General Reinsurance Australia Ltd.
New Zealand Branch

Financial Report
for the Financial Year ended
31 December 2022

A Berkshire Hathaway Company

CONTENTS

DIRECTORS' REPORT

The Directors present their report together with the annual financial report for the financial year ended 31 December 2022 and the auditor's report thereon. The New Zealand Branch (the branch) is a foreign operation of General Reinsurance Australia Ltd. (the company) incorporated in Australia.

Directors

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

Kathryn J McCann (commenced as Chairperson 19 August 2016)
Keith Scott (commenced 1 January 2017)
Stephen Ferguson (commenced 18 November 2021)
Andrew Gifford (commenced 11 May 2018)
Neal Mullen (commenced 1 May 2019)

Name and qualifications	*Experience and special responsibilities*
Kathryn J McCann B.App.Sci (Computing Science), MBA, MAICD - Chair of the Board - Non-Executive Director - Member of Board Audit Committee - Member of Board Risk Committee - Member of Board Remuneration Committee	Ms McCann has over 32 years' experience in the finance and business management industry. She is a director of Astro Japan Property Group Limited and General Reinsurance Life Australia Ltd. She holds a Master of Business Administration degree and held the position of Principal of a major management consulting firm up to 2002. Director since August 2006 and a member of the Board Audit Committee since November 2006. She was appointed as Chair of the Board effective 19 August 2016.
Keith Scott FAICD, FCII, MA (Cantab) - Non-Executive Director - Chair of Board Risk Committee - Chair of Board Remuneration Committee - Member of Board Audit Committee	Mr Scott has over 21 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 Blue 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.
Stephen Ferguson CA, BCom-Accg, GAICD - Non-Executive Director - Chair of Board Audit Committee - Member of Board Risk Committee - Member of Board Remuneration Committee	Mr Ferguson's executive experience over a period of 29 years has included consulting for a diverse range of industries including banking, capital markets, retail and consumer products, superannuation, insurance, and chartered accounting. He has held many roles in the Audit and Assurance function of Ernst & Young, the last 5 years of that time as Asia Pacific Financial Services Accounts Leader - Deputy Managing Partner. He was appointed to the Board on 18 November 2021 and is the chair of the Board Audit Committee. Mr Ferguson currently also holds Director roles at Bank Australia, Parkinson's Australia Inc, and is CFO for a Not-For-Profit organisation BackTrack Youth Works helping vulnerable youth find opportunities in learning, training, and employment.
Neal Mullen BBus, ANZIIF (Snr Assoc), AAICD - Managing Director	Mr Mullen has over 22 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.
Andrew Gifford B.A., JD	Mr Gifford is a member of the Bar of the State of Illinois and is an authorised house counsel in the State of Connecticut. Prior to joining the Gen Re group in 2012, Mr. Gifford was a partner with the law firms Locke Lord Bissell & Liddell LLP and DLA Piper LLP where he handled a wide range of matters, including litigation, for financial and professional services firms. At Gen Re, Mr Gifford has held various roles in the Global Legal Department and is currently Gen Re's Global General Counsel and Corporate Secretary. He is also a director for various Gen Re group entities, including the group holding company General Re Corporation and the group's largest regulated entity General Reinsurance Corporation, and sits on the group Audit and Risk Committees. Mr. Gifford is a graduate of the University of Michigan Law School where he received a Juris Doctorate degree.

DIRECTORS' REPORT (continued)

Meetings of directors

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the directors of the Company during the financial year ended 31 December 2022 are:

Director	*Directors' Meetings*		*Board Audit Committee*		*Board Remuneration Committee*		*Board Risk Committee*	
	A	B	A	B	A	B	A	B
Kathryn J McCann	5	5	5	5	3	3	4	4
Keith Scott	5	5	5	5	3	3	4	4
Stephen Ferguson	5	5	5	5	3	3	4	4
Andrew Gifford	5	5	-	-	-	-	-	-
Neal Mullen	5	5	-	-	-	-	-	-

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:

Nicholas Thayer (appointed 9 September 2022)
Peter Keller (appointed 19 October 2022)
Scott Unterrheiner (appointed 14 November 2017, resigned 19 October 2022)

Name and qualifications	*Experience and special responsibilities*
Nicholas Thayer B.Com, CA	Mr Thayer has been employed by Gen Re for 16 years. He is currently the Corporate General Manager for Australia and New Zealand, and previously held roles as the Global Internal Audit Director and International Audit Manager in Germany. Prior to joining Gen Re he worked in various roles within the financial services industry in London.
Peter Keller Diploma (Mathematics and Business Administration)	Mr Keller has been employed by Gen Re for 2 years. He is currently the Chief Risk and Compliance Officer for Australia and New Zealand. Prior to joining Gen Re, he worked in various risk and compliance roles within the financial services industry in Sydney, London and in Germany.
Scott Unterrheiner B.Com, CA	Mr Unterrheiner was employed by Gen Re for 10 years. While employed at Gen Re, he was the Chief Financial Officer for Australia and New Zealand, and previously held roles as the Asia Pacific Chief Risk Officer, and Finance Manager for Australia and New Zealand. Prior to joining Gen Re he worked in various roles within the financial services industry in both Sydney and London.

Principal activities

The principal activity of the branch is reinsurance underwriting.

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

Review of operations

Operating Results
The net profit of the branch for the year, after provision for income tax, amounted to $6,188,000 compared with the 2021 net profit of $10,249,000.

State of affairs

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

Events subsequent to balance date

In January 2023 there was significant flooding across the upper North Island of New Zealand. In February 2023 Cyclone Gabrielle hit the North Island of New Zealand. The company will have exposure, the extent of which cannot be quantified at this time. The design of the company's retrocession program will provide significant protection for losses which may occur.

Otherwise, 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.

DIRECTORS' REPORT (continued)

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 branch that require comment in this report other than the comments made under the Review of Operations. The directors do not consider there are any likely developments which will impact the operations of the branch.

Environmental regulation

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

Disclosures

No disclosure has been made in respect of s211(1)(a) and (e) to (j) of the Companies Act 1993 following a unanimous decision by the shareholders in accordance with s211(3) of the Act.

Acknowledgements

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

Approval

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

On behalf of the Directors:

Kate McCann

K. J. McCann
Chair

N. Mullen
Managing Director

Sydney, 21 March 2023

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

	Note	2022 $'000	2021 $'000
Premium revenue		33,865	38,322
Outwards reinsurance expense		(24,352)	(24,621)
Net premium revenue	5(a)	**9,513**	**13,701**
Claims expense		6,386	(29,512)
Reinsurance and other recoveries		(7,902)	34,333
Net claims incurred	5(c)	**(1,516)**	**4,821**
Acquisition income		1,505	(440)
Unexpired risk liability		1,384	(2)
General and administration expenses	5(b)	(2,870)	(3,325)
Net underwriting profit		**8,016**	**14,755**
Interest income		1,234	495
Net investment gains		(912)	(1,405)
Investment expenses		(49)	(44)
Net investment loss	5(d)	**273**	**(954)**
Profit before income tax		**8,289**	**13,801**
Income tax expense on profit	6(a)	(2,101)	(3,552)
Profit after income tax		**6,188**	**10,249**
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		**6,188**	**10,249**

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

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

For the financial year ended 31 December 2022	Head Office Account	Retained Earnings	Total
	$'000	$'000	$'000
Balance at 1 January	10,000	47,910	57,910
Total comprehensive income for the year	-	6,188	6,188
Balance at 31 December	**10,000**	**54,098**	**64,098**

For the financial year ended 31 December 2021	Head Office Account	Retained Earnings	Total
	$'000	$'000	$'000
Balance at 1 January	10,000	37,661	47,661
Total comprehensive income for the year	-	10,249	10,249
Balance at 31 December	**10,000**	**47,910**	**57,910**

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

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022

	Note	2022 $'000	2021 $'000
Assets			
Cash and cash equivalents	7	17,739	11,626
Investments	11	76,836	69,030
Receivables	8	10,559	10,365
Other assets	10	20,053	31,144
Reinsurance recoverable	9	31,254	45,180
Deferred tax assets	6(b)	516	613
Right-of-use assets	12	131	175
Total assets		**157,088**	**168,133**
Liabilities			
Unearned premiums	13	6,069	5,431
Outstanding claims	13	77,000	94,624
Unexpired risk liability	22	1,749	3,133
Other payables	15	5,899	3,751
Lease liabilities	16	144	195
Provisions	14	90	77
Current tax liabilities		2,039	3,012
Total liabilities		**92,990**	**110,223**
Net assets		**64,098**	**57,910**
Equity			
Head Office Account	17	10,000	10,000
Retained earnings		54,098	47,910
Total equity		**64,098**	**57,910**

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

STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

	Note	2022 $'000	2021 $'000
Cash flows from operating activities			
Premiums received		35,008	39,460
Commissions paid		(2,203)	(4,431)
Outwards reinsurance paid		(25,285)	(27,165)
Claims paid		(11,304)	(9,112)
Reinsurance recoveries received		6,640	3,007
Other receipts/(payments) from employees, suppliers, and related parties		15,904	(27,596)
Interest received		1,948	444
Investment expenses paid		(49)	(44)
Income tax paid		(2,977)	-
Net cash provided by/(used in) operating activities	19	**17,682**	**(25,437)**
Cash flows from investing activities			
Payments for purchase of investments		(77,120)	(70,017)
Proceeds from sale/maturity of investments		65,639	89,830
Payments for fixed assets		(33)	-
Net cash (used in)/provided by investing activities		**(11,514)**	**19,813**
Cash flows from financing activities			
Payments for lease liabilities		(55)	(47)
Net cash used in financing activities		**(55)**	**(47)**
Net increase/(decrease) in cash and cash equivalents during the financial year		**6,113**	**(5,671)**
Cash and cash equivalents at beginning of financial year		11,626	17,297
Cash and cash equivalents at end of financial year	7	**17,739**	**11,626**

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

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

1 SUMMARY OF ACCOUNTING POLICIES

Statement of compliance

These general purpose financial statements cover General Reinsurance Australia Ltd. – New Zealand Branch (the branch). The branch is domiciled in New Zealand, registered address at 55 Shortland Street, Auckland. The branch is a FMC reporting entity under the Financial Markets Conduct Act 2013, and its financial statements comply with this Act and the Companies Act 1993.

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

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

The accounting policies below have been applied in preparing the financial statements for the financial year ended 31 December 2022 and comparative information presented in these financial statements for the financial year ended 31 December 2021.

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

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

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

The financial statements were authorised for issue by the Directors on 21 March 2023.

Basis of preparation

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

Summary of significant accounting policies

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

(a) Outstanding claims

Provision is made for the estimated cost of all unsettled claims. The provision includes an estimate, based on past experience, of the cost of unreported claims and their expected settlement costs. The provision also includes a claims handling expense of 1% of the gross outstanding claims liabilities which is supported by analysis of the current level of the branch's Claims department expenses.

The outstanding claims liability includes a margin that relates to the inherent uncertainty in the central estimate. The margin has been actuarially determined based on past experience and industry practice to ensure realistic provisioning for outstanding claims.

The outstanding claims liability includes the effect of inflation on the ultimate claim amount and is discounted using a risk free rate. The details of discount rates applied is included in Note 3.

(b) Outwards reinsurance

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

(c) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid and outstanding claims are recognised as revenue. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as for the outstanding claims liability. The company retrocession program currently retrocedes 20% of all risks written, plus an additional 1) 80% of Non Proportional Natural Catastrophe contracts, 2) 80% of Property Facultative policies where the company's exposure exceeds 25 million Australian Dollars, and 3) 30% Treaty Proportional Property contracts.

(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.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

1 SUMMARY OF ACCOUNTING POLICIES (continued)

(e) Unearned premiums

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

(f) Liability adequacy

At each reporting date, a liability adequacy test is performed on unearned premium reserves less related deferred acquisition costs to ensure that the carrying value is adequate, using current estimates of future cash flows, taking into account the relevant investment returns. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is immediately recognised in profit or loss. Related intangible assets and then deferred acquisition costs must be written down before recognising the deficiency as an unexpired risk liability. 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.
- Fixed interest securities are carried at fair value represented by the quoted market value at balance date.

(h) Assets backing insurance liabilities

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

(i) Deferred acquisition costs

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

(j) Foreign currency

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

(k) Income tax

Current tax

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

Deferred tax

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

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

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

(l) Receivables and revenue recognition

Receivables are recognised as follows:

- Reinsurance premium receivables are recognised in accordance with NZ IFRS 4 “Insurance Contracts”.
- Income receivable on financing and investment activities is accrued using the effective interest method.
- The branch has adopted and applied the simplified model for expected credit losses ('ECLs') on receivables which are not recognised in accordance with NZ IFRS 4 “Insurance Contracts”, by considering historically observed default rates and adjusting for forward-looking estimates.
- Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off.

(m) Accounts payable

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

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

1 SUMMARY OF ACCOUNTING POLICIES (continued)

(n) Impairment of financial assets

All financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance date. The branch estimates and accounts for expected credit losses for all relevant financial assets not at fair value through profit and loss. For financial assets carried at amortised cost, the impairment is calculated as a provision for ECLs. The provision for ECLs is based on the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

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

(o) Provision for employment entitlements

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

Salaries and annual leave

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

(p) Superannuation

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

(q) Goods and services tax

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

(i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the acquisition cost of an asset or as part of an item of expense; or

(ii) for receivables and payables which are recognised inclusive of GST.

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

(r) Leases

Branch as a lessee

The branch applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The branch 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 branch 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 branch 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.

Lease liabilities

At the commencement date of the lease, the branch 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 branch and payments of penalties for terminating the lease, if the lease term reflects the branch 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 branch 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.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

1 SUMMARY OF ACCOUNTING POLICIES (continued)

(r) Leases (continued)

Short-term leases and leases of low-value assets

The branch 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.

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

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

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
NZ IFRS 17 'Insurance Contracts'	1 January 2023	31 December 2023
Amendments to NZ IFRS 17 'Insurance Contracts'	1 January 2023	31 December 2023
Amendments to NZ IAS 1 and IFRS Practice Statement 2	1 January 2023	31 December 2023
Amendments to NZ IAS 8 - Definition of Accounting Estimates	1 January 2023	31 December 2023
Amendments to NZ IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023	31 December 2023
Amendments to NZ IFRS 16 'Leases'	1 January 2024	31 December 2024

NZ IFRS 17 'Insurance Contracts' and Amendments

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

Implementation of of NZ IFRS 17 is effective for reporting periods beginning on or after 1 January 2023. The branch will first report using NZ IFRS 17 for the year ending 31 December 2023, providing comparatives for 2022.

Measurement of insurance contracts

Measurement models

The core of NZ IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach), 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.

The branch has elected to use the general model for all treaties it enters.

Level of aggregation of insurance contracts

NZ IFRS 17 requires insurance contracts to be grouped to determine the level of detail which reinsurance and retrocession assets and liabilities are aggregated on the balance sheet. This is the basis for determining contract groups and ultimately onerous (loss making) contracts. The level of aggregation used by the company is at a treaty level. The company has developed a model to calculate if any treaty is onerous at transition and subsequently each quarter. Onerous contract losses are measured based on an estimation of fulfilment cash flows and are recognised in profit or loss.

Risk adjustment

The measurement of insurance contract liabilities will include a risk adjustment which replaces the risk margin under NZ IFRS 4. The risk adjustment under NZ IFRS 17 is defined as the compensation required for bearing the uncertainty that arises from non-financial risk. The company will use an approach which is based on 75% probability of sufficiency. Similar to the risk margin, the risk adjustment includes the benefit of diversification. NZ IFRS 17 requires the disclosure of the confidence level that corresponds to the risk adjustment used in the measurement of insurance contract liabilities.

Discount rates

NZ IFRS 17 requires estimates of future cash flows to be discounted to reflect the time value of money and financial risks related to those cash flows but does not prescribe a methodology for determining the discount rates used. The company will use New Zealand Government Bond rates by cashflow duration (i.e. risk free yield with no adjustment for illiquidity).

Transition

NZ IFRS 17 will be applied retrospectively to all of the company's insurance contracts on transition except to the extent that it is impracticable to do so, in which case either a modified retrospective or fair value approach may be applied.

Implementation progress

The branch's implementation project is nearing completion. Final testing of valuation and disclosure tools will be completed during the first half of 2023. Specific accounting policies determined and implemented into the data transition, calculation engines, and reporting tools have been selected. The branch has responded to all requests for information from regulators.

Disclosures

Corresponding with the change in valuation methodology, adoption of NZ IFRS 17 will significantly impact the disclosures and layout of the financial statements. The NZ IFRS 17 profit or loss will present an insurance service result, being insurance revenue less insurance service expense, no longer showing premium revenue, claims expense and acquisition costs required by NZ IFRS 4. The NZ IFRS 17 statment of financial position will apportion between insurance, and reinsurance, contracts that are assets and liabilities, changing from reinsurance recoveries, claims liabilties, unearned premium disclosures under NZ IFRS 4.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

1 SUMMARY OF ACCOUNTING POLICIES (continued)

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

NZ IFRS 17 'Insurance Contracts' and Amendments (continued)

Financial Impact

The branch's advice from regulators is generally that capital adequacy and risk based capital calculations will be recalibrated to result in the same overall capital requirements.

The financial impact expected from the change in accounting standards are known and understood in principle, final communication from regulators and taxation authorities is required to quantify their impact. Until final tax guidance is provided, and completion of the implementation project, it is not practical to quantify the financial impact of NZ IFRS 17 on the opening retained earnings as at 1 January 2022.

Amendments to NZ IAS 1 and IFRS Practice Statement 2

The amendments include:

- NZ IAS 1 *Presentation of Financial Statements,* to require entities to disclose their material accounting policy information rather than their significant accounting policies.
- *IFRS Practice Statement 2 Making Materiality Judgements*, to provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures.

Except for the amendments to IFRS Practice Statement 2, the amendments are effective for annual periods beginning on or after 1 January 2023. It is expected that these amendments will not have any material impact on the financial statements.

Amendments to NZ IAS 8 - Definition of Accounting Estimates

The amendment to NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* clarifies how entities should distinguish changes in accounting policies and changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

It is expected that this amendment will not have any material impact on the presentation of the financial statements.

Amendments to NZ IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Amends NZ IAS 12 Income Taxes to specify how companies should account for deferred tax on transactions such as leases. The amendment applies to annual reporting periods beginning on or after 1 January 2023.

In specified circumstances, companies are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. The amendment clarifies that the initial recognition exception does not apply to transactions where both the asset and liability are recognised in a single transaction. Accordingly, deferred tax is required to be recognised on such transactions.

On application of the amendments, deferred tax amounts will be recognised in respect if each separate part of the overall transaction, e.g. in respect of each of the right-of-use asset and lease liability. The assessment of the impact of this change in accounting policy has not been finalised, be it is expected the total impact on net assets will not be material.

Amendments to NZ IFRS 16 - Sale and leaseback transactions

Amends NZ IFRS 16 Leases to add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in NZ IFRS 15 Revenue from Contracts with Customers to be accounted for as a sale.

NZ IFRS 16 already requires a seller-lessee to recognise only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor. The amendments made by this Standard ensure that a similar approach is applied by also requiring a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that does not recognise any amount of the gain or loss related to the right of use it retains.

The branch has not entered any sale and leaseback transactions. This change will not have a material impact on the branch's financial position or financial statement disclosures.

(t) Accounting standards and interpretations initially adopted

The following standards and interpretations were adopted for the first time during the year ended 31 December 2022.

Standard	*Effective for annual reporting periods beginning on or after*	*Expected to be initially applied in the financial year ending*
Annual Improvement to NZ IFRS 2018-2020	1 January 2022	31 December 2022

Annual Improvement to NZ IFRS 2018-2020

Amends numerous Standards to effect a number of minor changes, as set out below. The amendments apply to annual reporting periods beginning on or after 1 January 2022.

- NZ IFRS 9 *Financial Instruments* to clarify that in applying the '10 per cent' test to assess whether to derecognise a financial liability, and entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.
- NZ IFRS 16 *Leases* to amend Illustrative Example 13 to remove the illustration of the reimbursement of leasehold improvement by the lessor.

These amendments have not had any material impact on the branch's financial position or its financial statements.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

2 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

The ultimate liability arising from claims made under insurance contracts

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

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

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the branch, where more information about the claim event is generally available. IBNR claims may often not be apparent to the insured until many years after the events giving rise to the claims have happened. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- Changes in branch processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics from previous periods
- Changes in the legal environment
- The effects of inflation
- Changes in the mix of business
- The impact of large losses
- Movements in industry benchmarks
- Medical and technological developments.

A component of these estimation techniques is usually the estimation of the cost of notified but unpaid claims. In estimating the cost of these, the branch has regard to the claim circumstance as reported, and information about the cost of settling claims with similar characteristics in previous periods.

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

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions. Details of the specific assumptions used in deriving the liability for outstanding claims liability at year end are detailed in Note 3.

Assets from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure the balance is reflective of the amounts that will ultimately be recovered. All reinsurance contracts are with the parent company and the recoverability of such assets is not considered to be impaired by any counterparty or credit risk.

Determining the lease term of contracts with renewal and termination options

The branch 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 branch's lease contract includes extension and termination options. The branch 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 branch 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.

Leases - Estimating the incremental borrowing rate

The branch 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 branch 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 branch '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 branch estimates the IBR using observable inputs when available and is required to make certain entity-specific estimates.

Recoverability of deferred tax assets

Determining whether deferred tax assets are recognised requires an estimation of future taxable profits against which the assets can be released. This estimation process is based on relevant available information pertaining to the business and the exercise of management judgement.

Recognition therefore involves judgements and estimations regarding the future financial performance of the company and reflects a prudent regard, where considered appropriate, for the inherent uncertainties associated with making such estimations and judgements in relation to deferred tax assets.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

3 ACTUARIAL ASSUMPTIONS AND METHODS

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

The Appointed Actuary is Pravesh Ponna, 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 branch's major categories of business, weighted by expected ultimate premiums for the underwriting year, these were (in years):

	2022	2021
Proportional, Property & Marine:	1.44	1.22
Proportional, Casualty:	3.65	3.92
Non-proportional, Property & Marine:	0.95	0.95
Non-proportional, Casualty:	4.68	4.88

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 underwriting years 2020 and 2021 also considered the impact of current high inflation which may not have been sufficiently priced for at the time of underwriting.

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 New Zealand Government securities as at balance date and varied according to the expected year of payment of the claims liabilities. The weighted average discount rate on a gross basis was 3.73% (2021: 1.22%).

Sensitivity analysis

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

		Underwriting profit before retrocessions	Net Profit	Equity
2022		**$'000**	**$'000**	**$'000**
Recognised amount per Financial Statements		40,270 *	6,188	64,098
Variable	**Movement in variable**			
Run-off	+ 10.0%	35,796	3,932	61,842
Loss Ratios	- 10.0%	44,744	8,443	66,353
Expense	+ 0.5%	39,831	5,992	63,902
Rate	- 0.5%	40,709	6,384	64,294
Discount	+ 1.0%	43,009	7,609	65,519
Rate	- 1.0%	37,325	4,654	62,564
2021				
Recognised amount per Financial Statements		5,043 *	10,249	57,910
Variable	**Movement in variable**			
Run-off	+ 10.0%	336	7,816	55,477
Loss Ratios	- 10.0%	9,656	12,643	60,304
Expense	+ 0.5%	4,448	9,849	57,510
Rate	- 0.5%	5,637	10,648	58,309
Discount	+ 1.0%	8,542	11,931	59,592
Rate	- 1.0%	1,278	8,426	56,087

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

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

3 ACTUARIAL ASSUMPTIONS AND METHODS (continued)

Covid-19

A detailed analysis of the branch's potential exposures to COVID-19 was conducted and no direct exposure was identified. Consequently, there is no explicit outstanding claims central estimate. Run-off loss ratios also no longer contain any adjustments for COVID-19. The company will continue to monitor claims and other related developments to ensure the reserving assumptions remain appropriate.

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 in 2020 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 from the analysis were maintained this year, with previous adjustments to certain lines of business to reflect COVID-19 uncertainty or specific treaty circumstances removed. 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:

	2022	2021
Proportional, Property & Marine:	11.3%	13.4%
Proportional, Casualty:	14.2%	15.6%
Non-proportional, Property & Marine:	16.1%	16.1%
Non-proportional, Casualty:	19.3%	21.1%

4 RISK MANAGEMENT POLICIES AND PROCEDURES

Insurance contracts – Risk management policies and procedures

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

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

Risk management that is completed at the company level is also applicable at the branch.

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

The Board and senior management of the company have developed, implemented and maintain a sound and prudent Internal Capital Adequacy Assessment Process (ICAAP), Risk Management Strategy (RMS) and a Risk Appetite Statement (RAS).

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

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

4 RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

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

Financial risks

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

(a) Interest rate risk

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

(b) Credit risk

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

(c) Foreign currency risk

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

(d) Terms and conditions of reinsurance business

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

(e) Concentration of insurance risk

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

Non-financial risks

Non-financial risks are controlled through the use of:

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

5 PROFIT FROM ORDINARY ACTIVITIES

Profit from ordinary activities has been arrived at after including	2022 $'000	2021 $'000
(a) Revenues from operating activities		
General insurance revenue		
Gross written premiums	34,631	40,525
Movement in unearned premiums	(766)	(2,203)
Premium revenue	33,865	38,322
Outwards reinsurance expense	(24,352)	(24,621)
Net premium revenue	**9,513**	**13,701**
(b) Included in general and administration expenses are:		
- Expenses of management	(2,745)	(3,416)
- Foreign exchange (losses)/gains	(78)	141
- Lease expenses	(42)	(50)
- Depreciation and amortisation	(5)	-
	(2,870)	**(3,325)**

NOTES TO THE FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2022

5 PROFIT FROM ORDINARY ACTIVITIES (continued)

(c) Net claims incurred

	Current year $'000	Prior years $'000	Total $'000
2022			
Gross claims incurred and related expenses	(5,669)	4,029	(1,640)
Claims handling expenses	(61)	(8)	(69)
Reinsurance and other recoveries	3,038	(7,834)	(4,796)
Net claims incurred - undiscounted	**(2,692)**	**(3,813)**	**(6,505)**
Discount movement			
- gross claims incurred	799	4,054	4,853
- reinsurance and other recoveries	(270)	(765)	(1,035)
Net discount movement	**529**	**3,289**	**3,818**
Risk margin movement			
- gross claims incurred	(879)	4,121	3,242
- reinsurance and other recoveries	506	(2,577)	(2,071)
Net risk margin movement	**(373)**	**1,544**	**1,171**
Net claims incurred	**(2,536)**	**1,020**	**(1,516)**
2021			
Gross claims incurred and related expenses	(26,437)	(1,707)	(28,144)
Claims handling expenses	(269)	53	(216)
Reinsurance and other recoveries	23,524	7,278	30,802
Net claims incurred -undiscounted	**(3,182)**	**5,624**	**2,442**
Discount movement			
- gross claims incurred	717	1,394	2,111
- reinsurance and other recoveries	(440)	(310)	(750)
Net discount movement	**277**	**1,084**	**1,361**
Risk margin movement			
- gross claims incurred	(4,387)	1,124	(3,263)
- reinsurance and other recoveries	3,806	475	4,281
Net risk margin movement	**(581)**	**1,599**	**1,018**
Net claims incurred	**(3,486)**	**8,307**	**4,821**

(d) Net investment loss

	2022 $'000	2021 $'000
Interest	1,234	495
Realised gains	(1,242)	-
Changes in fair values	330	(1,405)
Expenses	(49)	(44)
	273	**(954)**

(e) Remuneration of auditors and directors

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

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

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

6 INCOME TAX

(a) Income tax expense

	2022 $'000	2021 $'000
Tax expense comprises:		
Current tax expense that relates to current year	(2,005)	(3,013)
Current tax expenses relating to prior years' over provision	-	-
Deferred tax expense relating to temporary differences	(96)	(539)
Deferred tax expense relating to prior years' over provision	-	-
Income tax expense relating to gain from ordinary activities	**(2,101)**	**(3,552)**

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:

	2022 $'000	2021 $'000
Profit before income tax	8,289	13,801
Income tax expense calculated at 28% (2021: 28%) of operating profit	(2,321)	(3,864)
Adjustment for Permanent differences:		
- Non-deductible entertainment expense	(1)	(1)
- Realised and unrealised exchange loss with Home Office	221	313
Prior years' over provision	-	-
Total income tax expense	**(2,101)**	**(3,552)**

(b) Deferred tax

	2022 $'000	2021 $'000
At 31 December the deferred tax asset comprises:		
Temporary differences	**516**	**613**

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

	Opening balance $'000	Transfers not charged to income $'000	Charged to income $'000	Closing balance $'000
2022 Temporary differences				
Unrealised foreign exchange differences	(373)	-	321	(52)
Accruals and other liabilities	394	-	13	407
Tax losses carried forward	-	-	-	-
Insurance provisions	592	-	(431)	161
Total temporary differences	**613**	**-**	**(97)**	**516**
2021 Temporary differences				
Unrealised foreign exchange differences	161	-	(534)	(373)
Accruals and other liabilities	327	-	67	394
Tax losses carried forward	-	-	-	-
Insurance provisions	658	-	(66)	592
Total temporary differences	**1,146**	**-**	**(533)**	**613**

No losses of General Reinsurance Australia Ltd. - New Zealand Branch were transferred to General Reinsurance Life Australia Ltd. – New Zealand Branch during the year (2021: $NIL).

7 CASH AND CASH EQUIVALENTS

	2022 $'000	2021 $'000
Cash on hand and at bank	17,723	11,574
Cash on deposit	16	52
Total cash and cash equivalents	**17,739**	**11,626**

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

8 RECEIVABLES

	2022 $'000	2021 $'000
Premiums receivable	10,603	10,566
Less: Provision for doubtful debts	(44)	(201)
Total receivables	**10,559**	**10,365**

All balances are expected to be realised within 12 months.

9 REINSURANCE RECOVERABLE

	2022 $'000	2021 $'000
Reinsurance recoverable on paid losses	-	-
Reinsurance recoverable on unpaid losses	31,254	45,180
Total reinsurance recoveries	**31,254**	**45,180**
Reconciliation of reinsurance recoverable on unpaid losses		
Balance as at 1 January	45,180	13,054
Foreign currency revaluation	(6,024)	(2,207)
Movement in incurred recoveries	(14,542)	31,326
Less reinsurance recoveries received	6,640	3,007
Balance as at 31 December	**31,254**	**45,180**
Reinsurance recoverable at 31 December		
Expected to be realised within 12 months	13,466	10,629
Expected to be realised in more than 12 months	17,788	34,551
	31,254	**45,180**

10 OTHER ASSETS

	2022 $'000	2021 $'000
Deferred acquisition costs (see note 22)	-	22
Property, plant and equipment	28	-
Due from related entities:		
- General Reinsurance Corporation	-	696
- General Reinsurance Australia	20,025	30,426
Total other assets	**20,053**	**31,144**
Expected to be realised within 12 months	20,025	31,144
Expected to be realised in more than 12 months	28	-
	20,053	**31,144**

11 INVESTMENTS

	2022 $'000	2021 $'000
Insurance activities, at fair value:		
Fixed interest securities	**76,836**	**69,030**

12 RIGHT-OF-USE ASSETS

	2022 $'000	2021 $'000
Carrying value of:		
Properties	**131**	**175**
Net carrying amount		
Balance at 1 January	175	218
Depreciation expense	(44)	(43)
Balance at 31 December	**131**	**175**

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

13 OUTSTANDING CLAIMS AND UNEARNED PREMIUMS	2022 $'000	2021 $'000
Outstanding claims		
Gross outstanding claims	73,591	83,145
Discount to present value	(8,030)	(3,176)
Risk margin	11,439	14,655
Liability for outstanding claims	**77,000**	**94,624**
Reconciliation of outstanding claims		
Balance at start of year	94,624	74,321
Foreign currency revaluations	36	(94)
Change in discount to present value	(4,853)	(2,111)
Change in risk margin	(3,216)	3,265
Claims paid	(6,962)	(6,069)
Movement in incurred claims	(2,629)	25,312
Balance at end of year	**77,000**	**94,624**
Outstanding claim liabilities at 31 December		
Expected to be paid within 12 months	28,273	21,892
Expected to be paid in more than 12 months	48,727	72,732
	77,000	**94,624**
The following average discount rates were used in the measurement of outstanding claims:	3.73%	1.22%

The weighted average term to settlement for the outstanding claims provisions which have been subject to discounting is approximately 2.92 years (2021 – 3.21 years).

Net undiscounted central estimate of ultimate claims

	2014 $M	2015 $M	2016 $M	2017 $M	2018 $M	2019 $M	2020 $M	2021 $M	2022 $M	**Total** **$M**
Estimate of net ultimate claims cost:										
At end of accident year	16	8	12	5	7	23	5	10	8	
One year later	13	6	12	5	5	20	7	8		
Two years later	12	5	16	4	4	17	7			
Three years later	9	4	16	3	4	16				
Four years later	9	4	14	3	4					
Five years later	8	4	13	3						
Six years later	8	3	11							
Seven years later	7	3								
Eight years later	8									
Current estimate of net cumulative claims	8	3	11	3	4	16	7	8	8	
Cumulative net payments	(6)	(1)	(5)	(1)	(1)	(11)	-	(2)	-	
Net undiscounted outstanding claims for the nine most recent accident years:	**2**	**2**	**6**	**2**	**3**	**5**	**7**	**6**	**8**	**41**

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

	2022 $'000	2021 $'000
Net undiscounted outstanding claims for the 9 most recent accident years	41,337	41,704
Net outstanding claims – accident years 2012 and prior	3,274	1,738
Claims handling costs	841	744
Discount to present value	(6,079)	(2,261)
Risk margin	6,373	7,519
Reinsurance recoverable on paid losses	-	-
Net outstanding claims liability	**45,746**	**49,444**

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

13 OUTSTANDING CLAIMS AND UNEARNED PREMIUMS (continued)

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

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

MATURITY PROFILE OF NET OUTSTANDING CLAIMS LIABILITY	2022 $'000	2021 $'000
1 year or less	13,044	11,903
Within 1 to 5 years	18,286	19,598
Over 5 years	14,416	17,943
	45,746	**49,444**

UNEARNED PREMIUM

	2022 $'000	2021 $'000
Gross		
Balance as at 1 January	17,541	15,338
Foreign currency revaluations	30	(2)
Deferral of premiums on contracts written in the period	18,278	17,543
Earning of premiums written in previous periods	(17,541)	(15,338)
Balance as at 31 December	**18,308**	**17,541**
Retroceded		
Balance as at 1 January	(12,110)	(10,417)
Deferral of premiums on contracts written in the period	(129)	(1,693)
Balance as at 31 December	**(12,239)**	**(12,110)**
Net unearned premiums liability	**6,069**	**5,431**

14 PROVISIONS

	Opening Balance $'000	Payments $'000	Provision $'000	Closing Balance $'000
Annual leave	77	(17)	30	**90**

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

15 OTHER PAYABLES

	2022 $'000	2021 $'000
Sundry payables and accruals	1,802	1,981
Deferred acquisition costs (see note 22)	1	-
Due to related entities:		
- General Reinsurance Corporation	2,023	-
- General Reinsurance Life Australia Ltd.	2,073	1,770
Total other payables	**5,899**	**3,751**

All balances are expected to be paid within 12 months.

16 LEASE LIABILITIES

	2022	2021
Balance at 1 January 2022	195	235
Interest expense	5	7
Payments	(56)	(47)
Balance at 31 December 2022	**144**	**195**
Expected to be paid within 12 months	37	43
Expected to be paid in more than 12 months	107	152
	144	**195**
Maturity profile		
Not later than one year	37	43
Later than one year but not later than five years	107	152
Later than five years	-	-
	144	**195**

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

17 HEAD OFFICE ACCOUNT

	2022 $'000	2021 $'000
Designated equity	**10,000**	**10,000**

18 RELATED PARTIES

Parent and ultimate controlling entities

The immediate parent and ultimate controlling entity for General Reinsurance Austrlia Ltd 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
Stephen Ferguson
Andrew Gifford
Neal Mullen

Key Management Personnel

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

	2022	2021
Related party balances (owing)/receivable at reporting date		
General Reinsurance Life Australia Ltd.	(2,073)	(1,770)
General Reinsurance Corporation	(2,023)	696
Head Office Account: General Reinsurance Australia Ltd.	20,025	30,426
Management charges paid to related entities		
New England Asset Management, Inc.	35	28
General Reinsurance Corporation	283	160
Head Office: General Reinsurance Australia Ltd	2,663	2,752

Retrocessions

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

Related party: General Reinsurance Corporation

	2022	2021
Retrocession premiums	(24,352)	(24,621)
Claim recoveries	(7,902)	34,333
Reinsurance recoverable on paid losses	-	-
Reinsurance recoverable on unpaid losses	31,254	45,180

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

19 NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of net operating cash flows to net profit

	2022	2021
Net profit	6,188	10,249
Depreciation	5	3
Profit on sale of investments	1,243	-
Unrealised movement in fair value of investments and amortisation	1,718	5,041
Finance costs	48	47
Change in operating assets and liabilities		
Increase in premiums receivable	(194)	(1,955)
Decrease/(increase) in reinsurance recoveries	13,926	(31,066)
Decrease/(increase) in other assets	11,833	(26,798)
Decrease/(increase) in payables and provisions	2,162	(5,323)
(Decrease)/increase in underwriting provisions:		
- unearned premium	638	510
- outstanding claims	(17,624)	20,302
- unexpired risk liability	(1,384)	2
Movement in tax accounts	(877)	3,551
Net cash provided by operating activities	**17,682**	**(25,437)**

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

20 FINANCIAL INSTRUMENTS

(a) Credit Risk Exposure

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

(b) Interest Rate Risk

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

(c) Net fair value of financial assets and liabilities

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

(d) Significant accounting policies

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

(e) Capital risk management

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

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

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

(f) Categories of financial instruments

	Note	2022 $'000	2021 $'000
Financial assets			
Cash and cash equivalents	7	17,739	11,626
Financial assets at fair value through profit or loss*(i)*			
Fixed interest securities	11	76,836	69,030
Loans and receivables			
Other assets	10	-	696
Financial liabilities			
Amortised cost			
Other payables	15	5,899	3,751

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

(g) Financial risk management objectives

It is ultimately the responsibility of the Board to ensure that there is an effective risk management control framework in place. Consistent with regulatory requirements the board has explicitly allocated to the Managing Director, the function of overseeing the establishment and maintenance of risk-based systems and controls across the branch. The Chief Risk Officer (CRO) 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 the RMS and REMS. The RMS and REMS identify the company's policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the company. The Board declares to the Reserve Bank of New Zealand that adequate strategies have been put in place to monitor those risks, that the company has systems in place to ensure compliance with legislative and prudential requirements and that the Board has satisfied itself as to compliance with the RMS and REMS.

(h) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the branch. The branch has adopted the policy of only dealing with creditworthy cedants and bondholders as a means of mitigating the risk of financial loss from defaults. The branch's overall strategy in respect of credit risk management remains unchanged from 2021.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

20 FINANCIAL INSTRUMENTS (continued)

(i) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations under the reinsurance contracts it has entered into. Ultimate responsibility for liquidity risk management rests with the Board of directors, which has implemented appropriate liquidity risk management framework for the management of the branch's short, medium and long-term funding and liquidity management requirements. The branch manages liquidity risk by maintaining appropriate levels of financial assets that are readily realisable and by continuously monitoring forecast and actual cash flows in order to match the maturity profiles of assets and liabilities. The company has developed and implemented a Risk Management Strategy. The company's overall strategy in liquidity risk management remains unchanged from 2021.

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

The tables below include both interest and principal cash flows.

	Weighted average interest rate	Less than 1 year	1-5 years	5+ years	Total
2022	%	$'000	$'000	$'000	$'000
Financial liabilities					
Non-interest bearing:					
Payables	-	5,899	-	-	5,899
Outstanding Claims	-	28,273	48,727	-	77,000
		34,172	**48,727**	-	**82,899**
2021					
Financial liabilities					
Non-interest bearing:					
Payables	-	3,751	-	-	3,751
Outstanding Claims	-	21,892	72,732	-	94,624
		25,643	**72,732**	-	**98,375**

(j) Market risk

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

Interest rate risk management

The branch's activities expose it to the financial risk of changes in interest rates. Fixed interest rate instruments expose the branch to interest rate risk. The company's Investment Manager closely monitors the branch's exposures to interest rate risk. The branch's exposure to interest risk is managed through adjustment to the investment portfolio.

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

	Weighted average interest rate	Less than 1 year	1-5 years	5+ years	Total
2022	%	$'000	$'000	$'000	$'000
Non-interest bearing:					
Premium Receivable	-	10,603	-	-	10,603
Deposit with related party	-	-	-	-	-
Other insurance receivables	-	20,025	-	-	20,025
Variable interest rate instruments:					
Cash	5.07	17,739	-	-	17,739
Fixed interest rate instruments:					
New Zealand Government	5.00	-	76,836	-	76,836
		48,367	**76,836**	**-**	**125,203**

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

20 FINANCIAL INSTRUMENTS (continued)

(j) Market risk (continued)

Interest rate risk management (continued)

	Weighted average	Less than 1 year	1-5 years	5+ years	Total
2021	**%**	**$'000**	**$'000**	**$'000**	**$'000**
Non-interest bearing:					
Premium Receivable	-	10,566	-	-	10,566
Deposit with related party	-	-	-	-	-
Other insurance receivables	-	31,144	-	-	31,144
Variable interest rate instruments:					
Cash	0.05	11,626	-	-	11,626
Fixed interest rate instruments:					
New Zealand Government	1.62	-	69,030	-	69,030
		53,336	69,030	-	122,366

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

	+100bps		-100bps	
	2022	**2021**	**2022**	**2021**
	$'000	**$'000**	**$'000**	**$'000**
Effect of 100 basis point increase or decrease on profit (+/-)	(1,020)	(813)	1,038	827

Foreign currency risk management and sensitivity analysis

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

The branch's financial assets are primarily denominated in the same currencies as its reinsurance contract liabilities. The branch's overall strategy in respect of foreign currency risk management remains unchanged from 2021.

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

	2022	2021
	$'000	**$'000**
Exposure to Australian dollars at 31 December	52,687	76,744
Unrealised gain/(loss) from a 10% change in foreign exchange rates	5,269	7,674

Fair value of financial instruments

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

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

20 FINANCIAL INSTRUMENTS (continued)

(j) Market risk (continued)

Investments

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

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

- Level 1 – Inputs represent unadjusted quoted prices for identical assets or liabilities exchanged in active markets.
- Level 2 – Inputs include directly or indirectly observable inputs other than Level 1 inputs such as quoted prices for similar assets prices for similar assets or liabilities exchanged in active or inactive markets; quoted prices for identical assets or liabilities exchanged in inactive markets; other inputs that are considered in fair value determinations of the assets or liabilities, such as interest rates and yield curves that are observable at commonly quoted intervals; volatilities, prepayment speeds, loss severities, credit risks and default rates and inputs that are derived principally from or corroborated by observable market data by correlation or other means. Fair values for the branch's investments in fixed maturity securities are primarily based on market prices and market data available for instruments with similar characteristics since active markets are not common for many instruments. Pricing evaluations are based on yield curves for instruments with similar characteristics such as credit rating, estimated duration and yields for other instruments of the issuer or entities in the same industry sector.
- Level 3 – Inputs include significant unobservable inputs used in the measurement of assets and liabilities. Management is required to use its own assumptions regarding unobservable inputs because there is little, if any, market activity in the assets or liabilities or related observable inputs that can be corroborated at the measurement date. Measurements of non-exchange traded derivative contracts and certain other investments carried at fair value are based primarily on valuation models, discounted cash flow models or other valuation techniques that are believed to be used by market participants. Unobservable inputs require management to make certain projections and assumptions about the information that would be used by market participants in pricing assets or liabilities.

Financial assets and liabilities

Financial assets and liabilities measured at fair value in the financial statements as at 31 December 2022 and 2021 are summarised in the following table by the type of inputs applicable to the level of the fair value measurement (in thousands).

2022	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Fixed maturity bonds				
Obligations of the New Zealand Government	**76,836**	**-**	**-**	**76,836**

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

2021	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Fixed maturity bonds				
Obligations of the New Zealand Government	**69,030**	**-**	**-**	**69,030**

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

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

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

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

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

21 AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY ("APRA") CAPITAL ADEQUACY (continued)

	2022 AU$'000	2021 AU$'000
Capital base/Common Equity Tier 1 Capital		
Net assets	374,692	378,708
Premium liability surplus/(deficit)	938	4,526
Deferred tax assets	(8,781)	(6,611)
Reinsurance assets receivable not meeting governing law requirements	(92)	(211)
	366,757	**376,412**
Prescribed Capital Amount (PCA)		
Insurance Risk Charge	67,623	68,628
Insurance Concentration Risk Charge	42,000	64,778
Asset Risk Charge	18,968	18,145
Operational Risk Charge	6,732	6,732
Less: Aggregation Benefit	(13,662)	(13,367)
	121,661	**144,916**
Capital in excess of PCA	**245,096**	**231,496**
PCA coverage ratio	**3.0146**	**2.5975**

General Reinsurance Australia Ltd. has an "AA+" credit rating from Standard and Poor's as at 31 December 2022.

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

22 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:

	2022 $'000	2021 $'000
PV of expected future cash flows for future claims		
Central estimate of PV of expected future cash flows	(17,680)	(18,309)
Risk margin	(4,615)	(4,978)
	(22,294)	**(23,287)**
Risk margin	**26%**	**27%**
At probability of adequacy	**75%**	**75%**

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

	2022	2021
Unearned premium liability	17,836	17,059
Future premiums	5,267	4,981
Deferred acquisition costs	(1,325)	(1,159)
Future commissions	(733)	(623)
Reinsurance asset	(14,817)	(14,769)
Present value of expected future cash flows for future claims	(21,807)	(22,907)
Present value of expected future cash flows for future reinsurance recoveries	12,784	13,430
LAT deficiency	**2,795**	**3,988**
Of which:		
write-down of deferred acquisition costs	*1,046*	*855*
unexpired risk liability	*1,749*	*3,133*

Reconciliation of deferred acquisition costs

	2022	2021
Balance as at 1 January	22	-
Acquisition costs deferred	(1,698)	182
Amortisation charged to profit or loss	1,465	(348)
Movement in LAT write-down	190	184
Foreign currency revaluation	20	3
Balance as at 31 December	**(1)**	**22**

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

23 ADDITIONAL BRANCH INFORMATION

Principal Place of Business

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

Number of Employees

At 31 December 2022 the branch had 3 employees (2021: 2).

Type of Company

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

24 EVENTS SUBSEQUENT TO BALANCE DATE

In January 2023 there was significant flooding across the upper North Island of New Zealand. In February 2023 Cyclone Gabrielle hit the North Island of New Zealand. The company will have exposure, the extent of which cannot be quantified at this time. The design of the company's retrocession program will provide significant protection for losses which may occur.

Otherwise, 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.

Deloitte.

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

Opinion

We have audited the financial statements of General Reinsurance Australia Ltd. - New Zealand Branch (the "Branch") which comprise the statement of financial position as at 31 December 2022, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 6 to 30.

In our opinion, the accompanying financial statements present fairly, in all material respects, the Branch's financial position as at 31 December 2022 and its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

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

Emphasis of Matter – New Zealand Branch

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

Key Audit Matters

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

Key Audit Matter	**How the scope of our audit responded to the Key Audit Matter**
Valuation of outstanding claims As at 31 December 2022 Valuation of outstanding claims totalled NZ$ 77,000 *(in thousands).* Refer to notes 1(a), 3 and 13 to the financial statements, which also disclose the elements that make up the balance. Provision for outstanding claims 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. These estimates and assumptions which are evaluated by management include: • discount rate; • run-off loss ratios; • risk margins; and • expense rates. This was a key audit matter due to the size of the balance (being 82.8% of total liabilities), and the specific audit and actuarial expertise required to evaluate the judgemental actuarial methodologies and assumptions.	Our audit procedures included, but were not limited to: • testing the design and implementation of relevant controls put in place by the management over the claims reserving process; • assessing the appropriateness of estimates and judgement, valuation methodologies, processes and models with respect to actuarial and relevant accounting standards; • assessing key actuarial assumptions such as discount rate, run-off loss ratios, risk margins, and expense rates by comparing them to experience studies performed by management and with our expectations based on our own industry knowledge; • testing valuation spreadsheet calculations on a sample basis; • testing underlying data of valuation spreadsheets on a sample basis; • assessing documentation of model integrity reconciliations; and • assessing the appropriateness of the disclosures in the notes to the financial statements.

Other Information

The Directors on behalf of the Branch are responsible for the other information. The other information comprises the information included in the Directors' report for the year ended 31 December 2022, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements 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 statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears 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.

Responsibilities of the Directors for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

Deloitte.

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

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

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

The auditor also provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

David Gaudreault

David Gaudreault
Partner
Chartered Accountants
Sydney, Australia

21 March 2023

21 March 2023

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

To The Board of Directors

APPOINTED ACTUARY'S STATEMENT

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

Section 78 report as at 31 December 2022

Finity Consulting Pty Limited (Finity) has been asked by General Reinsurance Australia Ltd to carry out a review of the 31 December 2022 actuarial information contained in the financial statements and to provide an opinion as to its appropriateness. This letter sets out the findings of our review, as required under Section 78 of the Insurance (Prudential Supervision) Act 2010 (the Act).

Pravesh Ponna, Fellow of the Institute of Actuaries of Australia, is an employee of Finity and is the Appointed Actuary of General Reinsurance Australia Ltd. – New Zealand Branch for the purposes of Section 76 of the Insurance (Prudential Supervision) Act 2010. Pravesh Ponna and Finity have no relationship with General Reinsurance Australia Ltd apart being a provider of actuarial services.

It is the Branch's established policy to seek the advice of the Appointed Actuary in respect of actuarial information in their respective financial statements, and to always adopt that advice. For the 2022 financial statements of the Branch such advice was provided and adopted for:

a. The outstanding claims liability;

b. Discounting on the reinsurance recoverable;

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

d. Analysis of net claims incurred;

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

f. The liability adequacy test.

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

a. The unearned premiums; and

b. The deferred acquisition cost.

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

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Berkshire Hathaway Companies

As at 31 December 2022, as required by the Reserve Bank of New Zealand, General Reinsurance Australia Ltd. ("the Company") maintained a solvency margin calculated in accordance with the Australian Prudential Regulation Authority's requirements.

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

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

I am not aware of any limitations placed on me in performing my review, and all data requested was provided. This report is based on the audited accounts of the Branch for the year ending December 2022.

This report is being provided for the sole use of General Reinsurance Australia Ltd for the purpose stated above. It is not intended, nor necessarily suitable, for any other purpose and should only be relied on the purpose for which it is intended.

Yours sincerely

Pravesh Ponna
Appointed Actuary
Fellow of the Institute of Actuaries of Australia

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