020 \$'000	2019 \$'000
Cash flows from operating activities			
Premiums received		196,697	168,986
Outwards reinsurance paid		(66,619)	(65,649)
Claims paid		(59,586)	(63,164)
Reinsurance recoveries received		56,088	42,983
Reinsurance funds received/(paid)		38,421	9,815
Other payments (to)/from employees, suppliers, and related parties		(90,472)	(53,613)
Interest received		21,866	20,819
Investment expenses paid		(395)	(291)
Income tax received/(paid)		(1,525)	28,137
Net cash provided by operating activities	22	94,475	88,023
Cash flows from investing activities			
Payments for purchase of investments		(342,463)	(423,127)
Proceeds from sale/maturity of investments		253,282	334,261
Payments for fixed assets		(115)	(48)
Net cash (used in)/provided by investing activities		(89,296)	(88,914)
Cash flows from financing activities			
Dividends paid		-	-
Payments for lease liabilities		(1,759)	(1,072)
Net cash used in financing activities		(1,759)	(1,072)
Net (decrease)/increase in cash and cash equivalents during the financial year		3,420	(1,963)
Cash and cash equivalents at beginning of financial year		72,250	74,420
Exchange fluctuations on cash and cash equivalents held in foreign currencies		(2,303)	(207)
Cash and cash equivalents at end of financial year	7	73,367	72,250

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NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

1 SUMMARY OF ACCOUNTING POLICIES

Statement of compliance

This general purpose financial report has been prepared in accordance with applicable Australian Accounting Standards and Interpretations, the Corporations Act 2001 and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with the A-IFRS ensures that the financial statements and notes comply with International Financial Reporting Standards ('IFRS').

These financial statements are presented in Australian Dollars (\$), which is the company's functional currency. All financial information presented in Australian Dollars has been rounded to the nearest thousand, except where otherwise indicated.

The financial statements were authorised for issue by the Directors on 17 March 2021.

Basis of preparation

The financial report has been prepared in accordance with the historical cost convention, except for financial assets 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 the Accounting Standard AASB 1023 "General Insurance Contracts".

Significant accounting policies

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. 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.

(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 company'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.

(b) Outwards reinsurance

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

(c) Reinsurance and other recoveries receivable

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

(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.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

1 SUMMARY OF ACCOUNTING POLICIES (continued)

(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 hand.

Level 1 fixed interest securities are carried at fair value represented by the quoted market value at balance date.

Level 2 fixed interest securities are carried at fair value represented by the direct or indirect observable inputs other than level 1 inputs.

(h) Assets backing insurance liabilities

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

(i) Depreciation

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

Furniture and equipment	3 to 5 years
Leasehold improvements	Lesser of 10 years or term of lease

(j) Deferred acquisition costs

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

(k) Foreign currency

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

(l) Income tax

Current tax

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

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.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

1 SUMMARY OF ACCOUNTING POLICIES (continued)

(l) Income tax (continued)

Deferred tax (continued)

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.

Tax consolidation

The company is a member of a multiple entry consolidated (MEC) group for Australian income tax purposes with the provisional head entity being General Reinsurance Australia Ltd. The consolidated group was formed on 2 August 2016 with an effective date of 1 January 2015. All entities that form part of the MEC group have signed tax funding and tax sharing agreements with the provisional head entity.

The company accounts for its own current and deferred tax amounts. These tax amounts are measured under the 'Separate taxpayer within group' approach. This approach adjusts for transactions and events occurring within the tax consolidation group that do not give rise to a tax consequence for the group or that have different tax consequences at the group level

When recognising deferred taxes in the separate financial statements of each entity in the tax consolidated group, temporary differences are measured by reference to the carrying amounts of assets and liabilities in the entity's statement of financial position. Deferred taxes are transferred to the head entity only as and when they are utilised by the Provisional Head Company.

Any differences between the amounts assumed and amounts receivable or payable under the tax funding agreement is recognised as a contribution to (or distribution from) commonly controlled tax consolidated entity.

The company operates a Taxation Governance Framework which governs the taxation risk appetite, the associated risks, controls and procedures, and the reporting and oversight of taxation matters for the company. This framework operates across all entities that form part of the MEC group.

(m) Receivables and revenue recognition

Receivables are recognised as follows

Reinsurance premium receivables are recognised in accordance with AASB 1023 "General 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.

(n) Accounts payable

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within thirty days of recognition.

(o) 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.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

1 SUMMARY OF ACCOUNTING POLICIES (continued)

(p) Provision for employment entitlements

Provisions are recognised when the company has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at 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.

Long service leave

A liability for long service leave is recognised, and is measured, as the present value of expected future payments to be made in respect of services provided by employees up to balance date. Consideration is given to expected future wage and salaries levels, experience of employee departures and periods of service.

(q) Superannuation

The company 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.

(r) 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.

(s) Leases

The company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Properties

Lesser of 10 years or term of lease

If ownership of the leased asset transfers to the company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

1 SUMMARY OF ACCOUNTING POLICIES (continued)

(s) Leases (continued)

Lease liabilities

At the commencement date of the lease, the company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the company and payments of penalties for terminating the lease, if the lease term reflects the company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

(t) Accounting standards and amendments issued but not yet effective

At the date of authorisation of the financial report, the following AASB Standards and amendments were issued but not yet effective and have not been applied in preparing the company's financial statements. Assessment of the impact of the initial application of the following Standards and Interpretations is still to be completed.

<u>Standard</u>	<u>Effective for annual reporting periods beginning on or after</u>	<u>Expected to be initially applied in the financial year ending</u>
AASB 9 'Financial Instruments' and the relevant amending standards	1 January 2018*	31 December 2018*
AASB 17 'Insurance Contracts'	1 January 2018*	31 December 2018*
AASB 2020-1 "Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current"	1 January 2022	31 December 2022
AASB 2016-6 'Amendments to Australian Accounting Standards - Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts'	1 January 2022	31 December 2022
*AASB 2020-5 "Amendments to Australian Accounting Standards – Insurance Contracts"	*Defers the application of AASB 17 and AASB 9 (eligible insurers only) to 1 January 2023	31 December 2023

The company expects to adopt these standards where applicable for the annual reporting periods beginning on or after the operative dates set out above.

AASB 9 'Financial Instruments'

AASB 9 was issued during 2014 and replaces existing accounting requirements for financial instruments. Accounting standards currently permit deferral of adoption of AASB 9 to 1 January 2021, however, the International Accounting Standards Board has decided to extend this to 1 January 2023.

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 AASB 1023 (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.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

1 SUMMARY OF ACCOUNTING POLICIES (continued)

(t) Accounting standards and amendments issued but not yet effective (continued)

The following information is provided to assist users in comparing the company's financial statements with entities which have adopted AASB 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 AASB 9 does not result in any changes to accounting for these investments.

Financial assets within the scope of AASB 1023, 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 AASB 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 AASB 9 will not materially impact these balances.

Impact on financial liabilities

Financial liabilities within the scope of AASB 1023, such as outstanding claims, unearned premiums and unexpired risk liability, are outside the scope of AASB 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 AASB 9.

AASB 17 'Insurance Contracts'

In July 2017, the AASB issued AASB 17 Insurance Contracts (AASB 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure and replaces AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts. AASB 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. The overall objective of AASB 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. The core of AASB 17 is the general model, supplemented by

- A specific adaptation for contracts with direct participation features (the variable fee approach), which will not be used by the company.
- A simplified approach (the premium allocation approach) mainly for short-duration contracts, generally less than 12 months.

Since the standard was issued, various implementation matters have been raised by stakeholders and the International Accounting Standards Board (IASB). The IASB issued amendments to the standard on 25 June 2020 aimed to ease the implementation burden and is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies AASB 9 on or before the date it first applies AASB 17. The company is currently determining the transition approach which will be applied for AASB 17, and the ongoing impact of adopting this standard is being assessed.

An implementation project has been established globally to which local involvement is focused on items specifically relevant to the Australian and New Zealand markets. The project is well established with many specific accounting policies determined and implemented into the data transition, calculation engines, and reporting tools selected.

While the change in accounting standards will significantly impact the disclosures and layout of the financial statements, the current communication from regulators is generally that capital adequacy and risk based capital calculations will be recalibrated to result in the same overall capital requirements.

While many of the peripheral impacts expected from the change in accounting standards is known and understood; final communication from regulators, industry bodies, and taxation authorities is required to finalise formal impact assessments. The company is currently working through such assessments as communications occur, and any identified risk areas will form part of the project implementation plans.

(u) Accounting standards and amendments adopted in the current year

AASB 2018-7 'Amendments - Definition of Material'

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

2 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

The ultimate liability arising from claims made under insurance contracts

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance date, including the cost of claims incurred but not yet reported ('IBNR') to the company.

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

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the company, where more information about the claim event is generally available. IBNR claims may often not be apparent to the insured until many years after the events giving rise to the claims 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 company 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 company has regard to the claim circumstance as reported, and information about the cost of settling claims with similar characteristics in previous periods.

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

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions. Details of 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.

Determining the lease term of contracts with renewal and termination options

The company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The company has several lease contracts that include extension and termination options. The company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

2 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Leases - Estimating the incremental borrowing rate

The company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The company estimates the IBR using observable inputs when available and is required to make certain entity-specific estimates.

3 ACTUARIAL ASSUMPTIONS AND METHODS

The company writes Facultative and Treaty (both proportional and non-proportional) reinsurance covers for Property and Casualty lines of business, and Treaty Marine business.

The Appointed Actuary is Nina Xiao, a 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 company's major categories of business, weighted by expected ultimate premiums for the underwriting year, these were (in years)

	2020	2019
Proportional, Property & Marine	1.19	1.34
Proportional, Casualty	3.04	2.75
Non-proportional, Property & Marine	1.02	1.04
Non-proportional, Casualty	4.77	4.86

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). Loss ratio selection for the latest underwriting years also considered both direct and indirect impact of COVID-19 on the relevant lines of business implicitly.

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 0.67% (2019: 1.31%).

Inflation

The methodology for calculation of IBNR reserves allows implicitly for claims inflation, and case reserves are set based upon expected ultimate settlement values (i.e. incorporating claims inflation as appropriate).

COVID-19

Net ultimate claims of \$22 million (excluding risk margins) resulting directly from COVID-19 have been included in the net undiscounted outstanding claims central estimate, in addition to run-off loss ratio selection considerations. This estimate was based on a detailed analysis of the company's potential exposures to COVID-19 and relate to Travel, Business Interruption and Professional Indemnity. Key considerations were around aggregation and wording and as uncertainty still remain on these, a probabilistic approach was taken. Management will continue to monitor claims and other related developments to ensure the reserving assumptions remain appropriate.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

3 ACTUARIAL ASSUMPTIONS AND METHODS (continued)

Sensitivity analysis

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

		Underwriting profit before retrocessions	Net Profit	Equity
		\$'000	\$'000	\$'000
Recognised amount per Financial Statements		(73,515)	8,486	345,530
Variable	Movement in variable			
Run-off	+ 10.0%	(103,515)	(5,312)	331,732
Loss Ratios	- 10.0%	(45,831)	22,138	359,182
Expense	+ 0.5%	(77,102)	6,231	343,275
Rate	- 0.5%	(69,928)	10,741	347,785
Discount	+ 1.0%	(56,209)	17,397	354,441
Rate	- 1.0%	(92,480)	(1,333)	335,711

* Net underwriting profit/(loss) less Outwards reinsurance expense and Reinsurance and other recoveries from the Statement of profit or loss and other comprehensive income.

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 company's reserves to a level that is intended to have a 75% probability of adequacy. The risk margin analysis was updated this year to be more based on qualitative assessment of the uncertainty relating to the company's underlying exposures and closer aligned with industry benchmarking. Risk margins were further increased to reflect additional uncertainty from COVID-19 for some lines of business. 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 on a gross basis applied to the company's major categories of business were

	2020	2019
Proportional, Property & Marine	11.3%	6.1%
Proportional, Casualty	15.3%	15.1%
Non-proportional, Property & Marine	16.6%	8.8%
Non-proportional, Casualty	21.6%	15.4%

4 RISK MANAGEMENT POLICIES AND PROCEDURES

Insurance contracts – Risk management policies and procedures

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

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

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

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

The Internal Capital Adequacy Assessment Process (ICAAP) Summary Statement is reviewed on an annual basis, unless circumstances necessitate a more frequent review

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

4 RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

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

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

- Reviews and approves the company's RAS,
- Reviews and approves the company's RMS, ICAAP and REMS, and assesses their effectiveness, and
- Certifies to APRA that adequate strategies are in place to monitor those risks, and that the company has systems in place to ensure compliance with legislative and prudential requirements

Key aspects of the processes established in the RMS to mitigate risks include

- The maintenance and use of sophisticated management information systems, which provide up to date, reliable data on the risks to which the business is exposed at any point in time.
Actuarial models, using information from the management information systems, are used to calculate premiums and monitor claims patterns. Past experience and statistical methods are used as part of the process.
Documented procedures are followed for underwriting and accepting reinsurance risks.
Reinsurance is used to limit the company's exposure to large single claims and catastrophes.
- The company's investment portfolio is prudently managed with respect to key criteria such as the average duration and credit quality.
The mix of assets in which the company invests is driven by the nature and term of insurance liabilities. The management of assets and liabilities is closely monitored to attempt to match the maturity dates of assets with the expected pattern of claim.
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 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 company may incur.

(a) Interest rate risk

Fixed interest rate instruments expose the company to fair value interest rate risk. The company'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.

(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) Terms and conditions of reinsurance business

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

(d) Concentration of insurance risk

The company's exposure to concentrations of insurance risk is mitigated by a portfolio diversified into two major classes of business (Treaty and Facultative) written out of Australia and New Zealand. The portfolio is controlled and monitored through the company's Risk Management Strategy and Framework. This includes identifying and mitigating the concentrations of insurance risk by reviewing the type of insured event and also the geographical area of the risk.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

4 RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

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

Non-financial risks

Non-financial risks are controlled through the use of

- i) medical and non-medical underwriting procedures and authorities
- ii) claims management procedures and authorities
- iii) product development/review procedures and authorities
- iv) treaty underwriting procedures and authorities
- v) underwriting and claim peer reviews of clients
- vi) charging adequate premium rates for the business
- vii) quarterly monitoring of profitability overall and by client
- viii) reinsurance agreement terms and conditions
- ix) non-guaranteed reinsurance rates
- x) retrocession arrangements to limit the effect of adverse claims experience

5 PROFIT FROM ORDINARY ACTIVITIES

	2020 \$'000	2019 \$'000
Profit from ordinary activities has been arrived at after including		
(a) Revenues from operating activities		
General insurance revenue		
Gross written premiums	187,634	214,794
Movement in unearned premiums	268	(26,893)
Premium revenue	<u>187,902</u>	<u>187,901</u>
Outwards reinsurance expense	<u>(66,619)</u>	<u>(65,649)</u>
Net premium revenue	<u>121,283</u>	<u>122,252</u>
(b) Profit before income tax includes the following specific items		
Depreciation and amortisation on plant and equipment (Note 11)	(32)	(60)
Employee benefits	(11,874)	(9,820)

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

5 PROFIT FROM ORDINARY ACTIVITIES (continued)

	Current Underwriting Year \$'000	Prior Underwriting years \$'000	Total \$'000
(c) Net claims incurred			
2020			
Gross claims incurred and related expenses	(81,553)	(107,583)	(189,136)
Claims handling expenses	(961)	72	(889)
Reinsurance and other recoveries	39,795	79,895	119,690
Net claims incurred - undiscounted	<u>(42,719)</u>	<u>(27,616)</u>	<u>(70,335)</u>
Discount movement			
- gross claims incurred	559	(7,853)	(7,294)
- reinsurance and other recoveries	(159)	1,454	1,295
Net discount movement	<u>400</u>	<u>(6,399)</u>	<u>(5,999)</u>
Risk margin movement			
- gross claims incurred	(13,276)	(24,482)	(37,758)
- reinsurance and other recoveries	6,847	16,472	23,319
Net risk margin movement	<u>(6,429)</u>	<u>(8,010)</u>	<u>(14,439)</u>
Net claims incurred	<u>(48,748)</u>	<u>(42,025)</u>	<u>(90,773)</u>
2019			
Gross claims incurred and related expenses	(93,850)	1,577	(92,273)
Claims handling expenses	(941)	736	(205)
Reinsurance and other recoveries	42,189	(6,922)	35,267
Net claims incurred - undiscounted	<u>(52,602)</u>	<u>(4,609)</u>	<u>(57,211)</u>
Discount movement			
- gross claims incurred	2,503	(10,974)	(8,471)
- reinsurance and other recoveries	(839)	2,701	1,862
Net discount movement	<u>1,664</u>	<u>(8,273)</u>	<u>(6,609)</u>
Risk margin movement			
- gross claims incurred	(10,576)	7,758	(2,818)
- reinsurance and other recoveries	4,162	(4,159)	3
Net risk margin movement	<u>(6,414)</u>	<u>3,599</u>	<u>(2,815)</u>
Net claims incurred	<u>(57,352)</u>	<u>(9,283)</u>	<u>(66,635)</u>
(d) Net investment income		2020 \$'000	2019 \$'000
Interest		7,637	12,311
Investment income received/(paid) on reinsurance deposits		539	(565)
Realised gains		1,219	1,447
Unrealised gains on investments held at Fair Value Through Profit and Loss		1,919	696
Foreign exchange (loss)/gain		(4,028)	(309)
Expenses		(395)	(291)
		<u>6,891</u>	<u>13,289</u>
(e) Remuneration of auditors		2020 \$	2019 \$
Audit and review of the financial statements and regulatory compliance		<u>247,190</u>	<u>247,190</u>

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

6 INCOME TAX

	2020 \$'000	2019 \$'000
(a) Income tax expense		
Tax expense comprises:		
Current tax expense that relates to current year	(5,392)	(11,850)
Current tax relating to prior years' over provision	821	174
Deferred tax relating to temporary differences in current year	2,001	385
Deferred tax relating to prior years' over provision	(5)	40
	<u>(2,575)</u>	<u>(11,251)</u>
Income tax (expense) / benefit relating to gain from ordinary activities	<u>(2,575)</u>	<u>(11,251)</u>

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

Profit before income tax	11,061	38,340
Income tax expense calculated at 30% (2019: 30%) of operating profit	(3,318)	(11,502)
Adjustment for Permanent differences:		
- Non-deductible entertainment expense	(2)	(7)
- New Zealand tax rate differential	384	31
Prior year over provision	816	214
Foreign exchange differences on New Zealand branch profits	(455)	13
	<u>(2,575)</u>	<u>(11,251)</u>
Total income tax (expense) / benefit	<u>(2,575)</u>	<u>(11,251)</u>

(b) Deferred tax

At 31 December the net deferred tax asset comprises:

Timing differences	<u>10,207</u>	<u>5,675</u>
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The tax balances and reconciliation above are based on the current corporate tax rates of 30% (2019: 30%) applicable in Australia and 28% (2019: 28%) in New Zealand on taxable profits under Australian and New Zealand Income Tax Law respectively.

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

	Opening balance \$'000	Charged to income \$'000	Closing balance \$'000
2020 Temporary differences			
Deferred losses available for future years	9	4,746	4,755
Accruals and other liabilities	2,658	1,501	4,159
Unrealised foreign exchange differences	(594)	401	(193)
Investments	(961)	(618)	(1,579)
Insurance provisions	4,563	(1,498)	3,065
	<u>5,675</u>	<u>4,532</u>	<u>10,207</u>
2019 Temporary differences			
Deferred losses available for future years	608	(599)	9
Accruals and other liabilities	2,288	370	2,658
Unrealised foreign exchange differences	(1,433)	839	(594)
Investments	(797)	(164)	(961)
Insurance provisions	4,526	37	4,563
	<u>5,192</u>	<u>483</u>	<u>5,675</u>

General Reinsurance Australia Ltd. purchased \$nil losses from General Reinsurance Life Australia Ltd. (2019: \$4,615,000)

During the financial period, \$5,770,274 losses were purchased by General Reinsurance Australia Ltd. - New Zealand Branch from General Reinsurance Life Australia Ltd. - New Zealand Branch (2019: \$nil)

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

6 INCOME TAX (continued)

	2020 \$'000	2019 \$'000
(c) Franking account		
Franking credits available for the subsequent financial year	<u>122,763</u>	<u>121,285</u>

During the period, no dividend was declared or paid relating to the 2020 financial period (paid in 2019 \$nil for the 2018 financial period). The ability to utilise the franking account credits is dependent on there being sufficient available profits to declare a dividend. The franking account represents amounts on an income tax paid basis.

At formation of the MEC group disclosed in note 1, the franking account balance of the joining entity, General Reinsurance Life Australia Ltd (\$28,248,000) was transferred to the company.

7 CASH AND CASH EQUIVALENTS

Cash on hand and at bank	71,363	54,930
Cash on deposit	<u>2,004</u>	<u>17,320</u>
	<u>73,367</u>	<u>72,250</u>
Of which is held as reinsurance collateral from General Reinsurance Corporation	<u>17,774</u>	<u>28,280</u>

8 RECEIVABLES

The average credit period for premium issued is 90 days for Australian business and 120 days for New Zealand business. The company has recognised an allowance for doubtful debts being a credit weighted provision based on major rating agencies for receivables over 90 days and less than 180 days. An allowance of 50% against all receivables over 180 days and less than 360 days, and recognises a 100% doubtful debt allowance on items aged greater than 360 days, or where the company is in financial difficulty.

Premiums receivable	63,432	79,504
Less Provision for doubtful debts	<u>(3,357)</u>	<u>(684)</u>
	<u>60,075</u>	<u>78,820</u>

All balances are expected to be realised within 12 months.

Age of premium receivables that are past due but not impaired

- Less than 90 days	-	-
	<u>-</u>	<u>-</u>

Age of impaired premium receivables

- 90-180 days	1,433	-
- 181- 360 days	1,758	3,014
- 360 + days	<u>166</u>	<u>-</u>
	<u>3,357</u>	<u>3,014</u>

9 REINSURANCE RECOVERABLE

Reinsurance recoverable on paid losses	12,060	3,175
Reinsurance recoverable on unpaid losses	<u>165,557</u>	<u>86,226</u>
Total reinsurance recoveries	<u>177,617</u>	<u>89,401</u>

Reconciliation of reinsurance recoverable on unpaid losses

Balance as at 1 January	89,401	95,251
Movement in incurred recoveries	144,172	33,078
Less reinsurance recoveries received	<u>(55,956)</u>	<u>(38,928)</u>
Balance as at 31 December	<u>177,617</u>	<u>89,401</u>

Reinsurance recoverable at 31 December

Expected to be paid within 12 months	61,329	33,662
Expected to be paid in more than 12 months	<u>116,288</u>	<u>55,739</u>
	<u>177,617</u>	<u>89,401</u>

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

10 OTHER ASSETS	2020 \$'000	2019 \$'000
Deferred acquisition costs (see note 26)	33	1,960
Sundry assets	134	52
Due from related entities		
- General Reinsurance Life Australia Ltd.	-	2,980
	<u>167</u>	<u>4,992</u>

11 PLANT AND EQUIPMENT

Carrying value of:

Leasehold improvements	2	6
Furniture and equipment	<u>20</u>	<u>42</u>
	<u>22</u>	<u>48</u>

	Leasehold improvements \$'000	Furniture and equipment \$'000	Total \$'000
Cost:			
Balance at 1 January 2019	17	1,077	1,094
Exchange differences on opening balance	-	-	-
Additions	-	-	-
Disposals	-	-	-
Balance at 31 December 2019	<u>17</u>	<u>1,077</u>	<u>1,094</u>
Exchange differences on opening balance	-	-	-
Additions	-	-	-
Disposals	-	-	-
Balance at 31 December 2020	<u>17</u>	<u>1,077</u>	<u>1,094</u>
Accumulated depreciation:			
Balance at 1 January 2019	(8)	(976)	(984)
Exchange differences on opening balance	-	(2)	(2)
Disposals	-	-	-
Depreciation expense	(3)	(57)	(60)
Balance at 31 December 2019	<u>(11)</u>	<u>(1,035)</u>	<u>(1,046)</u>
Exchange differences on opening balance	-	6	6
Disposals	-	-	-
Depreciation expense	(4)	(28)	(32)
Balance at 31 December 2020	<u>(15)</u>	<u>(1,057)</u>	<u>(1,072)</u>

12 RIGHT-OF-USE ASSETS	2020 \$'000	2019 \$'000
Carrying value of:		
Properties	<u>8,238</u>	<u>6,419</u>
Net carrying amount		
Balance at 1 January	6,419	-
Effect of adoption of AASB 16 Leases	-	7,197
Adjustment to Opening Balance	<u>2,947</u>	<u>-</u>
Balance at 1 January 2020 (adjusted)	<u>9,366</u>	<u>7,197</u>
Exchange differences on opening balance	(17)	(2)
Depreciation expense	<u>(1,111)</u>	<u>(776)</u>
Amounts reflected in the statement of profit or loss and other comprehensive income	<u>(1,128)</u>	<u>(778)</u>
Balance at 31 December 2020	<u>8,238</u>	<u>6,419</u>

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 \$'000	2019 \$'000
13 INVESTMENTS		
Insurance activities, at fair value:		
Fixed interest securities	<u>705,937</u>	<u>626,127</u>
Of which is held as reinsurance collateral from General Reinsurance Corporation	<u>43,288</u>	<u>16,201</u>
14 CURRENT TAX ASSET		
The current tax asset relates to PAYG income tax instalments made on behalf of the MEC Group. The income tax instalments are determined based on the prior year income tax return lodged. Instalments were paid with the expectation of profits resulting in a taxable income.		
15 OUTSTANDING CLAIMS AND UNEARNED PREMIUMS		
Outstanding claims		
Gross outstanding claims	472,932	383,438
Discount to present value	(9,630)	(16,935)
Risk margin	<u>79,469</u>	<u>41,892</u>
Liability for outstanding claims	<u>542,771</u>	<u>408,395</u>
Reconciliation of outstanding claims		
Balance at start of year	408,395	376,352
Foreign currency revaluations	3,249	(2,146)
Change in discount to present value	7,305	8,459
Change in risk margin	37,576	2,863
Claims paid	(97,388)	(72,391)
Movement in incurred claims	<u>183,634</u>	<u>95,258</u>
Balance at end of year	<u>542,771</u>	<u>408,395</u>
Outstanding claim liabilities at 31 December		
Expected to be paid within 12 months	178,320	136,181
Expected to be paid in more than 12 months	<u>364,451</u>	<u>272,214</u>
	<u>542,771</u>	<u>408,395</u>

The average discount rate used in the measurement of outstanding claims is 0.67% (2019: 1.31%).

The weighted average term to settlement for the outstanding claims provisions which have been subject to discounting is approximately 3.14 years (2019: 3.66 years).

Net undiscounted central estimate of ultimate claims

	2012 \$M	2013 \$M	2014 \$M	2015 \$M	2016 \$M	2017 \$M	2018 \$M	2019 \$M	2020 \$M	Total \$M
Estimate of net ultimate claims cost:										
At end of accident year	52	55	74	58	74	76	88	88	114	
One year later	40	39	65	45	63	69	79	93		
Two years later	36	44	63	38	65	65	64			
Three years later	35	37	54	34	61	63				
Four years later	32	35	51	32	53					
Five years later	29	33	49	31						
Six years later	32	31	47							
Seven years later	31	30								
Eight years later	25									
Current estimate of net cumulative claims	25	30	47	31	53	63	64	93	114	
Cumulative net payments	(12)	(22)	(41)	(21)	(36)	(50)	(34)	(34)	(10)	
Net undiscounted outstanding claims for the nine most recent accident years	<u>13</u>	<u>8</u>	<u>6</u>	<u>10</u>	<u>17</u>	<u>13</u>	<u>30</u>	<u>59</u>	<u>104</u>	<u>260</u>

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

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

15 OUTSTANDING CLAIMS AND UNEARNED PREMIUMS (continued)

	Total \$'000
Net undiscounted outstanding claims for the 9 most recent accident years	260,158
Net outstanding claims – accident years 2010 and prior	59,262
Claims handling costs	3,368
Discount to present value	(7,723)
Risk margin	50,083
Reinsurance recoverable on paid losses	6
Net outstanding claims liability	365,154

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

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

MATURITY PROFILE OF NET OUTSTANDING CLAIMS LIABILITY	2020 \$'000	2019 \$'000
Not later than one year	116,990	102,519
Later than one year but not later than five years	135,412	126,665
Later than five years	112,751	89,810
	365,154	318,994

UNEARNED PREMIUM

Gross		
Balance as at 1 January	84,700	57,515
Foreign currency revaluations	(319)	291
Deferral of premiums on contracts written in the period	84,432	84,409
Earning of premiums written in previous periods	(84,700)	(57,515)
Balance as at 31 December	84,113	84,700
Retroceded		
Balance as at 1 January	(28,972)	(17,000)
Deferral of premiums on contracts written in the period	(10,214)	(11,972)
Balance as at 31 December	(39,186)	(28,972)
Net unearned premiums liability	44,927	55,728

16 REINSURANCE FUNDS HELD

Reinsurance funds held	51,421	13,000
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The company has a collateralised deed agreement with its parent relating to Retrocession recoverable on historic events. The interest income earned on this balance is an expense payable back to General Reinsurance Corporation.

17 PROVISIONS	Opening Balance \$'000	Payments \$'000	Provision \$'000	Closing Balance \$'000
Employee entitlements	1,469	(475)	457	1,451

Employee entitlements contains the provision for annual leave and long service leave and represents the present value of the best estimate of future expenses based on current employee records.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

18 OTHER PAYABLES	2020	2019
	\$'000	\$'000
Sundry payables and accruals	7,907	8,230
Due to related entities:		
- General Reinsurance Corporation	24,290	44,283
- General Reinsurance Africa Ltd	9	-
- General Reinsurance Life Australia Ltd	1,573	-
	<u>33,779</u>	<u>52,513</u>
All balances are expected to be paid within 12 months		
19 LEASE LIABILITIES	2020	2019
	\$'000	\$'000
Balance at 1 January	6,419	-
Effect of adoption of AASB 16 Leases	-	7,197
Adjustment to Opening Balance	3,412	-
Balance at 1 January (adjusted)	<u>9,831</u>	<u>7,197</u>
Exchange differences on opening balance	(17)	(2)
Interest expense	353	296
Payments	(1,036)	(1,072)
Amounts reflected in the statement of profit or loss and other comprehensive income	<u>(700)</u>	<u>(778)</u>
Balance at 31 December 2020	<u>9,131</u>	<u>6,419</u>
Expected to be paid within 12 months	771	776
Expected to be paid in more than 12 months	8,360	5,643
	<u>9,131</u>	<u>6,419</u>
Maturity profile		
Not later than one year	771	776
Later than one year but not later than five years	5,453	3,106
Later than five years	2,907	2,537
	<u>9,131</u>	<u>6,419</u>
20 CONTRIBUTED EQUITY		
Ordinary shares fully paid to \$2	<u>132,245</u>	<u>132,245</u>
	2020	2019
	Number of	Number of
	shares	shares
Issued ordinary number of shares	<u>66,122,322</u>	<u>66,122,322</u>
Ordinary shares have a par value of \$2, carry voting rights of 1 vote per share and carry the rights to dividends		

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

21 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 Gifford
Neal Mullen

Related party balances at reporting date

General Reinsurance Life Australia Ltd.	(1,573)	2,980
General Reinsurance SA	(9)	-

Immediate Parent:

General Reinsurance Corporation	(24,290)	(44,283)
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Management charges paid to related entities

General Reinsurance AG	(1,005)	(441)
GRF Services	(309)	-
New England Asset Management, Inc	(235)	(194)

Ultimate Parent:

General Reinsurance Corporation	(2,636)	(2,612)
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Management charges received from related entities

General Reinsurance AG	644	-
General Reinsurance Life Australia Ltd.	1,709	1,568

Retrocessions

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

Related party: General Reinsurance Corporation

Retrocession premiums for the financial year	(66,619)	(65,649)
Claim recoveries for the financial year	144,172	33,078
Reinsurance recoverable on paid losses at 31 December	-	-
Reinsurance recoverable on unpaid losses at 31 December	5,694	7,191
Reinsurance funds held at 31 December *	(51,421)	(13,000)

* The company has entered into a collateralised deed agreement with General Reinsurance Corporation. Under this deed, Retrocession recoverable relating to events which have passed the second balance period since the date of loss are fully collateralised.

Intercompany balances, other than the collateralised funds held, are at no interest and are due on demand.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

22 NOTES TO THE STATEMENT OF CASH FLOWS

	2020 \$'000	2019 \$'000
Reconciliation of net operating cash flows to net profit		
Net profit	8,486	27,089
Depreciation	1,959	885
Unrealised foreign exchange (gain)/loss on cash balances	2,303	207
Profit on sale of investments	(1,219)	(1,447)
Unrealised exchange variance on investments	2,174	(852)
Unrealised movement in fair value of investments and amortisation	14,937	9,903
Finance costs	355	296
Change in operating assets and liabilities		
(Increase) in premiums receivable	14,472	(34,354)
Decrease/(increase) in reinsurance recoveries	(88,216)	5,850
(Increase)/decrease in other assets	3,520	(4,351)
Decrease/(increase) in reinsurance funds held	38,421	9,815
(Decrease)/increase in payables and provision	(18,281)	(2,966)
Decrease in underwriting provisions:		
- unearned premium	(10,800)	15,212
- outstanding claims	138,647	32,044
- unexpired risk liability	(5,405)	143
Movement in tax accounts	(6,878)	30,549
Net cash provided by operating activities	94,475	88,023

23 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, except for related party transactions.

(b) Interest Rate Risk

The company's exposure to interest rate risk is managed through adjustments to the investment portfolio. The company's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and liabilities is set out below in section (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 company 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, 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 company consists of cash and cash equivalents (as disclosed in Note 7) and equity, comprising issued capital 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 2020

23 FINANCIAL INSTRUMENTS (continued)

(f) Categories of financial instruments		2020 \$'000	2019 \$'000
Financial assets	Note		
Cash and cash equivalents	7	73,367	72,250
Financial assets at fair value through profit or loss (i)	13		
Fixed interest securities		705,937	631,335
Loans and receivables			
Other receivables	10	167	4,992
Financial liabilities			
Amortised cost			
Trade creditors and other payables	18	7,907	8,230
Due to related parties	18	24,290	44,283

(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 company. The Chief Risk Officer (CRO) reviews, monitors and reports on the RMS to the Managing Director and the Board Risk Committee.

As part of the overall governance framework the Board and senior management of the company have developed, implemented and maintain a sound and prudent RMS and a REMS. The RMS and REMS identify the company's policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the company. Annually, the Board certifies to APRA that adequate strategies have been put in place to monitor those risks, that the company has systems in place to ensure compliance with legislative and prudential requirements and that the Board has satisfied itself as to compliance with the RMS and REMS.

(h) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The company has adopted the policy of only dealing with creditworthy cedants and bondholders as a means of mitigating the risk of financial loss from defaults. The company's overall strategy in respect of credit risk management remains unchanged from 2019.

(i) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations under the reinsurance contracts it has entered into. Ultimate responsibility for liquidity risk management rests with the Board of directors, which has implemented appropriate liquidity risk management framework for the management of the company's short, medium and long-term funding and liquidity management requirements. The company manages liquidity risk by maintaining appropriate levels of financial assets that are readily realisable and by continuously monitoring forecast and actual cash flows in order to match the maturity profiles of assets and liabilities. As required by APRA Prudential Standard CPS 220, the company has developed and implemented a Risk Management Strategy. The company's overall strategy in liquidity risk management remains unchanged from 2019.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

23 FINANCIAL INSTRUMENTS (continued)

(i) Liquidity risk (continued)

The following tables summarise the maturity profile of the company'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 company 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
2020	%	\$'000	\$'000	\$'000	\$'000
Financial liabilities					
<i>Interest bearing:</i>					
Reinsurance funds held	0.32	51,421	-	-	51,421
<i>Non-interest bearing:</i>					
Payables	-	33,779	-	-	33,779
Employee entitlements	-	699	-	752	1,451
		<u>85,899</u>	<u>-</u>	<u>752</u>	<u>86,651</u>
2019					
Financial liabilities					
<i>Interest bearing:</i>					
Reinsurance funds held	1.48	13,000	-	-	13,000
<i>Non-interest bearing:</i>					
Payables	-	52,016	497	-	52,513
Employee entitlements	-	576	-	893	1,469
		<u>65,592</u>	<u>497</u>	<u>893</u>	<u>66,982</u>

(j) Market risk

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

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

23 FINANCIAL INSTRUMENTS (continued)

Interest rate risk management

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

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

	Weighted average interest rate	Less than 1 year	1-5 years	5+ years	Total
2020	%	\$'000	\$'000	\$'000	\$'000
Non-interest bearing:					
Receivables	-	60,075	-	-	60,075
Other receivables	-	167	-	-	167
Variable interest rate instruments:					
Cash	0.01	26,991	-	-	26,991
Fixed interest rate instruments:					
Australian Sovereigns	0.10	137,577	431,362	-	568,939
New Zealand Sovereigns	0.51	110,234	1,777	-	112,011
Regional- State	-	-	-	-	-
Government Guaranteed	-	-	-	-	-
Corporates	-	-	-	-	-
		<u>335,044</u>	<u>433,139</u>	<u>-</u>	<u>768,183</u>
2019					
Non-interest bearing:					
Receivables	-	78,820	-	-	78,820
Other receivables	-	4,992	-	-	4,992
Variable interest rate instruments:					
Cash	0.89	17,320	-	-	17,320
Fixed interest rate instruments:					
Australian Sovereigns	0.94	100,860	430,459	-	531,319
New Zealand Sovereigns	1.14	50,898	49,118	-	100,016
Regional- State	-	-	-	-	-
Government Guaranteed	-	-	-	-	-
Corporates	-	-	-	-	-
		<u>252,890</u>	<u>479,577</u>	<u>-</u>	<u>732,467</u>

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

	+100bps \$'000		-100bps \$'000	
	2020	2019	2020	2019
Effect of 100 basis point increase or decrease on profit (+/-)	(8,884)	(10,314)	9,075	10,595

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

23 FINANCIAL INSTRUMENTS (continued)

Foreign currency risk management

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

The company is mainly exposed to fluctuations in the New Zealand dollar (NZD) exchange rate through its branch in New Zealand. The company's financial assets are primarily denominated in the same currencies as its reinsurance contract liabilities, which mitigates the foreign currency exchange risk for the overseas operations in New Zealand. The company's overall strategy in respect of foreign currency risk management remains unchanged from 2019.

The carrying amount of the company's foreign currency denominated monetary assets and monetary liabilities in Australian dollars at the reporting date is as follows

	Net Liabilities	
	2020 \$'000	2019 \$'000
New Zealand dollar	29,626	12,911
Japanese Yen	(7,382)	(17,511)

Foreign currency sensitivity

The following table details the company's sensitivity to a 10% increase and decrease in the Australian dollar against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to management and represents their assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign exchange rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the company where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in profit or loss and other equity when the Australian dollar strengthens against the respective currency.

	10% increase impact on Profit or Loss		10% decrease impact on Profit or Loss	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Liabilities				
New Zealand dollar	2,963	1,291	(2,963)	(1,291)
Japanese Yen	(738)	(1,751)	738	1,751

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 company'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.

Investments

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

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

23 FINANCIAL INSTRUMENTS (continued)

Investments (continued)

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 company'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 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 2020 and 2019 are summarised in the following table by the type of inputs applicable to the level of the fair value measurement (in thousands)

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
2020				
Fixed maturity bonds				
Obligations of Australian and New Zealand Governments	680,950	-	-	680,950
	<u>680,950</u>	<u>-</u>	<u>-</u>	<u>680,950</u>

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

2019				
Fixed maturity bonds				
Obligations of Australian and New Zealand Governments	631,335	-	-	631,335
	<u>631,335</u>	<u>-</u>	<u>-</u>	<u>631,335</u>

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

24 APRA CAPITAL ADEQUACY

The following information refers to APRA's capital adequacy requirements. The calculation of capital and some other balances are based on different methodologies from those used to prepare these financial statements.

	2020 \$'000	2019 \$'000
Capital base/Common Equity Tier 1 Capital		
Net assets	345,530	337,044
Premium liability deficit	(2,048)	(22,774)
Deferred tax assets	(10,207)	(5,675)
Reinsurance assets receivable not meeting governing law requirements	(388)	(334)
	332,887	308,261
Prescribed Capital Amount (PCA)		
Insurance Risk Charge	69,415	67,614
Insurance Concentration Risk Charge	57,440	78,906
Asset Risk Charge	21,874	22,968
Operational Risk Charge	7,201	7,470
Less: Aggregation Benefit	(15,761)	(16,708)
	140,169	160,250
Capital in excess of PCA	192,718	148,010
PCA coverage ratio	2.3749	1.9236

General Reinsurance Australia Ltd. has an "AA+" credit rating from Standard and Poor's as at 31 December 2020.

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

25 KEY MANAGEMENT PERSONNEL REMUNERATION

The compensation of the specified Directors and specified executives, being the key management personnel of the company, is set out below.

	2020 \$'000	2019 \$'000
Short-term employee benefits	1,001	1,392
Other long-term benefits	18	205
	1,019	1,597

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

26 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.

Future claims assumptions, including risk margins, used in the LAT are on a basis consistent with the COVID-19 considerations and assumptions for the outstanding claims liability and subject to the same uncertainties.

The following table details the value of the expected future income/expenditure items arising from in-force contracts

	2020 \$'000	2019 \$'000
PV of expected future cash flows for future claims		
<i>Central estimate of PV of expected future cash flows</i>	(99,993)	(102,873)
<i>Risk margin</i>	(23,434)	(21,891)
	<u>(123,427)</u>	<u>(124,764)</u>
<i>Risk margin</i>	23%	21%
<i>At probability of adequacy</i>	75%	75%

Reconciliation of LAT deficiency only on those portfolios that are in deficit.

Unearned premium liability	48,126	40,998
Future premiums	33,845	39,247
Deferred acquisition costs	(9,913)	(7,540)
Future commissions	(7,806)	(10,788)
Reinsurance asset	(22,445)	(12,014)
PV of expected future cash flows for future claims	(85,813)	(83,150)
Present value of expected future cash flows for future reinsurance recoveries	29,597	15,123
LAT deficiency	14,409	18,124
<i>Of which:</i>		
<i>write-down of deferred acquisition costs</i>	6,188	4,498
<i>unexpired risk liability</i>	8,221	13,626

Reconciliation of deferred acquisition costs net of retrocession

Balance as at 1 January	1,960	120
Acquisition costs deferred	1,908	3,413
Amortisation charged to profit or loss	(2,702)	(438)
Movement in LAT write-down	(1,119)	(1,119)
Foreign currency revaluation	(15)	(15)
Balance as at 31 December	33	1,960

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

27 Reconciliation of US-GAAP balances to Australian IFRS (A-IFRS)

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

	2020 \$'000	2019 \$'000
US-GAAP profit after tax	20,393	36,642
<i>Adjustment items</i>		
Market Value adjustment in respect of investments held to maturity	1,919	696
Movement in currency translation adjustment	(842)	(445)
Gross claims reserve discounting	(7,294)	(8,471)
Gross risk margin	(37,758)	(2,818)
Discount on retroceded claims	1,295	1,862
Risk margin on retroceded claims	23,319	3
Deferred acquisition costs write down	3,719	(1,069)
Retrocession adjustment	-	(3,260)
Lease ROU Asset and Liability	(893)	-
Tax adjustments on items above	4,628	3,949
A-IFRS profit after tax	8,486	27,089
US-GAAP Net Assets	386,376	365,375
<i>Adjustment items</i>		
Gross claims reserve discounting	9,630	16,935
Gross risk margin	(79,469)	(41,892)
Discount on retroceded claims	(1,907)	(3,204)
Risk margin on retroceded claims	29,385	6,077
Deferred acquisition costs write down	(6,188)	(4,498)
Unexpired risk liability	(8,221)	(13,626)
Lease ROU Asset and Liability	(893)	-
Tax adjustments on items above	16,817	11,877
Net assets per A-IFRS	345,530	337,044

28 ADDITIONAL COMPANY INFORMATION

Principal Place of Business and Registered Office

Level 20
1 O'Connell Street
SYDNEY 2000

Number of Employees

At 31 December 2020 the company had 39 employees (2019: 41)

Type of Company

The company operates as a for profit unlisted public company.

29 EVENTS SUBSEQUENT TO BALANCE DATE

There were no events subsequent to balance date requiring disclosure.

DIRECTORS' DECLARATION

The Directors declare that.

- (a) in the Directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- (b) in the Directors' opinion, the attached financial statements and notes thereto are prepared in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and the performance of the entity
- (c) in the Directors' opinion, the financial statements and notes thereto are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board

Signed in accordance with a resolution of the Directors made pursuant to Section 295(5) of the Corporations Act 2001 on 17 March 2021

On behalf of the directors



K. J. McCann
Chair

Sydney, 17 March 2021



N. Mullen
Managing Director

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

Opinion

We have audited the financial report of General Reinsurance Australia Ltd. (the "company") which comprises the statement of financial position as at 31 December 2020, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration as set out on pages 8 to 40.

In our opinion, the accompanying financial report of General Reinsurance Australia Ltd. is in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the company's financial position as at 31 December 2020 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the company in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the Directors' report for the year ended 31 December 2020, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report 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 other information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibilities for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an 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 the Australian Auditing Standards 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 this financial report

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also

- Identify and assess the risks of material misstatement of the financial report, 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 company'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 company'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 report 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 company to cease to continue as a going concern
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents 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

Max Murray
Partner
Chartered Accountants
Sydney, 17 March 2021

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Member of Deloitte Touche Tohmatsu Limited*



Nina Xiao
2020 GRA Section 78 report .docx

Tel. +61 2 8236 6102
Fax +61 2 9222 1520
nina.xiao@genre.com

Sydney, 16 March 2021

APPOINTED ACTUARY'S STATEMENT

of General Reinsurance Australia Ltd. ("the Company")

Section 78 report as at 31 December 2020

It is the Company'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 2020 financial statements of the Company 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.

16 March 2021

As at 31 December 2020, as required by the Reserve Bank of New Zealand, 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 Nina Xiao, Fellow of the Institute of Actuaries of Australia and employee of General Reinsurance Australia Ltd, as the Appointed Actuary of General Reinsurance Australia Ltd. for the purposes of Section 76 of the Insurance (Prudential Supervision) Act 2010 who provided advice for and reviewed the 2020 financial statements for the Company.



Nina Xiao, FIAA