



**General Reinsurance
Australia Ltd.**
New Zealand Branch

**Financial Report
for the Financial Year ended
31 December 2023**

CONTENTS

DIRECTORS' REPORT	3
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	6
STATEMENT OF CHANGES IN EQUITY	7
STATEMENT OF FINANCIAL POSITION	8
STATEMENT OF CASH FLOWS	9
NOTES TO THE FINANCIAL REPORT	10
INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS	41

DIRECTORS' REPORT

The Directors present their report together with the annual financial report for the financial year ended 31 December 2023 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 33 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. A 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 22 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 30 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 is currently the Chair and holds a Director role at Bank Australia and also holds Director roles at QBE, Parkinson's Australia Inc, and at 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 23 years' experience in the insurance and reinsurance industries in the UK and Australia. His experience spans multiple lines of business and disciplines including primary and reinsurance portfolio management as well as complex individual risk underwriting roles. During his career he has held a number of leadership positions spanning both Primary Insurance and Reinsurance. He joined Gen Re in 2016 as Casualty Facultative Manager; in this role he was responsible for maintaining and strengthening the Australia and New Zealand Casualty Facultative offering for Gen Re and was appointed Managing Director of General Reinsurance Australia on 1 May 2019.

DIRECTORS' REPORT (continued)

Directors (continued)

Name and qualifications

Andrew Gifford
B.A., JD

Experience and special responsibilities

Mr Gifford is a member of the Bar of the State of Illinois and is an authorised house counsel in the State of Connecticut. Prior to joining the Gen Re group in 2012, Mr. Gifford was a partner with the law firms Locke Lord Bissell & Liddell LLP and DLA Piper LLP where he handled a wide range of matters, including litigation, for financial and professional services firms. At Gen Re, Mr Gifford has held various roles in the Global Legal Department and is currently Gen Re's Global General Counsel and Corporate Secretary. He is also a director for various Gen Re group entities, including the group holding company General Re Corporation and the group's largest regulated entity General Reinsurance Corporation, and sits on the group Audit and Risk Committees. Mr. Gifford is a graduate of the University of Michigan Law School where he received a Juris Doctorate degree.

Meetings of directors

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the directors of the company during the financial year ended 31 December 2023 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	4	4	5	5	5	5
Keith Scott	5	5	4	4	5	5	5	5
Stephen Ferguson	5	5	4	4	5	5	5	5
Andrew Gifford	5	5	4	4	5	5	5	5
Neal Mullen	5	5	4	4	5	5	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)

Name and qualifications

Nicholas Thayer
B.Com, CA

Experience and special responsibilities

Mr Thayer has been employed by Gen Re for 17 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 3 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.

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.

DIRECTORS' REPORT (continued)

Review of operations

Operating Results

The net profit of the branch for the year, after provision for income tax, amounted to \$3,914,000 compared with the 2022 restated net profit of \$6,536,000.

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

Indemnification of officers and auditors

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

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

Likely developments

There are no future developments in the normal operations of the 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:



K. J. McCann
Chair



N. Mullen
Managing Director

Sydney, 26 March 2024

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023

	Note	2023 \$'000	Restated 2022 \$'000
Insurance revenue	11	44,991	35,370
Insurance service expenses	11	(52,589)	3,871
Insurance service result from gross reinsurance contracts issued		(7,598)	39,241
Allocation of retroceded reinsurance premiums	11	(28,367)	(23,780)
Amounts recovered for reinsurers for claims incurred	11	40,473	(7,953)
Net expense from retroceded reinsurance contracts held		12,106	(31,733)
Insurance service result		4,508	7,508
Interest income		4,205	1,234
Net investment gain/(loss)		363	(1,605)
Investment expenses		(67)	(49)
Net investment income/(expense)	5(b)	4,501	(420)
Net finance expenses from gross reinsurance contracts issued	11	(3,338)	3,209
Net finance income from retroceded reinsurance contracts held	11	1,886	111
Net insurance finance (expense)/income		(1,452)	3,320
Other income and expense	5(a)	(2,191)	(1,635)
Profit before income tax		5,366	8,773
Income tax expense	6(a)	(1,452)	(2,237)
Profit after income tax		3,914	6,536

The branch adopted NZ IFRS 17 Insurance Contracts from 1 January 2023 and has correspondingly restated the comparative period.

The impacts of adoption are detailed in note 1(k).

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 2023

For the financial year ended 31 December 2023	Head Office Account	Retained Earnings	Total
	\$'000	\$'000	\$'000
Balance at 1 January 2023	10,000	52,433	62,433
Total comprehensive income for the year	-	3,914	3,914
Balance at 31 December 2023	10,000	56,347	66,347

For the financial year ended 31 December 2022	Head Office Account	Retained Earnings	Total
	\$'000	\$'000	\$'000
Balance at 1 January 2022	10,000	47,910	57,910
Impact of initial application of NZ IFRS17	-	(2,013)	(2,013)
Restated balance as at 1 January 2022	10,000	45,897	55,897
Total comprehensive income for the year	-	6,536	6,536
Restated balance at 31 December 2022	10,000	52,433	62,433

The branch adopted NZ IFRS 17 Insurance Contracts from 1 January 2023 and has correspondingly restated the comparative period. The impacts of adoption are detailed in note 1(k).

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 2023

	Note	2023 \$'000	Restated 31 Dec 2022 \$'000	Restated 1 Jan 2022 \$'000
Assets				
Cash and cash equivalents	7	13,269	17,739	11,626
Investments	9	75,571	76,836	69,030
Other assets	8	28,008	25,186	35,502
Gross reinsurance contract assets	11	1,976	1,029	-
Retroceded reinsurance contract assets	11	64,576	35,756	52,473
Current tax assets		1,621	-	-
Deferred tax assets	6(b)	158	1,164	1,396
Right-of-use assets	10	89	131	175
Total assets		185,268	157,841	170,202
Liabilities				
Gross reinsurance contract liabilities	11	117,264	85,404	107,272
Retroceded reinsurance contract liabilities	11	148	706	-
Other payables	13	1,345	7,025	3,749
Lease liabilities	14	103	144	195
Provisions	12	61	90	77
Current tax liabilities		-	2,039	3,012
Total liabilities		118,921	95,408	114,305
Net assets		66,347	62,433	55,897
Equity				
Head Office Account	15	10,000	10,000	10,000
Retained earnings		56,347	52,433	45,897
Total equity		66,347	62,433	55,897

The branch adopted NZ IFRS 17 Insurance Contracts from 1 January 2023 and has correspondingly restated the comparative period. The impacts of adoption are detailed in note 1(k).

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 2023

	Note	2023 \$'000	Restated 2022 \$'000
Cash flows from operating activities			
Premiums received		44,753	31,974
Retroceded reinsurance paid		(29,511)	(20,587)
Claims paid		(24,776)	(12,421)
Reinsurance recoveries received		14,125	6,388
Other (payments)/receipts from employees, suppliers, and related parties		(13,541)	13,407
Interest received		4,044	1,948
Investment expenses paid		(67)	(49)
Income tax paid		(4,105)	(2,978)
Net cash (used in)/provided by operating activities	17	(9,078)	17,682
Cash flows from investing activities			
Payments for purchase of investments		(40,410)	(77,120)
Proceeds from sale/maturity of investments		45,061	65,639
Payments for fixed assets		-	(33)
Net cash provided by/(used in) investing activities		4,651	(11,514)
Cash flows from financing activities			
Payments for lease liabilities		(43)	(55)
Net cash used in financing activities		(43)	(55)
Net (decrease)/increase in cash and cash equivalents during the financial year		(4,470)	6,113
Cash and cash equivalents at beginning of financial year		17,739	11,626
Cash and cash equivalents at end of financial year	7	13,269	17,739

The branch adopted NZ IFRS 17 Insurance Contracts from 1 January 2023 and has correspondingly restated the comparative period. The impacts of adoption are detailed in note 1(k).

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 2023

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 2023 and comparative information presented in these financial statements for the financial year ended 31 December 2022.

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 26 March 2024.

Basis of preparation

The financial report has been prepared in accordance with the historical cost convention, except for financial assets which are stated at fair value, right of use assets and lease liabilities which are adjusted for any remeasurement of lease liabilities, reinsurance contracts liabilities, retroceded reinsurance contract liabilities, reinsurance contract assets and retroceded reinsurance contracts assets which have been inflation adjusted and discounted as required by NZ IFRS 17 "Insurance Contracts".

The financial statements provide comparative information in respect of the previous period. In addition, the company presents an additional statement of financial position at the beginning of the preceding period when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements. An additional statement of financial position as at 1 January 2022 is presented in these financial statements due to the retrospective application of accounting policies as a result of the adoption of NZ IFRS 17 "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. The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Reinsurance contracts issued

Separating components from reinsurance contracts

The branch assesses its reinsurance contracts to determine whether they contain distinct components which must be accounted for under another accounting standard rather than NZ IFRS 17. After separating any distinct components, an entity must apply NZ IFRS 17 to all remaining components of the reinsurance contract. The branch has not identified any distinct components that require separation.

Level of aggregation

NZ IFRS 17 requires an entity to determine the level of aggregation for applying its requirements. The level of aggregation for the branch is determined firstly by dividing the business written into portfolios. Portfolios comprise groups of contracts with similar risks which are managed together. Portfolios are further divided based on expected profitability at inception into three categories: onerous contracts, contracts with no significant risk of becoming onerous, and the remainder. For level of aggregation purposes, no group may contain contracts issued more than one year apart.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

1 SUMMARY OF ACCOUNTING POLICIES (continued)

(a) Reinsurance contracts issued (continued)

Level of aggregation (continued)

The branch has defined portfolios of insurance and reinsurance contracts issued based on its product lines due to the fact that the products are subject to similar risks and are managed together. The branch has developed a model to calculate if any contract 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.

Recognition

The branch recognises groups of reinsurance contracts that it issues from the earliest of the following:

- The beginning of the coverage period of the group of reinsurance contracts.
- The date when the first payment from a policyholder in the group is due, or when the first payment is received if there is no due date.
- For a group of onerous contracts, as soon as facts and circumstances indicate that the group is onerous.

The branch groups only contracts issued within a one year period meeting the recognition criteria by the reporting date.

Retroceded reinsurance contracts held are accounted for separately from underlying gross reinsurance contracts issued and are assessed on an individual contract basis.

Contract boundary

The branch includes in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the branch can compel the policyholder to pay the premiums, or in which the branch has a substantive obligation to provide the policyholder with services.

A substantive obligation to provide insurance contract services ends when the branch has the practical ability to reassess the risks of a particular policyholder and, as a result, to change the price charged or the level of benefits provided for the price to fully reflect the new level of risk.

Measurement of reinsurance contracts issued - general measurement model

Reinsurance contracts issued – initial measurement

The general model measures a group of reinsurance contracts on initial recognition as the sum of the expected fulfilment cash flows within the contract boundary and the contractual service margin representing the unearned profit in the contracts relating to services that will be provided under the contracts.

The fulfilment cash flows are the current unbiased and probability-weighted estimates of the present value of the future cash flows, including a risk adjustment for non-financial risk. In arriving at a probability-weighted mean, the branch considers a range of scenarios to establish a full range of possible outcomes incorporating all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of expected future cash flows. The estimates of future cash flows reflect conditions existing at the measurement date including assumptions at that date about the future.

The branch estimates expected future cash flows for a group of reinsurance contracts at a portfolio level and allocates them to the groups in that portfolio in a systematic and rational way.

When estimating future cash flows, the branch includes all cash flows within the contract boundary including:

- Premiums and any additional cash flows resulting from those premiums.
- Reported claims that have not yet been paid, claims incurred but not yet reported, future claims expected to arise from the policy and potential cash inflows from recoveries on future claims covered by existing insurance contracts.
- An allocation of insurance acquisition cash flows attributable to the portfolio to which the issued contract belongs.
- Claim handling costs.
- Policy administration and maintenance costs including recurring commissions expected to be paid to intermediaries.
- Transaction-based taxes.
- An allocation of fixed and variable overheads directly attributable to the fulfilment of insurance contracts.

The discount rates are based on market yields on risk free securities applicable to the currency at the balance date, varies according to payment date and includes an allowance for the illiquidity premium. The liabilities are primarily denominated in NZD and for these payments, discount rates are based on New Zealand Government securities.

The branch measures the compensation it would require for bearing the uncertainty about the amount and timing of cash flows arising from insurance contracts, other than financial risk, separately as an adjustment for non-financial risk. The branch uses the confidence level approach to determine a risk adjustment that is calibrated to the 75% confidence interval and applies a loading of cost of claims. The risk adjustment includes the benefit of diversification.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

1 SUMMARY OF ACCOUNTING POLICIES (continued)

(a) Reinsurance contracts issued (continued)

Measurement of reinsurance contracts issued - general measurement model (continued)

Reinsurance contracts issued – initial measurement (continued)

The Contractual Service Margin (CSM) is a component of the asset or liability for the group of reinsurance contracts that represents the unearned profit the branch will recognise as it provides services in the future. The branch measures the CSM on initial recognition at an amount that, unless the group of reinsurance contracts is onerous, results in no income or expenses arising from:

- Initial recognition of the fulfilment cash flows.
- Derecognition at the date of initial recognition of any asset or liability recognised for insurance acquisition cash flows.
- Any cash flows arising from the contracts in the group at that date.

For groups of contracts assessed as onerous, the branch has recognised a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows and the CSM of the group being zero. A loss component has been established by the branch for the liability for remaining coverage for an onerous group depicting the losses recognised.

The liability for remaining coverage is the company's obligation to investigate and pay valid claims for insured events that have not yet occurred and at initial recognition, comprises all remaining expected future cash inflows and cash outflows under an insurance contract plus the CSM for that contract.

The liability for incurred claims is the company's obligation to investigate and pay valid claims for insured events that have already occurred, including events that have occurred but for which claims have not been reported, and other incurred insurance expenses. At initial recognition of a group of reinsurance contracts, the liability for incurred claims is usually nil as no insured events have occurred.

Reinsurance contracts issued – subsequent measurement

The CSM at the end of the reporting period represents the profit in the group of insurance contracts that has not yet been recognised in profit or loss, because it relates to future service to be provided.

For a group of insurance contracts the carrying amount of the CSM of the group at the end of the reporting period equals the carrying amount at the beginning of the reporting period adjusted, as follows:

- The effect of any new contracts added to the group.
- Interest accreted on the carrying amount of the CSM during the reporting period, measured at the discount rates at initial recognition.
- The changes in fulfilment cash flows relating to future service, except to the extent that such increases in the fulfilment cash flows exceed the carrying amount of the CSM, giving rise to a loss or such decreases in the fulfilment cash flows are allocated to the loss component of the liability for remaining coverage.
- The effect of any currency exchange differences on the CSM.
- The amount recognised as insurance revenue because of the transfer of services in the period, determined by the allocation of the CSM remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period.

The changes in fulfilment cash flows relating to future service that adjust the CSM comprise of:

- Experience adjustments that arise from the difference between the premium receipts (and any related cash flows such as insurance acquisition cash flows and insurance premium taxes) and the estimate, at the beginning of the period, of the amounts expected. Differences related to premiums received (or due) related to current or past services are recognised immediately in profit or loss while differences related to premiums received (or due) for future services are adjusted against the CSM.
- Changes in estimates of the present value of future cash flows in the liability for remaining coverage, except those relating to the time value of money and changes in financial risk (recognised in the statement of profit or loss and other comprehensive income rather than adjusting the CSM).
- Changes in the risk adjustment for non-financial risk that relate to future service.

Except for changes in the risk adjustment, adjustments to the CSM noted above are measured at discount rates that reflect the characteristics of the cash flows of the group of insurance contracts at initial recognition.

The branch measures the carrying amount of a group of insurance contracts at the end of each reporting period as the sum of: (i) the liability for remaining coverage comprising fulfilment cash flows related to future service allocated to the group at that date and the CSM of the group at that date; and (ii) the liability for incurred claims for the branch comprised the fulfilment cash flows related to past service allocated to the group at that date.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

1 SUMMARY OF ACCOUNTING POLICIES (continued)

(a) Reinsurance contracts issued (continued)

Presentation

The branch has presented separately in the statement of financial position the carrying amount of groups of insurance contracts issued that are assets, groups of reinsurance contracts issued that are liabilities, reinsurance contracts held that are assets and groups of reinsurance contracts held that are liabilities.

Any assets or liabilities for insurance acquisition cash flows recognised before the corresponding insurance contracts are recognised are included in the carrying amount of the related groups of reinsurance contracts issued.

The branch disaggregates the amounts recognised in the statement of profit or loss and other comprehensive income into an insurance service result, comprising insurance revenue and insurance service expenses, and insurance finance income or expenses.

The branch does not disaggregate the change in risk adjustment for non-financial risk between a financial and non-financial portion and includes the entire change as part of the insurance service result.

The branch separately presents income or expenses from reinsurance contracts held from the expenses or income from reinsurance contracts issued.

Insurance revenue

The company's insurance revenue depicts the provision of coverage and other services arising from a group of reinsurance contracts at an amount that reflects the consideration to which the branch expects to be entitled in exchange for those services. Insurance revenue from a group of reinsurance contracts is therefore the relevant portion for the period of the total consideration for the contracts. The total consideration for a group of reinsurance contracts covers amounts related to the provision of services and is comprised of:

- Insurance service expenses, excluding any amounts allocated to the loss component of the liability for remaining coverage.
- The risk adjustment for non-financial risk, excluding any amounts allocated to the loss component of the liability for remaining coverage.
- The CSM release.
- Amounts related to insurance acquisition cash flows.

For management judgement applied to the amortisation of CSM, please refer to Note 2.

Loss components

The branch establishes a loss component of the liability for remaining coverage for onerous groups of insurance contracts. The loss component determines the amounts of fulfilment cash flows that are subsequently presented in profit or loss as reversals of losses on onerous contracts and are excluded from insurance revenue when they occur. When the fulfilment cash flows are incurred, they are allocated between the loss component and the liability for remaining coverage excluding the loss component on a systematic basis.

The systematic basis is determined by the proportion of the loss component relative to the total estimate of the present value of the future cash outflows plus the risk adjustment for nonfinancial risk at the beginning of each year (or on initial recognition if a group of reinsurance contracts is initially recognised in the year).

Insurance finance income and expense

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from:

- The effect of the time value of money and changes in the time value of money.
- The effect of financial risk and changes in financial risk.

The branch systematically allocates expected total insurance finance income or expenses over the duration of the group of reinsurance contracts to profit or loss using discount rates determined on initial recognition of the group of reinsurance contracts.

Net income or expense from reinsurance contracts held

The branch presents separately on the face of the statement of profit or loss and other comprehensive income the amounts expected to be recovered from reinsurers, and an allocation of the reinsurance premiums paid. The branch treats reinsurance cash flows that are contingent on claims on the underlying contracts as part of the claims that are expected to be reimbursed under the reinsurance contract held, and excludes investment components and commissions from an allocation of reinsurance premiums presented on the face of the statement of profit or loss and other comprehensive income.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

1 SUMMARY OF ACCOUNTING POLICIES (continued)

(b) Retroceded reinsurance contracts held

The measurement of reinsurance contracts held follows the same principles as those for underlying retrocession contracts issued, with the exception of the following:

- Measurement of the cash flows include an allowance on a probability-weighted basis for the effect of any non-performance by the reinsurers, including the effects of collateral and losses from disputes.
- The branch determines the risk adjustment for non-financial risk so that it represents the amount of risk being transferred to the reinsurer.
- The branch recognises both day 1 gains and day 1 losses at initial recognition in the statement of financial position as a CSM and releases this to profit or loss as the reinsurer renders services, except for any portion of a day 1 loss that relates to events before initial recognition.
- Changes in the fulfilment cash flows are recognised in profit or loss if the related changes arising from the underlying ceded contracts have been recognised in profit or loss. Alternatively, changes in the fulfilment cash flows adjust the CSM.

(c) Investments

Initial recognition

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially recognised on the trade date measured at their fair value. Except for financial assets and financial liabilities recorded at FVPL, transaction costs are added to this amount.

Measurement categories

The branch classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms. The categories include the following: amortised cost, FVOCI or FVTPL. At 31 December 2023, the company did not hold any assets classified FVOCI.

Financial instruments measured at amortised cost

Financial instruments are held at amortised cost if both of the following conditions are met:

- The instruments are held within a business model with the objective of holding the instrument to collect the contractual cash flows.
- The contractual terms of the debt instrument give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The branch determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The branch holds financial assets to generate returns and provide a capital base to provide for settlement of claims as they arise. The branch considers the timing, amount and volatility of cash flow requirements to support insurance liability portfolios in determining the business model for the assets as well as the potential to maximise return for shareholders and future business development.

The branch's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios that is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the branch's key management personnel.
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The expected frequency, value and timing of asset sales are also important aspects of the branch's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the branch's original expectations, the branch does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

As a second step of its classification process the branch assesses the contractual terms to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a debt arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the branch applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

1 SUMMARY OF ACCOUNTING POLICIES (continued)

Measurement categories (continued)

Financial assets measured at fair value through profit or loss

The branch's investments are required to be measured at fair value through profit or loss, with all investments managed and assessed on a fair value basis to optimise returns within risk appetites and investment strategy parameters and limits. They are therefore initially recognised at fair value, determined as the cost of acquisition excluding transaction costs, and are remeasured to fair value through profit or loss at each reporting date. The election of measuring investments at fair value at initial recognition is to eliminate any accounting mismatch between the investments the duration of insurance liabilities.

Financial assets at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit or loss. Interest earned on assets mandatorily required to be measured at FVPL is recorded using contractual interest rate.

Subsequent measurement

Financial instruments measured at amortised cost

After initial measurement, financial instruments are measured at amortised cost, using the effective interest rate (EIR) method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. ECLs are recognised in the statement of profit or loss when the investments are impaired. After initial measurement, financial instruments are measured at amortised cost, using the effective interest rate (EIR) method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. ECLs are recognised in the statement of profit or loss when the investments are impaired.

Financial assets measured at fair value through profit or loss

Financial assets at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit or loss. Interest earned on assets mandatorily required to be measured at FVPL is recorded using contractual interest rate. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established.

(d) 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.

(e) 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.

(f) 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 2023

1 SUMMARY OF ACCOUNTING POLICIES (continued)

(g) 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.

(h) 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.

(i) 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.

(j) 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 2023

1 SUMMARY OF ACCOUNTING POLICIES (continued)

(j) 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.

(k) New and amended standards and interpretations

The branch applied NZ IFRS 17 Insurance Contracts (NZ IFRS 17) with a date of initial application of 1 January 2023. The nature and effect of the changes as a result of adoption of these new accounting standards is described below.

Several other amendments and interpretations apply for the first time in 2023, but do not have a material impact on the financial statements of the branch. The branch has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

NZ IFRS 17 Insurance Contracts

NZ IFRS 17 Insurance Contracts (NZ IFRS 17) replaces NZ IFRS 4 Insurance Contracts, NZ IFRS 4 Insurance Contracts. The branch has restated comparative information for 2022.

NZ IFRS 17 establishes specific principles for the recognition and measurement of reinsurance contracts issued and reinsurance contracts held by the branch. The key principles of NZ IFRS 17 are outlined in Note 1 (a).

On transition date, 1 January 2022, the branch has applied the full retrospective approach unless impracticable, derecognised any existing balances that would not exist had NZ IFRS 17 always applied and recognised any resulting net difference in equity as outlined in the Statement of Changes in Equity.

The branch has applied the full retrospective approach on transition to all contracts issued on or after 1 January 2019. For groups of contracts issued before 1 January 2019 the fair value approach was applied. Obtaining reasonable and supportable information to apply the full retrospective approach was impracticable without undue cost or effort.

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.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

1 SUMMARY OF ACCOUNTING POLICIES (continued)

(k) New and amended standards and interpretations (continued)

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.

(l) Accounting standards and amendments 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.

<u>Standard</u>	<u>Effective for annual reporting periods beginning on or after</u>	<u>Expected to be initially applied in the financial year ending</u>
Amendments to NZ IFRS 16 'Leases'	1 January 2024	31 December 2024

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.

Reinsurance contract assets and liabilities issued and reinsurance contract assets and liabilities held

By applying NZ IFRS17 to measurement of reinsurance contracts issued and retroceded reinsurance contracts held, the branch has made estimations in the following key areas. They form part of the overall balances of insurance contract assets and liabilities and reinsurance contract assets and liabilities:

- Future cash flows
- Discount rates
- Allocation rate for insurance finance income or expenses
- Risk adjustment for non-financial risk

In estimating fulfilment cash flows included in the contract boundary, the branch considers the range of all possible outcomes in an unbiased way specifying the amount of cash flows, timing and probability of each scenario reflecting conditions existing at the measurement date, using a probability-weighted average expectation. The probability weighted average represents the probability-weighted mean of all possible scenarios. In determining possible scenarios, the branch uses all the reasonable and supportable information available to them without undue cost or effort, which includes information about past events, current conditions and future forecasts.

The discount rates are based on market yields on risk free securities applicable to the currency at the balance date, varies according to payment date and includes an allowance for the illiquidity premium. The liabilities are primarily denominated in NZD and for these payments, discount rates are based on New Zealand Government securities.

The branch uses either the constant or crediting rate in the systematic allocation of insurance finance income or expenses. The constant rate used in a period is calculated applying the formula which uses three variables: the estimate of future cash flows at the end of the reporting period (not discounted), the present value of future cash flows brought forward discounted by the constant rate used in the previous period, and the expected duration of the group contracts. In determining the constant rate, the Group estimates the expected insurance finance income or expenses over the remaining duration of the group that is partly implicit in the estimated cash flows.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

2 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Reinsurance contract assets and liabilities issued and reinsurance contract assets and liabilities held (continued)

The risk adjustment for non-financial risk is the compensation the branch requires for bearing the uncertainty about the amount and timing of the cash flows arising from insurance risk and other non-financial risks such as expense risks. It measures the degree of variability of expected future cash flows and the branch-specific price for bearing that risk and reflects the degree of the branch's risk aversion. The branch's treatment of risk adjustment is explained 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.

3 ACTUARIAL ASSUMPTIONS AND METHODS

This section outlines the methods and assumptions used to derive the branch's insurance liabilities. The branch's estimate of NZ IFRS17 liabilities is consistent with the Appointed Actuary's assumptions used for the RBNZ insurance liabilities, specifically key assumptions to derive the LIC and the risk adjustment assumptions.

The branch values the policy liabilities for each group of insurance contracts using the General Measurement Model ("GMM") as required under NZ IFRS17 and in line with the Gen Re Group approach. To model using GMM, projected future cashflows are used as input, along with other key assumptions, to produce the insurance liabilities, which consist of two components - The Liability for Remaining Coverage ("LRC") and the Liability for Incurred Claims ("LIC").

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

3 ACTUARIAL ASSUMPTIONS AND METHODS (continued)

The LRC replaces the Unearned Premium, Unexpired Risk Liability and Premium Receivable amounts under NZ IFRS4. It consists of the Fulfilment Cash Flows (FCF), Risk Adjustment and Contractual Services Margin:

- **Fulfilment Cash Flows (FCF):** Calculated by taking the discounted value of expected future cashflows, both inward and outward to the branch. These cashflows are those directly related to the fulfilment of the branch's insurance contracts and include estimates for future written business.
- **Risk Adjustment ("RA"):** NZ IFRS17 requires that the present value of future cash flows be adjusted to reflect the compensation that the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk. The Risk Adjustment is calculated as a multiplicative loading that applies to the present value of future claims component of the FCF and is modelled as a separate cash flow.
- **Contractual Services Margin ("CSM"):** At initial recognition of a contract, the Contractual Services Margin is defined as the net difference between the fulfilment cash inflows and outflows and is floored by zero. The purpose of establishing a positive CSM is to ensure the recognition of unearned profits is deferred into future periods when the insurance services are provided. NZ IFRS17 uses the metric of coverage units to allocate profits, as represented by the CSM, to the current, past, or future periods. It is a measure for the service provided under the group of insurance contracts reflecting the quantity of claims and expected coverage duration of that group. If a contract's CSM is floored at zero, the insurance contract is onerous and the net outflow is recognised immediately. The CSM is locked-in for each contract at the discount and foreign exchange rates that prevailed when the contract was written.

The LIC replaces the outstanding claims reserve under NZ IFRS4 and consists of the case estimate reserve, Incurred But Not Reported claims ("IBNR"), an allowance for claims handling expenses and the Risk Adjustment:

- **Case estimate reserve:** These are usually estimates provided by the branch's cedants for the likely outstanding amounts relating to claims reported. In some cases, the branch's internal claims assessors may overwrite cedant's estimates where they deem this does not accurately reflect the likely value of the claim.
- **Incurred But Not Reported claims ("IBNR"):** These are the Appointed Actuary's estimate of the outstanding amounts to be paid in relation to claims yet to be reported, plus any under/over-estimation of the case estimate reserve.
- **Risk Adjustment ("RA"):** The Risk Adjustment is calculated as a multiplicative loading that applies to the present value of future claims within the LIC.

NZ IFRS17 requires insurance contracts to be aggregated following certain principles. There are three levels of aggregation:

- Portfolio level, consisting of insurance contracts covering similar risks which are managed together;
- Cohort level, slicing the Portfolio level into underwriting years;
- Group level, which subdivides the Cohort level into different degrees of profitability (onerous, no significant possibility of becoming onerous and remainder)

The general principle the branch adopts is to define the portfolios based on the form of reinsurance (proportional, non-proportional and facultative) and line of business (e.g., motor, property, etc.) with occasional exceptions for unusual or especially large treaties.

Loss ratios

In the LIC, these are the assumed ultimate loss ratios including IBNR and are selected by the Appointed Actuary with respect to past incurred claims and, if the past experience is volatile, professional judgement. This is done on a reserve segment level.

In the LRC, these are the loss ratios to be applied to the future earned premiums to form the claims component of the FCF. These loss ratios reflect the pricing loss ratios, which are the company's best estimate view of the future performance of unearned and future written business. Pricing loss ratios are an appropriate source for the LRC because they incorporate the expected experience of future written business and applying the treaty specific pricing loss ratios which more appropriately reflects future profitability.

Expense rate

Generally, a 1% loading for claims handling expenses is applied to both the LIC and LRC. For the LRC, a 2% policy administration expense loading is also applied to the forecast premium cash flows. Specific assumptions are adopted for insurance contracts that are particularly large or contain special features.

These assumptions are based on the current level of the company's expenses and are consistent with the Appointed Actuary's assumption for RBNZ reporting.

Discount rate

The discount rates are based on an estimate of market yields on New Zealand Government securities as at balance date and varies according to the expected year of payment of the claims liabilities, and includes an allowance for the illiquidity premium.

Mean term

The mean term represents the duration of the undiscounted cash flows and provides an indication of the time for the LIC and LRC to be fully paid, i.e. whether the liabilities are long or short tailed, shown in the following table.

	2023	2022
LIC	3.23	3.33
LRC*	3.22	N/A

* Mean term calculated on non-premium cash flows only, i.e. claims, non-distinct investment components, risk adjustment and expenses.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

3 ACTUARIAL ASSUMPTIONS AND METHODS (continued)

Inflation

In the LIC, the IBNR reserves implicitly allows for claims inflation, and case reserves are set based upon expected ultimate settlement values which incorporates claims inflation as required. Additionally, the run-off loss ratio selection considers the extent in which the expected future inflation may differ from past inflation.

In the LRC, future expected inflation is a key consideration within the pricing process and hence forms part of the pricing loss ratios. Guidance on how underwriters should allow for future inflation is updated annually ahead of the key renewal periods. These typically prescribe relevant indexes in which to base inflation estimates.

Risk Adjustment

The branch adopts risk adjustment factors consistent with the gross RBNZ Outstanding Claims and Premium Liabilities Risk Margins at the 75th probability of sufficiency adopted by the Appointed Actuary for the LIC and LRC respectively. Both insurance and retrocession contracts are assumed to have the same risk adjustment proportion.

Sensitivity analysis

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

		CSM	Profit before tax	Retained earnings
		\$'000	\$'000	\$'000
2023				
Recognised amount per Financial Statements		4,240	5,366	66,347
Variable	Movement in variable			
Discount Rate	+ 1.0%	-	2,267	1,653
	- 1.0%	-	(2,089)	(1,524)
Claims Handling Expenses	+ 50.0%	(46)	(505)	(368)
	- 50.0%	46	505	368
Claims	+ 10.0%	(577)	(6,124)	(4,467)
	- 10.0%	1,423	4,777	3,485
2022				
Recognised amount per Financial Statements		3,930	8,773	62,433
Variable	Movement in variable			
Interest Rate	+ 1.0%	-	1,654	1,233
	- 1.0%	-	(1,783)	(1,328)
Claims Handling Expenses	+ 50.0%	(9)	(406)	(302)
	- 50.0%	66	348	259
Claims	+ 10.0%	(217)	(5,113)	(3,809)
	- 10.0%	680	4,650	3,465

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).

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

4 RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

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

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.

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.

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2023

4 RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

Non-financial risks

Non-financial risks are controlled through the use of:

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

5 PROFIT FROM ORDINARY ACTIVITIES

Profit from ordinary activities has been arrived at after including	2023 \$'000	2022 \$'000
(a) Included in other income and expenses are:		
- Expenses of management	(1,899)	(1,700)
- Foreign exchange (losses)/gains	(239)	112
- Lease expenses	(42)	(42)
- Depreciation and amortisation	(11)	(5)
	<u>(2,191)</u>	<u>(1,635)</u>
(b) Net investment income/(expense)		
Interest	4,205	1,234
Realised losses	(568)	(1,243)
Changes in fair values	931	(362)
Expenses	(67)	(49)
	<u>4,501</u>	<u>(420)</u>

(c) 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.

6 INCOME TAX

	2023 \$'000	2022 \$'000
(a) Income tax expense		
Tax expense comprises:		
Current tax expense that relates to current year	(446)	(2,005)
Current tax expenses relating to prior years' over provision	-	-
Deferred tax expense relating to temporary differences	(965)	(232)
Deferred tax expense relating to prior years' over provision	(41)	-
	<u>(1,452)</u>	<u>(2,237)</u>
Income tax expense relating to gain from ordinary activities		

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

Profit before income tax	5,366	8,773
Income tax expense calculated at 28% (2022: 28%) of operating profit	(1,502)	(2,456)
Adjustment for Permanent differences:		
- Non-deductible entertainment expense	(1)	(1)
- Realised and unrealised exchange loss with Home Office	92	221
Prior years' over provision	(41)	-
Total income tax expense	<u>(1,452)</u>	<u>(2,236)</u>

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

6 INCOME TAX (continued)	2023 \$'000	2022 \$'000		
(b) Deferred tax				
At 31 December the deferred tax asset comprises:				
Temporary differences	<u>158</u>	<u>1,164</u>		
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
2023 Temporary differences				
Unrealised foreign exchange differences	(51)	-	(204)	(255)
Accruals and other liabilities	78	-	(57)	21
Tax losses carried forward	-	-	-	-
Insurance provisions	1,137	-	(745)	392
Total temporary differences	<u>1,164</u>	<u>-</u>	<u>(1,006)</u>	<u>158</u>
2022 Temporary differences				
Unrealised foreign exchange differences	(372)	-	321	(51)
Accruals and other liabilities	114	-	(36)	78
Tax losses carried forward	-	-	-	-
Insurance provisions	1,654	-	(517)	1,137
Total temporary differences	<u>1,396</u>	<u>-</u>	<u>(232)</u>	<u>1,164</u>
7 CASH AND CASH EQUIVALENTS			2023 \$'000	2022 \$'000
Cash on hand and at bank			13,062	17,723
Cash on deposit			207	16
Total cash and cash equivalents			<u>13,269</u>	<u>17,739</u>
8 OTHER ASSETS				
Sundry assets			8,057	-
Property and equipment			17	28
Due from related entities:				
- General Reinsurance Corporation			5,171	5,133
- General Reinsurance Australia			14,763	20,025
Total other assets			<u>28,008</u>	<u>25,186</u>
Expected to be realised within 12 months			27,991	25,158
Expected to be realised in more than 12 months			17	28
			<u>28,008</u>	<u>25,186</u>
9 INVESTMENTS				
Insurance activities, at fair value:				
Fixed interest securities			<u>75,571</u>	<u>76,836</u>
10 RIGHT-OF-USE ASSETS				
Carrying value of:				
Properties			<u>89</u>	<u>131</u>
Net carrying amount				
Balance at 1 January			131	175
Depreciation expense			(42)	(44)
Balance at 31 December			<u>89</u>	<u>131</u>

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

11 REINSURANCE CONTRACTS	2023 \$'000	Restated 2022 \$'000	
Carrying value of:			
Gross			
Reinsurance contract liabilities	117,264	85,404	
Reinsurance contract assets	<u>(1,976)</u>	<u>(1,029)</u>	
Total gross reinsurance contracts issued	<u>115,288</u>	<u>84,375</u>	
Retroceded			
Reinsurance contract assets	64,576	35,756	
Reinsurance contract liabilities	<u>(148)</u>	<u>(706)</u>	
Total retroceded reinsurance contracts held	<u>64,428</u>	<u>35,050</u>	
Reconciliation of reinsurance contracts by remaining coverage and incurred claims			
	Liabilities for remaining coverage	Liabilities for incurred claims	Total
Gross	Excluding loss component	Loss component	
	\$'000	\$'000	\$'000
2023			
Reinsurance contract liabilities	9,761	305	75,338
Reinsurance contract assets	<u>(1,029)</u>	<u>-</u>	<u>-</u>
Balance as at 1 January	<u>8,732</u>	<u>305</u>	<u>75,338</u>
Insurance revenue	<u>(44,991)</u>	<u>-</u>	<u>-</u>
Insurance service expense			
Incurring claims and other expenses	1,138	<u>(1,405)</u>	33,389
Losses and reversals of losses on onerous contracts	<u>-</u>	<u>1,004</u>	<u>-</u>
Changes to liabilities for incurred claims	<u>-</u>	<u>-</u>	<u>18,463</u>
Insurance service expense	<u>1,138</u>	<u>(401)</u>	<u>51,852</u>
Insurance service result	<u>(43,853)</u>	<u>(401)</u>	<u>51,852</u>
Net finance expenses from gross reinsurance contracts issued			
Investment components	<u>(547)</u>	<u>-</u>	<u>666</u>
Insurance finance income or expenses from insurance contracts recognised in profit or loss	1,101	131	2,270
Effect of movements in exchange rates	<u>(297)</u>	<u>-</u>	<u>14</u>
Net finance expenses from gross reinsurance contracts issued	<u>257</u>	<u>131</u>	<u>2,950</u>
Total changes in the statement of profit or loss	<u>(43,596)</u>	<u>(270)</u>	<u>54,802</u>
Cash flows			
Premiums received	44,753	<u>-</u>	<u>-</u>
Claims and other expenses paid	<u>(1,138)</u>	<u>-</u>	<u>(23,638)</u>
Total cash flows	<u>43,615</u>	<u>-</u>	<u>(23,638)</u>
Other movements	<u>-</u>	<u>-</u>	<u>-</u>
Balance as at 31 December	<u>8,751</u>	<u>35</u>	<u>106,502</u>
Reinsurance contract liabilities	13,249	35	103,980
Reinsurance contract assets	<u>(4,498)</u>	<u>-</u>	<u>2,522</u>
Balance as at 31 December	<u>8,751</u>	<u>35</u>	<u>106,502</u>

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

11 REINSURANCE CONTRACTS (continued)

Reconciliation of reinsurance contracts by remaining coverage and incurred claims (continued)

Gross (continued)	Liabilities for remaining coverage		Liabilities for incurred claims	Total
	Excluding loss component \$'000	Loss component \$'000	\$'000	\$'000
2022				
Reinsurance contract liabilities	12,120	115	95,037	107,272
Reinsurance contract assets	-	-	-	-
Balance as at 1 January	12,120	115	95,037	107,272
Insurance revenue	(35,370)	-	-	(35,370)
Insurance service expense				
Incurred claims and other expenses	1,069	(196)	13,101	13,974
Losses and reversals of losses on onerous contracts	-	389	-	389
Changes to liabilities for incurred claims	-	-	(18,234)	(18,234)
Insurance service expense	1,069	193	(5,133)	(3,871)
Insurance service result	(34,301)	193	(5,133)	(39,241)
Net finance expenses from gross reinsurance contracts issued				
Investment components	(49)	-	152	103
Insurance finance income or expenses from insurance contracts recognised in profit or loss	(24)	(4)	(3,522)	(3,550)
Effect of movements in exchange rates	81	1	156	238
Net finance expenses from gross reinsurance contracts issued	8	(3)	(3,214)	(3,209)
Total changes in the statement of profit or loss	(34,293)	190	(8,347)	(42,450)
Cash flows				
Premiums received	31,974	-	-	31,974
Claims and other expenses paid	(1,069)	-	(11,352)	(12,421)
Total cash flows	30,905	-	(11,352)	19,553
Other movements	-	-	-	-
Balance as at 31 December	8,732	305	75,338	84,375
Reinsurance contract liabilities	9,761	305	75,338	85,404
Reinsurance contract assets	(1,029)	-	-	(1,029)
Balance as at 31 December	8,732	305	75,338	84,375

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

11 REINSURANCE CONTRACTS (continued)

Reconciliation of reinsurance contracts by remaining coverage and incurred claims (continued)

Retroceded	Liabilities for remaining coverage		Liabilities for incurred claims	Total
	Excluding loss component	Loss component		
2023	\$'000	\$'000	\$'000	\$'000
Reinsurance contract assets	7,005	680	28,071	35,756
Reinsurance contract liabilities	(1,363)	-	657	(706)
Balance as at 1 January	5,642	680	28,728	35,050
Allocation of reinsurance premiums: amounts relating to the changes in the assets for remaining coverage	(28,087)	(280)	-	(28,367)
Amounts recoverable from reinsurers				
Amounts recoverable for claims and other expenses incurred in the period	-	-	40,473	40,473
Changes in amounts recoverable arising from changes in liability for incurred claims	-	-	-	-
Changes in fulfilment cash flows which relate to onerous underlying contracts	-	-	-	-
Amounts recoverable from reinsurers	-	-	40,473	40,473
Net income or expense from retroceded reinsurance contracts	(28,087)	(280)	40,473	12,106
Net finance income from retroceded reinsurance contracts held				
Reinsurance investment components	-	-	-	-
Effect of changes in non-performance risk of reinsurers	(21)	-	473	452
Cost of retroactive cover on retroceded reinsurance contracts	-	-	-	-
Reinsurance finance income	680	-	312	992
Effect of movements in exchange rates	386	-	56	442
Net finance income from retroceded reinsurance contracts held	1,045	-	841	1,886
Total changes in the statement of profit or loss	(27,042)	(280)	41,314	13,992
Cash flows				
Premiums paid	29,511	-	-	29,511
Amounts received	-	-	(14,125)	(14,125)
Total cash flows	29,511	-	(14,125)	15,386
Other movements	-	-	-	-
Balance as at 31 December	8,111	400	55,917	64,428
Reinsurance contract assets	8,437	394	55,745	64,576
Reinsurance contract liabilities	(326)	6	172	(148)
Balance as at 31 December	8,111	400	55,917	64,428

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

11 REINSURANCE CONTRACTS (continued)

Reconciliation of reinsurance contracts by remaining coverage and incurred claims (continued)

Retroceded (continued)	Liabilities for remaining coverage		Liabilities for incurred claims	Total
	Excluding loss component \$'000	Loss component \$'000	\$'000	\$'000
2022				
Reinsurance contract assets	9,092	413	42,968	52,473
Reinsurance contract liabilities	-	-	-	-
Balance as at 1 January	9,092	413	42,968	52,473
Allocation of reinsurance premiums: amounts relating to the changes in the assets for remaining coverage	(24,047)	267	-	(23,780)
Amounts recoverable from reinsurers				
Amounts recoverable for claims and other expenses incurred in the period	-	-	(7,953)	(7,953)
Changes in amounts recoverable arising from changes in liability for incurred claims	-	-	-	-
Changes in fulfilment cash flows which relate to onerous underlying contracts	-	-	-	-
Amounts recoverable from reinsurers	-	-	(7,953)	(7,953)
Net income or expense from retroceded reinsurance contracts	(24,047)	267	(7,953)	(31,733)
Net finance income from retroceded reinsurance contracts held				
Reinsurance investment components	-	-	-	-
Effect of changes in non-performance risk of reinsurers	24	-	577	601
Cost of retroactive cover on retroceded reinsurance contracts	-	-	-	-
Reinsurance finance income	(65)	-	(679)	(744)
Effect of movements in exchange rates	51	-	203	254
Net finance income from retroceded reinsurance contracts held	10	-	101	111
Total changes in the statement of profit or loss	(24,037)	267	(7,852)	(31,622)
Cash flows				
Premiums paid	20,587	-	-	20,587
Amounts received	-	-	(6,388)	(6,388)
Total cash flows	20,587	-	(6,388)	14,199
Other movements	-	-	-	-
Balance as at 31 December	5,642	680	28,728	35,050
Reinsurance contract assets	7,005	680	28,071	35,756
Reinsurance contract liabilities	(1,363)	-	657	(706)
Balance as at 31 December	5,642	680	28,728	35,050

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

11 REINSURANCE CONTRACTS (continued)

Reconciliation of reinsurance contracts by measurement component

Gross	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Total
	\$'000	\$'000	\$'000	\$'000
2023				
Reinsurance contract liabilities	65,903	14,066	5,435	85,404
Reinsurance contract assets	(1,029)	-	-	(1,029)
Balance as at 1 January	64,874	14,066	5,435	84,375
Changes that relate to current services				
CSM recognised for services provided	-	-	(10,776)	(10,776)
Risk adjustment recognised for the risk expired	-	(4,404)	-	(4,404)
Experience adjustments	7,376	-	-	7,376
Changes that relate to current services	7,376	(4,404)	(10,776)	(7,804)
Changes that relate to future services				
Contracts initially recognised in the period	(16,076)	7,760	12,149	3,833
Changes in estimates that adjust the CSM	1,492	400	(1,774)	118
Changes in estimates that do not adjust the CSM	(3,202)	(780)	1,147	(2,835)
Changes that relate to future services	(17,786)	7,380	11,522	1,116
Changes that relate to past services				
Adjustments to liabilities for incurred claims	11,594	2,811	-	14,405
Changes that relate to past services	11,594	2,811	-	14,405
Insurance service result	1,184	5,787	746	7,717
Insurance finance income or expenses from insurance contracts recognised in profit or loss	2,058	761	683	3,502
Effect of movements in exchange rates	(212)	(7)	(64)	(283)
Total changes in the statement of profit or loss	3,030	6,541	1,365	10,936
Cash flows				
Premiums received	44,753	-	-	44,753
Claims and other expenses paid	(24,776)	-	-	(24,776)
Total cash flows	19,977	-	-	19,977
Other movements	-	-	-	-
Balance as at 31 December	87,881	20,607	6,800	115,288
Reinsurance contract liabilities	90,436	20,110	6,718	117,264
Reinsurance contract assets	(2,555)	497	82	(1,976)
Balance as at 31 December	87,881	20,607	6,800	115,288

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

11 REINSURANCE CONTRACTS (continued)

Reconciliation of reinsurance contracts by measurement component (continued)

Gross (continued)	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Total
	\$'000	\$'000	\$'000	\$'000
2022				
Reinsurance contract liabilities	86,398	17,352	3,522	107,272
Reinsurance contract assets	-	-	-	-
Balance as at 1 January	86,398	17,352	3,522	107,272
Changes that relate to current services				
CSM recognised for services provided	-	-	(8,010)	(8,010)
Risk adjustment recognised for the risk expired	-	(3,935)	-	(3,935)
Experience adjustments	(5,334)	-	-	(5,334)
Changes that relate to current services	(5,334)	(3,935)	(8,010)	(17,279)
Changes that relate to future services				
Contracts initially recognised in the period	(14,234)	4,717	9,829	312
Changes in estimates that adjust the CSM	134	9	(136)	7
Changes in estimates that do not adjust the CSM	5	12	62	79
Changes that relate to future services	(14,095)	4,738	9,755	398
Changes that relate to past services				
Adjustments to liabilities for incurred claims	(18,631)	(3,626)	-	(22,257)
Changes that relate to past services	(18,631)	(3,626)	-	(22,257)
Insurance service result	(38,060)	(2,823)	1,745	(39,138)
Insurance finance income or expenses from insurance contracts recognised in profit or loss	(3,232)	(486)	168	(3,550)
Effect of movements in exchange rates	215	23	-	238
Total changes in the statement of profit or loss	(41,077)	(3,286)	1,913	(42,450)
Cash flows				
Premiums received	31,974	-	-	31,974
Claims and other expenses paid	(12,421)	-	-	(12,421)
Total cash flows	19,553	-	-	19,553
Other movements	-	-	-	-
Balance as at 31 December	64,874	14,066	5,435	84,375
Reinsurance contract liabilities	65,903	14,066	5,435	85,404
Reinsurance contract assets	(1,029)	-	-	(1,029)
Balance as at 31 December	64,874	14,066	5,435	84,375

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

11 REINSURANCE CONTRACTS (continued)

Reconciliation of reinsurance contracts by measurement component (continued)

Retroceded	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Total
2023	\$'000	\$'000	\$'000	\$'000
Reinsurance contract assets	28,357	6,081	1,318	35,756
Reinsurance contract liabilities	(1,039)	147	187	(705)
Balance as at 1 January	27,318	6,228	1,505	35,051
Changes that relate to current services				
CSM recognised for services provided	-	-	(2,147)	(2,147)
Risk adjustment recognised for the risk expired	-	(3,789)	-	(3,789)
Experience adjustments	(3,252)	-	-	(3,252)
Changes that relate to current services	(3,252)	(3,789)	(2,147)	(9,188)
Changes that relate to future services				
Contracts initially recognised in the period	(9,305)	5,394	7,719	3,808
Changes in estimates that adjust the CSM	2,169	(41)	(4,941)	(2,813)
Changes in estimates that do not adjust the CSM	32	-	-	32
Changes that relate to future services	(7,104)	5,353	2,778	1,027
Changes that relate to past services				
Changes in amounts recoverable arising from changes in liability for incurred claims	17,198	3,069	-	20,267
Changes that relate to past services	17,198	3,069	-	20,267
Reinsurance finance income	205	363	424	992
Effect of changes in non-performance risk of reinsurers	452	-	-	452
Effect of movements in exchange rates	453	(11)	-	442
Total changes in the statement of profit or loss	7,952	4,985	1,055	13,992
Cash flows				
Premiums paid	29,511	-	-	29,511
Amounts received	(14,125)	-	-	(14,125)
Total cash flows	15,386	-	-	15,386
Other movements	-	-	-	-
Balance as at 31 December	50,656	11,213	2,560	64,429
Reinsurance contract assets	50,787	11,191	2,598	64,576
Reinsurance contract liabilities	(131)	22	(38)	(147)
Balance as at 31 December	50,656	11,213	2,560	64,429

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

11 REINSURANCE CONTRACTS (continued)

Reconciliation of reinsurance contracts by measurement component (continued)

Retroceded (continued)	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Total
	\$'000	\$'000	\$'000	\$'000
2022				
Reinsurance contract assets	42,133	8,305	2,035	52,473
Reinsurance contract liabilities	-	-	-	-
Balance as at 1 January	<u>42,133</u>	<u>8,305</u>	<u>2,035</u>	<u>52,473</u>
Changes that relate to current services				
CSM recognised for services provided	-	-	(1,713)	(1,713)
Risk adjustment recognised for the risk expired	-	(3,392)	-	(3,392)
Experience adjustments	(10,266)	-	-	(10,266)
Changes that relate to current services	<u>(10,266)</u>	<u>(3,392)</u>	<u>(1,713)</u>	<u>(15,371)</u>
Changes that relate to future services				
Contracts initially recognised in the period	(8,417)	3,406	5,304	293
Changes in estimates that adjust the CSM	3,946	358	(4,218)	86
Changes in estimates that do not adjust the CSM	(48)	-	-	(48)
Changes that relate to future services	<u>(4,519)</u>	<u>3,764</u>	<u>1,086</u>	<u>331</u>
Changes that relate to past services				
Changes in amounts recoverable arising from changes in liability for incurred claims	(14,322)	(2,370)	-	(16,692)
Changes that relate to past services	<u>(14,322)</u>	<u>(2,370)</u>	<u>-</u>	<u>(16,692)</u>
Reinsurance finance income	(759)	(82)	97	(744)
Effect of changes in non-performance risk of reinsurers	601	-	-	601
Effect of movements in exchange rates	251	3	-	254
Total changes in the statement of profit or loss	<u>(29,014)</u>	<u>(2,077)</u>	<u>(530)</u>	<u>(31,621)</u>
Cash flows				
Premiums paid	20,587	-	-	20,587
Amounts received	(6,388)	-	-	(6,388)
Total cash flows	<u>14,199</u>	<u>-</u>	<u>-</u>	<u>14,199</u>
Other movements	-	-	-	-
Balance as at 31 December	<u>27,318</u>	<u>6,228</u>	<u>1,505</u>	<u>35,051</u>
Reinsurance contract assets	28,357	6,081	1,318	35,756
Reinsurance contract liabilities	(1,039)	147	187	(705)
Balance as at 31 December	<u>27,318</u>	<u>6,228</u>	<u>1,505</u>	<u>35,051</u>

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

11 REINSURANCE CONTRACTS (continued)

Reinsurance contracts initially recognised in the period

The following tables summarise the effect on the measurement components arising from the initial recognition of reinsurance contracts in the period:

Gross 2023	Non-onerous \$'000	Onerous \$'000	Total \$'000
Estimate of present value of future cash outflows	31,932	(7,652)	24,280
Estimates of present value of future cash inflows	(49,873)	5,788	(44,085)
Risk adjustment	5,792	(1,968)	3,824
CSM	12,149	-	12,149
Losses recognised on initial recognition	-	(3,832)	(3,832)
2022			
Estimate of present value of future cash outflows	16,008	(2,432)	13,576
Estimates of present value of future cash inflows	(29,970)	2,705	(27,265)
Risk adjustment	4,133	(584)	3,549
CSM	9,829	-	9,829
Losses recognised on initial recognition	-	(311)	(311)
Retroceded 2023			
Estimate of present value of future cash outflows	(24,681)	-	(24,681)
Estimates of present value of future cash inflows	33,986	-	33,986
Risk adjustment	(5,394)	-	(5,394)
CSM	(7,719)	-	(7,719)
Losses recognised on initial recognition	(3,808)	-	(3,808)
2022			
Estimate of present value of future cash outflows	(14,973)	-	(14,973)
Estimates of present value of future cash inflows	23,390	-	23,390
Risk adjustment	(3,406)	-	(3,406)
CSM	(5,304)	-	(5,304)
Losses recognised on initial recognition	(293)	-	(293)

Contractual Service Margin

The following tables set out when the company expects to recognise the remaining CSM in profit or loss after the reporting date:

	2023 \$'000	2022 \$'000
Gross reinsurance contracts issued		
Not later than one year	4,952	2,839
Later than one year but not later than two years	1,359	1,102
Later than two years but not later than three years	339	1,092
Later than three years but not later than four years	135	370
Later than four years but not later than five years	10	13
Later than five years but not later than ten years	4	18
Later than ten years	-	-
	6,799	5,434

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

11 REINSURANCE CONTRACTS (continued)

Contractual Service Margin (continued)

	2023 \$'000	2022 \$'000
Retroceded reinsurance contracts held		
Not later than one year	(1,946)	(716)
Later than one year but not later than two years	(615)	(712)
Later than two years but not later than three years	-	(61)
Later than three years but not later than four years	-	(16)
Later than four years but not later than five years	-	-
Later than five years but not later than ten years	-	-
Later than ten years	-	-
	<u>(2,561)</u>	<u>(1,505)</u>

Net undiscounted central estimate of ultimate claims

	2015 \$M	2016 \$M	2017 \$M	2018 \$M	2019 \$M	2020 \$M	2021 \$M	2022 \$M	2023 \$M	Total \$M
Estimate of net ultimate claims cost:										
At end of accident year	8	12	5	7	23	5	10	8	20	
One year later	6	12	5	5	20	7	8	7		
Two years later	5	16	4	4	17	7	9			
Three years later	4	16	3	4	16	6				
Four years later	4	14	3	4	15					
Five years later	4	13	3	4						
Six years later	3	11	3							
Seven years later	3	10								
Eight years later	4									
Current estimate of net cumulative claims	<u>4</u>	<u>10</u>	<u>3</u>	<u>4</u>	<u>15</u>	<u>6</u>	<u>9</u>	<u>7</u>	<u>20</u>	
Cumulative net payments	(1)	(9)	(2)	(1)	(11)	(4)	(2)	-	(3)	
Net undiscounted liabilities of incurred claims for the nine most recent accident years:	<u>3</u>	<u>1</u>	<u>1</u>	<u>3</u>	<u>4</u>	<u>2</u>	<u>7</u>	<u>7</u>	<u>17</u>	<u>45</u>

Maturity profile of the reinsurance contracts

The following tables set out the expected maturity of the present value of future cash flows within the branch's reinsurance contract assets and liabilities:

	2023 \$'000	2022 \$'000
Gross reinsurance contracts issued		
Not later than one year	25,287	21,714
Later than one year but not later than five years	68,962	45,046
Later than five years	34,242	26,254
	<u>128,491</u>	<u>93,014</u>

Retroceded reinsurance contracts held

Not later than one year	23,663	10,876
Later than one year but not later than five years	36,924	21,330
Later than five years	8,664	6,169
	<u>69,251</u>	<u>38,375</u>

12 PROVISIONS

	Opening Balance \$'000	Payments \$'000	Provision \$'000	Closing Balance \$'000
Annual leave	<u>90</u>	<u>(44)</u>	<u>15</u>	<u>61</u>

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.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

	2023 \$'000	2022 \$'000
13 OTHER PAYABLES		
Sundry payables and accruals	612	4,952
Due to related entities:		
- General Reinsurance Life Australia Ltd.	733	2,073
Total other payables	1,345	7,025
All balances are expected to be paid within 12 months.		
14 LEASE LIABILITIES		
Balance at 1 January 2023	144	195
Interest expense	2	5
Payments	(43)	(56)
Balance at 31 December 2023	103	144
Expected to be paid within 12 months	52	37
Expected to be paid in more than 12 months	51	107
	103	144
Maturity profile		
Not later than one year	52	37
Later than one year but not later than five years	51	107
Later than five years	-	-
	103	144
15 HEAD OFFICE ACCOUNT		
Designated equity	10,000	10,000

16 RELATED PARTIES

Parent and ultimate controlling entities

The immediate parent and ultimate controlling entity for General Reinsurance Australia 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	Andrew Gifford
Keith Scott	Neal Mullen
Stephen Ferguson	

Key Management Personnel

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

Related party balances (owing)/receivable at reporting date

General Reinsurance Life Australia Ltd.	(733)	(2,073)
General Reinsurance Corporation	5,171	(2,023)
Head Office Account: General Reinsurance Australia Ltd.	14,763	20,025

Management charges paid to related entities

New England Asset Management, Inc.	50	35
General Reinsurance Corporation	446	283
Head Office: General Reinsurance Australia Ltd	2,072	2,663

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

Insurance service expenses	(52,589)	3,871
Amounts recovered for reinsurers for claims incurred	40,473	(7,953)
Reinsurance recoverable on paid losses	-	-
Reinsurance recoverable on unpaid losses	54,623	31,254

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

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

17 NOTES TO THE STATEMENT OF CASH FLOWS

	2023 \$'000	2022 \$'000
Reconciliation of net operating cash flows to net profit		
Net profit	3,914	6,536
Depreciation	7	5
Profit on sale of investments	568	1,243
Unrealised movement in fair value of investments and amortisation	(3,793)	1,718
Finance costs	49	49
Change in operating assets and liabilities		
Increase/(decrease) in gross reinsurance contracts	30,913	(22,897)
(Increase)/decrease in retroceded reinsurance contracts	(29,378)	17,422
Decrease in other assets	5,303	11,150
(Increase)/decrease in payables and provisions	(14,007)	3,196
Movement in tax accounts	(2,654)	(741)
Net cash (used in)/provided by operating activities	(9,078)	17,682

18 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) Material accounting policies

Details of the material 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

		2023 \$'000	2022 \$'000
Financial assets			
Financial assets at fair value through profit or loss (i)			
Fixed interest securities	9	75,571	76,836
Amortised cost			
Cash and cash equivalents	7	13,269	17,739
Other assets	8	28,008	25,186
Financial liabilities			
Amortised cost			
Other payables	13	1,345	7,025

(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'.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

18 FINANCIAL INSTRUMENTS (continued)

(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 bond issuers 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 2022.

(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 2022.

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
	%	\$'000	\$'000	\$'000	\$'000
2023					
Financial liabilities					
Non-interest bearing:					
Payables	-	1,345	-	-	1,345
		<u>1,345</u>	<u>-</u>	<u>-</u>	<u>1,345</u>
2022					
Financial liabilities					
Non-interest bearing:					
Payables	-	7,025	-	-	3,751
		<u>7,025</u>	<u>-</u>	<u>-</u>	<u>3,751</u>

(j) Market risk

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

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

18 FINANCIAL INSTRUMENTS (continued)

(j) Market risk (continued)

Interest rate risk management (continued)

	Weighted average interest rate	Less than 1 year	1-5 years	5+ years	Total
2023	%	\$'000	\$'000	\$'000	\$'000
Non-interest bearing:					
Deposit with related party	-	-	-	-	-
Other insurance receivables	-	27,991	-	-	27,991
Variable interest rate instruments:					
Cash	5.50	13,269	-	-	13,269
Fixed interest rate instruments:					
New Zealand Government	5.27	5,405	70,166	-	75,571
		<u>46,665</u>	<u>70,166</u>	<u>-</u>	<u>116,831</u>
	Weighted average	Less than 1 year	1-5 years	5+ years	Total
2022	%	\$'000	\$'000	\$'000	\$'000
Non-interest bearing:					
Deposit with related party	-	-	-	-	-
Other insurance receivables	-	25,158	-	-	31,144
Variable interest rate instruments:					
Cash	5.07	17,739	-	-	11,626
Fixed interest rate instruments:					
New Zealand Government	5.00	-	76,836	-	69,030
		<u>53,336</u>	<u>69,030</u>	<u>-</u>	<u>122,366</u>

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

	+100bps		-100bps	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Effect of 100 basis point increase or decrease on profit (+/-)	(594)	(1,020)	602	1,038

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 2022.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

18 FINANCIAL INSTRUMENTS (continued)

(j) Market risk (continued)

Foreign currency risk management and sensitivity analysis (continued)

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

	2023 \$'000	2022 \$'000
Exposure to Australian dollars at 31 December	62,015	52,687
Unrealised gain/(loss) from a 10% change in foreign exchange rates	6,202	5,269

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.

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 2023 and 2022 are summarised in the following table by the type of inputs applicable to the level of the fair value measurement (in thousands).

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
2023				
Fixed maturity bonds				
New Zealand Government	<u>75,571</u>	<u>-</u>	<u>-</u>	<u>75,571</u>

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

2022

Fixed maturity bonds

New Zealand Government	<u>76,836</u>	<u>-</u>	<u>-</u>	<u>76,836</u>
------------------------	---------------	----------	----------	---------------

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

19 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 licens+B200e has been modified in December 2022 and continues to include 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.

	2023 AU\$'000	2022 AU\$'000
Capital base/Common Equity Tier 1 Capital		
Net assets	387,566	374,692
Premium liability surplus/(deficit)	(40,107)	938
Accounts receivables/(payables)	53,367	
Deferred tax assets	(6,737)	(8,781)
Reinsurance assets receivable not meeting governing law requirements	(127)	(92)
	<u>393,962</u>	<u>366,757</u>
Prescribed Capital Amount (PCA)		
Insurance Risk Charge	81,146	67,623
Insurance Concentration Risk Charge	49,299	42,000
Asset Risk Charge	21,326	18,968
Operational Risk Charge	10,087	6,732
Less: Aggregation Benefit	(15,450)	(13,662)
	<u>146,408</u>	<u>121,661</u>
Capital in excess of PCA	247,554	245,096
PCA coverage ratio	2.6909	3.0146

General Reinsurance Australia Ltd. has an "AA+" credit rating from Standard and Poor's as at 31 December 2023.

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

20 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 2023 the branch had 2 employees (2022: 3).

Type of Company

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

21 EVENTS SUBSEQUENT TO BALANCE DATE

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

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 2023, 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 material accounting policy information as set out on pages 10 to 40.

In our opinion, the accompanying financial statements present fairly, in all material respects, the Branch's financial position as at 31 December 2023 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 Entity 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
<p>Insurance Contract Liabilities – Refer to Notes 3 and 11</p> <p>The Branch has reported \$117.3 million in insurance contract liabilities representing 98.6% of its total liabilities. Insurance contract liabilities are determined in accordance with NZ IFRS 17 Insurance Contracts (IFRS 17). The Branch measures its contracts using the General Measurement Model.</p> <p>This requires the use of complex valuation models and assumptions to measure groups of contracts at the estimate of the present value of fulfillment cash flows, which includes an explicit risk adjustment for non-financial risk; and the contractual service margin (“CSM”) when applying the General Measurement Model.</p> <p>While there are many assumptions which management makes, the assumptions with the greatest estimation uncertainty are claims handling expenses, claims development, policyholder behaviour, risk adjustment for non-financial risk and discount rates. These assumptions required significant auditor attention in specific circumstances where (i) there is limited Branch and industry experience data, (ii) the historical experience may not be a good indicator of the future and (iii) the determination of discount rates requires measurement of unobservable market inputs.</p> <p>Auditing of certain valuation models, claims handling expenses, claims development, policyholder behaviour, risk adjustment for non-financial risk and discount rates assumptions required a high degree of auditor judgment and an increased extent of audit effort, including the need to involve actuarial specialists.</p>	<p>Our audit procedures related to certain valuation models, claims handling expenses, claims development, policyholder behaviour, risk adjustment for non-financial risk and discount rates assumptions included the following, among others:</p> <ul style="list-style-type: none"> • With the assistance of actuarial specialists, tested the appropriateness of certain valuation models used in the estimation of the liability for incurred claims process by: <ul style="list-style-type: none"> ○ Evaluating the Branch’s valuation models within the IFRS 17 calculation engine; ○ Evaluating the accuracy of the Branch’s application of model inputs are aligned with the input assumptions. • With the assistance of actuarial specialists, tested the reasonableness of expenses, claims development, policyholder behaviour, risk adjustment for non-financial risk and discount rates assumptions by: <ul style="list-style-type: none"> ○ Evaluating whether management’s assumptions were determined in accordance with the requirements of IFRS 17; ○ Testing experience studies and other inputs used in the determination of the expenses, claims development, policyholder behaviour, risk adjustment for non-financial risk and discount rates; ○ Analysing management’s interpretation and judgement of its experience study results and emerging claims experience, evaluating triggers and drivers for revisions of assumptions, assessing reasonable possible alternative assumptions, and considering industry and other external sources of benchmarking where applicable. • With the assistance of actuarial specialists, evaluated the reasonableness of the discount rates used by testing the inputs and source information underlying the determination of the discount rates and developing a range of independent estimates and comparing those to the discount rates selected by management.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p>Adoption of new and amended Accounting Standards – NZ IFRS 17 Insurance Contracts (“IFRS 17”) – Refer to Note 1 to the financial statements</p> <p>The Branch adopted IFRS 17 effective 1 January 2023 which had an impact on the Branch’s opening equity balances. IFRS 17 is a complex accounting standard requiring considerable judgment and interpretation in its implementation and impacts how the Branch recognizes, measures, presents and discloses insurance contracts.</p> <p>In adopting IFRS 17, the Branch has made an accounting policy choice to apply the fair value approach for groups of contracts underwritten prior to 2019, where full retrospective application is impracticable. The fair value approach calculates the initial CSM as the difference between the fair value of a group of insurance contracts and the fulfillment cash flows measured at that date.</p> <p>There are many components embedded in the determination of the valuation of the insurance contract liabilities and initial CSM as at 1 January 2022 that required management to make judgments and assumptions related to (1) the appropriateness of the fair value methodologies, and (2) the appropriateness of the valuation models that incorporate projections of cash inflows and outflows and (3) the appropriateness of the discount rates. Auditing of these judgments, assumptions and estimates required a high degree of auditor judgment and an increased extent of audit effort, including the need to involve actuarial specialists.</p>	<p>With the assistance of actuarial specialists, our audit procedures related to the determination of the insurance contract liability as at 1 January 2022 included the following, among others:</p> <ul style="list-style-type: none"> • Tested the design and implementation of relevant controls put in place by Management over the IFRS 17 actuarial valuation processes. • Evaluated management’s selection of the fair value approach against the requirements of IFRS 17 and IFRS 13 Fair Value Measurement. • Evaluated the projections of cash inflows and outflows by: <ul style="list-style-type: none"> ○ Evaluating the valuation models and methodologies and their applicability under IFRS 17; ○ Examining the audited historical projected cashflows and assumptions to ensure they are incorporated into the transition valuation models as applicable; ○ Evaluating triggers and drivers for revisions of key assumptions under IFRS 17; ○ Evaluating the identification and measurement methodologies for onerous contracts identified at transition; ○ Tested the material transition adjustment to the appropriate support as at 1 January 2022 • Evaluated the reasonableness of the discount rates used by testing the source information underlying the determination of the discount rates in accordance with the accounting standard.

Other Information

The Directors on behalf of the Branch are responsible for the other information. The other information comprises the Directors’ Report included in the Branch’s Financial Report for the year ended 31 December 2023, 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 Entity 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) and 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.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Deloitte.

We communicate with the Director 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



David Gaudreault
Partner
Chartered Accountants
Sydney, Australia, 26 March 2024



The people behind the promise.

General Reinsurance Australia Ltd.
Level 20, 1 O'Connell Street, Sydney, NSW 2000
Tel. 02 8236 6100, Fax 02 9222 1540

ABN 16 008 427 450

genre.com

© General Reinsurance Australia Ltd. 2024